Letter to Shareholders

Overview

In the last three months, we had our best fundraising period ever. In total, we raised $23 billion of capital for deployment. At the same time, however, the global shutdown had ramifications on most businesses, including a number of ours. Economies are now slowly re-opening, and while the world is not in the clear yet, things are beginning to get back to some semblance of normality. While we do not expect full recovery of the global economy until well into 2021, we believe the worst is over, and our own businesses are slowly recovering.

Our cash and capital available for investment is substantially greater today than it was six months ago and at any other time in our history. We currently have $77 billion of cash, financial assets, undrawn lines of credit and uncalled capital commitments from clients. We added approximately $23 billion of capital available for investment during the period, which included broad-based fundraising across virtually all our strategies.

The standout was $12 billion of commitments raised to date for our latest distressed debt fund, which we expect will be one of our largest funds raised to date when it has its final close. As demonstrated by this fundraise and the capital deployment so far this year, we believe Oaktree is now poised for significantly higher growth in the current environment, given its contrarian, credit investing focus.

Despite the logistical restrictions of the lockdown, we were active and made a number of investments during the quarter. In general though, we have been keeping our powder dry, waiting for opportunities we believe will come.

The Environment was One to Remember

The market environment was nothing short of stunning during the quarter. It’s not worth going into detail here, as you all know what happened in the markets, with GDP numbers, and with employment. What tends to be forgotten is that interest rates are now zero almost everywhere in the world. Government debt is rising at an unprecedented pace due to the provision of enhanced unemployment support, and more is to come as stimulus spending is just beginning.

The increased levels of government debt will have long-term effects on many things, the most important of which is that governments will have to increase taxes, offload spending onto the private sector, and sell assets. This should bode well for the scaling up of our infrastructure and renewables businesses.

The stock market has rebounded sharply. This reflects the substantial price increases of technology stocks, but it is worth noting that hidden behind this growth is the rest in the S&P 500 trading at an average price/earnings multiple of 23. This multiple is high relative to history but given where interest rates are, it seems more reasonable.

Performance Was Good, All Things Considered

Our financial results were strong in the second quarter, especially when considering the global economy was effectively shut. Our asset management business continued to exhibit very strong growth and our operating

businesses fared well, as 75% of our businesses are backed by contractual cash flows from utility, renewable power, office, data infrastructure and critical service infrastructure. These cash flows from regulated or contracted assets have generally been unaffected, and they continue to collect their revenues in full and on time.

Overall, our Funds from Operations ("FFO") was $1.2 billion during the quarter, in line with that of the prior year quarter. This brought our free cash flow, or what we refer to as cash available for distribution and/or reinvestment ("CAFDR"), to $2.6 billion over the last 12 months. Excluding realized carried interest, our CAFDR represented a 13% increase over the prior year period, exemplifying the strength and resiliency of the cash flow streams of our businesses.

We did, however, have some businesses that reported no income for the quarter, and we took some non-cash revaluations through our net income due to the environment. In total, for BAM shareholders we had a loss of $656 million during the quarter, or 43 cents per share. The good news is that those operating businesses that were impacted are now all recovering, and the balance of the year should be better.

This includes all of our private equity operating businesses, most of our hotels which have now begun to reopen, and our retail centers in the U.S. Despite those retail centers being shut down by government mandate for two months, all but one were reopened by June 30, with foot traffic back to more than 50% of normal and improving each week. While many of our retail tenants were unable to pay their rent during the shutdown, with the reopening we are now collecting rent again and are in the midst of settling arrears for the period of shutdown. We believe that great retail centers will become even stronger as the industry consolidates into the best located centers with high-quality operators (such as the vast majority of the ones we own).

AS AT AND FOR THE 12 MONTHS ENDED JUNE 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2016	2017	2018	2019	2020	CAGR
Cash available for reinvestment or distribution to BAM shareholders per share (CAFDR)	$ 1.11	$ 1.30	$ 1.57	$ 1.76	$1.69	11%
Total assets under management[1]	$243,479	$257,538	$287,025	$388,327	$545,250	22%
Fee-related earnings (before performance fees)	639	707	783	954	1,345	20%
Gross annual run rate of fees plus target carry	1,950	2,150	2,590	3,435	5,637	30%

1. Including private fund capital raised up to August 13, 2020.

Asset Management

Our asset management franchise reached a number of significant milestones supported by strong fundraising. We raised $23 billion across our various strategies, including $12 billion of commitments to our latest distressed debt fund. We also closed €725 million of commitments in a European perpetual core-plus real estate fund, a strategy that is already seeing an active pipeline as the region emerges from lockdown, and we raised further capital across all of our other perpetual funds.

Growth in fee-bearing capital over the last 12 months, which included the latest infrastructure and private equity flagship funds, led to an increase in fee-related earnings of 23% in the quarter relative to the same period a year ago, and a 41% increase in earnings for the last 12 months, both before performance fees. We have a further $29 billion of capital that is currently committed and will begin to earn fees of approximately $315 million once deployed.

Capital Deployment

While remaining disciplined in our deployment, we invested $9 billion of capital during the quarter across our various strategies, as well as a further $3 billion since quarter-end. This included a convertible preferred share investment in a publicly traded distribution business, and financing to a company that required capital to reorganize its affairs, each of which was committed through our recently launched Brookfield Special Investment program that targets large-scale equity and equity-linked investments.

With the commitments raised for our latest flagship distressed debt fund, we've had a successful start to the fundraising for our next round of flagship funds. In aggregate, our other three flagship funds are now approximately 50% invested or committed. Based on the anticipated pick-up in investment activity in the next three to 12 months, we expect them to be in a position to start fundraising for their next vintages in 2021.

Subsequent to quarter-end, we announced a commitment to purchase, along with a small group of our institutional partners, up to $1 billion of units and shares of Brookfield Property Partners. We also took the opportunity to sell $725 million of Brookfield Renewable Partners units and Brookfield Infrastructure Corporation shares in order to bolster cash resources and boost the public float of these companies.

Keep Calm and Carry On

Stock and bond markets have been on a strong upward trend for the four months since the massive injection of government money into the markets began in late March. As a result, many companies have been able to access debt markets. But losses have been piling up in many businesses, and for those who have raised debt, the increased debt needs to be serviced—and all of it eventually repaid.

Over the next three, six, nine and 12 months, we believe many companies will require significant equity to repair their balance sheets and continue to grow. With $77 billion of capital available for investing, we expect to participate in many of these situations in a variety of ways.

First, our flagship funds for real estate, renewables/infrastructure and private equity all have substantial capital available with which to buy control of businesses when parent companies wish to sell them off in order to raise cash. In addition, if markets are not valuing them properly, we may have the opportunity to take public businesses private.

Secondly, our Oaktree team has recently raised $12 billion for its next distressed debt fund. This fund, once closed, should be the largest fund ever raised for distressed debt investment, and it will be invested in the debt markets over the next few years.

Finally, we have created a new Special Investments program, which makes non-control equity and equity-linked investments in companies that require capital for debt repayment or growth. Our intention is for this fund to reach the size of our other funds, and to start the program we have committed $1 billion from our own balance sheet. The program invested approximately $250 million in convertible preferred shares in a propane distribution company during the quarter, and has a strong pipeline of investments today.

In summary, we believe markets have recovered to levels that do not reflect the reality of the underlying economic environment. As a result, we are being patient with our capital, but we expect the pace of investment to increase over the next 12 months as opportunities present themselves. In the interim, we continue to grow all of our major businesses organically. Amidst all this, two of the most exciting things for us right now are our data infrastructure and renewables businesses.

Data Infrastructure is the Next Frontier

For a number of years, we have been investing in the backbone infrastructure behind the internet and mobile phones. We have now reached critical mass with these investments, and as a result they will constitute an increasingly meaningful part of our business.

Most importantly, we are in the midst of a once-in-a-hundred-year upgrade cycle for data infrastructure. The aging copper infrastructure is no longer able to cope with demands imposed by an increasingly interconnected world. These networks are therefore being replaced by fiber infrastructure, which can support increases in data demand, lower latency and faster broadband speeds. Concurrently, wireless networks are undergoing a transformation to support enhanced connectivity for 5G that is fast coming.

On a combined basis, these upgrades are expected to require trillions of dollars of capital globally over the next five to seven years. Historically, such investments were funded by telecom operators, but given increasing demands on their capital, they are now seeking funding partners. They are also increasing their reliance on neutral-host, shared infrastructure models to enhance their return on capital.

Our original thesis for investing in data was based on the belief that data infrastructure assets have utility-like characteristics with favorable growth trajectories and play a central role in connecting people, places and objects. The importance of these networks was further reinforced during the pandemic, as access to robust and reliable connectivity became a basic need for performing routine activities such as working from home, remote learning and telemedicine. This was exemplified by our U.K. fiber networks, where average data consumption increased 40% compared to the same period last year.

As we expand our operations, we now are reaping the benefits of being one of the largest owners of cell tower portfolios globally, with a contracted base of over 180,000 sites in six countries. In addition, we continue to grow our data center business with approximately 70 sites in 14 countries able to serve the scale and latency requirements of a diverse customer base, and we have fixed and wireless networks serving over 2.5 million residential and enterprise customers.

There are also exciting opportunities embedded within our broader business. Continued adoption of cloud computing is expected to require very substantial incremental data center capacity over the next decade. At the same time, the users and operators of these facilities are focused on achieving their stated carbon reduction targets. We are well positioned to help support these goals. Combining our renewables group activities with our data center offerings could be a game changer for us.

Doubling Down for a Renewable Future

We have been building our renewable power business for the past 25 years, but the technological and manufacturing advances in the solar industry over the past five years may make the next 25 years even more exciting than the past 25. For context, we own approximately $10 billion worth of shares of our renewable partnership, in addition to the fee income that results from our managing renewables investment funds on behalf of our clients. As a result, this is a very meaningful part of our business, and we expect it to become much larger.

Our renewables partnership has a ±$20 billion equity capitalization, and along with other client capital we manage, this backs ±$50 billion of operating assets, a substantial development pipeline, and a depth of expertise across solar, wind and hydro renewable facilities.

Only five years ago we were not investing in solar because of the high cost of construction, subsidies required to enable projects to earn a reasonable return, and technology issues. Today, solar no longer requires subsidies in many countries and is amongst the lowest-cost sources of power globally. As a result, in a very short time we have added 3,000 megawatts of solar to our operations and have an additional 10,000 megawatts under development. To put this in perspective, solar panel costs are now 25% of what they were seven years ago. At that build cost, solar is very competitive in most markets, and it has the added benefit of being the most renewable.

We recently completed the merger of TerraForm Power into Brookfield Renewable on an all-stock basis. TerraForm Power was one of the largest owners of solar globally prior to its bankruptcy in 2016. We acquired approximately 60% of it through a financial restructuring, implemented a new operating plan, and restarted the growth of the business. This has given all TerraForm shareholders, including us, a 35% compound return and over a tripling of value since our involvement with the business began.

More recently, we agreed to acquire a 1,200-megawatt solar development project in Brazil. This is one of the largest solar development projects in the world, and it will require both our development and energy marketing capabilities to bring the project to completion. We should be able to drive down procurement, installation and operating costs to deliver further value over time, which could make this an exceptional investment.

We continue to believe we are in the early innings of significant growth in renewables, and we are doubling down on this. We believe our disciplined cash flow focus and our global operating platform will continue to enable us to generate value from this sector for many years to come. With the growth we foresee, it appears that 10 years from now, solar will likely be the largest sector of our renewables business. That's quite a change from five years ago, when we weren't convinced it represented a prudent investment.

Low Interest Rates Mean Higher Valuations

There is almost no debate that a good portion of the last few months' stock and bond market reflation has been due to the money pumped into the financial system by governments post-Covid, as well as the oil market collapse. What has been lost in this story is the fact that, contemporaneously, central banks around the globe reduced interest rates to zero. It also appears that interest rates will stay at zero for a good while—and barring a change in the macro environment, rates will stay in a low range for the next five to 10 years. Zero to low rates have great influence regarding the valuations of assets and businesses.

Streams of income that have durability to them will be even more valuable when markets recover, as low interest rates make cash flows from investments such as alternatives even more compelling. Even recently, institutional and retail savers were able to earn ±2% in government bonds, but with all government debt now paying a nil return. Thus, the alternatives of real estate, infrastructure, renewables, private equity and private credit have become even more compelling. It is very likely that long-let property, contracted or regulated infrastructure, long-leased renewables and private credit assets will have higher valuations a year from now than they did a year ago.

As an example, someone who owns an office building that is fully leased to good-quality tenants with rents locked in for the longer term, generating $50 million of cash flow pre-Covid, could take on and service about $700 million of 4% debt and have $22 million cash flow left over for the equity owners. With interest rates dropping, that mortgage is now at approximately 2.25%, meaning the cash flows to the equity have become ±$35 million. The value of the equity on this property was ±$600 million pre-Covid—and today it's likely ±$1 billion.

A second example concerns the value of an operating business with stable cash flows. Westinghouse, a company we own, provides engineering and technology services to owners of nuclear power plants. It has had extremely stable revenues through the last six months, and we expect that to continue in the future. The EBITDA was $600 million pre-Covid (and still produces that), and at a 10 times multiple of cash flow, that business was valued at $6 billion last year. With approximately $3 billion of debt, the equity was approximately $3 billion. Now, with the world searching for returns and this business having proven its resilience, a multiple of 12 to 15 times is potentially more reasonable. If so, the equity of the business is now approximately $4 to $6 billion, suggesting an increase of upwards of $3 billion over its value at the start of this year.

Of course, the above does not apply for assets where the cash flows are uncertain. Although it is also very possible that many of these assets will also receive higher multiples, it may take time for investors to gain confidence in those income streams so that they can be awarded.

Change is Constant but People are People

The world is always changing, and technology advances have changed the world for the good for centuries. Technology in various forms has become more relevant every year and that will only continue. At the end of the day, however, people are social beings and have, for centuries, increasingly chosen to live with others. We do not think that the current situation will reverse the urbanization trend that has been underway for a long time and has only accelerated over the past 25 years.

This has been the trend because people like to be with others, be close to the action, meet new and interesting people, and exchange ideas. Ideas are most often generated face-to-face and spontaneously, not by people communicating from a distance or scheduling appointments. Offices and cities have been designed to ensure that people can meet with others; that offices incubate the culture of a company; and that they are important tools in training and growing younger talent. While we have seen these interactions constrained in the short term, we don't believe this will alter the long-term trend in any meaningful way.

Some have concluded that video conferencing will allow virtually everyone to work from home and, in fact, work from locations away from the cities. That won't work in the longer term because humans learn from cues picked up by seeing, hearing and being with others. The internet, phone and video can be enhancing tools, but each only works well when combined with face-to-face communication.

The same arguments about distanced working were made when the automobile became ubiquitous, the telephone allowed transcontinental conversations, and the internet enabled online communication. None of these has changed the fact that people favor being in cities and in offices. In fact, quite the opposite has always been true in past. These communication tools historically enhanced great cities and offices rather than supplanting them. We think this will play out the same way this time as well.

We believe video conferencing, like the internet, will allow more people to choose where they work. But contrary to what some say, based on observations of the past, we believe this will only enhance the desirability of large cities—and the offices and other urban spaces in them—and this will increase the concentration of people in major urban centers like New York, London, Shanghai, Sydney, Toronto, São Paulo, Mumbai and others globally. We believe young, entrepreneurial future leaders will continue to gravitate to dynamic energetic cities while using technological advances to augment their experience and productivity.

Closing

We remain committed to being a world-class alternative asset manager, and to investing capital for you and our investment partners in high-quality assets that earn solid cash returns on equity, while emphasizing downside protection for the capital employed. The primary objective of the company continues to be to generate increasing cash flows on a per-share basis, and as a result, higher intrinsic value per share over the longer term.

And do not hesitate to contact any of us should you have suggestions, questions, comments or ideas you wish to share.

Sincerely,

Bruce Flatt
Chief Executive Officer

August 13, 2020

Cautionary Statement Regarding Forward-Looking Statements and Information

All references to “$” or “Dollars” are to U.S. Dollars. This letter to shareholders contains “forward-looking information” within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements which reflect management’s expectations regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Brookfield Asset Management Inc. and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” In particular, the forward-looking statements contained in this letter include statements referring to the impact of current market or economic conditions on our businesses, the future state of the economy or securities market, the expected future trading price of our shares or financial results, or the results of future fundraising efforts.

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, including the ongoing and developing COVID-19 pandemic and the global economic shutdown, which may cause the actual results, performance or achievements of Brookfield Asset Management Inc. to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

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We caution that the foregoing list of important factors that may affect future results is not exhaustive and other factors could also adversely affect its results. Investors and other readers are urged to consider the foregoing risks, as well as other uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information.

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