Q3 2017

# Letter to Shareholders

## Overview

Assets under management and associated fees continue to grow at a rapid pace. Most of our operations also performed well in the quarter. We continue to find ways to invest our capital despite a competitive environment. This is largely due to our strengths of size, global presence and operating platforms.

Fundraising in both the public and private markets for real assets remains strong as institutional funds continue to allocate greater amounts of capital to our sectors. With interest rates still very low, this should continue for the foreseeable future.

## Investor Day

We held our 13th Annual Investor Day in New York this quarter. Thank you to those who participated either in person or by webcast. We hope the information provided was informative. For those not able to attend, the presentation material and transcripts are available on our website. They provide a summary of our business plans so we encourage you to read them to understand where we are going with the business.

We covered Brookfield Asset Management and each of the four partnerships that trade on the stock market. It is always hard to summarize our over $265 billion business into a few hours. Even tougher is to crystallize this into a few paragraphs, but below is the high-level summary.

We are now benefiting from the work over the last 20 years of building up our institutional relationships. These investors are allocating more capital to real assets because of the low volatility, strong returns, and both current yield and upside from the assets. We expect the percentages of overall capital pools dedicated to real assets to increase substantially from today's levels, and that the size of capital in institutional funds to double over the next 10 to 15 years. The compounding effect of both will be significant.

If we achieve our plans over the next five years, we will double the size of our business by most metrics, which should result in significant growth in the intrinsic value of a BAM share. The keys are to continue to successfully look after our private fund investors, and to grow each of our listed partnerships – Brookfield Property, Infrastructure, Renewable and Business Partners. In our presentations, we laid out the goals for each of these businesses.

In Brookfield Property Partners, we are focused on bringing to completion several major development projects, investing our opportunistic capital and capitalizing on the retail property changes occurring in the U.S. In Brookfield Infrastructure Partners, we are building out each of our infrastructure businesses. We see significant opportunity in the global telecom tower buildout, and growth in India due to both population growth and an under-financed corporate sector. In Brookfield Renewable Partners, we are one of the few well-financed renewable companies amid a once-in-a-generation shift of the energy stack in most countries to renewables. Lastly, our Brookfield Business Partners launch has been successful and we are positioned to make this a long-term focused business owner as a result of both our permanent capital and our ability to make long-term commitments to our partners and counterparties.

Along the way, things may not turn out exactly as planned – but rest assured, we will always bring our disciplined investing approach to capitalizing on the positive trends in our areas of focus, working to earn outsized returns on your capital.

## Singles and Doubles

In these letters, we often highlight businesses we own, companies and assets we buy or sell, or countries we are investing in. These activities are incredibly important, but just as important is the execution of the business plans by the tens of thousands of people that work with us in our operating businesses. Without them, and the singles and doubles that are generated all the time, rarely would we achieve our plans. Here we highlight for you a few recent examples.

This year, we opened our newly constructed 62-story residential rental property at Manhattan West in New York City. Since opening in May we have leased 60 units per month on average, a quicker lease-up than we expected. We are on track to be fully leased by the second quarter of 2018. The total cost of the project, including land, was approximately $600 million, and post lease-up will generate ±$35 million of annual cash flow. At a 3% cap rate, which is approximately what this would trade at based on today's yields, that translates into a profit of about $600 million.

We have finished construction on the first 800 of 4,200 kilometers of electricity transmission lines we are building in Brazil. These lines will bring electricity from the north to the load usage in the southeast. We bid on the concessions in 2015 and as a result of our financial wherewithal, our building expertise, and the strength of our reputation locally, we were awarded these licenses at an auction when few were bidding on anything in Brazil. We have now turned on the first 800 kilometers of lines, with an additional 800 kilometers expected to be completed by the end of next year. We are not done, but we are on budget and ahead of schedule – as a result of a lot of hard work by a lot of people. These lines are being built on mid-teen returns in local terms, and our total investment will be in the range of $1.2 billion.

In 2015, we acquired a company called GrafTech, that makes graphite electrodes, for $1.25 billion. Graphite electrodes are a critical consumable with no known substitute that are used in steel mini-mills to conduct electricity in the melting of scrap metal and other raw materials for the production of steel. The market was very weak in 2015 and 2016; we used this environment to restructure the company, exiting non-core businesses, shutting down capacity and improving plant productivity to achieve $100 million of annual operational improvements. The market for graphite electrodes has since tightened dramatically and steel producers are experiencing electrode shortages. We are now running flat out and prices have increased over four times from the bottom. If prices hold at these levels for 2018, and as current contracts roll off, we should earn well in excess of our target return on our $855 million equity investment. This turnaround, while in the early stages, looks like it could be very successful for us.

In early 2016, as part of a larger acquisition, we acquired a U.S. shopping mall in California that has been in substantial decline for several years. Despite its strong location, a lack of creative capital investment had driven customers elsewhere. In a transformative redevelopment program, we redesigned a substantial part of the mall, including two department stores, and re-planned the site to create a mixed-used destination. We successfully completed the first phase of the project this year and are planning the 2018 commencement of the first of 1,500 residential units that are approved in the master plan. Over the next five years, we will invest approximately $500 million in the asset to create a vibrant, mixed-use community, centered around our new retail complex, and will generate approximately that same amount in profit. This project highlights how, with the right vision, expertise and capital, retail assets can be re-invented and thrive as the retail sector evolves.

We acquired a 325 megawatt wind turbine electricity business in Ireland in 2014 for $740 million. We financed it with debt of $390 million and invested $350 million of equity. Since acquisition, we have built out another 166 megawatts of new projects. We recently sold 137 megawatts of mature plants and crystalized 35%

compounded annual return since acquisition. All told, we now have 370 megawatts operational in Ireland, an additional 78 megawatts under construction, cash flows are greater than when we started, and we have distributed over 50% of our original cash investment as a dividend to the owners. This has been a lot of work by many and so far, a very successful outcome.

In 2013 we acquired an industrial logistics property company in Europe. We invested further capital and distributed cash over the period. We started 7 million sq. ft. of new development projects and recently put the company up for sale due to very significant interest in this sector of the real estate market. We are now under firm contract to sell the company for a gross headline price of approximately €2.4 billion which, taking all items into account, resulted in a 47% compound IRR and 4.5 times return on our equity capital. We continue to own our very large industrial business in the U.S. which has similarly undergone this transformation and are looking for opportunities to restart this business in Europe, as well as continue to grow in China and other markets.

## Fair Value Accounting

As a Canadian corporation, we report under International Financial Reporting Standards (IFRS). This accounting framework is mandated in Canada (and about 100 other countries), but given that we have a large business in the U.S., we sometimes get asked about the differences between IFRS and the U.S. standard framework, Generally Accepted Accounting Principles (GAAP). The most significant difference for us is that under IFRS, a number of asset classes are carried at fair value – such as real estate and renewable power facilities, that under GAAP would be carried at historic depreciated cost.

Fair value accounting provides useful information to investors; however, it is intended to be used in conjunction with the other metrics that we provide, rather than to give a definitive view on performance. In part for this reason, funds from operations (FFO) continues to be our primary measure of operating performance, and is what we use in assessing the ongoing performance of our businesses. We believe, and experience has shown, that if we can continually grow FFO, the value of our assets – and our franchise – will continue to grow over the long term.

Valuing real assets is an integral part of what we do as an asset manager. It is a core competency and we have a robust, rigorous process in place around this. We perform valuations every day when evaluating possible acquisitions or dispositions. We have specialized teams that are among the best in their respective industries that constantly monitor transactions in the asset classes and markets in which we operate. We use internal valuations (standard in our industry), typically using discounted cash flows of each individual asset and comparable transaction analysis, to determine the values of each asset. We have well-established processes in place to ensure consistency and accuracy in our valuations, including adherence to strict internal standards, regular benchmarking against external appraisals, and both senior executive and firm-wide committee review. These values are then aggregated for inclusion in our public financial statements, as well as for private fund investors.

Our valuations are constantly being externally validated. They are audited annually and most major assets are independently appraised on a rotating basis – either every three years or as required by lenders. Of course, the real test of our valuations comes when we sell an asset. Our record speaks for itself: of the more than 400 assets sold over the past five years, we realized aggregate value of $44 billion, compared with the IFRS value of $41 billion – representing 110% of the value we held them at.

It is worth noting that we are not alone in the use of fair value measurements. Most REITs outside of the U.S. report under IFRS and carry their assets at fair value. Furthermore, U.S. GAAP requires fair value measurements in numerous circumstances. In addition, the clear disclosure of critical assumptions and estimates is important – and well highlighted in all of our disclosure materials. As a result, management teams, auditors and investors are very familiar with the application and understanding of these valuations.

Fair value accounting is straightforward and works particularly well in our real estate business, where all of the assets are eligible for fair value accounting, and where the resulting gains and losses are recorded in net income. In our infrastructure business, many of the assets are concessions which are not eligible for fair value accounting, and we do not use fair value accounting in our private equity business; these assets are carried at their depreciated historical cost which, in most cases and in aggregate, is significantly lower than fair value.

Overall, we think that fair value accounting provides useful information for investors, allowing them, when used in conjunction with other metrics and information provided in our disclosures, to develop a view of our performance and the value of our business. We have a robust and effective process in place around valuations, and continually seek to ensure that investors receive fair and transparent information about our business, within the regulatory boundaries that we must adhere to.

## SunEdison/TerraForm

We often get asked why we are able to acquire certain assets over others. Our investment in the TerraForm companies is a good example. We followed SunEdison and its affiliates for many years, as we participated in the same markets and in many cases competed for the same assets.

In 2015, SunEdison encountered serious financial issues. We assessed the situation and considered whether we might participate in its reorganization as we have done with many companies, through acquiring their debt and eventually converting it to equity. Based on both our knowledge of the asset values in the company and at the trading values of the debt, we could not make the numbers work.

After the bankruptcy of SunEdison, their two sponsored entities, TerraForm Power and TerraForm Global, traded down substantially. We knew the two companies had great assets and that the issue was primarily value. After the bankruptcy filing of SunEdison, the shares traded into a range where we finally saw value. This was the result of these two entities having two main issues: the first was that with the bankruptcy of their parent, they had no management. The second was that few investors trusted TerraForm’s numbers as they were unable to file financial statements. We believed we could solve the first issue with our people, and on the second, our advantage was that we had deep knowledge of the assets and countries in which they were invested. As a result, we were able to make a much more informed assessment of value.

At this point, we decided to buy common shares in the more liquid company TerraForm Power, and debt of TerraForm Global. In total, we acquired an original toe-hold of ±20% of TerraForm Power and debt of TerraForm Global. We eventually made proposals to the boards of both companies and their creditors, and ultimately were chosen to sponsor a recapitalization.

All this led us to recently conclude the purchase of 51% of TerraForm Power, and we will act as its new sponsor. We also expect to shortly close the acquisition of 100% of TerraForm Global. In aggregate, this will expand our renewable operations by 3,600 megawatts with an investment of $1.4 billion.

The overall portfolio is primarily in our core markets of the U.S., Brazil and India, but also expands our operations in a modest way into Uruguay, China, Thailand, Malaysia and South Africa. Over time, we will consider each of these markets and either grow or sell, depending on our assessment of the opportunity looking forward. We are thrilled with the acquisition which, all told, took close to two years to conclude.

## Performance in the Quarter

Fee related earnings increased to $745 million over the same period driven by the continued growth in fee bearing capital, which totaled $120 billion at quarter end. These increases were driven by growth in our listed issuer fee bearing capital as a result of strong market performance, and capital deployment within our private funds. Next quarter should see further growth in our private funds as we complete the first close for our next real estate opportunity fund.

| AS AT AND FOR THE TWELVE MONTHS ENDED SEPT. 30 (MILLIONS) | 2013 | 2014 | 2015 | 2016 | 2017 | CAGR |
|---|---|---|---|---|---|---|
| Total assets under management | $ 183,954 | $ 192,863 | $ 220,383 | $ 238,015 | $ 268,987 | 10% |
| Fee bearing capital | 77,179 | 81,738 | 90,018 | 110,747 | 119,860 | 12% |
| Annual run rate of fees plus target carry | 1,007 | 1,143 | 1,399 | 1,992 | 2,210 | 22% |
| Fee related earnings (LTM) | 288 | 346 | 464 | 690 | 745 | 27% |

As we deploy larger amounts of capital in our private funds, our ability to generate carried interest continues to grow. As a reference, we generated carried interest of $786 million during the last twelve months compared to $357 million in the prior year comparable period.

It is important to understand that fund profit, which drives carried interest, in a fund lifecycle is typically generated in three stages. In the early years, the fund generates minimal carried interest while investments are identified and capital is being deployed. At the mid-point of the fund lifecycle, capital has been fully deployed, value is being created and the fund assets should be generating a return above the preferred return. At this point the pace of carried interest generation accelerates. In the later stages the fund will continue to generate carried interest, albeit at a decelerated rate, until all remaining assets are sold and the fund is wound up.

Looking forward, carried interest should become an increasingly larger part of our asset management earnings profile. While we have $41 billion of carry eligible capital at September 30, only 59% has been deployed, and a substantial portion is within funds that are of relatively recent vintages. Accordingly, our overall carry profile is still within that early stage. We expect generated carried interest to increase as we deploy the remaining dry powder, and our operational improvements and asset repositionings take hold.

While we generate carried interest throughout the life cycle of the fund, we defer recognition in FFO until the carried interest is no longer subject to clawback. This is when the preferred return has been achieved through sales, cash has been paid and there is no significant uncertainty remaining. We do, however, report to you each quarter the amount of carry generated within our funds based on investment performance to date. We expect to realize about 60% of the potential carried interest within four to seven years and based on current funds in place we expect to earn $8 billion over the next 10 years.

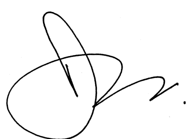
As an example, the recent sale of a European industrial real estate business, from one of our real estate funds, generated $300 million of carried interest. Given that we do not book carry until the end of life of a fund, we will not recognize this carried interest in our results, as it is still subject to clawback. Despite this, it is an “unrealized asset” and this puts us well on our way to realizing substantial carried interest from this fund.

## Closing

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

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

Sincerely,



J. Bruce Flatt
Chief Executive Officer

November 9, 2017

***CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION***

*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 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."*

*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, which may cause the actual results, performance or achievements of Brookfield Asset Management to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.*

*Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behavior of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyber terrorism; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.*

*We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, Brookfield Asset Management undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.*