Letter to Shareholders

Overview

During the first quarter we were active on many fronts, including closing a number of transactions announced last year. We also committed to acquire a hospital operating company in Australia for $4 billion, completed the acquisition of our Clarios (formerly Johnson Controls Power Solutions) battery solutions business for $13 billion, and agreed to acquire a $1.5 billion mixed-use office complex in central Shanghai. Lastly, we announced an asset management partnership with the founders and management of Oaktree Capital Management to take the company private in a joint venture for $4.8 billion.

Results for the quarter were excellent, in particular when adjusting for one-time items last year. We reported $1.1 billion in FFO or $1.04 per share. Net income was $1.3 billion in total for the quarter.

Fundraising remains strong. We closed our $15 billion flagship real estate fund and continued closes in our flagship private equity fund and our long-life real estate and infrastructure funds. We also expect to reach a first close of approximately $14 billion in our flagship infrastructure fund shortly, which will be our largest infrastructure fund raised to date.

Market Environment

The global economic environment is very favorable for investors. Economies are generally strong, but not too strong. Employment levels are among the strongest for many decades. Interest rates are paused at very low levels, and the risk of significant increases in the medium term seems low. Financing for transactions is freely available to good borrowers, but not in major excess. Covenants are lighter than they were five years ago, but the extreme excesses seen in the past do not seem prevalent yet today.

Despite this apparent 'goldilocks' market environment, we continue to worry about a world where politics are polarized almost everywhere, interest rates are low globally, and equity valuations are at their peak. With respect to equities, technology-related stocks seem to have particularly high valuations, although to date this has proven to be justified for some, as they have become among the greatest companies ever created. Passive investing is the latest trend to dramatically affect both equities and some classes of debt securities, and the full effects are yet to be seen. In this environment, we continue to cautiously invest capital but ensure that we remain liquid, with substantial cash and dry powder.

The North American economies are strong and South American countries are still recovering from their tough recessions. Europe is slower, but the U.K. is amazingly resilient. Australia is okay, China is slowing but is still robust when compared to global alternatives, and India is struggling with over-leverage. Overall, we think the global markets remain very constructive for our businesses.

Performance in the Quarter

Total assets under management are now $366 billion, as we continue to raise and deploy large amounts of capital across our businesses. This does not include the Oaktree transaction, which brings the total to approximately $485 billion in assets under management.

AS AT AND FOR THE TWELVE MONTHS ENDED MARCH 31 (MILLIONS)	2015	2016	2017	2018	2019	CAGR
Total assets under management	$ 207,132	$ 239,766	$ 245,205	$ 282,731	$ 365,957	15%
Cash available for reinvestment or distribution to BAM shareholders	1,049	1,331	1,775	2,130	2,363	23%
Gross annual run rate of fees plus target carry	1,264	1,568	2,058	2,465	3,100	25%
Fee related earnings (before performance fees)	385	567	691	791	889	23%

We raised $18 billion of private fund capital over the last twelve months, which included the final close of our $15 billion real estate flagship fund, and increased our client base by over 20%. We now manage private fund capital for 630 clients. We expect this growth to continue during the course of 2019 as we raise capital for our latest flagship infrastructure fund and for many of our other fund strategies. We earned $1.5 billion of fee revenues, prior to performance fees, in the last twelve months – a 16% increase from the prior year.

Fundraising also increases our potential to earn carried interest, which we measure using a metric called target carried interest – the carried interest we stand to earn, straight-lined over the life of the fund, assuming we achieve the target fund returns. Today, virtually all our funds are meeting or exceeding target returns. Target carried interest increased over the last twelve months to $1.5 billion annually. The actual amount of carried interest generated in our funds during the last twelve months on capital deployed to date totaled $632 million, and we recognized $349 million of carried interest into income in the same period, as it was no longer subject to clawback. In the first quarter we recorded into income $119 million of realized carried interest before costs, primarily from one of our global flagship real estate funds.

Our investments performed on plan, with strong financial performance from our private equity partnership, and share prices across each of our listed partnerships recovered with the markets in early 2019. We have continued to invest significant capital through these entities and alongside our private fund investors, while also opportunistically recycling capital, with dispositions of $6 billion of assets across all our businesses. Most recently we announced the sale of two investments we had owned for decades: our global facilities management business and our relocations business, with excellent returns.

Our deployable capital remains strong at $36 billion. Since year end, we have completed a number of previously announced transactions, and at the same time raised additional capital in our flagship and long-life fund strategies. We also supplement our deployable capital by accessing the capital markets when opportunities arise, and in January, we raised $1 billion of 10-year medium-term notes with a 4.85% rate.

In recent years, we have provided a metric called cash available for reinvestment—or distribution—to BAM shareholders to provide insight into the free cash flow generated by our business. This cash flow is now over $2 billion annually and growing. This amount, based on our estimates, should be over $5 billion in 2023 and with no specific use for the capital, it may be returned to shareholders. Since 2015, the cash flow generated by the business has more than doubled as our asset management business continues to grow, as do the distributions received from our invested capital. We expect this significant growth to continue as our funds mature and we begin to realize substantial carried interest that has been generated.

Oaktree Capital Management

During the quarter, we agreed to acquire 62% of Oaktree Capital Management for $4.8 billion. Most of the balance of 38% will continue to be owned by the management group, who will remain with Oaktree and run the business for us. Between 2022 and 2029, the management group will have the option to sell us their share of the company in a staged process. As a result, we may eventually own 100% of the business, but it is more likely, similar to most of our businesses, that our Oaktree management team will be part-owners with us, in some form for the long term.

The purchase includes our share of Oaktree's asset management franchise, cash, investments in its funds, and a 20% interest in DoubleLine, the fast-growing U.S. investment-grade fixed income manager. On closing, we will pay for the purchase with approximately $2.4 billion of cash from our corporate resources and approximately 53 million Class A shares of Brookfield. We hope shareholders of Oaktree will keep their shares and join the rest of us, as we set out on what we hope is an exciting journey together.

Howard Marks, Bruce Karsh and their management team have built a first-class asset management business with a primary focus on credit and particular prominence in distressed debt. We are thrilled to partner with them to own this business. They will continue to run the business and do what they have always done for clients. We believe we can also learn a lot from the team at Oaktree, and while their business will be run separately from ours, we believe there are many ways in which we'll all gain. Howard Marks will join our board, and we look forward to having his experience and market knowledge applied across the broader Brookfield.

We intend, for numerous reasons, to keep Oaktree's investment operations separate from Brookfield. Of course, where we can, we hope Brookfield and its clients and shareholders will benefit from the partnership. The strategic benefits should come to each of our franchises from the delivery to clients of our products in combination. From an opportunistic standpoint, as many of you know, we have been bolstering our financial resources in preparation for the inevitable downturn in markets and credit that will come at some point in time. The credit business of Oaktree should bolster our resources in this regard when this market turn occurs, and we intend to utilize the Oaktree brand to excel in stressed credit at that time.

In private equity, real estate and infrastructure, where both Brookfield and Oaktree are active, we intend to retain two premier brands in the marketplace – Brookfield as the mega-transaction brand (with $10 billion to $25 billion funds) and Oaktree as the boutique brand (with funds up to $5 billion). Similar to Volkswagen, which owns both Porsche and Lamborghini, we believe there is a market for these brands to co-exist, as they offer our clients different strategies delivered in funds of different sizes.

The transaction remains subject to a number of approvals, which we have previously described, and we continue to target closing in the third quarter of 2019.

Clarios

In our private equity business, we recently closed our acquisition of Clarios for $13.2 billion. Clarios is the global leader in automotive battery technology, manufacturing and distribution. The transaction was funded with equity and debt on very favorable terms, given the exceptional strength and stability of the business. We raised debt at a weighted average cost of 5.9% and with an average term of seven years. There are no financial maintenance covenants and there is no recourse other than to Clarios. We are pleased with this outcome as it provides us with significant flexibility to run the business and execute our plans, allowing for substantial free cash flow to be distributed to owners.

Clarios is a technology leader and an essential product supplier to an end market that is constantly growing. As a global market leader that supplies more than one third of the world's automotive batteries, Clarios benefits from economies of scale in product development, manufacturing and recycling of used batteries. Clarios has remarkable stability in earnings, as over 75% of sales are driven by inelastic, stable demand for aftermarket battery replacement. As a result, Clarios boasts a decades-long record of consistent growth in EBITDA and unit profitability throughout business cycles.

Over the last 15 years, profitability has declined only once (in the financial recession of 2009), but quickly rebounded the following year. The aftermarket nature of the business also provides significant downside protection to our investment as cars last an average of 15 years and require three battery replacements. As a result, it would take a long time to displace or significantly impact cashflows from the business, given the current number of automobiles in the markets served by Clarios.

We believe that favorable industry trends also provide significant growth potential for the business. First, the industry expects the total number of cars on the road to grow by 30% globally over the next ten years. Clarios will provide batteries to the manufacturers of these cars, as well as replacement batteries, for decades to come. This is true even in a world where there is a higher take up of electric cars, as today every electric or hybrid car also has a traditional 12-volt battery that performs many of the same functions of an internal combustion engine car. In addition, as vehicles are increasing in complexity, the car battery is becoming even more critical in managing the increasing electrical loads in automobiles. This is driving an industry shift toward advanced batteries, where we believe our business is by far an industry leader.

Clarios also has long-term relationships with top-tier original equipment manufacturers and auto retailers in more than 150 countries, which provides us with a unique advantage in the development and supply of new products and technologies. The company has a history of innovation and has invested in an international network of laboratories with over 300 engineers focused on battery research and development to address our customers' evolving needs as they design the next generation of vehicles.

Finally, as we do with all our businesses, we have identified opportunities within manufacturing and supply chain processes to further support profitability, and we are working closely with the management team on these and other initiatives to enhance the business.

Stock Market Volatility is Increasingly Creating Opportunity

Increased program trading and passive indexing is creating greater volatility in the stock markets – and in many cases, increasing discrepancies between a stock's trading price and its true value. For example, a stock that is in a 'hot' industry, or fits neatly into an index, may trade at greater than intrinsic value because of these non-company related influences. On the opposite end of the spectrum, smaller companies or those that do not neatly fit into indices may trade at a significant discount to fair market value.

This has been compounded by the reduction of investment research caused by changes to global securities regulation, which in turn has impacted brokerage firms' ability to provide research in exchange for commissions. As a result, substantial coverage for smaller companies has been reduced or dropped altogether.

Despite this, the underlying businesses are often doing well; this has led in some cases to excellent value purchases in the stock market, compared with what might be considered fair market value. The problem for regular stock market investors is that conditions may not change in the future, and therefore it may be a very long time, if ever, before true value is recognized in the stock market. For businesses that distribute cash flows to shareholders, this may not be as relevant as a large portion of returns can be in the form of cash returned to investors. But for many companies that require cash for reinvestment, the trading value can often be at a large discrepancy to fair value, with no visible event to change the trading valuation (commonly referred to as a Value Trap).

Historically, we have largely used one of three strategies to acquire assets: (i) we carve out assets from sellers who wish to realize cash from a non-core business; (ii) we buy assets in stressed situations, including by acquiring debt in the market and converting it to equity, and (iii) we take companies private in friendly transactions. The first two of these strategies continue to contribute to our sourcing of transactions. Increasingly, however, for investors such as ourselves that are capable of buying entire businesses out of the stock market, the third strategy is becoming the largest source of transactions as market volatility creates greater opportunity.

To put this into context, in the past two years we have taken seven public companies private. We attribute some of this to the above conditions as it enables us to begin discussions with a company at a reasonable starting point for value. In addition, in many cases, investors are frustrated and fatigued, and therefore choose to move on at a reasonable premium to the share price. In real estate, we took Forest City private in the U.S. In renewables, we took TerraForm Global private and acquired Saeta Yield in Spain. In private equity, we have an offer outstanding for Healthscope in Australia. In infrastructure, we privatized Enercare in Canada. All told, these take-private transactions led to the acquisition of over $55 billion of assets. More importantly, we believe we acquired great businesses at reasonable value.

One never knows what the future holds, but for now we see this trend of share price volatility increasing and consequently, there may be more opportunities to buy great businesses for value in friendly transactions with management teams that wish to join us, while at the same time providing existing investors with liquidity and an opportunity to exit at a favorable price.

The Advantage of Asset Level Non-Recourse Financings

We operate with debt on an asset level basis in order to reduce risk and maximize return on capital. The benefits of asset level debt, versus corporate level debt, have proven to be significant over many decades. As a result, the make-up of our liabilities is very different from many others, and our consolidated balance sheet is simply the sum of the debt on each asset and each balance sheet that we manage and consolidate. Our total debt is the summation of over 500 similar asset financings – each on average at 50% loan to value, and each of which stands on its own, with no recourse to Brookfield Asset Management.

Each financing is recourse only to the asset it finances, with no recourse to anything else. As a result, our leverage is extremely low risk and has stood the test of time over the past 30 years – including during periods of stress. We pride ourselves on being a great counterparty to those who lend us money but at the same time, we have no obligation to deal with any specific asset financing. Our debt is very carefully managed and has been a core strength, giving us confidence to go on offense when many corporate borrowers become stressed.

As an example, the Clarios financing mentioned earlier is recourse only to Clarios. It is not recourse to Brookfield Asset Management, Brookfield Business Partners, or our Private Equity fund; nor is it cross-collateralized to anything. It stands alone, like virtually all of our financings. For accounting purposes, however, we are obliged to show this non-recourse asset level debt on our Brookfield Asset Management consolidated balance sheet. This is required because we are the manager of the fund that acquired the company, but it is not corporate debt.

Lastly, at $7 billion, our corporate level debt is very modest in the context of our $50 billion market capitalization and more than $2 billion of annual corporate free cash flows.

Closing

The first quarter of 2019 was strong and we have no indication that the remainder of the year will be any different.

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 solid cash returns 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

May 9, 2019

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."

Forward looking statements also include references to "free cash flow" or "cash available for reinvestment." Where this letter refers to future estimates of "free cash flow" or "cash available for reinvestment," it is based on, among other things, assumptions regarding: (i) growth in private fund fee bearing capital (in particular, it assumes that flagship funds are raised every two to three years based on historical fund series and non-flagship funds are raised annually within certain strategies, and in others, every two years; funds sizes remain constant and consistent with target funds from period-to-period; distributions are based on fund realizations evenly over three years of sales; and the year in which sales commence range from year 6 to 10 depending on investment strategy); (ii) growth of and future distributions from listed partnerships (in particular, it assumes that BIP, BEP, and TERP grow at a rate equal to the mid-point of their target distribution growth rate, assuming current yield; the market price to IFRS discount on BPY is eliminated; BBU share price grows at a 10% annual rate; and total listed partnership capitalization includes issuances related to debt and preferred equity for BPY, BIP, and BEP, based on a debt to total capitalization ratio of 20-30%); (iii) carried interest on existing funds based on June 30, 2018 carry eligible capital (in particular, it assumes that existing funds meet their target gross return which are typically 20+% for opportunistic funds, 13% to 15% for value add funds, 12% to 15% for credit and core plus funds); and (iv) cash flow from financial assets (in particular, it assumes 8% annualized total return on the weighted average balance over the last twelve month period).

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: investment returns that are lower than target; 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; the performance of the Brookfield Asset Management Inc. shares or the stock exchanges generally; 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.