RESEARCH REPORT

February 5, 2019

Stock Rating	HOLD
Price Target	CAD $56.54

Bear Case	Price Target	Bull Case
$50.89	$56.54	$62.19

Brookfield Asset Management

FIGuring it Out

Due to the high correlation between investment returns on Canadian banks and their heavy weighting within the Canadian FIG benchmark, The FIG team is seeking out non-bank names in order to drive outperformance. The team decided to investigate Brookfield Asset Management (BAM) as a potential candidate due to its strong focus on real assets, its expertise in investing in complex or distressed situations, and its strong fundraising ability.

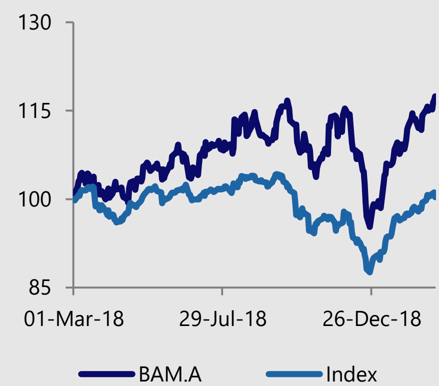
After further investigation, the team's assessment is that the above-mentioned traits hold true and make Brookfield a high-quality asset manager, which additionally has major plans for returning shareholder capital through buybacks in the coming years, which differentiates it from our existing holding, Onex Corp. However, at Brookfield's current price, it appears to be fully valued after taking into account the 10% discount it has historically traded at due to its size, diversification, and complexity.

Furthermore, the team has discovered that a large portion of BAM is effectively controlled by a small number of current and former Brookfield executives through a separate company called Partners Limited. The opaque and complex nature of the ownership and control of BAM gives the team some pause, however as BAM's current valuation is not an attractive entry point, the team has decided to wait until a more attractive opportunity presents itself before investigating this aspect of the business more thoroughly.

Going forward, the team will also consider investigating in one of Brookfield's public subsidiaries (BPY, BIP, BBU, BEP) in which we have the most confidence.

Ticker	BAM.A
Market Cap. MM	$59,040
P / B	2.2x
ROE	6.1%

52 Week Performance



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Company Overview

Overview

Brookfield Asset Management Inc. (TSX:BAM) is an alternative asset management company with ~$330 billion of assets under management ($141 billion of which is fee-bearing). This capital is invested in a variety of real assets, including premier office properties, power-generating plants, electricity transmission, transportation and distribution assets and various private equity funds. The company's headquarters are located in Toronto, and it also has corporate offices in New York City, London, Rio de Janeiro and Sydney.

Brookfield manages three main pools of fee-bearing capital: (1) $61 billion of perpetual public capital within their four public subsidiaries – Brookfield Property Partners, Brookfield Infrastructure Partners, Brookfield Business Partners, and Brookfield Renewable Partners, (2) $52 billion of private capital raised through 40 active private funds, and (3) $13 billion of capital invested into their public securities funds.

Subsidiaries

Brookfield Property Partners (TSX:BPY.UN) is a diversified global real estate subsidiary that owns, operates and develops one of the largest portfolios of office, retail, multifamily, industrial, hospitality, triple net lease, self-storage, student housing and manufactured housing assets. The subsidiary has $171B of assets under management (AUM), employing 250 investment professionals, and 17,000+ employees. Brookfield Property Partners' portfolio features some of the world's best known commercial properties, including Brookfield Place in Toronto, Canary Wharf in London, and Potsdamer Platz in Berlin.

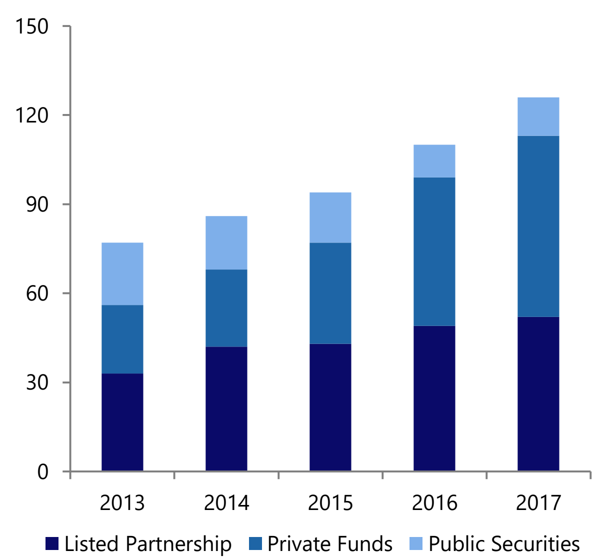
Brookfield Infrastructure Partners (TSX:BIP.UN) is one of the largest owners and operators of global infrastructure networks which facilitate the movement and storage of energy, water, freight, passengers and data. The subsidiary has $54B of assets under management (AUM) and 30,000+ employees.

Brookfield Business Partners (TSX:BBU.UN) is a private equity, business service and industrials company focused on long-term capital appreciation. The subsidiary acquires high-quality businesses and partners closely with the management teams to enable business success over the long term. Brookfield Business Partners has the flexibility to invest across multiple industries and through many forms. Its current operations are primarily in business services, construction, energy and industrial operations. They currently have $17B in AUM, employing 100 investment professionals, and 45,000+ operating employees.

Brookfield Renewable Partners (TSX:BEP.UN) operates one of the world's largest publicly-traded renewable power platforms. Its portfolio consists of over 17,400 MW of capacity and 877 generating facilities in North America, South America, Europe and Asia.

EXHIBIT I

Five-Year Fee Bearing Capital



Source(s): Company Reports

Company Overview

Sources of Funds from Operations

Brookfield's reporting focuses on their generation of funds from operations (FFO). Their definition of FFO differs from the real estate definition, and essentially consists of net income including realized gains on disposition, less depreciation and amortization. Their reasoning for excluding depreciation and amortization is that the long-lived real assets they primarily invest in tend to *increase* in value over time.

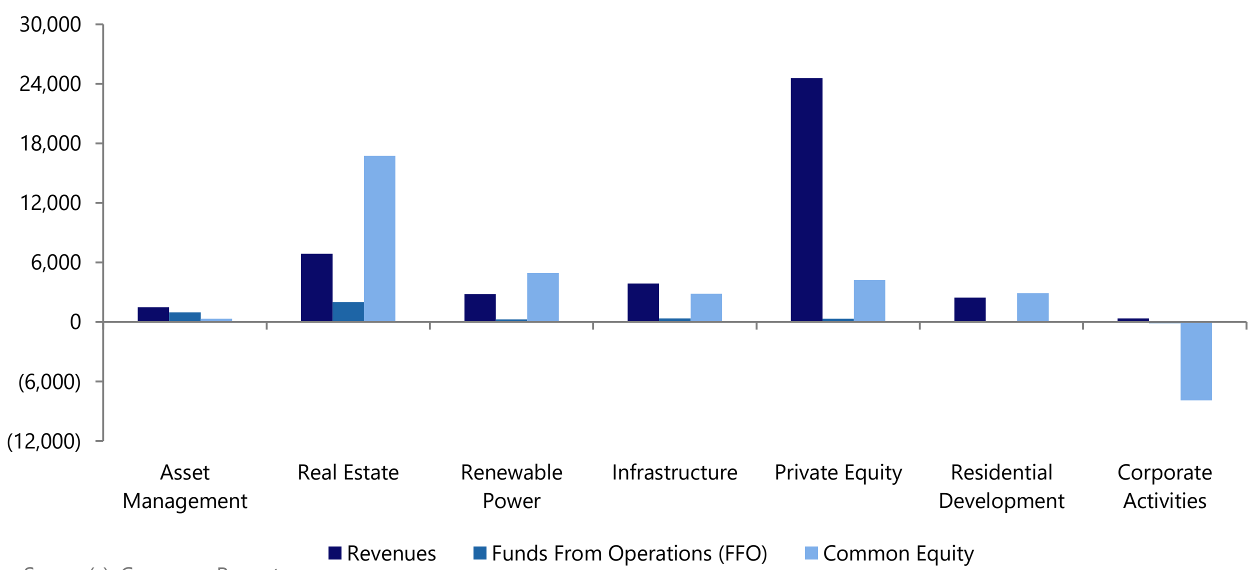
Brookfield's essentially generates revenues from two sources: (1) revenues from the activities of its operating businesses, including its four public subsidiaries as well as several directly held investments including Norbord and Acadian Timber, and (2) asset management fees collected from its public subsidiaries, private funds, and public securities funds. Brookfield receives its share of cash distributions from each of its operating businesses based on its % ownership of the business.

Brookfield's public subsidiaries generate cash from activities operating activities such as leasing, energy sales, as well as the activities of portfolio companies owned by Brookfield both directly and through Brookfield Business Partners.

Brookfield collects the majority of its asset management revenues as a base fee calculated as a percentage of its fee-bearing capital. In the case of private capital, BAM earns a percentage fee on both invested and uninvested capital. In the case of its public subsidiaries, base management fees are calculated as a percentage of their total capitalization including both debt and equity. The public subsidiaries pay out additional performance fees as a percentage of the amount by which their current valuation exceeds their initial valuation at the time they were first listed. Lastly, they also pay out incentive distributions based on whether their cash distributions exceed hurdle rates set out by agreements between BAM and the public subsidiaries.

EXHIBIT II

Revenues, FFO, and Common Equity by Operating Segment



Source(s): Company Reports

What do you get when you buy BAM?

EXHIBIT III

Flow of Funds to Brookfield Asset Management

Brookfield Asset Management (BAM.A)

% of FFO Based on Ownership
From (1) public subsidiaries and (2) directly-held investments

Brookfield Property Partners
69% Ownership

Brookfield Renewable Partners
60% Ownership

Brookfield Infrastructure Partners
30% Ownership

Brookfield Business Partners
68% Ownership

Acadian Timber

Asset Management Fees
From (1) public subsidiaries, (2) capital invested into private funds, and (3) public securities funds)

Base fees = % of capital invested

Performance fees (Public Subsidiaries) = % of amount by which capitalization (both debt and equity) has increased since initial listing

Incentive distributions = % of amount by which distributions exceed thresholds or % of the amount by which share price increases above escalating thresholds in the case of BBU

Carried interest on private equity investments

As can be seen from the above, the majority of Brookfield's revenues are relatively stable. Its FFO from its operating businesses are for the most part relatively stable, long-term contracts, such as in the case of its leasing, infrastructure, and energy businesses. 77% of BAM's asset management fees are also base management fees, which are relatively stable and predictable as well. However, the structure of its asset management fees gives some room for pause, as it seems there are many opportunities for BAM to artificially inflate its earnings in the short term either through raising additional capital (debt or equity) in its public subsidiaries, thereby elevating its base management fees, or by increasing distributions in the short term in order to boost incentive distributions.

Source(s): Company Reports

BAM's Growth Strategy

Capital Growth Strategy

Since its inception, Brookfield has grown exponentially, financing its acquisitions and assets with debt and private capital from its three flagship funds. Brookfield adopts a bottom-up debt financing strategy. At an asset level, it utilizes non-recourse with long-dated, fixed-rate local denomination currency to act as a natural hedge against currency fluctuations and match its long-term investment horizon. When needed, Brookfield layers on additional investment-grade corporate debt or draws down robust revolving credit facilities.

As a large and prominent institution, Brookfield's operating companies receive strong demand for public debt issuances across North America, Europe, Asia, and Australia. In regard to private funding, Brookfield is looking to raise a total of ~$50 billion across its three flagship funds. In 2018, Brookfield raised a $6.5 billion private equity fund, and launched a new infrastructure fund which is anticipated to surpass $14 billion. Recently, Brookfield closed its largest private fund to date, a $15 billion global real estate fund.

Sources of Capital

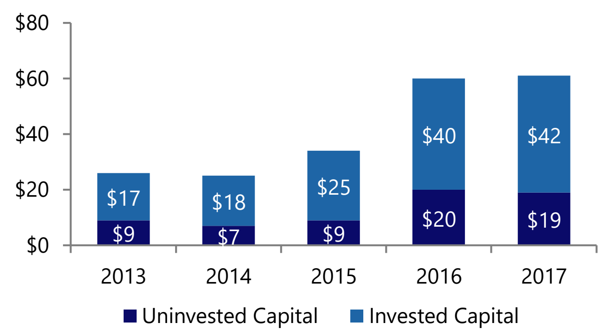
Brookfield attracts a diverse set of partners, including private and public pension funds, sovereign wealth funds, family offices, and financial institutions. Brookfield's ability to raise capital is attributable to a number of factors, first being its scale of capital. Brookfield can quickly raise and deploy capital on a sizable scale, allowing it to compound asset growth and free cash flow from fee bearing capital at a rate unrivaled by many of its peers. It is anticipated that the capital target of $50 billion will enable Brookfield to acquire ~$125 billion in assets. By operating on a colossal scale, Brookfield is able to gain a size advantage when searching for global opportunities, as many of its peers are limited by their fund sizes.

Second, Brookfield's global reach allows it to tap into a greater pool of opportunities. Brookfield can capitalize on market conditions in multiple regions and countries, rather than being limited to North America where the competition to deploy capital is fierce.

Finally, Brookfield is notorious for being able to engineer value through their market and asset expertise. Brookfield consistently reworks distressed balance sheets and capital-intensive businesses to be profitable. As a result of targeting unique assets, Brookfield is able to acquire assets below replacement cost, allowing it to achieve above-average returns. Across its funds, Brookfield has consistently surpassed its target carry on deployed capital.

EXHIBIT IV

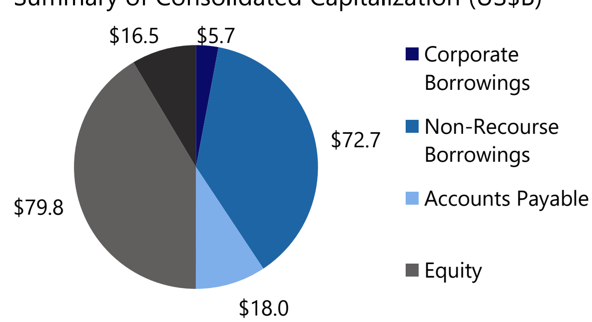
Five-Year Carry Eligible Capital (US$B)



Source(s): 2017 Annual Report

EXHIBIT V

Summary of Consolidated Capitalization (US$B)



Source(s): 2017 Annual Report

BAM's Growth Strategy

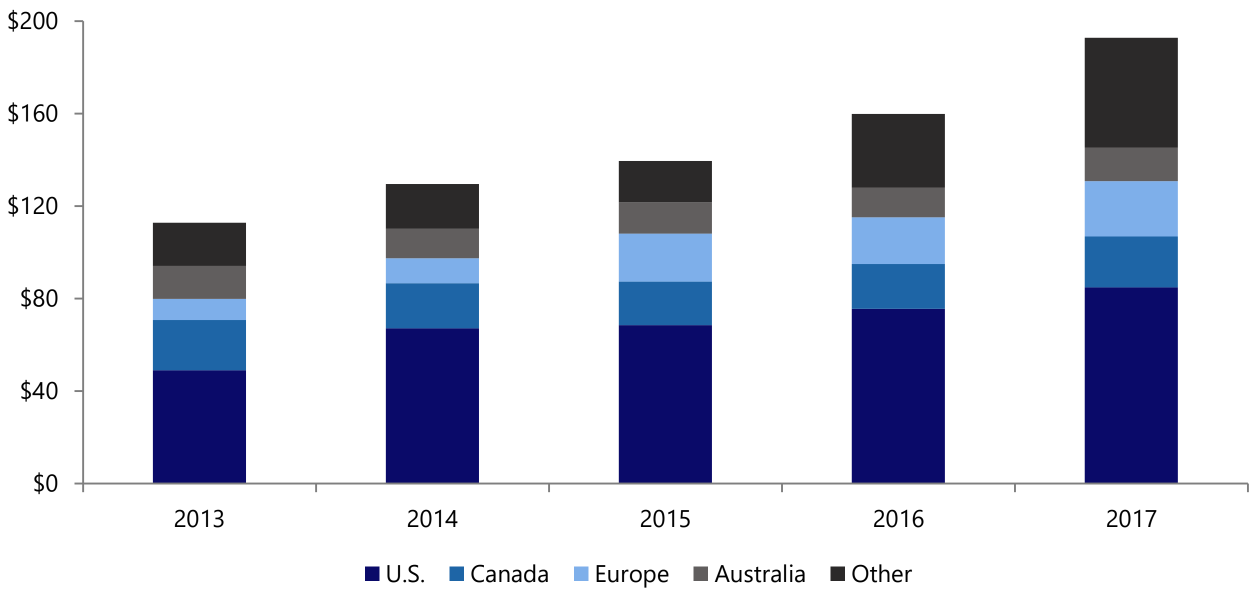
Capital Allocation Strategy

Though Brookfield has seen significant momentum in its real estate and private equity funds, it foresees immense opportunities for growth in arising in infrastructure and emerging markets like China and India. In 2017, over $100 billion of Brookfield's AUM was in regions outside of North America, representing 60% of its total AUM.

First, it is anticipated that Brookfield will scale its infrastructure asset base as more public assets turn private. Over the next 50 years, as much as $100 trillion in public infrastructure assets could be offloaded from indebted governments and put into the hands of private investors and operators like Brookfield. Across all of its subsidiaries, Brookfield is expecting to double its asset base in 5-10 years to be between $500 or $600 billion with more than $100 billion comprising investments in India and China. Currently, China only makes up 1% of Brookfield's total asset base, but it is expected to make up over one third of its assets in 25 years. Over the past 15 years, Brookfield has strategically been building up its presence and investments in the Asia-Pacific region and are approaching a point where it can build real scale. Its first significant move into Asia came in 2018, when Brookfield partnered with GLP, one of China's largest owners and operators of logistics warehouses, to install solar panels on its buildings. The solar panels will be used to create a distributed solar energy grid and will be used to power China's immense industrial sector.

EXHIBIT V

Geographic Segmentation of Assets (US$B)



Source(s): Capital IQ

Brookfield vs. Onex | Investment Strategy

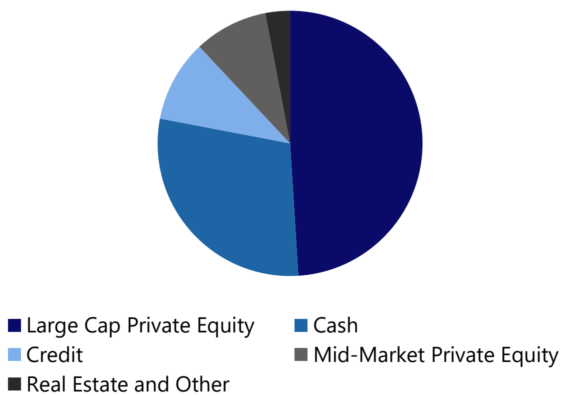
EXHIBIT VI

Onex and Brookfield's Capital Deployment

Capital
$31 Billion

Onex

Private Equity | Credit



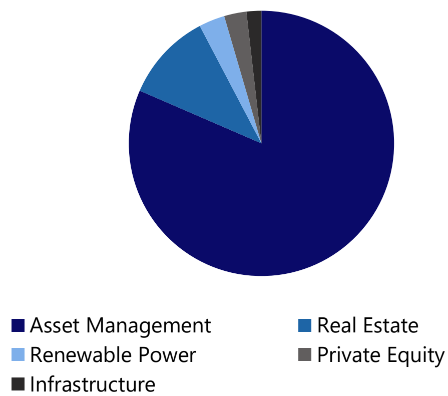
Capital
$126 Billion

Brookfield

Asset Management

Real Estate | Renewable Power

Infrastructure | Private Equity



Source(s): Company Reports

Strategy Comparison

Because of differences between Onex and Brookfield's scale and underlying business model, the companies also employ different strategies for growth and capital allocation.

Onex is primarily generates returns based on its private equity investments, which means that one of its most important metrics is IRR. At the same time, the company is continuing to grow its credit investing business, with fee-generating capital under management growing by 36% in 2017, reaching $21.7 billion. Furthermore, one of Onex's long term goals is to grow its capital per share by 15% every year, tracking the increase in value of the company's private equity investments. In comparison, Brookfield's overall strategy focuses less on its private equity capital deployment and more on its annualized fees and target carry as well as its fee bearing capital. In comparison to Onex, Brookfield's asset management business contributes to a higher proportion of the company's overall returns.

Due to Brookfield's size, it has the ability to compete across a variety of private equity opportunities.

Brookfield vs. Onex | Alignment with Shareholders

After having researched Onex in our last report, we paid close attention to disclosures and metrics related to management/employee alignment when evaluating asset managers. For example, at Onex employees invested in many of the deals that they would be working on, Onex's managed and permanent capital base served as the anchor investor in many of its funds, and strong insider ownership to align managers not only with LPs, but also with Onex shareholders. In evaluating BAM we came across many similarities with respect to compensation structure.

Since BAM is structured as a public entity investing in other public entities, while also managing outside capital (85% of which is invested alongside its subsidiaries), the compensation structure is a bit different than that of Onex. When we think about alignment in this case, it is important to understand that BAM likely would not have the ability to have insiders fund a certain percentage of each deal, which was the case at Onex. A strong signal of alignment with shareholders is the fact that ~20% of BAM shares are held by insiders, giving employees personal, as well as professional motivation. In terms of aggregate organizational alignment with shareholders, BAM is the largest investor in its own subsidiaries' funds and generally acts as the GP in many deals.

In addition to these factors, it is also important to note that BAM has strategically purchased shares of its subsidiaries at prices that they feel are attractive. Recently, BAM bought $200MM of BPY shares after the close of BPY's acquisition of GGP, as BAM management believes that there is a distinct gap between BPY's IFRS value and current price. Furthermore, BAM has outlined a plan to return over $50B in free cash flow to investors over the next decade, with $10B coming in the form of dividends and $40B in another form., such as share repurchases. Ultimately, we believe that BAM's corporate structure and alignment with shareholders is strong, with a solid plan for returning capital to shareholders in the future.

EXHIBIT VII

BAM vs. Onex Alignment Comparison

	Brookfield Asset Management	Onex
Largest Investor in its Own Funds?	✓	✓
Insider Ownership >15%?	✓	✓
Insiders Buying Into Every Deal?	✗	✓
Plan For Capital Return to SH?	✓	✗

Valuation and Discussion

Valuation Approach

We valued Brookfield Asset Management by using a sum-of-the parts NAV model. The intuition behind the model was to separately value BAM's ownership in listed partners, stakes in partially and wholly owned businesses, and the core asset management business.

To do this, we used forward value estimates of the publicly listed partners (BBU, BIP, BPY, and BEP) and its other listed companies. When determining the value of wholly owned businesses, we took estimates of the values from equity research and applied a discount to their figures. After we removed all of these other segments, the core asset management segment was examined. To value this portion, a 20x multiple to fee-related earnings was applied, which is in line with the average multiple of large asset managers. After combining the values of all these segments individually, a discount to NAV was applied, to arrive at an implied share price of $56.54 and an implied total return of 0.21%.

Disclaimer on Valuation

Many who have examined this valuation approach have likely already realized the reliance on equity research. This is the challenge of valuing a large holding company such as BAM. To develop a more comprehensive model, one would need an in-depth understanding of each one of its listed partners and wholly owned businesses. While this task could be undertaken, we would likely come to a conclusion supported by many assumptions that may be out of our circle of competence to make, which is why we chose to use equity research to aid us in modeling BAM.

EXHIBIT VIII

Valuation Assumptions and Estimates

Brookfield Asset Management NAV			Valuation			Estimated Fair Value		
	% Ownership	Funds Flow	Low	Mid	High	Low	Mid	High
Public LPs								
BBU	68%		$44.10	$49.00	$53.90	$3,877	$4,308	$4,739
BIP	30%		$41.40	$46.00	$50.60	$4,880	$5,422	$5,964
BPY	53%		$20.82	$23.13	$25.44	$10,696	$11,885	$13,073
BEP	60%		$29.03	$32.25	$35.48	$5,471	$6,079	$6,687
Other Listed								
Acadian	45%		$18.00	$20.00	$22.00	$135	$150	$165
Norbord	40%		$37.80	$42.00	$46.20	$1,314	$1,460	$1,606
Wholly Owned Businesses								
Wholly Owned NAV		$328	8.0x	9.0x	10.0x	$2,624	$2,952	$3,280
Asset Management								
Fee-Related Earnings	100%	$1,076	19.0x	20.0x	21.0x	$20,444	$21,520	$22,596
Unrealized Carry	100%	$1,809	1.0x	1.0x	1.0x	$1,809	$1,809	$1,809
Distributions	100%	$1,508	1.0x	1.0x	1.0x	$1,508	$1,508	$1,508
Holdco Debt/Prefs	100%	($10,746)	1.0x	1.0x	1.0x	($10,746)	($10,746)	($10,746)

Source(s): Company Reports, Capital IQ, Credit Suisse Equity Research

Valuation and Discussion

Valuation Conclusion

We decided that a 10% discount to NAV was appropriate, as the company has been trading at a 7% discount for the last year, and we applied a further 3% discount to be conservative. The reason for this discount is due to the opacity and complexity of the business model. This brings down our implied total return down to 0.21%. Therefore, our analyses do not show a large margin of safety.

Potential Future Opportunities

Through research, we also found that during certain time periods, the asset management segment of BAM appears to trade at a negative value. This value is calculated by subtracting its market value stake in its listed partners and holding companies from its share price. Should this opportunity present itself again in the future, it would be an opportunity to buy into a quality asset manager at a steep discount.

EXHIBIT IX

NAV Summary

NAV Summary	
Public LPs	$27,694
Other Listed	$1,229
Wholly Owned Businesses	$2,952
Asset Management	$14,091
Net Asset Value	**$45,966**
FDSO	959
NAV per Share - USD	$47.95
NAV per Share - CAD	$62.82
Premium/(Disc.) to NAV	(10.00%)
Implied Share Price	**$56.54**

Source(s): Company Reports

EXHIBIT X

Total Return Summary

Return Summary	
Implied Share Price	$56.54
Current Share Price	$57.33
Implied Share Price Return	**(1.39%)**
Distribution Yield	1.60%
Implied Total Return	**0.21%**

Source(s): Company Reports

References

1. BMO Capital Markets
2. Capital IQ
3. CIBC Equity Research
4. Company Reports
5. Credit Suisse Equity Research
6. RBC Capital Markets