BROOKFIELD ASSET MANAGEMENT LTD
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Corporate Speakers:
Suzanne Fleming, Managing Partner
Bruce Flatt; Chief Executive Officer
Connor Teskey; President
Bahir Manios; Chief Financial Officer

PRESENTATION

Operator

Hello, and welcome to the Brookfield Asset Management First Quarter 2023 Conference Call and Webcast. (Operator Instructions). I would now like to hand the conference call over to our first speaker, Ms. Suzanne Fleming, Managing Partner. Please go ahead.

Suzanne Fleming, *Managing Partner*

On the call today are Bruce Flatt, our Chief Executive Officer, Connor Teskey, President of Brookfield Asset Management, and Bahir Manios, our Chief Financial Officer. Bruce will start the call today with opening remarks, followed by Connor, who will talk about some of the themes we're focused on; and finally, Bahir will discuss our financial and operating results for the business. After our formal comments, we'll turn the call over to the operator and take analyst questions. In order to accommodate all those who want to ask questions, we ask that you refrain from asking more than two questions at one time. If you have additional questions, please re-join the que and we'll be happy to take additional questions at the end if time permits.

I'd like to remind you that in today's comments, including in responding to questions and in discussing new initiatives and our financial and operating performance, we may make forward-looking statements, including forward-looking statements within the meaning of applicable Canadian and U.S. Securities law.

These statements reflect predictions of future events and trends and do not relate to historic events. They're subject to known and unknown risks, and future events and results may differ materially from such statements. For further information on these risks and their potential impacts on our company, please see our filings with the securities regulators in Canada and the U.S. and the information available on our website. And with that, I'll turn the call over to Bruce.

Bruce Flatt, *Chief Executive Officer*

To a strong start in 2023, our financial performance was strong, and we have good momentum on fundraising. We posted distributable earnings of $563 million, that was up 15% compared to the prior year. Inflows year-to-date have been $19 billion, which on a 12-month basis, that's almost $100 billion in the last period. Despite macroeconomic headwinds that generally make

all business harder, we expect 2023 to be another very strong year for the business overall and for fundraising on par with 2022, which was a record year for our business.

We currently have all five of our flagship funds and several other complementary strategies in some stage of fundraising this year. Our ability to raise capital is driven in large part by our long track record of exceptional investment returns, the relationships we've built over time with institutional investors around the world, and a particular focus on businesses which are well-positioned in this current environment.

Our long-life high-quality assets and businesses with durable, stable, or contractual and inflation-protected cash flows have proven their resiliency in every economic cycle over the past 30 years. They remain resilient today and they should remain so for another 30 years.

Deployment has also been strong. Public valuations are more reasonable today, which has allowed us to complete a number of take privates with little or no competition. We recently agreed to deploy more than $12 billion of equity into a number of exceptional long-term investments. These transactions highlight the type of investments that we can find and which few others can execute on. Bringing together our strength as a value investor, our significant capital resources and our heritage as an owner and operator of real assets over many decades.

The largest of these transactions was Origin Energy, we're alongside a consortium of investors, we made a commitment to acquire the company at an enterprise value of approximately $9 billion in a public to private transaction. The transaction will enable us to deploy our renewable development capabilities to decarbonize and transition a very large energy market player in Australia in line with the Global Transition Fund's mandate, while also generating what we believe to be excellent returns.

At the same time, the private markets remain fairly open in terms of asset sales, particularly with respect to infrastructure and renewable assets that generate strong inflation-protected cash flows and often include assumable debt financings.

Our infrastructure business has been very active on the monetization front, transacting on seven asset sales in the past year at strong valuations and have a number of others that we expect to execute on in '23.

Our Renewables and transition group has also been active on this front, executing numerous transactions in the past six months, and we expect more over the remainder of the year. As we look ahead, we see a number of opportunities to put our vast resources to work. The current market environment has accelerated growth opportunities with a particular focus on take-privates and opportunities in and around credit more broadly speaking.

First, with respect to take-privates, we continue to explore a number of significant take-private opportunities across the business, and we expect more on this front this year across virtually every one of our businesses.

Second, in distressed debt, the volatility we are seeing in the market today, including the issues in the regional bank market in the U.S. are accelerating the opportunity to put money to work at excellent returns.

We have not seen markets like this for a while. This is a significant opportunity for our distressed debt franchise, and likely also our private equity funds and real estate funds. Our long track record of achieving excellent returns for clients in times like this give us a great advantage as the market evolves. Our business usually excels in periods such as now and this presents great opportunities for us.

Third, in private credit, in addition to distressed debt, we are seeing a significant opportunity more broadly in private credit. We have methodically built out a private credit franchise over the past 15 years, centered around our core competencies, with the view that loans from banks to corporates, real estate owners, and sponsors would decrease over time, creating a sizable investment opportunity.

We've been seeing our thesis play out for many years and with the recent tightening in credit conditions, our track-record expertise and ability to invest vast sums of capital will continue to scale this business. Our inaugural large cap flagship loan fund with $2 billion newly committed from Brookfield Corporation will be one of hopefully the largest funds in the industry. But this is just the beginning for us in private credit.

Lastly, before I turn the call over to Connor, I'll just make a few quick remarks on the state of the markets and how they reflect on our business. Inflation is beginning to ease to more moderate levels and the market's expectation for interest rates is starting to stabilize. While the Fed's continued rate hikes have had their desired effect of curtailing inflationary pressures, the secondary effects of the sharp rise in interest rates are only beginning to work through the financial system.

Capital has become increasingly scarce and relatively more expensive versus the lows of the last number of years. This leaves asset owners who must refinance debt for fund growth with fewer options. This should create an opportunity for large asset managers with significant dry powder to put to work and we’re included in this group. Thank you for your continued support of our franchise, and I'll now turn it over to Connor, and he's going to cover specifically infrastructure.

Connor Teskey, *President*

Thank you, Bruce, and good morning, everyone. We would like to spend some time on today's call to provide an overview of our market-leading infrastructure business. As we have many new investors who are increasingly becoming familiar with our franchise, we thought it might be helpful to first start with an overview of our infrastructure capability, and then discuss some of the themes and recent transactions we have announced.

By way of background, we manage approximately $160 billion of infrastructure assets, globally, and have nearly $100 billion of fee-bearing capital within our infrastructure portfolio. These investments are supported by a strong team comprised of over 300 investment and asset management professionals with a local presence in approximately 30 countries. This makes us the largest and most experienced manager of privately held infrastructure assets.

Now there is one important distinction to ensure that we point out. When we discuss our infrastructure business, the $160 billion figure referenced above, it does not include our renewable power and transition assets. At Brookfield, we have separate dedicated teams that

focus on renewable energy investments. This is unlike others, but the scale of what we have demands two different groups.

These two teams are integrated in discussing investments and deployment opportunities, and together have combined assets under management of approximately $230 billion, and fee-bearing capital of around $150 billion. But on today's call, we are going to focus solely on our infrastructure business as we define it, and at some other time we will focus on many of the exciting things going on in our renewable power and transition platform.

Our infrastructure portfolio is owned through several closed-end debt and equity funds, an open-end core-plus strategy and a recently launched semi-liquid strategy in private wealth networks. That's in addition to our permanent capital vehicle, Brookfield Infrastructure Partners, or BIP, that has a $50 billion enterprise value.

Lastly, our infrastructure business is highly diversified and spans a wide array of asset types from utilities such as gas pipelines and power transmission businesses to transport assets that include ports, roads, and railways; midstream assets and digital infrastructure assets comprised of towers, data centers and fiber networks.

Our infrastructure business has been very active in the past few years. 2022 was a record year in terms of capital deployment and we're off to an amazing start in 2023, having already committed and/or deployed to more than $15 billion of investments.

We view this as a function of two things, first, that there is a once-in-a-generation market opportunity to fund an unprecedented build-out of new infrastructure assets, and then second, is that we have the global platform with the scale and capabilities to execute on the most attractive investments within that growing opportunity set. You may have heard us speak before about the infrastructure super cycle that is unfolding today. Let us spend a few minutes to take you through the three themes that our team are spending most of their time on.

First, Digitalization. This refers to the infrastructure investment opportunities that are derived from the exponential increase in data consumption. Think of what you consume daily on your iPhone. Data is still the world's fastest-growing commodity. Based on current usage patterns, the amount of data that is generated globally is expected to double over the next 18 to 24 months, and this pace is only going to continue to accelerate.

Like any commodity, all this data needs to be transported, processed, and stored. In order to facilitate this growth, significant investments are required into each one of these segments. Historically, these investments were funded by traditional telecom operators or technology titans, but given the increasing demand, those counterparties are now seeking new capital partners in order to alleviate the weight on their balance sheets. We are already seeing the market opportunity playing out across three verticals, fiber networks, wireless power networks and data centers.

With fiber we are witnessing a once-in-a-100-year investment upgrade to replace legacy copper networks with fiber-to-home infrastructure for new and existing residential developments. In wireless infrastructure, the mobile network operators or MNOs need to make significant

investments in order to densify their networks and make them 5G-ready. And lastly, the data center sector is experiencing significant tailwinds from the migration to cloud computing.

When combined with the expected increase in data demand, it is estimated that 10,000 megawatts of new datacenter capacity will be required in the next decade. And these trends are not slowing down. With the growth of AI, which utilizes exponentially more data and requires significantly more computing power, we expect demand to only accelerate from here.

The next theme is Decarbonization. You may have heard us speak about this on previous calls and in our materials. We have talked about how the decarbonization of the global economy will be a multi-decade initiative requiring substantial investment. To-date, attention has been focused on the industries and companies that are directly responsible for the emissions, or supply-side decarbonization.

This is an opportunity for our renewable power and transition business, and they are investing in this opportunity heavily. However, a second aspect of decarbonization is the investment opportunity created by consumer preferences for energy efficient solutions or demand-side decarbonization.

These opportunities are driven by consumer preferences for energy-efficient solutions that can help them manage their carbon footprints, save money, and meet legislated net zero targets, thus creating a market opportunity for infrastructure capital to alleviate the high upfront cost of installation and the ongoing complexity of servicing and maintaining this increasing installed base of decarbonization equipment. This is what our infrastructure business is very focused on.

And the third theme we wanted to touch on is Deglobalization. In recent years, geopolitical tensions and the pandemic have caused substantial disruptions, forcing companies to rethink their global supply chains. On one hand, we are witnessing a wave of onshoring projects associated with high-tech and strategic components such as semiconductors and medical essentials. A great example of this is our $15 billion investment in one of Intel’s semiconductor fabrication facilities, which is currently under construction in Arizona.

On the other hand, lower-value goods such as apparel, furniture, or household items continue to be manufactured in lower-cost jurisdictions. Rather than re-shoring, companies are instead looking to geographically diversify their supplier base, reducing their reliance on any one location or one supplier.

While critical goods are increasingly being produced at home, broader supply chains are looking to increasingly balance just-in-case with just-in-time. A good example of a transaction that will capitalize on this trend is our agreement to acquire Triton International, in a $13 billion take-private transaction, which will further enhance our infrastructure footprint underpinning global supply chains.

Triton is the world's largest owner and lessor of intermodal containers and is a critical provider of global transport logistics infrastructure. The size and scale of Triton's global network differentiates it from competitors, driving lower procurement and financing costs, and enjoying structurally high fleet utilization and margins.

As we look ahead, we estimate that it will take more than $100 trillion of capital globally to invest across these three themes. At $100 trillion, the market opportunity is material, and the size is tough to fathom. We are very well-positioned to capture a meaningful share of this opportunity set, given our large-scale and flexible capital, our global footprint with boots on the ground, and our deep operating expertise.

Those secular tailwinds, in addition to an enormous appetite by clients to allocate more capital towards this sector, gives us strong conviction around our ability to more than double our fee-bearing capital in the next five years. And so with that, we will turn it over to Bahir who will provide more details on our financial results and fundraising activities.

Bahir Manios, *Chief Financial Officer*

Thank you, Connor, and good morning, everyone. My remarks today will be focused on the results for Brookfield Asset Management on a 100% basis, which we believe is the most relevant way to describe our financial and operating performance. I wanted to cover off four topics this morning.

First, I'll discuss our financial results for the first quarter of 2023. Second, I will provide an operations update focused on our fundraising efforts and diversified client base. Third, I'll touch on our balance sheet and then end it off by providing an outlook for the business for the remainder of the year.

The first quarter of 2023 marked our first full quarter as a pure-play publicly traded alternative asset manager following our spin-off from Brookfield Corporation, and we're encouraged by the positive feedback we've received to-date. Our business is centered around extremely resilient and growing high-quality cash flows and industry-leading businesses, both of which are well-positioned to benefit from secular global trends over the coming decades. This is bolstered by our access to large-scale capital, global reach, and deep operating expertise.

First, on financial results, as Bruce noted, they were strong. We reported fee-related earnings or FRE of $547 million in the quarter, representing an 11% increase over the prior-year period, and when you normalize for a large transaction and advisory fee that we received in the prior year, our FRE was up 17%. On a 12-months basis, our FRE is up 22%, benefiting from almost $100 billion of capital that we raised since the first quarter of 2022.

Our distributable earnings or DE for the period were $563 million or $0.34 per share, which represents a 15% increase compared to the prior year. DE for the 12-months period ended March 31, 2023, was $2.2 billion and that represents a 20% increase over the prior period, excluding the impact of performance fees that were earned in the prior period.

Our margins for the period were 56%, which are in line with the prior period after normalizing for above-average transaction and advisory fees earned in that period. Our margins continue to be strong notwithstanding the great deal of investment we continue to make, building out our capabilities on several new strategies, in addition to continued investments we're making in our fundraising and client service organizations.

Moving on to fundraising, we have raised approximately $19 billion of capital year-to-date, continuing the momentum from our record fundraising year in 2022. As of March 31, we have over $825 billion in assets under management, and $432 billion in fee-bearing capital, which increased 14% as compared to the prior-year period. Of our total fee-bearing capital, almost 85% is long-dated or perpetual or permanent in nature, providing us with a very stable base of revenue streams.

We're in the market with all five of our flagship funds at various stages and making good progress. We're also raising capital for a number of our complementary strategies. We're nearing the close, the final close of our fifth flagship infrastructure fund, which currently stands at $24 billion, which is our largest fund ever; and our sixth flagship private equity fund, which sits today at $9 billion.

Both funds already exceed the size of their prior vintage, and we still have meaningful capital to raise for these strategies. In January, we launched the fundraising for our fifth flagship real estate fund, with the objective of investing capital into a market that we believe should provide significant opportunities to invest at highly attractive risk-adjusted returns. We expect the first close on this fund in the second half of the year.

Earlier this month, we launched fundraising for our second flagship transition fund, which is focused on investing in and facilitating the global transition to a net zero economy. We launched our first $15 billion transition fund in 2021, and after signing an agreement to acquire Origin Energy in a public to private transaction, more than 85% of that fund has been invested or committed. Given the strong demand from institutional capital for this strategy, we expect that the second fund in this series will be larger than the first.

In addition to our flagship fundraising, we're pleased to report the following update from a number of our complementary fund strategies. In February, we launched Brookfield Infrastructure Income fund or BII, which is an innovative open-ended semi-liquid infrastructure product offering private wealth investors access to Brookfield's infrastructure platform.

While private infrastructure has become a meaningful asset class for institutions, individual investors have historically had a few options to gain exposure to this important asset class. We launched BII with two distribution partners and have raised more than $750 million in less than three months.

We also made very good progress fundraising across a number of our credit funds, raising over $8 billion year-to-date. Earlier this year, we also launched fundraising on our second vintage of our special investments credit strategy, and we expect this fund to be meaningfully larger than the last fund. We've also continued to broaden and diversify our client base, enhancing resiliency and efficiency into our fundraising capability. We've increased fundraising for more geographic regions, with nearly 40% of the capital raised over the past year coming from the Middle East and Asia.

In terms of types of investors, almost 70% of our fundraising over the past year has come from public pensions, sovereign wealth funds, and insurance companies, which gives us access to larger pools of capital. Private wealth represents a very small amount of our fundraising, but

with the early success of products like BII, we still see it as a significant opportunity for growth in the future.

Next, just on our balance sheet, we ended the quarter with $3.2 billion of cash and no debt, and almost $80 billion of uncalled fund commitments. We're also pleased to report that on the back of these strong financial results, solid balance sheet, and the strong outlook we have on fundraising activities, the Board of Brookfield Asset Management Limited declared a quarterly dividend of $0.32 per share payable on June 30, 2023, to shareholders of record as of the close of business on March 31.

And finally, before I turn it to the operator for Q&A, I thought I would just conclude by saying that we're confident on our prospects for the year ahead for several reasons. First, we're well positioned with investment strategies that are very much in demand, offering our clients a wide range of products and strategies to help them meet their financial objectives.

That in addition to the fact that we have a very diversified fundraising engine, provides us with conviction that our 2023 fundraising targets, that are in line with our record year in 2022 are achievable. That wraps up our prepared remarks for this morning. Thank you for joining the call, and we'll now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from the line of Cherilyn Radbourne with TD Cowen.

Cherilyn Radbourne, *TD Cowen*

Firstly, now that you've been separated from your parent company. I was wondering if that separation will include the opportunity to work for third-party insurance clients, and how you might see that evolve over time including whether that would be additive to the five-year plan to get to $1 trillion of SBC?

Connor Teskey, *President*

Cherilyn, thanks for the question. Absolutely, and I think you're highlighting an important point. When we think about building out our insurance business, we obviously have a huge growth opportunity and some very low-hanging and executable momentum in front of us by managing the insurance assets on behalf of BN Re. But let's be clear, we are equally focused on the expanding opportunity to manage capital on behalf of third-party insurance participants, and those two things aren't unrelated.

Our knowledge that we get from having BN Re in our parent company, gives us great access to the structuring that is required to make our products more attractive and more applicable to third-party insurance companies. So, while there is a huge growth opportunity for us working for

BN Re, there is an equally significant growth opportunity working for third-party insurance companies, and the two of them are very complementary and we do think this will be a very significant growth opportunity for us, going forward.

Cherilyn Radbourne, *TD Cowen*

My second question is kind of related. The alternative space was clearly already consolidating based on the preference among clients to manage fewer GP relationships, as I think you know in the letter. And I can only imagine that this difficult fundraising environment will only accelerate that trend. So, I was just hoping you could comment on how likely you think it is that BAM makes an acquisition over the next, say five years? And again, whether that would be additive to the $1 trillion?

Connor Teskey, *President*

Yes. Certainly, and a couple of comments. There's no doubt that the consolidation theme that we've been seeing play out for 5 to 10 years now is going to continue. And as we outlined in our shareholder letter, the last 10 years have been almost a universally robust market environment for alternative managers, and a slightly softer market today is really leading to increased differentiation amongst the peer set, which we think will enable further consolidation and accelerate consolidation, going forward.

What we would say is, we're still in the early innings of that process, of that differentiation of the peer group. We do think it will create more opportunities going forward. Your timeline of five years, I would be confident we would find something to do in the next five years. And if we do, it will absolutely be additive to our five-year plan.

Operator

The next question comes from the line of Alexander Blostein with Goldman Sachs.

Alexander Blostein, *Goldman Sachs*

Bruce, you are striking a very different tone on fundraising than what we've heard, I think from a lot of the other alternative asset management space players in this space, with a generally softer tone from most. It doesn't sound like it's impacting your business guys as much, so a couple of questions on that. I guess, one, over the course of the quarter, you talked about -- I think, about a $100 billion fundraising opportunity you see for Brookfield over the course of 2023.

If that's the case, maybe just expand a little bit what gives you confidence you could get there? And with respect to your comments around geographic fundraising efforts, with Middle East and Asia comprising a sizable part of the fundraise so far this year, maybe talk a little bit about the differences you see in the market between those players versus North America and Europe?

Connor Teskey, ***President***

Perfect. Alex, why don't I start and then we'll hand it to Bruce, and he can add on. Maybe just to address the first part of your question around what gives us confidence, I would say it's two things, and both relate to the diversity of our business.

Our business is incredibly diversified first by product offering. And we are very, very fortunate that, as you said, although the fundraising environment is perhaps a little softer today than it has been in the past, we are fortunate that we are overexposed to the asset classes that are of greatest interest to investors. And many of our funds are resonating with our clients, and this environment really plays to our strengths for many of our strategies, so the diversity of our product offering and our overweight towards the sectors of most interest puts us in a very fortunate position.

And then, secondly, it's the diversity of our client base. We are very fortunate in that; we have great operating and client and partner relationships all over the world. Obviously huge relationships in North America, but also across all major Middle Eastern countries. We've got significant relationships across the entirety of Asia.

And therefore, while certain types of investors may be positioning or may be feeling certain headwinds, other types of our investors, whether it would be - whether they be differentiated by their geography or their investor type, they're actually seeing tremendous tailwinds. And those puts and takes we think on balance continue to be in our favor, and that's what gives us confidence around that $90 billion to $100 billion mark. Bruce, anything to add to that?

Bruce Flatt, ***Chief Executive Officer***

The only thing I would add is, I think our business is a little different, because we've invested into all of these countries and we have large, large businesses in countries running operating businesses in the countries; in India, Australia, Korea, Japan, China, Saudi Arabia, Qatar, Dubai, Abu Dhabi. And therefore, our relationships are both locally with our different regional businesses, and they just tend to be different and not just about fundraising. And I think that's probably the biggest differentiation we have versus not all others, but many others.

Alexander Blostein, ***Goldman Sachs***

Got it. And my follow-up is related to credit, also sort of related to the fundraising dynamic. So clearly you spent a little bit of time discussing the dislocation in the bank space, you highlighted the direct lending opportunity. So maybe help us frame how large do you think that could be for Brookfield? I know you talked about that being as kind of another leg of the fundraising sort of stool for you on the flagship side.

And then related to that, maybe you can comment on the increased ownership of Oaktree that you guys disclosed this quarter. And how much further do you think that could ultimately go? I think you now own - you picked up another 4 percentage points, so should we expect incremental purchases of Oaktree over time?

Connor Teskey, *President*

Sure. So, let's come at that - those points separately. Maybe on just the stepping back of banks and various lenders around the world, I think from our perspective, it drives three different things and they're all kind of uniquely important.

The first is probably the most obvious one. With banks retrenching, this creates a very meaningful long-term growth opportunity for our business, where we're well-positioned to step into that void that has been created and be a lender to sponsors and corporates and replace that capital that was previously provided by banks. Many of our existing strategies are well-placed to scale-up and exploit that and capitalize on that opportunity. But obviously, we're leaning into it with Oaktree's new large-scale direct lending platform.

The second dynamic on the back of banks retrenching is, it does create some dislocation in the markets. And we shouldn't underestimate what an opportunity that creates for Oaktree's Opportunities Fund.

Why we love that business, why we love being partnered with Oaktree is they are one of the best in the world at capitalizing on dislocated markets. And as the banks are very quickly stepping back, it is not going to be a perfectly smooth process as people step in as providers of that capital and that's going to create a very robust environment for Oaktree's flagship vehicle.

And then the last thing I would say is, it just goes to the rest of our business. Well, while the current market environment and the lack of bank lending does perhaps reduce transaction activity for LBO-type deals, the vast majority of our business whether it be in real estate or infrastructure or renewable power, is less focused on that leverage finance market. And therefore, we feel that we're really well-positioned to keep performing even as banks take a step back.

The second part of your question was around our increased ownership of Oaktree, and this is very simple to explain. As part of the transaction, as part of the partnership we created with Oaktree in 2019, we offered liquidity over time to the management team of Oaktree that remained invested in the business alongside of us following that 2019 transaction, and that's exactly what you're seeing play out as we acquire more of the business over time. The price that we acquired Oaktree at was set based on a formula that is based on the performance of the business, centered around multiples similar to those that we acquired the business in 2019.

And Oaktree is one of the best credit franchises around the world, we're thrilled to own more of it, and we do expect those numbers to creep up incrementally, over time. We went up 4% this year. I wouldn't expect it necessarily to accelerate or decelerate much from there. It's just going to be small increasing increments, every year, going forward.

Operator

Your next question comes from the line of Alexander Bernstein with J.P. Morgan. Pardon me, Alexander, your phone might be on mute. Alexander Bernstein, your line is now open. Alexander, please check your mute button. And our next question comes from the line of Nik Priebe with CIBC Capital Markets.

Nikolaus Priebe, *CIBC Capital Markets*

I just wanted to circle back on the infrastructure franchise given the additional focus in your prepared remarks. As you've highlighted, that business has been very active deploying capital lately and has committed to write a few sizable equity checks. Are you currently deploying capital out of Fund V as you advance towards the final close there? And if so, are you able to update us on what percentage of that fund would be deployed or committed to future transactions at this stage?

Connor Teskey, *President*

Sure, Nik. So, you're absolutely correct, the large transactions that you've recently seen us announce are largely out of the current flagship, BIF V, using Triton that we highlighted, that will be done out of BIF V. And in terms of deployment, our deployment pace has been very, very steady across our infrastructure platform for a number of years now. In terms of that fund, that I'd say today we're about 40%, 45% deployed.

Nikolaus Priebe, *CIBC Capital Markets*

Okay. That's very helpful. And then just my second question, I wanted to shift to real estate. So, you've launched fundraising for BSREP V in January. On the one hand, there is a degree of concern in the market just around the future of CRE.

But on the other hand, as you pointed out, stressed environments can produce some of the best performing vintages. So how do you think those considerations balance each other out in the minds of LPs, who might be inclined to commit capital to that strategy? I'm just hoping to get your read on the appetite for that capability in the current market context.

Connor Teskey, *President*

Certainly. And there is perhaps three things we would highlight and it all goes to your question around what are we hearing from our LPs. We are one of the largest owners of real estate around the world. Have been for decades. And what it does is it gives us an incredible vantage point into different sectors and regions and themes that we're seeing around the world.

Not to spend too much time on this, but the one thing that we are seeing across almost every region in every asset class is an absolute bifurcation of the real estate market, where Class A and trophy and high-quality assets are performing fundamentally better than they ever have been before. Record occupancy, record rental rates, we're thrilled with the performance of those businesses.

But then on the flip side, commodity product, older product that has legacy floor plates and doesn't have new amenities, and isn't ESG qualified, those assets are really struggling. We're able to leverage that vantage point into making the best investments and allocating our capital to the right opportunities. You can see that across our portfolio today, over 95% of our stuff is that Class A high-quality trophy-type asset that is performing really, really well.

And therefore, what we are hearing from our investors is, this is going to be a great vintage. Unfortunately, the negative sentiment is dragging down the real estate sector more broadly. We think that's completely unfair. But what it does allow for us, who has that vantage point, to see the really good stuff versus the commodity stuff, we're seeing very attractive value entry points. And we believe and it sounds like our LPs believe that this could be a tremendous vintage for us, and therefore, there is lots of interest.

Operator

And our next question comes from the line of Geoff Kwan with RBC Capital Markets.

Geoffrey Kwan, *RBC Capital Markets*

My first question was on AI, just given it's getting talked about all the time there. But how do you think about that impacting BAM? Whether or not it's maybe incorporating into due diligence, investment decision-making process, how it can help performance of companies that you own and invest in? And also, two is, whether or not it could be a threat to some of the businesses that you own and may decide to monetize it or adjust it accordingly?

Connor Teskey, *President*

Certainly, Geoff, a great question. And we will probably come at it three ways. We own $800 billion of stuff around the world, and therefore, we have a lot of touch points into knowledge around artificial intelligence, how it is developing, how it can be best used. And we certainly leverage all of that to inform our investment decisions, and we will, and are taking that into account as we move forward. I think there's probably two things in terms of how it impacts our business.

We are going to leverage that knowledge and that access to information to certainly learn and utilize AI to not only run our business better, but also drive value in our portfolio companies; and will increasingly, where appropriate, begin to leverage those services as applicable.

But then to your last comment, I would flip it the other way around. I think artificial intelligence is actually a tailwind to our largest businesses. If artificial intelligence is going to scale at the level that is being talked about in headlines today, the two biggest things that are required are more data centers around the world, and very, very significant increases in electricity to power those data centers.

And the biggest users of green electricity are the tech companies. So, in terms of immediate impact on our business, I would say two of our largest asset classes, renewable power and transition and infrastructure, should be immediate beneficiaries of growth in artificial intelligence.

Geoffrey Kwan, *RBC Capital Markets*

Okay. That's helpful. And then just my second question was, as you're going up fundraising on Global Transition Fund 2, just was wondering if there is any kind of interesting key learnings you

had as you deployed capital on Fund 1? Say, for example, like areas that you found opportunities that were maybe more attractive than you expected and whatnot? Or if there is other things that you, like I said, you got from the investments you did in Fund 1?

Connor Teskey, *President*

Certainly. And the nature of our Transition fund is we raised it BGTF 1, and once we raised that capital, we saw just a tremendous amount of very, very attractive investment opportunity, and probably the biggest takeaway that feeds directly into BGTF 2 is the scale of our capital focused on transition really makes us unique.

And that does allow us to target not only the largest, but the most attractive opportunities in the transition space, whether that's power transformations or the build-out of clean energy and other decarbonization solutions. The amount of capital that is required in this sector is very large, and the size of fund that we were successful in raising last time really differentiated us. And we think that's going to show up in the fund returns and we see that theme carrying very much on into BGTF 2.

Operator

Your next question comes from the line of Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi, *BMO Capital Markets*

I wanted to see if you could comment a little bit about how the discussions go when you're out fundraising against the backdrop of a 4%, 5% interest rate environment versus a 0% rate environment? And whether or not you're adjusting the target returns and the hurdles and the like for the funds to I guess, to appease to the fundraising environment? That would be my first question.

Connor Teskey, *President*

Certainly. So, what I would say is the first thing is, we never expected interest rates to stay zero forever. And therefore, managing through this interest rate environment is very well within our wheelhouse and well within our plans.

And the inflation that the highest interest - the higher interest rates are being installed to combat, the vast majority of our assets around the world are positively disposed to inflation. And therefore, this is a really constructive environment for the asset classes; real estate, renewable power and transition, and the infrastructure that we focus on.

The other point I would simply highlight is, it's all a cycle, and we are long-term owners of assets, and a short-term increase in interest rates, that's not going to drive us to make a knee-jerk reaction around our return targets. We focus on long-term returns that we think are very attractive on behalf of our clients and we're not really seeing any pushback on that as a result of the interest rate environment.

Sohrab Movahedi, *BMO Capital Markets*

Okay. So just to be clear, for example, when you're out there fundraising for real estate, you're still targeting for this vintage what you would have been targeting for prior vintages?

Bruce Flatt, *Chief Executive Officer*

Yes. It's Bruce. I would say - Connor, I would just maybe add into your comments, that the - we never lowered the return thresholds when rate - interest rates went to zero, and we don't need to change them now. Like our target has been 20% for a long time, we've achieved basically 20% for 25 years. Our targets in PE were 20%, we've achieved 28%; compound for 20 years. Infrastructure, 14, we've done that or better, et cetera, and we didn't change them, and we don't need to change them.

And I would say there's no pushback and largely because the returns that we earn are vastly higher than what you get in any alternative product, in fixed income or equities. And it's because of various things, various reasons, but - which I don't need to spend the time on, but they're dramatically higher. And therefore, they don't really compete with [4%] - 3.5% treasury bonds or 5% short rates.

Sohrab Movahedi, *BMO Capital Markets*

Okay. Very helpful. And maybe - my second question, just are the FRE margins, which have been quite robust and steady, is this as good as it gets? And is there a risk that the margin if fundraising and direct lending and the like that you've kind of talked about, if you have success there, is that going to be overall margin dilutive?

Bahir Manios, *Chief Financial Officer*

Sohrab, maybe I'll take that one. It's Bahir. Look, as I highlighted in my remarks, our margins continue to be strong. And for this quarter just reflected additional investments we're making in a number of parts of our business in addition to scaling up our fundraising and client service organizations.

Look, there is a lot of strategies that haven't come online yet, and when they do come online and start contributing to results, we would expect those margins to increase. There is a good amount of operating leverage in the business. Our permanent capital vehicles could also be trading better in the future, et cetera. And as all of that contributes to fee revenues, then that's all going to be beneficial to margins. But where they are at today, are still strong.

Sohrab Movahedi, *BMO Capital Markets*

So Bahir, direct lending would have similar margins or lower margins?

Bahir Manios, *Chief Financial Officer*

It would have lower margins overall than the 56%, but because there’s a lot of costs today that are going into the business without any revenue pickup, you're just going to see that normalize in the future. And there is a number of other highly accretive strategies that we are spending capital on, and they are going to be additive to today's margins. So, all in all, it looks like there is a lot of - there is going to be significant upside to fee revenues, going forward. And that's going to be only beneficial to our overall margins.

Sohrab Movahedi, *BMO Capital Markets*

I appreciate you taking my questions.

Operator

And our next question comes from the line of Mike Brown with KBW.

Michael Brown, *KBW*

I wanted to just ask on the outlook for performance fees. So, it looks like 2/3 of - you're eligible to earn 2/3 of the carry on as selected funds, and that's about 36% of the total eligible carry under management right now. So, I know that visibility on performance fees is always inherently opaque, but when do you believe those performance fees will start to enter the fray and start to contribute to DE? And then, I guess, assuming that's going to be a contributor in 2024, any view into how impactful that could be?

Connor Teskey, *President*

So, Mike, perhaps I'll go first and then hand to Bahir, and Bahir can provide a bit more detail. With the spin-out of the Brookfield Asset Management from BN, the clock essentially started fresh on performance fees at the asset manager, and therefore, we are accruing from zero.

And what this creates is that dynamic where we are going to accrue performance fees for a number of years, but then because the clocks essentially started on all of our carry eligible capital at the same time, when it does kick in, it kicks-in in a very, very big way and becomes recurring forever after that point. And therefore, there is a huge step-up coming to our DE.

But it is a number of years in the future because the clock started on our performance fees all at time of spin-out. So I would say it is in the outer years, it kind of begins just very initially at the end of our five-year plan and really kicks in earnest, shortly thereafter. But the value creation has already started today, it's just going to hit like a huge wave a few years out. Bahir, anything you'd add to that?

Bahir Manios, *Chief Financial Officer*

Connor, that's good color. I would say, Mike, to-date, we've accrued for about $120 million so far of unrealized carry. But to Connor's point, as that's only going to get much larger. And from a

realization perspective, it's going to happen for the most part between years 6 to 10, that would be the color we'd give today.

Michael Brown, *KBW*

Okay, great. And maybe just a follow-up on the balance sheet here, so you have over $3 billion of cash on the balance sheet, zero debt. Can you just remind us how you're strategically thinking about the cash balance and its potential uses?

I know M&A is one lever that could certainly be a use for the cash. But outside of that, is it also earmarked for seed funding because it seems like most of that really comes from Brookfield Corp, if I understand it correctly? So, as you think about your cash, what is the right target cash level and what are the various uses that you guys contemplate internally?

Connor Teskey, *President*

Perfect. So, the first the thing I would say is, even though Brookfield Asset Management is a new company, always having healthy levels of liquidity on hand is a core foundation of our thinking because it just provides optionality and upside in the future when we see opportunities. So, you highlighted the big ones there. It's going to give us a healthy amount of capital to seed new strategies. And BAM absolutely, and the balance sheet of BAM absolutely will be utilized to do that.

I would say, we've already done that to some extent, small dollars and in between the quarters, so it hasn't really showed up over quarter end. But we're already using that liquidity to facilitate the lift-off of some of our strategies. We did that a little bit for BII as an example, to get that off the ground.

But then you nailed the big one, it gives us that value lever when we need it, when the right opportunity comes along for growth. And that's really what we stay focused on. And if markets continue to be a little bit uncertain, we think having that cash on hand is going to be incredibly valuable when we need it.

Operator

Thank you. I'd now like to hand the call back over to Managing Partner, Suzanne Fleming for any closing remarks.

Suzanne Fleming, *Managing Partner*

Thank you, operator. And with that, we will end today's call. Thank you, everyone, for joining us.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect.