

Management’s Discussion and Analysis

ORGANIZATION OF THE MANAGEMENT’S DISCUSSION AND ANALYSIS (“MD&A”)

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“Brookfield,” the “company,” “we,” “us” or “our” refers to Brookfield Asset Management Inc. and its consolidated subsidiaries. The “Corporation” refers to our asset management business which is comprised of our asset management and corporate business segments. Our “invested capital” includes our “listed affiliates,” Brookfield Property Partners L.P., Brookfield Property REIT Inc., Brookfield Renewable Partners L.P., Brookfield Renewable Corporation, Brookfield Infrastructure Partners L.P., Brookfield Infrastructure Corporation and Brookfield Business Partners L.P., which are separate public issuers included within our Real Estate, Renewable Power, Infrastructure and Private Equity segments, respectively. Additional discussion of their businesses and results can be found in their public filings. We use “private funds” to refer to our real estate funds, infrastructure funds and private equity funds.

Please refer to the Glossary of Terms beginning on page 57 which defines our key performance measures that we use to measure our business. Other businesses include Residential Development and Corporate.

Additional information about the company, including our Annual Information Form, is available on our website at www.brookfield.com, on the Canadian Securities Administrators’ website at www.sedar.com and on the EDGAR section of the U.S. Securities and Exchange Commission’s (“SEC”) website at www.sec.gov.

We are incorporated in Ontario, Canada, and qualify as an eligible Canadian issuer under the Multijurisdictional Disclosure System and as a “foreign private issuer” as such term is defined in Rule 405 under the U.S. Securities Act of 1933, as amended, and Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended. As a result, we comply with U.S. continuous reporting requirements by filing our Canadian disclosure documents with the SEC; our MD&A is filed under Form 40-F and we furnish our quarterly interim reports under Form 6-K.

Information contained in or otherwise accessible through the websites mentioned throughout this report does not form part of this report. All references in this report to websites are inactive textual references and are not incorporated by reference. Any other reports of the Company referred to herein are not incorporated by reference unless explicitly stated otherwise.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This Report 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. We may provide such information and make such statements in the Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission or in other communications. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements which reflects management’s expectations regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” In particular, the forward-looking statements contained in this Report include statements referring to the impact of current market or economic conditions on our businesses and the impact of COVID-19 and the global economic shutdown on the market, economic conditions, or our businesses.

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 contained in this Report. The statements and information involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, including the ongoing and developing COVID-19 pandemic and the global economic shutdown, which may cause the actual results, performance or achievements of the Company 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: (i) investment returns that are lower than target; (ii) the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business, including as a result of COVID-19 and the global economic shutdown; (iii) the behavior of financial markets, including fluctuations in interest and foreign exchange rates; (iv) global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; (v) strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; (vi) changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); (vii) the ability to appropriately manage human capital; (viii) the effect of applying future accounting changes; (ix) business competition; (x) operational and reputational risks; (xi) technological change; (xii) changes in government regulation and legislation within the countries in which we operate; (xiii) governmental investigations; (xiv) litigation; (xv) changes in tax laws; (xvi) ability to collect amounts owed; (xvii) catastrophic events, such as earthquakes, hurricanes, or pandemics/epidemics, including COVID-19; (xviii) the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; (xix) the introduction, withdrawal, success and timing of business initiatives and strategies; (xx) the failure of effective disclosure controls and procedures and internal controls over financial reporting and other risks; (xxi) health, safety and environmental risks; (xxii) the maintenance of adequate insurance coverage; (xxiii) the existence of information barriers between certain businesses within our asset management operations; (xxiv) risks specific to our business segments including our real estate, renewable power, infrastructure, private equity, and residential development activities; and (xxv) factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States, including in “Part 6 – Business Environment and Risks” of our Annual Report available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

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, the Corporation 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.

Past performance is not indicative nor a guarantee of future results. There can be no assurance that comparable results will be achieved in the future, that future investments will be similar to the historic investments discussed herein (because of economic conditions, the availability of investment opportunities or otherwise), that targeted returns, diversification or asset allocations will be met or that an investment strategy or investment objectives will be achieved.

STATEMENT REGARDING USE OF NON-IFRS MEASURES

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). We utilize these measures in managing the business, including for performance measurement, capital allocation and valuation purposes and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures or other financial metrics may differ from the calculations disclosed by other businesses and, as a result, may not be comparable to similar measures presented by other issuers and entities. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within this Report. Please refer to our Glossary of Terms beginning on page 57 for all non-IFRS measures.

PART 1 – OUR BUSINESS AND STRATEGY

OVERVIEW

We are a leading global alternative asset manager¹ with a 120-year history and approximately \$575 billion of assets under management¹ across a broad portfolio of real estate, infrastructure, renewable power, private equity and credit assets. Our \$290 billion in fee-bearing capital¹ is invested on behalf of some of the world's largest institutional investors, sovereign wealth funds and pension plans, along with thousands of individuals.

We provide a diverse product mix of flagship private funds¹ and dedicated public vehicles, which allow investors to invest in our five key asset classes and participate in the strong performance of the underlying portfolio. We invest in a disciplined manner, targeting returns of 12-15% over the long-term with strong downside protection, allowing our investors and their stakeholders to meet their goals and protect their financial futures.

✓ **Investment focus**

We predominantly invest in real assets across real estate, infrastructure, renewable power and private equity, and hold a significant investment in Oaktree Capital Management (“Oaktree”)¹, which is a leading global alternative investment management firm with an expertise in credit.

✓ **Diverse products offering**

We offer public and private vehicles to invest across a number of product lines, including core, value-add, and opportunistic equity and credit strategies in both closed-end and perpetual vehicles.

✓ **Focused investment strategies**

We invest where we can bring our competitive advantages to bear, such as our strong capabilities as an owner-operator, our large-scale capital and our global reach.

✓ **Disciplined financing approach**

We employ leverage¹ in a prudent manner to enhance returns while preserving capital throughout business cycles. Underlying investments are typically funded at investment-grade levels on a standalone and non-recourse basis, providing us with a stable capitalization. Only 6% of the total leverage reported in our consolidated financial statements has recourse to the Corporation.

In addition, we maintain significant invested capital¹ on the Corporation's balance sheet where we invest alongside our investors. This capital generates annual cash flows that enhance the returns we earn as an asset manager, creates a strong alignment of interest, and allows us to bring the following strengths to bear on all our investments:

1. **Large-scale capital**

We have approximately \$575 billion in assets under management and \$290 billion in fee-bearing capital.

2. **Operating expertise**

We have approximately 150,000 operating employees worldwide who maximize value and cash flows from our operations.

3. **Global presence**

We operate in more than 30 countries around the world.

Our financial returns are represented by the combination of the earnings of our asset manager as well as capital appreciation and distributions from our invested capital. Our primary performance measure is funds from operations (“FFO”)¹ which we use to evaluate the performance of our segments.

1. See definition in Glossary of Terms beginning on page 57.

Asset Management

Our asset management activities encompass \$290 billion of fee-bearing capital across long-term private funds, perpetual strategies and public securities¹, and approximately \$30 billion of additional committed capital that will be fee-bearing when invested. Together with our investment in Oaktree, we have approximately 2,000 unique institutional investors across our private funds business.

Long-term Private Funds – \$85 billion fee-bearing capital

We manage and earn fees on a diverse range of real estate, renewable power, infrastructure, private equity and credit funds. These funds are long duration in nature and include closed-end value-add, credit and opportunistic strategies. On long-term private fund capital, we earn:

1. Diversified and long-term **base management fees**¹ on capital that is typically committed for 10 years with two one-year extension options.
2. **Carried interest**¹, which enables us to receive a portion of overall fund profits provided that investors receive a minimum prescribed preferred return. Carried interest is recognized once it is no longer subject to clawback.

Perpetual Strategies – \$80 billion fee-bearing capital

We manage perpetual capital in our publicly listed affiliates¹, as well as core and core plus private funds, which can continually raise new capital. On our perpetual strategies, we earn:

1. Long-term perpetual **base management fees**, which are based on total capitalization for our listed affiliates and net asset value for our perpetual private funds.
2. Stable **incentive distribution**¹ fees which are linked to cash distributions from listed affiliates (BPY, BEP and BIP) that exceed pre-determined thresholds. These cash distributions have a historical track record of growing annually and each of these listed affiliates target annual distribution growth rates within a range of 5-9%.
3. **Performance fees**¹ based on unit price performance (BBU) and carried interest on our perpetual private funds.

Credit Strategies – \$114 billion fee-bearing capital

On September 30, 2019, we purchased approximately 61% of Oaktree and broadened our product offering. Oaktree provides a diverse range of long-term private fund and perpetual strategies to its investor base. Similar to our long-term private funds, we earn **base management fees** and **carried interest** on Oaktree's fund capital.

Public Securities – \$11 billion fee-bearing capital

We manage public funds and separately managed accounts, focused on fixed income and equity securities within the real estate, infrastructure and natural resources asset classes. We earn **management fees**, which are based on committed capital and fund net asset values, and performance income based on investment returns.

Invested Capital

We have approximately \$52 billion of invested capital on the Corporation's balance sheet as a result of our history as an owner and operator of real assets, which provides attractive financial returns and important flexibility to our asset management business.

Key attributes of our invested capital:

- Transparent – approximately 80% of our invested capital is in our listed affiliates (BPY, BEP, BIP, BBU) and other smaller publicly traded investments. The remainder is primarily held in a residential homebuilding business, and a few other directly held investments.
- Diversified, long-term, stable cash flows – received from our underlying public investments. These cash flows are underpinned by investments in real assets which should provide inflation protection and less volatility compared to traditional equities, and higher yields compared to fixed income.
- Strong alignment of interests – the Corporation is the largest investor into each of our listed affiliates, and in turn, the listed affiliates are typically the largest investor in each of our private funds.

Refer to Parts 2 and 3 of this MD&A for more information on our operations and performance.

1. See definition in Glossary of Terms beginning on page 57.

PART 2 – REVIEW OF CONSOLIDATED FINANCIAL RESULTS

The following section contains a discussion and analysis of line items presented within our consolidated financial statements. The financial data in this section has been prepared in accordance with IFRS. Starting on page 46 of our 2019 Annual Report, we provide an overview of our fair value accounting process and why we believe it provides useful information for investors about our performance. We also provide an overview of our application of the control-based model under IFRS used to determine whether or not an investment should be consolidated.

OVERVIEW

Our business rebounded strongly in the current quarter after the global economic shutdown in the first half of the year. This strong performance was broad based, with most of our businesses generating solid results during the period. Those businesses that were impacted have either recovered or are recovering to normalized levels experienced prior to the shutdown.

Net income was \$542 million in the current quarter, with \$172 million attributable to common shareholders (\$0.10 per share) and the remaining income attributable to non-controlling interests.

The \$1.2 billion decrease in consolidated net income and the \$775 million decrease in net income attributable to common shareholders were primarily attributable to:

- an income tax expense of \$225 million compared to a recovery of \$180 million in the prior year quarter. The prior period benefited from the recognition of previously unrecognized tax losses;
- a decrease of equity accounted income of \$275 million from valuation losses at our equity accounted core and opportunistic retail properties;
- higher depreciation expense primarily as a result of recent acquisitions; and
- valuation losses at our consolidated retail, office and hospitality properties; partially offset by
- higher contributions from Norbord Inc. (“Norbord”)¹, as a result of increased oriented strand board (“OSB”) prices and demand;
- lower interest expense as a result of lower interest rates on our variable rate non-recourse borrowings; and
- contributions from acquisitions over the last twelve months.

Our consolidated balance sheet increased as a result of our acquisitions of Brand Industrial Holdings Inc. (“BrandSafway”)¹, a leading service provider to industrial and commercial facilities, a telecom tower operation in India as well as our newly acquired hospitality assets and investment properties. These increases were partially offset by the decrease in foreign currencies relative to the U.S. dollar since December 31, 2019. Assets also decreased from the sale of the Australian operations of Genesee & Wyoming Inc. (“G&W”)¹, a North American rail infrastructure business, and several other held-for-sale assets since year-end, as well as from the decline in fair values on some of our investment properties.

1. See definition in Glossary of Terms beginning on page 57.

INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the company for the three and nine months ended September 30, 2020 and 2019:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three Months Ended			Nine Months Ended		
	2020	2019	Change	2020	2019	Change
Revenues	\$ 16,249	\$ 17,875	\$ (1,626)	\$ 45,664	\$ 50,007	\$ (4,343)
Direct costs	(12,372)	(13,910)	1,538	(34,527)	(38,880)	4,353
	3,877	3,965	(88)	11,137	11,127	10
Other income and gains	34	51	(17)	304	972	(668)
Equity accounted income (loss)	139	414	(275)	(704)	1,761	(2,465)
Expenses						
Interest	(1,757)	(1,926)	169	(5,324)	(5,375)	51
Corporate costs	(25)	(23)	(2)	(74)	(72)	(2)
Fair value changes	(31)	394	(425)	(1,598)	(835)	(763)
Depreciation and amortization	(1,470)	(1,299)	(171)	(4,255)	(3,567)	(688)
Income tax (expense) recovery	(225)	180	(405)	(594)	(295)	(299)
Net income (loss)	542	1,756	(1,214)	(1,108)	3,716	(4,824)
Non-controlling interests	(370)	(809)	439	331	(1,755)	2,086
Net income (loss) attributable to shareholders	\$ 172	\$ 947	\$ (775)	\$ (777)	\$ 1,961	\$ (2,738)
Net income (loss) per share ¹	\$ 0.10	\$ 0.61	\$ (0.51)	\$ (0.53)	\$ 1.24	\$ (1.77)

1. Adjusted to reflect the three-for-two split effective April 1, 2020.

Three Months Ended September 30

Revenues for the quarter were \$16.2 billion, a decrease of \$1.6 billion compared to the third quarter of 2019, primarily due to the impact of the global economic shutdown, including:

- lower volumes at Greenergy Fuels Holdings Limited (“Greenergy”)¹, a road fuel distribution business. A large part of Greenergy’s revenues and direct costs consist of import duty amounts that are passed through to the customers, which are recorded on a gross basis in revenues and direct costs, with no impact on the margin generated by the business;
- lower contribution from our U.K. construction service business; and
- lower revenues at our hospitality assets in our Real Estate segment.

These were partially offset by \$1.0 billion of additional revenues from acquisitions during the last twelve months, net of the absence of revenues from businesses sold during the same period.

A discussion of the impact on revenues and net income from recent acquisitions and dispositions can be found on pages 17 and 18.

Direct costs decreased by 11% or \$1.5 billion primarily due to a reduction in direct costs at Greenergy as mentioned above. In addition, cost saving initiatives across a number of our businesses were offset by higher direct costs related to recent acquisitions, net of dispositions.

Other income and gains of \$34 million relate primarily to mark-to-market gains on derivatives within our Infrastructure segment.

Equity accounted income decreased by \$275 million primarily due to:

- valuation losses at our equity accounted retail properties as we adjusted certain discount rate assumptions in light of the economic shutdown; partially offset by
- strong operating performance at Norbord, where we benefited from an increase to OSB prices and demand.

Interest expense decreased by \$169 million largely due to lower interest rates on variable non-recourse borrowings at our Real Estate segment and debt repayments within our private equity operating assets.

1. See definition in Glossary of Terms beginning on page 57.

We recorded fair value losses of \$31 million, compared to a gain of \$394 million in the prior year quarter, primarily as a result of:

- valuation gains at our portfolio of life science assets at Forest City Realty Trust, Inc. (“Forest City”)¹; offset by
- valuation losses in our core retail and core office portfolios resulting from revised valuation assumptions; and
- restructuring and transaction costs within our Private Equity segment.

Refer to pages 19 and 20 for discussion on fair value changes.

Depreciation and amortization expense increased by \$171 million to \$1.5 billion due to businesses acquired in the last twelve months, as well as the impact of revaluation gains in the fourth quarter of 2019, which increased the carrying value of our property, plant and equipment (“PP&E”) from which depreciation is determined.

We recorded an income tax expense of \$225 million this quarter compared to a recovery of \$180 million in the prior year quarter. The prior period recovery benefited from the recognition of previously unrecognized loss carryforwards.

Nine Months Ended September 30

Revenues and direct costs for the nine month period decreased by \$4.3 billion and \$4.4 billion, respectively, compared to the same period in 2019 due primarily to the impact of the global economic shutdown, which was partially offset by contributions from acquisitions over the last twelve months.

Other income and gains for the nine month period decreased by \$668 million compared to the prior year. The current period gain primarily relates to the gain on sale of Nova Cold Logistics ULC (“Nova Cold”)¹ in our Private Equity segment during the first quarter of 2020. The prior period gain included the sale of a global provider of facilities management services and an executive relocation services business in our Private Equity segment.

Equity accounted income in the nine month period decreased by \$2.5 billion compared to the prior year period as a result of valuation losses in our retail portfolio and higher depreciation and amortization in our Infrastructure and Private Equity segments as a result of acquisitions in the past twelve months.

Fair value losses were \$1.6 billion for the nine month period, compared to \$835 million reported in the prior period. The current period losses are partially offset by appraisal gains on life science assets and certain assets within our directly held multifamily business. The prior period included valuation losses on investment properties in our core retail portfolio and LP investments, and impairment and provision charges in our Private Equity segment.

Significant Acquisitions and Dispositions

We have summarized below the impact of recent significant acquisitions and dispositions on our results for the three and nine months ended September 30, 2020:

FOR THE PERIODS ENDED SEP. 30, 2020 (MILLIONS)	Three Months Ended				Nine Months Ended			
	Acquisitions		Dispositions		Acquisitions		Dispositions	
	Revenue	Net Income	Revenue	Net Income	Revenue	Net Income	Revenue	Net Income
Real estate.....	\$ 117	\$ 5	\$ (45)	\$ 21	\$ 354	\$ (144)	\$ (249)	\$ 62
Renewable power.....	100	(3)	(7)	—	259	(14)	(62)	(8)
Infrastructure.....	587	57	(81)	13	1,791	36	(243)	21
Private equity.....	236	86	(120)	(32)	3,799	(78)	(1,357)	(19)
	<u>\$ 1,040</u>	<u>\$ 145</u>	<u>\$ (253)</u>	<u>\$ 2</u>	<u>\$ 6,203</u>	<u>\$ (200)</u>	<u>\$ (1,911)</u>	<u>\$ 56</u>

1. See definition in Glossary of Terms beginning on page 57.

Acquisitions

Acquisitions over the past year contributed incremental revenues and net income of \$1.0 billion and \$145 million in the current quarter, respectively.

Three Months Ended September 30

Real Estate

Recent acquisitions contributed incremental revenues of \$117 million and net income of \$5 million, in the third quarter of 2020. The most significant contributions were from acquisitions made through Brookfield Strategic Real Estate Partners III (“BSREP III”), which added \$112 million of revenues and a \$9 million net loss. The net loss is largely due to fair value decreases on the newly acquired hospitality assets, resulting from the impact of the economic shutdown.

Renewable Power

Within our Renewable Power segment, recent acquisitions contributed to incremental revenues of \$100 million and net loss of \$3 million, primarily as a result of our acquisition of a portfolio of U.S. solar assets completed during the prior year quarter.

Infrastructure

Recent acquisitions contributed incremental revenues of \$587 million and net income of \$57 million. This was primarily as a result of G&W acquired in 2019, which contributed incremental revenues and net income of \$493 million and \$48 million, respectively, and a telecom tower operation in India acquired in the current quarter, which contributed incremental revenues and net income of \$43 million and \$3 million, respectively.

Private Equity

The current quarter’s results included impacts from Sagen MI Canada Inc. (“Sagen”, formerly referred to as “Genworth MI Canada Inc.”)¹, a Canadian based mortgage insurance company acquired in the fourth quarter of 2019, BrandSafway acquired in the first quarter of 2020 and IndoStar Capital Finance Limited (“IndoStar”)¹, an Indian financing company, consolidated in the current quarter. These three businesses together contributed \$210 million of revenue and \$85 million of net income for the quarter.

Nine Months Ended September 30

On a consolidated basis, the overall contribution to our revenues and net income for the nine months ended September 30, 2020 from acquisitions over the past year were revenues of \$3.8 billion. This was primarily due to contributions from Clarios Global LP (“Clarios”)¹, a manufacturer of automotive batteries and Healthscope Limited (“Healthscope”)¹, an Australian based healthcare provider, as well as the aforementioned acquisitions. As a result of the associated direct costs and depreciation expense, valuation losses on certain financial asset positions and higher deferred tax expenses, the acquisitions resulted in total net losses of \$78 million in the period.

Further details relating to the significant business combinations described above that were completed during the quarter ended September 30, 2020 are provided in Note 4 of the consolidated financial statements.

Dispositions

Recent asset sales reduced revenues and net loss by \$253 million and \$2 million in the current quarter, respectively, and revenues of \$1.9 billion and net loss of \$56 million for the nine months ended September 30, 2020. On a quarter-to-date basis, our results were primarily impacted by the absence of contributions from North American Palladium Ltd. (“NAP”)¹, our palladium mining operations in our Private Equity segment. On a year-to-date basis, our results were impacted by the aforementioned sale of NAP, as well as by the sale of a global provider of facilities management services and an executive relocation services business.

1. See definition in Glossary of Terms beginning on page 57.

Fair Value Changes

The following table disaggregates fair value changes into major components to facilitate analysis:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended			Nine Months Ended		
	2020	2019	Change	2020	2019	Change
Investment properties	\$ 235	\$ 780	\$ (545)	\$ (444)	\$ 681	\$ (1,125)
Transaction related expenses, net of gains	(117)	(241)	124	(117)	(487)	370
Financial contracts	(41)	85	(126)	53	(140)	193
Impairment and provisions	(88)	(44)	(44)	(638)	(408)	(230)
Other fair value changes	(20)	(186)	166	(452)	(481)	29
Total fair value changes	\$ (31)	\$ 394	\$ (425)	\$ (1,598)	\$ (835)	\$ (763)

Investment Properties

Investment properties are recorded at fair value with changes recorded in net income. The following table disaggregates investment property fair value changes by asset type:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended			Nine Months Ended		
	2020	2019	Change	2020	2019	Change
Core office	\$ (109)	\$ 181	\$ (290)	\$ (253)	\$ 687	\$ (940)
Core retail	(291)	(4)	(287)	(1,099)	(825)	(274)
LP investments and other	635	603	32	908	819	89
	\$ 235	\$ 780	\$ (545)	\$ (444)	\$ 681	\$ (1,125)

We discuss the key valuation inputs of our investment properties on page 55.

Core Office

Valuation losses of \$109 million primarily relate to:

- updated near and mid-term cash flow projections, primarily in the U.S. markets; partially offset by
- a compression of capitalization rates for some of our core office properties in New York and the U.K.

Valuation gains of \$181 million in the prior year quarter were primarily attributable to a lower risk premium on a property in the U.K. as it neared substantial completion, rate compression from historically low interest rates and improved market outlook in Brazil and improved market conditions in Australia.

The nine-month valuation losses are mainly due a decrease to rental growth assumptions and tenant-specific credit loss assumptions. This was partially offset by valuation gains from meeting certain development milestones for a property in our Toronto portfolio and capitalization rate compression in the U.K.

Core Retail

Valuation losses in the current quarter were \$291 million due to the continued impact of the global economic shutdown. While activity in our malls increased during the third quarter, we revised valuation metrics where necessary to reflect changes in the property level risk profile, most notably where we have concerns with anchor tenants who have recently filed for bankruptcy.

Appraisal changes of \$4 million in the prior year quarter were nominal.

The nine-month losses are mainly attributable to changes to a number of assumptions to reflect the market environment in the current and second quarter of 2020.

LP Investments and Other

Valuation gains of \$635 million relate primarily to:

- a gain on the life science assets at Forest City to reflect recent broker valuations and discount rate compression, as well as higher leasing at our Shanghai mixed-use property; and
- gains in our Brazil office portfolio, driven by capitalization rate compression to reflect the historically low interest rate environment, as well as gains in our U.K. student housing and U.S. manufactured housing portfolios.

In the prior year quarter, valuation gains of \$603 million were primarily related to rate compression in Brazil and improved market conditions in Brazil and India, which benefited our real estate investments in those countries.

The nine-month gains are mainly due to the above factors as well as valuation gains at certain assets within our directly held multifamily business. These gains were partially offset by updated assumptions on our opportunistic retail assets and office assets to reflect near-term cash flow assumptions as a result of the economic shutdown.

Transaction Related Expenses, Net of Gains

Transaction related expenses, net of gains, totaled \$117 million for the quarter. This was primarily related to restructuring costs and transaction costs for ongoing deals within our Private Equity segment.

The prior year quarter transaction related expenses of \$241 million primarily relate to our acquisition of Oaktree, as well as other deal costs in our Real Estate and Private Equity segments.

The expenses for the nine month period relate to the above factors as well as expenses from the loss associated with the early redemption of debt at our Corporate, Residential, Infrastructure and Real Estate segments, which was refinanced at lower interest costs that we will benefit from in future periods. These losses were partially offset by gains from debt restructuring at an operating company within our Private Equity segment and the settlement of a forward sale of opportunistic properties in our Real Estate segment in the prior quarter.

Financial Contracts

Financial contracts include mark-to-market gains and losses on financial contracts related to foreign currency, interest rate and pricing exposures that are not designated as hedges.

The loss this quarter of \$41 million is primarily attributable to mark-to-market losses on our market hedge and currency hedges, partially offset by valuation gains on toehold positions in our private equity business and interest rate swaps in our private equity and real estate businesses.

Unrealized gains of \$85 million in the prior year quarter primarily relate to foreign currency hedges, partially offset by losses on interest rate swaps.

Year-to-date financial contract gains relate to mark-to-market movements on aforementioned market and currency hedges, interest rate and cross currency swaps in our corporate, infrastructure, renewable power, and real estate businesses and gains on our public securities in our private equity business.

Impairment and Provisions

Impairment and provision expense for the quarter of \$88 million and for the year of \$638 million are primarily related to the impact of the economic shutdown on our operating businesses within our Private Equity segment and hospitality assets in our Real Estate segment.

Other Fair Value Changes

Other fair value losses of \$20 million were reported for the quarter. Included in this balance are various charges at our Infrastructure, Renewable Power, Real Estate, and Private Equity segments.

Income Taxes

We recorded an aggregate income tax expense of \$225 million in the current quarter (2019 – recovery of \$180 million), including current tax expenses of \$204 million (2019 – \$284 million) and deferred tax expense of \$21 million (2019 – recovery of \$464 million).

The increase in the effective income tax rate is primarily attributed to valuation judgements in our Real Estate segment, which are subject to different global tax rates. This contributed to an increase of our effective tax rate by 11% in the current quarter. The income tax recovery recorded in the prior year quarter was primarily due to the recognition of previously unrecognized loss carryforwards.

Our effective income tax rate is different from the Canadian domestic statutory income tax rate due to the following differences:

FOR THE PERIODS ENDED SEP. 30	Three Months Ended			Nine Months Ended		
	2020	2019	Change	2020	2019	Change
Statutory income tax rate.....	26%	26%	—%	26%	26%	—%
Increase (reduction) in rate resulting from:						
Portion of gains subject to different tax rates	(1)	1	(2)	(12)	(2)	(10)
Change in tax rates and new legislation	4	—	4	(37)	(1)	(36)
Taxable income attributed to non-controlling interests.....	(12)	(3)	(9)	29	(4)	33
International operations subject to different tax rates.....	11	(9)	20	(118)	(5)	(113)
Recognition of deferred tax assets	(10)	(33)	23	39	(14)	53
Non-recognition of the benefit of current year's tax losses.....	7	5	2	(24)	5	(29)
Other	4	2	2	(19)	2	(21)
Effective income tax rate.....	29%	(11)%	40%	(116)%	7%	(123)%

As an asset manager, many of our operations are held in partially owned “flow-through” entities, such as partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated earnings include income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only our proportionate share of the associated tax provision of these entities. In other words, we are consolidating all the net income, but only our share of the associated tax provision. This reduced our effective tax rate by 12% in the current quarter.

Our income tax provision does not include a number of non-income taxes paid that are recorded elsewhere in our consolidated financial statements. For example, a number of our operations in Brazil are required to pay non-recoverable taxes on revenue, which are included in direct costs as opposed to income taxes. In addition, we pay considerable property, payroll and other taxes that represent an important component of the tax base in the jurisdictions in which we operate, which are also predominantly recorded in direct costs.

BALANCE SHEET ANALYSIS

The following table summarizes the statement of financial position of the company as at September 30, 2020 and December 31, 2019:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (MILLIONS)	2020	2019	Change
Assets			
Investment properties.....	\$ 96,495	\$ 96,686	\$ (191)
Property, plant and equipment.....	89,895	89,264	631
Equity accounted investments.....	40,911	40,698	213
Cash and cash equivalents.....	8,723	6,778	1,945
Accounts receivable and other.....	18,268	18,469	(201)
Intangible assets.....	25,245	27,710	(2,465)
Goodwill.....	13,872	14,550	(678)
Other assets.....	33,674	29,814	3,860
Total assets	\$ 327,083	\$ 323,969	\$ 3,114
Liabilities			
Corporate borrowings.....	\$ 8,587	\$ 7,083	\$ 1,504
Non-recourse borrowings of managed entities.....	140,230	136,292	3,938
Other non-current financial liabilities.....	25,495	23,997	1,498
Other liabilities.....	39,464	39,751	(287)
Equity			
Preferred equity.....	4,145	4,145	—
Non-controlling interests.....	80,156	81,833	(1,677)
Common equity.....	29,006	30,868	(1,862)
Total equity	113,307	116,846	(3,539)
	\$ 327,083	\$ 323,969	\$ 3,114

September 30, 2020 vs. December 31, 2019

Total assets increased by \$3.1 billion since December 31, 2019 to \$327.1 billion as at September 30, 2020. The increase is driven by recently completed asset acquisitions, net of disposals, which added \$13.0 billion of total assets. This was partially offset by foreign currency translation, as most major currencies in which we do business depreciated against the U.S. dollar, asset amortization and depreciation, as well as net valuation losses recognized year to date.

Investment properties consist primarily of the company's real estate assets. The balance as at September 30, 2020 decreased by \$191 million, primarily due to:

- additions of \$4.6 billion, mainly through enhancement or expansion of properties through capital expenditures and the purchase of investment properties; more than offset by
- asset sales and reclassifications to assets held for sale of \$3.7 billion, including a self-storage portfolio and eight triple net lease assets within our real estate flagship funds and a U.K. office property;
- the negative impact of foreign currency translation of \$641 million; and
- net valuation losses of \$444 million, driven by revaluations of our retail and office portfolios.

We provide a continuity of investment properties in Note 9 of the consolidated financial statements.

PP&E increased by \$631 million primarily as a result of:

- the acquisition of Summit DigiTel Infrastructure Pvt. Ltd. (“Summit DigiTel”)¹, a telecom tower operation in India, which added \$5.2 billion of PP&E in the quarter;
- net additions of \$3.3 billion primarily related to capital expenditures across our operating segments and the acquisition of European solar assets within our Renewable Power segment; partially offset by
- the negative impact of foreign currency translation of \$2.9 billion across all our businesses;
- depreciation of \$3.3 billion for the nine months; and
- the deconsolidation of Atlantis Paradise Island Resort (“Atlantis”)¹ and other businesses, which reduced PP&E by \$1.9 billion.

We provide a continuity of PP&E in Note 10 of the consolidated financial statements.

Equity accounted investments increased by \$213 million to \$40.9 billion in the current quarter, mainly due to:

- net additions of \$3.6 billion, particularly our \$1.3 billion acquisition of an interest in BrandSafway in our Private Equity segment in the first quarter of the year, as well as the acquisition of an interest in Cheniere Energy Partners, L.P. (“Cheniere”)¹ in our Infrastructure segment in the current quarter; partially offset by
- the negative impact of \$1.4 billion in foreign currency translation due to the strength of the U.S. dollar relative to our major foreign currencies;
- our proportionate share of \$1.1 billion of comprehensive loss, primarily as a result of valuations on our real estate investments; and
- distributions and return of capital received of \$924 million.

We provide a continuity of equity accounted investments in Note 8 of the consolidated financial statements.

Cash and cash equivalents increased by \$1.9 billion as at September 30, 2020 compared to the prior year-end primarily due to timing of cash flows at quarter-end, net proceeds from corporate debt issuances, as well as the secondary offerings of BEP LP units and BIPC shares. For further information, refer to our Consolidated Statements of Cash Flows and to the Review of Consolidated Statements of Cash Flows within Part 4 – Capitalization and Liquidity.

Decreases of \$2.5 billion and \$678 million in our intangible assets and goodwill balances, respectively, are related to the impact of foreign currency translation and depreciation, partially offset by additions from acquisitions in our Infrastructure segment.

Other assets are comprised of inventory, deferred income tax assets, assets classified as held for sale and other financial assets. The increase of \$3.9 billion is primarily a result of:

- a \$3.5 billion increase in other financial assets primarily due to toeholds acquired at our Real Estate, Infrastructure and Private Equity segments and loan receivables assumed through our acquisition of IndoStar; and
- an increase in assets held for sale of \$245 million, primarily due to the reclassification of our self-storage portfolio in our Real Estate segment in the current quarter, partially offset by the sale of G&W’s Australian assets and Empresa de Energia de Boyaca S.A. (“EBSA”)¹, our Colombian regulated distribution operation, within our Infrastructure segment.

Corporate borrowings increased by \$1.5 billion due to issuances of a \$600 million 30-year note, a \$750 million 10-year note and a \$500 million 31-year note during the first, second and third quarter, respectively. These were partially offset by a repayment of a \$251 million (C\$350 million) note in the first quarter and the impact of foreign exchange.

Non-recourse borrowings of managed entities increased by \$3.9 billion as a result of:

- an increase in subsidiary borrowings in our Private Equity, Infrastructure, Renewable Power and Real Estate segments, as the businesses took advantage of the low interest rate environment to strengthen their liquidity; and
- an increase in property-specific borrowing, mainly as a result of the acquisitions of Summit DigiTel and IndoStar.

1. See definition in Glossary of Terms beginning on page 57.

Other non-current financial liabilities consist of our subsidiary equity obligations, non-current accounts payable and other long-term financial liabilities that are due after one year. Non-current accounts payable and other increased by \$1.6 billion, primarily due to the aforementioned acquisitions and higher insurance liabilities. Please see Note 6 of the consolidated financial statements for further information.

The decrease of other liabilities of \$287 million is primarily attributable to lower held for sale liabilities upon the sale of certain assets during the first quarter and a decrease of current accounts payable at Greenergy.

Refer to Part 4 – Capitalization and Liquidity for more information.

Equity

The significant variances in common equity and non-controlling interests are discussed below. Preferred equity is discussed in Part 4 of this MD&A.

Common Equity

The following table presents the major contributors to the period-over-period variances for common equity:

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30, 2020
(MILLIONS)

Common equity, beginning of period	\$ 30,868
Changes in period	
Net loss attributable to shareholders	(777)
Common dividends	(545)
Preferred dividends	(105)
Other comprehensive loss	(1,213)
Share repurchases, net of issuances	(195)
Ownership changes and other	973
	(1,862)
Common equity, end of period	\$ 29,006

Common equity decreased by \$1.9 billion to \$29.0 billion during the nine month period ended September 30, 2020. The change includes:

- other comprehensive loss of \$1.2 billion due to our foreign investments being impacted by foreign currency translation:
 - foreign currency translation loss, net of hedges, of \$1.1 billion as most currencies we operate in have depreciated against the U.S. dollar since the fourth quarter of last year, in particular the Brazilian real and the Colombian peso. Refer to Foreign Currency Translation on pages 25 and 26; and
 - \$147 million of loss primarily relates to mark-to-market movement on cash flow hedges held in our Real Estate, Infrastructure and Private Equity segments, partially offset by gains on interest rate contracts;
- net loss attributable to shareholders of \$777 million;
- distributions of \$650 million to shareholders as common and preferred share dividends;
- share repurchases, net of issuances and vesting, of \$195 million, primarily related to the repurchase of 6.2 million Class A Limited Voting Shares (“Class A shares”) in the first nine months of the year; partially offset by
- gains of \$1.0 billion in ownership changes and other, primarily related to:
 - gains on BPY units acquired at a discount to book value as part of purchases made through a substantial issuer bid as well as the normal course issuer bid program;
 - dilution gains from the issuance of BEPC shares in conjunction with the TerraForm Power, Inc. (“TERP”)¹ privatization;

1. See definition in Glossary of Terms beginning on page 57.

- gains from the secondary offering of BEP LP units and BIPC shares; and
- other dilution gains from partial sales of operating businesses, which we continue to consolidate in our financial results; partially offset by
- an accretion loss on the privatization of Altera Infrastructure L.P. (“Altera”)¹, a global service provider to the offshore oil production industry.

Non-controlling Interests

Non-controlling interests in our consolidated results primarily consist of third-party interests in BPY, BEP, BIP, BBU, and their consolidated entities as well as co-investors and other participating interests in our consolidated investments as follows:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (MILLIONS)	2020	2019
Brookfield Property	\$ 26,247	\$ 29,165
Brookfield Renewable	13,964	13,321
Brookfield Infrastructure	18,968	20,036
Brookfield Business Partners L.P.	8,442	8,664
Other participating interests	12,535	10,647
	\$ 80,156	\$ 81,833

Non-controlling interests decreased by \$1.7 billion during the nine month period, primarily due to:

- comprehensive loss attributable to non-controlling interests which totaled \$4.3 billion; this is inclusive of foreign currency translation losses as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments depreciated against the U.S. dollar, in particular the Brazilian real and Colombian peso;
- \$4.6 billion of distributions to non-controlling interests; and
- ownership changes decrease attributable to non-controlling interests of \$2.9 billion; partially offset by
- net equity issuances to non-controlling interests totaling \$10.2 billion.

FOREIGN CURRENCY TRANSLATION

Approximately half of our capital is invested in non-U.S. currencies and the cash flows generated from these businesses, as well as our equity, are subject to changes in foreign currency exchange rates. From time to time, we utilize financial contracts to adjust these exposures. The most significant currency exchange rates that impact our business are shown in the following table:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE PERIODS ENDED SEP. 30	Average Rate								
	Period-End Spot Rate			Three Months Ended			Nine Months Ended		
	2020	2019	Change	2020	2019	Change	2020	2019	Change
Australian dollar	0.7162	0.7018	2%	0.7152	0.6854	4%	0.6771	0.6992	(3)%
Brazilian real ¹	5.6402	4.0306	(29)%	5.3763	3.9683	(26)%	5.0759	3.8880	(23)%
British pound	1.2920	1.3255	(3)%	1.2919	1.2325	5%	1.2711	1.2730	—%
Canadian dollar	0.7508	0.7699	(2)%	0.7507	0.7574	(1)%	0.7392	0.7524	(2)%
Colombian peso ¹	3,828.4	3,287.2	(14)%	3,731.6	3,342.8	(10)%	3,708.7	3,239.1	(13)%

1. Using Brazilian real and Colombian peso as the price currency.

As at September, 2020, our common equity of \$29.0 billion was invested in the following currencies: United States dollars – 59% (December 31, 2019 – 54%); Brazilian reais – 8% (December 31, 2019 – 12%); British pounds – 13% (December 31, 2019 – 13%); Canadian dollars – 6% (December 31, 2019 – 8%); Australian dollars – 6% (December 31, 2019 – 6%); Colombian peso – 2% (December 31, 2019 – 2%); and other currencies – 6% (December 31, 2019 – 5%). Currency exchange rates relative to the U.S. dollar at the end of the current quarter were lower than December 31, 2019 for all of our significant non-U.S. dollar investments.

1. See definition in Glossary of Terms beginning on page 57.

The following table disaggregates the impact of foreign currency translation on our equity by the most significant non-U.S. currencies:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
Australian dollar	\$ 243	\$ (246)	\$ 117	\$ (281)
Brazilian real	(346)	(1,077)	(4,116)	(936)
British pound	458	(275)	(273)	(321)
Canadian dollar	261	(114)	(301)	181
Colombian peso	(149)	(384)	(681)	(330)
Other	598	(556)	113	(389)
Total cumulative translation adjustments	1,065	(2,652)	(5,141)	(2,076)
Currency hedges ¹	(528)	706	878	444
Total cumulative translation adjustments net of currency hedges	\$ 537	\$ (1,946)	\$ (4,263)	\$ (1,632)
Attributable to:				
Shareholders	\$ 205	\$ (501)	\$ (1,066)	\$ (488)
Non-controlling interests	332	(1,445)	(3,197)	(1,144)
	\$ 537	\$ (1,946)	\$ (4,263)	\$ (1,632)

1. Includes deferred income tax recovery of \$6 million for the three months ended September 30, 2020 (2019 – deferred income tax expense of \$13 million) and deferred income tax expense of \$51 million for the nine months ended September 30, 2020 (2019 – \$10 million).

The foreign currency translation of our equity, net of currency hedges, for the three and nine months ended September 30, 2020 generated a gain of \$537 million and a loss of \$4.3 billion, respectively. The gain that was generated during the current quarter was largely due to a recovery in the British pound, the euro, as well as the Australian and Canadian dollar. The gain was partially offset by the loss on the depreciation of the Brazilian real and Colombian Peso. The loss generated for the nine months period was attributable to lower period end and average rates for our non-U.S. dollar investments, particularly the Brazilian real.

We do not typically hedge the Brazilian real, Colombian peso or other currencies in emerging markets due to the high cost associated with these contracts.

CORPORATE DIVIDENDS

The dividends paid by Brookfield on outstanding securities during the first nine months of 2020, 2019 and 2018, are summarized in the following table. Dividends to the Class A and B Limited Voting Shares have been adjusted to reflect a three-for-two stock split on April 1, 2020.

	Distribution per Security		
	2020	2019	2018
Class A and B ¹ Limited Voting Shares (“Class A and B shares”) ²	\$ 0.36	\$ 0.32	\$ 0.30
Class A Preferred Shares			
Series 2	0.30	0.39	0.35
Series 4	0.30	0.39	0.35
Series 8	0.42	0.56	0.50
Series 9	0.38	0.39	0.40
Series 13	0.30	0.39	0.35
Series 15	0.21	0.35	0.29
Series 17	0.66	0.67	0.69
Series 18	0.66	0.67	0.69
Series 24	0.42	0.42	0.44
Series 25 ³	0.48	0.56	0.50
Series 26	0.48	0.49	0.51
Series 28	0.38	0.38	0.40
Series 30	0.65	0.66	0.68
Series 32 ⁴	0.70	0.71	0.66
Series 34 ⁵	0.61	0.61	0.61
Series 36	0.67	0.68	0.71
Series 37	0.68	0.69	0.71
Series 38 ⁶	0.53	0.62	0.64
Series 40 ⁷	0.56	0.63	0.66
Series 42 ⁸	0.57	0.63	0.66
Series 44	0.69	0.71	0.73
Series 46	0.67	0.68	0.70
Series 48	0.66	0.67	0.69

1. Class B Limited Voting Shares (“Class B shares”).
2. Adjusted to reflect three-for-two stock split effective April 1, 2020.
3. Dividend rate reset commenced the last day of each quarter.
4. Dividend rate reset commenced September 30, 2018.
5. Dividend rate reset commenced March 31, 2019.
6. Dividend rate reset commenced March 31, 2020.
7. Dividend rate reset commenced September 30, 2019.
8. Dividend rate reset commenced June 30, 2020.

Dividends on the Class A and B shares are declared in U.S. dollars whereas Class A Preferred share dividends are declared in Canadian dollars.

SUMMARY OF QUARTERLY RESULTS

The quarterly variances in revenues over the past two years are due primarily to acquisitions and dispositions. Variances in net income to shareholders relate primarily to the timing and amount of non-cash fair value changes and deferred tax provisions, as well as seasonality and cyclical influences in certain businesses. Changes in ownership have resulted in the consolidation and deconsolidation of revenues from some of our assets, particularly in our real estate and private equity businesses. Other factors include the impact of foreign currency on non-U.S. revenues, net income attributable to non-controlling interests, and the global economic shutdown.

Our real estate operations typically generate consistent results on a quarterly basis due to the long-term nature of contractual lease arrangements subject to the intermittent recognition of disposition and lease termination gains. Our retail properties typically experience seasonally higher retail sales during the fourth quarter, and our resort hotels tend to experience higher revenues and costs as a result of increased visits during the first quarter. We fair value our real estate assets on a quarterly basis which results in variations in net income based on changes in the value.

Renewable power hydroelectric operations are seasonal in nature. Generation tends to be higher during the winter rainy season in Brazil and spring thaws in North America; however, this is mitigated to an extent by prices, which tend not to be as strong as they are in the summer and winter seasons due to the more moderate weather conditions and reductions in demand for electricity. Water and wind conditions may also vary from year to year. Our infrastructure operations are generally stable in nature as a result of regulation or long-term sales contracts with our investors, certain of which guarantee minimum volumes.

Revenues and direct costs in our private equity operations vary from quarter to quarter primarily due to acquisitions and dispositions of businesses, fluctuations in foreign exchange rates, business and economic cycles, and weather and seasonality in underlying operations. Broader economic factors and commodity market volatility may have a significant impact on a number of our businesses, in particular within our industrials portfolio. For example, seasonality affects our contract drilling and well-servicing operations as the ability to move heavy equipment safely and efficiently in western Canadian oil and gas fields is dependent on weather conditions. Within our infrastructure services, the core operating plants business of our service provider to the power generation industry generates the majority of its revenue during the fall and spring, when power plants go offline to perform maintenance and replenish their fuel. Some of our business services operations will typically have stronger performance in the latter half of the year whereas others, such as our fuel marketing and road fuel distribution businesses, will generate stronger performance in the second and third quarters. Net income is impacted by periodic gains and losses on acquisitions, monetization and impairments.

Our residential development operations are seasonal in nature and a large portion is correlated with the ongoing U.S. housing recovery and, to a lesser extent, economic conditions in Brazil. Results in these businesses are typically higher in the third and fourth quarters compared to the first half of the year, as weather conditions are more favorable in the latter half of the year which tends to increase construction activity levels.

Our condensed statements of operations for the eight most recent quarters are as follows:

FOR THE PERIODS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2020				2019			2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$ 16,249	\$ 12,829	\$ 16,586	\$ 17,819	\$ 17,875	\$ 16,924	\$ 15,208	\$ 16,006
Net income (loss)	542	(1,493)	(157)	1,638	1,756	704	1,256	3,028
Net income (loss) to shareholders	172	(656)	(293)	846	947	399	615	1,884
Per share ¹								
– diluted	\$ 0.10	\$ (0.43)	\$ (0.20)	\$ 0.50	\$ 0.61	\$ 0.24	\$ 0.39	\$ 1.25
– basic	0.10	(0.43)	(0.20)	0.51	0.62	0.25	0.39	1.27

1. Adjusted to reflect the three-for-two split effective April 1, 2020.

The following table shows fair value changes and income taxes for the last eight quarters, as well as their combined impact on net income:

FOR THE PERIODS ENDED (MILLIONS)	2020				2019			2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Fair value changes	\$ (31)	\$ (1,153)	\$ (414)	\$ 4	\$ 394	\$ (1,398)	\$ 169	\$ 257
Income taxes	(225)	(5)	(364)	(200)	180	(239)	(236)	884
Net impact	\$ (256)	\$ (1,158)	\$ (778)	\$ (196)	\$ 574	\$ (1,637)	\$ (67)	\$ 1,141

Over the last eight completed quarters, the factors discussed below caused variations in revenues and net income to shareholders on a quarterly basis:

- In the third quarter of 2020, revenues increased relative to the prior quarter due to increased contributions from recent acquisitions across our operating segments. We had net income in the quarter, relative to the prior quarter's net loss, as a result of improved performance across many of our businesses and a positive contribution from fair value changes stemming from consolidated investment properties, particularly within our BSREP III fund.
- In the second quarter of 2020, our revenues decreased in comparison to the prior quarter, due to the impact of the economic shutdown for a large part of the quarter. The higher net loss in the quarter is primarily attributed to a decline in the valuation of our investment property portfolio as cash flow assumptions were adjusted downwards to reflect the impact of the shutdown.
- The decrease of revenues in the first quarter of 2020 compared to the prior quarter is primarily attributable to lower same-store¹ growth as a result of seasonality and the impact of the economic shutdown. Contributions from acquisitions across our operating segments were partially offset by recent asset sales from our Private Equity and Renewable Power segments. Net income also decreased due to unrealized fair value changes brought about by the current environment.
- In the fourth quarter of 2019, revenues remained consistent with the prior quarter as we continued to benefit from contributions from recently acquired businesses and strong same-store growth across our operating segments. Net income decreased primarily due to lower fair value gains and the absence of a deferred tax recovery, partially offset by an increase in equity accounted income.
- In the third quarter of 2019, revenues increased from a full quarter contribution from Clarios and Healthscope, which we acquired in the second quarter of 2019. In addition, net income increased from the prior quarter due to the recognition of deferred income tax recoveries and valuation gains in our core office and LP investment properties.
- In the second quarter of 2019, revenues increased due to recent acquisitions across a number of segments, in particular industrials and infrastructure services in the Private Equity segment. The increase in revenue was offset by higher direct operating costs, interest expense from incremental borrowing, as well as valuation losses on some of our core retail properties and our service provider to the offshore oil production industry in the Private Equity segment.
- In the first quarter of 2019, revenues decreased slightly from the prior quarter primarily due to seasonality at our residential homebuilding business and certain of our private equity operations as well as a decrease in sales volumes at our road fuel distribution business. In addition, the absence of a deferred tax recovery in our Corporate segment, as well as higher depreciation and amortization expenses due to the impact of revaluation gains reported in the fourth quarter contributed to the decrease in net income.
- The increase in revenues in the fourth quarter of 2018 is due primarily to recent acquisitions, including a full quarter of revenues from Brookfield Property REIT Inc. ("BPYU")¹ following the privatization of GGP, as well as the impact of same-store growth across the business. Consolidated net income is higher than prior period due to gains on sales of businesses, fair value valuation gains on investment properties and a deferred tax recovery in our Corporate segment. These increases were partially offset by higher interest expense from new borrowings to fund acquisitions and debts assumed from acquired businesses.

1. See definition in Glossary of Terms beginning on page 57.

PART 3 – OPERATING SEGMENT RESULTS

BASIS OF PRESENTATION

How We Measure and Report Our Operating Segments

Our operations are organized into our asset management business, five operating groups and our corporate activities, which collectively represent seven operating segments for internal and external reporting purposes. We measure operating performance primarily using FFO generated by each operating segment and the amount of capital invested by the Corporation in each segment using common equity. Common equity relates to invested capital allocated to a particular business segment which we use interchangeably with segment common equity. To further assess operating performance for our Asset Management segment we also provide unrealized carried interest¹ which represents carried interest generated on unrealized changes in value of our private fund investment portfolios.

Our operating segments are global in scope and are as follows:

- i. *Asset management* operations include managing our long-term private funds, perpetual strategies and public securities on behalf of our investors and ourselves, as well as our share of the asset management activities of Oaktree. We generate contractual base management fees for these activities as well as incentive distributions and performance income, including performance fees, transaction fees and carried interest.
- ii. *Real estate* operations include the ownership, operation and development of core office, core retail, LP investments and other properties.
- iii. *Renewable power* operations include the ownership, operation and development of hydroelectric, wind, solar, storage and other power generating facilities.
- iv. *Infrastructure* operations include the ownership, operation and development of utilities, transport, energy, data infrastructure and sustainable resource assets.
- v. *Private equity* operations include a broad range of industries, and are mostly focused on business services, infrastructure services and industrials.
- vi. *Residential development* operations consist of homebuilding, condominium development and land development.
- vii. *Corporate activities* include the investment of cash and financial assets, as well as the management of our corporate leverage, including corporate borrowings and preferred equity, which fund a portion of the capital invested in our other operations. Certain corporate costs such as technology and operations are incurred on behalf of our operating segments and allocated to each operating segment based on an internal pricing framework.

In assessing results, we separately identify the portion of FFO and common equity within our segments that relate to our primary listed affiliates. We believe that identifying the FFO and common equity attributable to our listed affiliates enables investors to understand how the results of these public entities are integrated into our financial results and is helpful in analyzing variances in FFO between reporting periods. Additional information with respect to these listed affiliates is available in their public filings. We also separately identify the components of our asset management FFO and realized disposition gains¹ included within the FFO of each segment in order to facilitate analysis of variances in FFO between reporting periods.

1. See definition in Glossary of Terms beginning on page 57.

SUMMARY OF RESULTS BY OPERATING SEGMENT

The following table presents revenues, FFO and common equity by segment on a year-over-year basis for comparative purposes:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Revenues ¹			FFO			Common Equity		
	2020	2019	Change	2020	2019	Change	2020	2019	Change
Asset Management.....	\$ 770	\$ 527	\$ 243	\$ 399	\$ 345	\$ 54	\$ 4,914	\$ 4,927	\$ (13)
Real Estate.....	2,202	2,705	(503)	90	271	(181)	18,783	18,781	2
Renewable Power.....	957	926	31	64	44	20	4,365	5,320	(955)
Infrastructure.....	2,323	1,758	565	244	103	141	2,237	2,792	(555)
Private Equity.....	10,091	12,021	(1,930)	249	154	95	3,618	4,086	(468)
Residential Development.....	595	597	(2)	37	42	(5)	2,525	2,859	(334)
Corporate Activities.....	197	(28)	225	(44)	(133)	89	(7,436)	(7,897)	461
Total segments.....	<u>\$17,135</u>	<u>\$18,506</u>	<u>\$ (1,371)</u>	<u>\$ 1,039</u>	<u>\$ 826</u>	<u>\$ 213</u>	<u>\$29,006</u>	<u>\$30,868</u>	<u>\$ (1,862)</u>

1. Revenues include inter-segment revenues which are adjusted to arrive at external revenues for IFRS purposes. Please refer to Note 3(c) of the consolidated financial statements.

Total revenues and FFO were \$17.1 billion and \$1.0 billion in the current quarter compared to \$18.5 billion and \$826 million in the prior period, respectively. FFO includes realized disposition gains of \$162 million in 2020, compared to \$125 million in the prior year quarter. Excluding disposition gains, FFO increased by \$176 million from the prior year quarter.

Revenues decreased primarily due to the impact of the global economic shutdown, particularly within our Real Estate and Private Equity segments, as well as the absence of contribution from assets sold during the last twelve months. These decreases were partially offset by our acquisition of an interest in Oaktree during the third quarter of 2019, as well as recent acquisitions within our Private Equity and Infrastructure segments.

The increase to FFO, excluding disposition gains, is primarily a result of:

- improved same-store results at Norbord, one of the world's largest producers of OSB, as we benefited from strong pricing during the quarter;
- increased fee-related earnings¹ in our Asset Management segment from fees earned on higher capital in our existing and new fund strategies and contributions from Oaktree;
- contributions from our financial assets portfolio as we benefited from higher mark-to-market gains in the current quarter; and
- contributions from recent acquisitions, net of the impact of asset sales; partially offset by
- higher credit loss reserves and lower income from temporary tenants at our core retail portfolio, lower occupancy at our hospitality assets and the absence of gains on asset realizations in our Real Estate segment; and
- the negative impact of foreign currency exchange.

We recognized \$162 million of disposition gains during the quarter primarily from the secondary offering of BIPC shares.

Common equity decreased by \$1.9 billion since year-end to \$29.0 billion primarily from comprehensive losses, dividends paid, and the impact of share buybacks. Comprehensive loss included \$1.1 billion from unrealized losses on foreign currency translation as most currencies depreciated relative to the U.S. dollar. This was partially offset by a gain on the sale of BIPC shares and BEP LP units in the current and prior quarter, respectively, and an accretion gain from the purchase of BPY units at a discount to book value throughout the year.

1. See definition in Glossary of Terms beginning on page 57.



Asset Management

Fee-Bearing Capital

The following table summarizes fee-bearing capital:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (MILLIONS)	Long-Term Private Funds	Perpetual Strategies	Credit Strategies	Public Securities	Total 2020	Total 2019
Real estate.....	\$ 29,736	\$ 20,588	\$ —	\$ —	\$ 50,324	\$ 56,056
Renewable power.....	10,826	26,275	—	—	37,101	33,520
Infrastructure.....	29,495	27,696	—	—	57,191	54,220
Private equity.....	14,709	4,961	—	—	19,670	20,710
Oaktree.....	—	—	113,897	—	113,897	110,349
Diversified.....	—	—	—	11,430	11,430	14,957
September 30, 2020.....	\$ 84,766	\$ 79,520	\$ 113,897	\$ 11,430	\$ 289,613	n/a
December 31, 2019.....	\$ 85,825	\$ 78,681	\$ 110,349	\$ 14,957	n/a	\$ 289,812

Fee-bearing capital increased by \$12.4 billion during the quarter. The principal changes are set out in the following table:

AS AT AND FOR THE THREE MONTHS ENDED SEP. 30, 2020 (MILLIONS)	Long-Term Private Funds	Perpetual Strategies	Credit Strategies	Public Securities	Total
Balance, June 30, 2020.....	\$ 84,620	\$ 69,201	\$ 111,688	\$ 11,693	\$ 277,202
Inflows.....	2,350	2,963	2,050	586	7,949
Outflows.....	—	—	(1,326)	(843)	(2,169)
Distributions.....	(110)	(1,082)	(783)	—	(1,975)
Market valuation.....	(16)	10,656	1,432	(4)	12,068
Other.....	(2,078)	(2,218)	836	(2)	(3,462)
Change.....	146	10,319	2,209	(263)	12,411
Balance, September 30, 2020.....	\$ 84,766	\$ 79,520	\$ 113,897	\$ 11,430	\$ 289,613

Long-term private fund fee-bearing capital increased by \$0.1 billion since the prior quarter, due to:

- \$2.4 billion of inflows, including co-investment capital for new investments, primarily from our investment in Summit DigiTel, \$0.3 billion invested from separately managed accounts, and an additional \$0.1 billion invested in our second infrastructure debt fund; partially offset by
- \$2.1 billion of decrease in other movements, primarily related to uninvested capital in our third flagship infrastructure fund that ended its investment period during the quarter. However, this capital will become fee-earning again once it is deployed.

Perpetual strategies fee-bearing capital increased by \$10.3 billion since the prior quarter, due to:

- \$10.7 billion increase in market valuation as a result of price appreciation at our listed affiliates from the end of the previous quarter;
- \$3.0 billion of inflows relating to capital market issuances at BIP, BPY and BEP, as well as capital deployed across our real estate perpetual private fund strategies; partially offset by
- \$2.2 billion of decrease in other movement from the privatization of TERP during the quarter, net of changes in working capital; and
- \$1.1 billion of distributions, including quarterly distributions paid to the investors of our listed affiliates.

Credit strategies fee-bearing capital increased by \$2.2 billion, due to:

- \$2.1 billion of capital invested across various Oaktree strategies;

- \$1.4 billion of market valuation recoveries since the prior quarter, reflecting the positive fair value increases in funds whose management fees are based on the net asset values of the funds; and
- \$0.8 billion of increase in other movements, primarily related to positive fair value changes in the fee-bearing capital managed by an affiliate of Oaktree; partially offset by
- \$1.3 billion of outflows within open-end and evergreen funds, and \$0.8 billion of distributions within closed-end funds.

Public securities capital decreased by \$0.3 billion, due to:

- \$0.8 billion of redemptions, primarily within our real estate and natural resources public funds and separately managed accounts; partially offset by
- \$0.6 billion of fund inflows.

We have approximately \$30 billion of additional committed capital that does not currently earn fees but will generate fees once deployed.

Carry Eligible Capital¹

Carry eligible capital increased \$12.9 billion during the quarter to \$134.6 billion as at September 30, 2020 (June 30, 2020 – \$121.8 billion). The increase was primarily related to capital raised in the first close of our latest distressed debt fund, as well as additional capital raised in our perpetual private funds. This increase in carry eligible capital was partially offset by uninvested capital that is not currently committed in one of our flagship funds that ended the investment period during the quarter. This capital will become carry eligible again once it is committed or invested.

As at September 30, 2020, \$85.8 billion of carry eligible capital was deployed (June 30, 2020 – \$80.7 billion). This capital is either currently earning carried interest or will begin earning carried interest once its related funds have reached their preferred return threshold. There is currently \$48.8 billion of uncalled fund commitments that will begin to earn carried interest once the capital is deployed and fund preferred returns are met (June 30, 2020 – \$41.1 billion).

Operating Results

Asset management FFO includes fee-related earnings and realized carried interest¹ earned by us in respect of capital managed for our investors. Fee-related earnings include fees earned on the capital invested by us in the listed affiliates. This is representative of how we manage the business and measure the returns from our asset management activities.

To facilitate analysis, the following table disaggregates our Asset Management segment revenues and FFO into fee-related earnings and realized carried interest, net¹, as these are the measures that we use to analyze the performance of the Asset Management segment. We also analyze unrealized carried interest, net, to provide insight into the value our investments have created in the period.

We have provided additional detail, where referenced, to explain significant variances from the prior period.

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Ref.	Revenues		FFO	
		2020	2019	2020	2019
Fee-related earnings	i	\$ 728	\$ 468	\$ 372	\$ 306
Realized carried interest	ii	42	59	27	39
Asset management FFO		<u>\$ 770</u>	<u>\$ 527</u>	<u>\$ 399</u>	<u>\$ 345</u>
Unrealized carried interest					
Generated				\$ 679	\$ 364
Foreign exchange				24	(64)
				<u>703</u>	<u>300</u>
Less: direct costs				(258)	(68)
Unrealized carried interest, net	iii			445	232
Less: unrealized carried interest not attributable to BAM				(35)	—
				<u>\$ 410</u>	<u>\$ 232</u>

1. See definition in Glossary of Terms beginning on page 57.

i. Fee-Related Earnings

FOR THE THREE MONTHS ENDED SEP. 30
(MILLIONS)

	<u>2020</u>	<u>2019</u>
Fee revenues ¹		
Base management fees	\$ 634	\$ 387
Incentive distributions	77	67
Transaction and advisory fees	17	14
	<u>728</u>	<u>468</u>
Less: direct costs	(325)	(162)
	<u>403</u>	<u>306</u>
Less: fee-related earnings not attributable to BAM	(31)	—
Fee-related earnings	<u>\$ 372</u>	<u>\$ 306</u>

1. See definition in Glossary of Terms beginning on page 57.

Fee-related earnings increased by \$66 million at our share, mainly due to higher base management fees and incentive distributions earned during the quarter, partially offset by increased direct costs.

Base management fees increased by \$247 million to \$634 million, a 64% increase from the same quarter in 2019. The increase is broken down as follows:

- \$232 million increase in fee revenues related to our interest in Oaktree acquired in September 2019, or \$143 million at our share. As the Oaktree transaction closed on September 30, 2019, there were no fee revenues attributable to the inflow of fee-bearing capital during the prior year quarter;
- \$28 million increase in perpetual strategies, as a result of increased capitalization from higher prices at BEP and BIP, capital market transactions within the listed affiliates, and new capital raised and deployed in our perpetual private fund strategies; partially offset by
- \$9 million decrease in our public securities fees due to a decrease in fee-bearing capital, primarily due to the impact of market valuations over the last twelve months; and
- \$4 million decrease in long-term private fund fees, primarily due to lower fee-bearing capital as a result of three of our flagship funds ending its investment period in the last twelve months. However, this capital will become fee-earning again once it is deployed.

Incentive distributions from BIP, BEP and BPY increased by \$10 million to \$77 million, a 15% increase from 2019. The growth represents our share as manager of increases in per unit distributions by BIP, BEP and BPY.

Direct costs consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Excluding Oaktree, direct costs increased \$11 million or 7% from the prior year quarter as we continue to grow our asset management franchise, both in fundraising, client service and new product development.

The margin on our fee-related earnings, including our 61.6% share of Oaktree's fee-related earnings, was 58% in the current quarter (2019 – 65%). Our fee-related earnings margin, including 100% of Oaktree's fee-related earnings, was 55% in the current quarter. The Brookfield margin on a standalone basis was 65% for the quarter, consistent with the prior period margin.

ii. Realized Carried Interest

We realize carried interest when a fund's cumulative returns are in excess of preferred returns and are no longer subject to future investment performance (e.g., subject to "clawback"). During the quarter, we realized \$27 million of carried interest, net of direct costs (2019 – \$39 million). Realizations during the quarter were mainly attributable to distributions within our fourth flagship private equity fund and Oaktree funds.

We provide supplemental information and analysis below on the estimated amount of unrealized carried interest (see section iii) that has accumulated based on fund performance up to the date of the consolidated financial statements.

iii. Unrealized Carried Interest

The amounts of accumulated unrealized carried interest¹ and associated costs are not included in our Consolidated Balance Sheets or Consolidated Statements of Operations as they are still subject to clawback. These amounts are shown in the following table:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2020			2019		
	Carried Interest	Direct Costs	Net	Carried Interest	Direct Costs	Net
Accumulated unrealized, beginning of period.....	\$ 3,334	\$ (1,244)	\$ 2,090	\$ 2,537	\$ (765)	\$ 1,772
Oaktree acquisition ¹	—	—	—	1,346	(704)	642
	3,334	(1,244)	2,090	3,883	(1,469)	2,414
In-period change						
Unrealized in period.....	679	(254)	425	364	(87)	277
Foreign currency revaluation.....	24	(4)	20	(64)	19	(45)
	703	(258)	445	300	(68)	232
Less: realized.....	(42)	13	(29)	(59)	20	(39)
	661	(245)	416	241	(48)	193
Accumulated unrealized, end of period.....	3,995	(1,489)	2,506	4,124	(1,517)	2,607
Oaktree carried interest not attributable to BAM shareholders.....	(476)	251	(225)	(522)	273	(249)
Accumulated unrealized, end of period, net.....	\$ 3,519	\$ (1,238)	\$ 2,281	\$ 3,602	\$ (1,244)	\$ 2,358

1. Represents the amounts, at 100%, assumed on the acquisition of Oaktree.

Unrealized carried interest in the current quarter before foreign exchange and associated costs was \$679 million and primarily related to increased valuations in our infrastructure, private equity and credit funds during the quarter.

Accumulated unrealized carried interest totaled \$3.5 billion at September 30, 2020. We estimate that approximately \$1.2 billion of associated costs will arise on the realization of the amounts accumulated to date, predominantly related to employee long-term incentive plans and taxes. We expect to recognize \$1.1 billion of this carry, before costs, within the next three years; however, realization of this carried interest is dependent on future investment performance and the timing of monetizations.

1. See definition in Glossary of Terms beginning on page 57.



Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Real Estate segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

	Ref.	Revenues		FFO		Common Equity	
		2020	2019	2020	2019	2020	2019
AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)							
Brookfield Property							
Equity units ¹	i	\$ 1,637	\$ 2,019	\$ 79	\$ 168	\$ 15,177	\$ 15,770
Preferred shares		—	—	—	—	16	16
		1,637	2,019	79	168	15,193	15,786
Other real estate investments	ii	565	686	18	3	3,590	2,995
Realized disposition (losses) gains	iii	—	—	(7)	100	—	—
		\$ 2,202	\$ 2,705	\$ 90	\$ 271	\$ 18,783	\$ 18,781

1. Brookfield's equity units in BPY consist of 451.4 million redemption-exchange units, 101.1 million Class A limited partnership units, 4.8 million special limited partnership units, 0.1 million general partnership units, and 3.0 million BPYU Class A shares, together representing an effective economic interest of 60% of BPY. See "Economic ownership interest" in the Glossary of Terms beginning on page 57.

Revenues from our real estate operations decreased by \$503 million as the benefits from acquisitions were more than offset by the decrease in revenue mainly due to the global economic shutdown. FFO was further impacted by a one-time gain from realizations of assets in our core office and LP investment portfolios in the prior year quarter. This was partially offset by lower interest expense during the quarter and our increased ownership in BPY.

i. Brookfield Property

The following table disaggregates BPY's FFO by business line to facilitate analysis of the quarter-over-quarter variances in FFO:

	2020	2019
FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)		
Core office	\$ 141	\$ 150
Core retail	97	201
LP investments	23	74
Corporate	(100)	(101)
Attributable to unitholders	161	324
Non-controlling interests	(67)	(146)
Segment reallocation and other ¹	(15)	(10)
Brookfield's interest	\$ 79	\$ 168

1. Reflects preferred dividend distributions as well as fee-related earnings, net carried interest and associated asset management expenses not included in FFO reclassified to the Asset Management segment.

BPY's FFO for the quarter was \$161 million, of which our share was \$79 million, compared to \$168 million in the prior year quarter.

Core Office

FFO decreased by \$9 million to \$141 million primarily due to:

- a reduction in same-property¹ income, lower leasing and development fees; partially offset by
- contributions from condominium sales at our U.K. portfolio.

Core Retail

FFO decreased by \$104 million from the prior year quarter to \$97 million as a result of:

- incremental credit loss reserves, bankruptcy and co-tenant claims, and a reduction in income from temporary tenants and overage revenue;
- the prior period benefited from gains associated with the sale of a land parcel and financial assets, as well as incremental lease termination income; partially offset by
- lower interest expense.

LP Investments

BPY's share of the FFO from its LP investments decreased by \$51 million from the prior year quarter due to closures and lower occupancy in our hospitality properties as a result of the economic shutdown, as well as the absence of a gain on the sale of a merchant build asset that was realized in the prior year.

Corporate

BPY's corporate expenses of \$100 million, which include interest expense, management fees and other costs, were relatively consistent compared to the prior year quarter.

ii. Other Real Estate Investments

FFO was \$18 million in the current quarter, \$15 million higher than the prior year quarter primarily due to acquisitions within our BSREP III fund.

iii. Realized Disposition Gains

Realized disposition losses of \$7 million primarily relate to the sale of investment properties in our LP investments portfolio.

Disposition gains of \$100 million in the prior year quarter relate to:

- core office properties in Australia and North America, contributing gains of \$34 million and \$33 million, respectively; and
- a number of multifamily and other LP investment properties.

Common Equity

Common equity in our Real Estate segment remained relatively consistent at \$18.8 billion as at September 30, 2020 compared to December 31, 2019. The benefits from FFO, additional shares purchased in BPY at a discount to book value, and incremental investments into our BSREP III fund were offset by distributions and valuation losses.

1. See definition in Glossary of Terms beginning on page 57.



Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Renewable Power segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

	Ref.	Revenues		FFO		Common Equity	
		2020	2019	2020	2019	2020	2019
AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)							
Brookfield Renewable ¹	i	\$ 954	\$ 951	\$ 72	\$ 72	\$ 3,856	\$ 4,810
Energy contracts	ii	3	(25)	(11)	(31)	509	510
Realized disposition gains	iii	—	—	3	3	—	—
		<u>\$ 957</u>	<u>\$ 926</u>	<u>\$ 64</u>	<u>\$ 44</u>	<u>\$ 4,365</u>	<u>\$ 5,320</u>

1. Brookfield's interest in BEP consists of 129.7 million redemption-exchange units, 45.8 million Class A limited partnership units, 2.7 million general partnership units, as well as 44.5 million Class A shares in Brookfield Renewable Corporation ("BEPC"), together representing an economic interest of 52% of BEP.

Compared to the prior year quarter, revenues and FFO excluding realized disposition gains increased by \$31 million and \$20 million, respectively. This was primarily due to a lower deficit from energy contracts as a result of relatively favorable power prices and lower generation sold at a deficit.

i. Brookfield Renewable

The following table disaggregates BEP's generation and FFO by business line to facilitate analysis of the quarter-over-quarter variances in FFO:

	Actual Generation (GWh) ¹		Long-Term Average (GWh) ¹		FFO	
	2020	2019	2020	2019	2020	2019
FOR THE THREE MONTHS ENDED SEP. 30 (GIGAWATT HOURS AND MILLIONS)						
Hydroelectric	3,606	3,732	4,295	4,305	\$ 113	\$ 125
Wind	1,345	1,058	1,554	1,223	50	36
Solar	666	279	769	293	76	36
Storage and other	136	144	—	—	2	6
Corporate	—	—	—	—	(84)	(70)
Attributable to unitholders	<u>5,753</u>	<u>5,213</u>	<u>6,618</u>	<u>5,821</u>	<u>157</u>	<u>133</u>
Non-controlling interests and other ²					(82)	(61)
Segment reallocation ³					(3)	—
Brookfield's interest					<u>\$ 72</u>	<u>\$ 72</u>

1. Proportionate to BEP; see "Proportionate basis generation" in Glossary of Terms beginning on page 57.

2. Includes incentive distributions paid to Brookfield of \$17 million (2019 – \$12 million) as the general partner of BEP.

3. Segment reallocation refers to disposition gains, net of NCI, included in BEP's operating FFO that we reclassify to realized disposition gains. This allows us to present FFO attributable to unitholders on the same basis as BEP.

BEP's FFO for the third quarter of 2020 was \$157 million, of which our share was \$72 million. This is consistent with the prior year quarter as the additional contributions in our wind and solar operations from the privatization of TERP was offset by a reduction in our ownership percentage following the privatization of TERP. Generation for the quarter totaled 5,753 GWh, 13% below the long-term average ("LTA")¹. However, this represents a 10% increase compared to the prior year quarter, mainly attributable to recent acquisitions.

1. See definition in Glossary of Terms beginning on page 57.

Hydroelectric

The primary contributors to the \$12 million decrease in FFO were:

- lower generation in North America;
- the negative impact of foreign currency translation at our Brazilian and Colombian operations; and
- the absence of a one-time benefit in the prior year quarter relating to a regulatory settlement; partially offset by
- higher realized pricing in Canada, which benefited from inflation indexation, and cost savings initiatives in the U.S.

Wind

Wind operations' FFO increased by \$14 million to \$50 million due to:

- additional contributions from the privatization of TERP;
- improved margins from higher realized pricing in Europe and lower operating costs; partially offset by
- lower average revenue per MWh at our North American business due to the generation mix; and
- impact of foreign currency translation.

Solar

FFO from our solar operations was \$40 million higher than the prior year quarter mainly as a result of:

- the privatization of TERP and recently acquired assets, including TERP's acquisitions of a distributed generation asset and Spanish solar assets in the last twelve months; and
- cost saving initiatives and lower interest expense.

Storage and Other

FFO from our storage and other activities decreased by \$4 million from the prior year quarter due to lower realized market prices in the northeast U.S. and lower generation at our biomass facilities in Brazil.

Corporate

The corporate FFO deficit increased by \$14 million as a result of an increase in management fees due to higher market capitalization.

ii. Energy Contracts

During the quarter, we purchased 394 GWh (2019 – 574 GWh) from BEP at \$81 per MWh (2019 – \$85 per MWh) and sold the purchased generation at an average selling price of \$53 per MWh (2019 – \$31 per MWh). As a result, we incurred an FFO deficit of \$11 million compared to a deficit of \$31 million in the prior year quarter.

Common Equity

Common equity in our Renewable Power segment decreased to \$4.4 billion as at September 30, 2020 from \$5.3 billion as at December 31, 2019. The contribution from FFO and the dilution gain on the issuance of BEP units and BEPC shares as part of the TERP privatization were more than offset by the foreign exchange impact on invested capital denominated in foreign currencies, depreciation, distributions paid to investors, and the secondary offering of BEP units during the second quarter of 2020. Our renewable PP&E is revalued annually and as such common equity in this segment is typically not affected by revaluation items during the first three quarters of the year. Our critical estimates and assumptions underlying the valuation of PP&E have not changed materially as a result of the global economic shutdown. Refer to Part 5 for discussions.



Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Infrastructure segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Ref.	Revenues		FFO		Common Equity	
		2020	2019	2020	2019	2020	2019
Brookfield Infrastructure ¹	i	\$ 2,271	\$ 1,714	\$ 90	\$ 84	\$ 1,674	\$ 2,141
Sustainable resources and other	ii	52	44	2	3	563	651
Realized disposition gains	iii	—	—	152	16	—	—
		<u>\$ 2,323</u>	<u>\$ 1,758</u>	<u>\$ 244</u>	<u>\$ 103</u>	<u>\$ 2,237</u>	<u>\$ 2,792</u>

1. Brookfield's interest consists of 122.0 million redemption-exchange units, 0.2 million limited partnership units, 1.6 million general partnership units of BIP LP, as well as 8.7 million Class A shares in Brookfield Infrastructure Corporation ("BIPC"), together representing an economic interest of approximately 28% of BIP.

Revenue and FFO excluding realized disposition gains generated by our Infrastructure segment increased by \$565 million and \$5 million, respectively, compared to the prior year quarter. This was due to the contribution from acquisitions completed in the last twelve months and growth initiatives across our operations. These increases were partially offset by the impact of foreign exchange and dispositions.

i. Brookfield Infrastructure

The following table disaggregates BIP's FFO excluding realized gains by business line to facilitate analysis of the quarter-over-quarter variances:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2020	2019
Utilities	\$ 139	\$ 145
Transport	135	128
Energy	115	100
Data infrastructure	50	36
Corporate	(74)	(71)
Attributable to unitholders	365	338
Non-controlling interests and other ¹	(272)	(251)
Segment reallocation ²	(3)	(3)
Brookfield's interest	<u>\$ 90</u>	<u>\$ 84</u>

1. Includes incentive distributions paid to Brookfield of \$46 million (2019 – \$41 million) as the general partner of BIP.

2. Segment reallocation refers to certain items, net of NCI, included in BIP's FFO that we reclassify. This allows us to present FFO attributable to unitholders on the same basis as BIP.

BIP's FFO for the third quarter of 2020 was \$365 million, of which our share was \$90 million compared to \$84 million in the prior year quarter. Key variances for our businesses are described below.

Utilities

FFO of \$139 million was \$6 million lower than the prior year quarter. The decrease was primarily due to:

- delay in the recognition of connections revenue at our U.K. regulated distribution business;
- the impact of a decline in the Brazilian real; partially offset by
- benefits of inflation-indexation and capital commissioned; and
- the contribution from our North American regulated gas transmission business acquired in October 2019.

Transport

FFO in our transport segment of \$135 million was \$7 million higher than the prior year quarter. The increase is primarily due to:

- contributions from G&W acquired in December 2019 and higher volumes on our Australian and Brazilian rail networks;
- a favorable arbitration settlement at our U.K. port operations; partially offset by
- lower volumes at our toll road businesses due to the impact from the economic shutdown;
- the loss of income associated with the partial sale of our Chilean toll road operation; and
- the negative impact of a decline in the Brazilian real compared to the prior year.

Energy

FFO from our energy operations of \$115 million was \$15 million higher than the prior year quarter due to:

- additional customers secured at our North American residential infrastructure business;
- improved spreads at our gas storage operations; and
- the acquisition of the federally regulated portion of our western Canadian midstream business; partially offset by
- the absence of income resulting from the sale of our Australian district energy operation in the fourth quarter of 2019.

Data Infrastructure

FFO from our data infrastructure operations of \$50 million was \$14 million higher than the prior year quarter due to the acquisitions completed in the last twelve months, including the initial contribution from Summit DigiTel acquired in August 2020.

Corporate

The Corporate FFO deficit of \$74 million increased by \$3 million from the prior year quarter as a result of higher base management fee expense from an increase in market capitalization, partially offset by income from corporate financial assets.

ii. Sustainable Resources and Other

FFO at our agriculture operations remained consistent compared to the prior year quarter.

iii. Realized Disposition Gains

In the current quarter, disposition gains of \$152 million primarily relate to a \$140 million gain recognized on the secondary offering of BIPC shares and the sale of our Wind Energy Texas Transmission business.

The prior period disposition gain of \$16 million relates to the sale of our Canadian timber business.

Common Equity

Common equity in our Infrastructure segment was \$2.2 billion as at September 30, 2020 (December 31, 2019 – \$2.8 billion). The contributions from earnings were more than offset by the depreciation of foreign currencies against the U.S. dollar, the partial sale of BIPC shares during the current quarter and distributions to unitholders. This equity is primarily our investment in PP&E and certain concessions, which are recorded as intangible assets. Our PP&E is recorded at fair value and revalued annually while concessions are considered intangible assets under IFRS and therefore recorded at historical cost and amortized over the life of the concession. Accordingly, a smaller portion of our equity is impacted by revaluation compared to our Real Estate and Renewable Power segments, where a larger portion of the balance sheet is subject to revaluations. Our critical estimates and assumptions underlying the valuation of PP&E, as well as intangibles assets have not changed materially as a result of the global economic shutdown. Refer to Part 5 for discussions.



Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Private Equity segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Ref.	Revenues		FFO		Common Equity	
		2020	2019	2020	2019	2020	2019
Brookfield Business Partners ¹	i	\$ 10,082	\$ 11,862	\$ 132	\$ 132	\$ 1,891	\$ 2,389
Other investments	ii	9	159	117	16	1,727	1,697
Realized disposition gains	iii	—	—	—	6	—	—
		<u>\$ 10,091</u>	<u>\$ 12,021</u>	<u>\$ 249</u>	<u>\$ 154</u>	<u>\$ 3,618</u>	<u>\$ 4,086</u>

1. Brookfield's interest in BBU consists of 69.7 million redemption-exchange units, 24.8 million limited partnership units and eight general partnership units together representing an economic interest of 63% of BBU.

Revenues generated from our private equity operations decreased by \$1.9 billion primarily due to lower volumes at Greenergy and reduced contribution from Multiplex due to lower activity in the U.K. This was partially offset by the positive contribution from the acquisition of Sagen in the fourth quarter of 2019.

FFO, prior to disposition gains, increased by \$101 million to \$249 million primarily due to an increase in OSB pricing at Norbord. BBU's FFO was in line with the prior quarter as the impact of new acquisitions was offset by the impacts of the global economic shutdown.

i. Brookfield Business Partners

The following table disaggregates BBU's FFO by business line to facilitate analysis of the quarter-over-quarter variances in FFO:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2020	2019
Business services	\$ 62	\$ 31
Infrastructure services	78	95
Industrials	86	103
Corporate	(18)	(10)
Attributable to unitholders	208	219
Non-controlling interests	(76)	(82)
Segment reallocation and other ¹	—	(5)
Brookfield's interest	<u>\$ 132</u>	<u>\$ 132</u>

1. Segment reallocation and other refers to disposition gains, net of NCI, included in BBU's FFO that we reclassify to realized disposition gains. This allows us to present FFO attributable to unitholders on the same basis as BBU.

BBU generated \$208 million of FFO compared to \$219 million in the prior period of which our share of BBU's FFO was \$132 million, consistent with the prior year quarter.

Business Services

Business services' FFO increased by \$31 million to \$62 million primarily due to:

- contributions from Sagen, which was acquired in the fourth quarter of 2019; and
- increased contributions from Healthscope resulting from increased patient admission.

Infrastructure Services

Within our infrastructure services operations, we generated \$78 million of FFO, compared to \$95 million in the prior year quarter. The decrease was primarily due to:

- lower volumes at Westinghouse Electric Company (“Westinghouse”)¹, a service provider in the power generation industry, driven by a one-time reversal of reserves on new plant projects nearing completion; partially offset by
- contributions from the acquisition of BrandSafway, an equity accounted investment, which was acquired in the first quarter of 2020; and
- increased contributions from Altera, in which we increased our ownership from 31% to 43%.

Industrials

FFO from our industrials portfolio decreased by \$17 million to \$86 million due to:

- lower volumes and realized prices at GrafTech International Ltd. (“GrafTech”)¹;
- the absence of contributions from NAP following its sale in the fourth quarter of 2019; partially offset by
- increased contributions from Clarios as compared to the prior period.

Corporate

The Corporate FFO deficit increased by \$8 million due to lower interest income.

ii. Other Investments

FFO from other investments increased by \$101 million to \$117 million as a result of higher earnings at Norbord due to higher realized OSB pricing.

iii. Realized Disposition Gains

BBU did not have any realized disposition gains in the current quarter. The gain of \$6 million in the prior year quarter was from the sale of certain industrial assets at our waste water and industrial water treatment business in Brazil.

Common Equity

Common equity in our Private Equity segment was \$3.6 billion as at September 30, 2020 (December 31, 2019 – \$4.1 billion). The decrease is primarily attributable to foreign currency translation, distributions to unit holders and depreciation expense. These decreases were partially offset by contributions from FFO. The assets held in these operations are recorded at amortized cost, with depreciation recorded on a quarterly basis, with the exception of investments in financial assets, which are carried at fair value based predominantly on quoted prices.

1. See definition in Glossary of Terms beginning on page 57.



Residential Development

Summary of Operating Results

The following table disaggregates segment revenues, FFO and common equity into the amounts attributable to the two principal operating regions of our wholly owned residential development businesses:

	Revenues		FFO		Common Equity	
	2020	2019	2020	2019	2020	2019
AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)						
North America	\$ 512	\$ 479	\$ 36	\$ 41	\$ 1,983	\$ 2,083
Brazil and other	83	118	1	1	542	776
	<u>\$ 595</u>	<u>\$ 597</u>	<u>\$ 37</u>	<u>\$ 42</u>	<u>\$ 2,525</u>	<u>\$ 2,859</u>

North America

FFO from our North American operations was \$36 million, slightly lower than the prior year quarter. The difference is largely driven by a decrease in the gross margin on land closings stemming from a change in the geographic distribution and types of land sold. It was offset by increased single family lot closings, a higher housing gross margin from a change in product mix and a decrease to interest expense.

As at September 30, 2020, we had 79 active housing communities (September 30, 2019 – 91) and 25 active land communities (September 30, 2019 – 27).

Brazil and Other

FFO from our Brazilian and other operations remained consistent compared to the prior year quarter. Our Brazilian operations delivered four projects in the current quarter, compared to two in the prior year. Higher margin on the delivered projects was offset by higher general and administration expenses during the quarter.

Our Brazilian operations began 2020 with 20 projects under construction and as of September 30, 2020, we have 26 projects under construction, all of which relates to projects launched since late 2016 with relatively higher margins than our legacy projects.

Common Equity

Common equity was \$2.5 billion as at September 30, 2020 (December 31, 2019 – \$2.9 billion) and consists largely of residential development inventory which is carried at historical cost, or the lower of cost and market, notwithstanding the length of time that we may have held these assets and created value through the development process. The decrease in common equity is primarily attributable to weakening of the Brazilian real in comparison to the U.S. dollar.



Corporate Activities

Summary of Operating Results

The following table disaggregates segment revenues, FFO and common equity into the principal assets and liabilities within our corporate operations and associated FFO to facilitate analysis:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Revenues		FFO		Common Equity	
	2020	2019	2020	2019	2020	2019
Corporate cash and financial assets, net	\$ 87	\$ (44)	\$ 80	\$ (32)	\$ 3,675	\$ 2,181
Corporate borrowings	—	—	(98)	(87)	(8,587)	(7,083)
Preferred equity ¹	—	—	—	—	(4,145)	(4,145)
Other corporate investments	110	16	(3)	(5)	726	680
Corporate costs and taxes/net working capital	—	—	(37)	(9)	895	470
Realized disposition gains	—	—	14	—	—	—
	<u>\$ 197</u>	<u>\$ (28)</u>	<u>\$ (44)</u>	<u>\$ (133)</u>	<u>\$ (7,436)</u>	<u>\$ (7,897)</u>

1. FFO excludes preferred share distributions of \$34 million (2019 – \$38 million).

Our portfolio of corporate cash and financial assets is generally recorded at fair value with changes recognized through net income, unless the underlying financial investments are classified as fair value through other comprehensive income, in which case changes in value are recognized in other comprehensive income. Loans and receivables are typically carried at amortized cost. As at September 30, 2020, our portfolio of corporate cash and financial assets includes \$2.3 billion of cash and cash equivalents (December 31, 2019 – \$789 million). The increase is as a result of three issuances of corporate debt, totaling \$1.9 billion, in the current year, as well as proceeds received from the partial sale of BIPC shares and BEP units in the year. This was partially offset by the early redemption of \$251 million (C\$350 million) of corporate debt in the first quarter, dividends paid to shareholders, funding of capital calls in our BSREP III fund and the repurchase of 6.2 million Class A shares on a post-split basis.

Our corporate cash and financial assets generated FFO of \$80 million, which was \$112 million higher than the prior year quarter, primarily due to higher mark-to-market gains on our financial assets in the current quarter.

Corporate borrowings are generally issued with fixed interest rates. Some of these borrowings are denominated in Canadian dollars and therefore the carrying value fluctuates with changes in the exchange rate. A number of these borrowings have been designated as hedges of our Canadian dollar net investments within our other segments, resulting in the majority of the currency revaluation being recognized in other comprehensive income. The \$98 million FFO expense reported through corporate borrowings reflects the interest expense on those borrowings. The increase from the prior year quarter was primarily as a result of the aforementioned net increase in our borrowings, partially offset by the foreign exchange impact of our Canadian dollar interest expense as a result of a decrease in the average exchange rate compared to the prior year quarter.

Preferred equity does not revalue under IFRS and the total outstanding shares remain unchanged from year-end.

We describe cash and financial assets, corporate borrowings and preferred equity in more detail within Part 4 – Capitalization and Liquidity.

Other corporate investments include our insurance and pension businesses, as well as the non-asset management related investment in Oaktree which was acquired in the third quarter of 2019. The decrease in FFO deficit is primarily from higher margins in pension assets acquired as well as a one-time expense in the prior year quarter in our insurance businesses, partially offset by operating expenses in Oaktree.

Net working capital was in an asset position of \$895 million as at September 30, 2020, an increase from the prior year balance of \$470 million. Included within this balance are net deferred income tax assets of \$2.0 billion (December 31, 2019 – \$2.2 billion). The FFO deficit of \$37 million includes corporate costs and cash taxes which increased primarily as a result of the absence of the release of a previously recorded tax reserve compared to the prior year quarter.

PART 4 – CAPITALIZATION AND LIQUIDITY

CAPITALIZATION

We review key components of our capitalization in the following sections. In several instances we have disaggregated the balances into the amounts attributable to our operating segments in order to facilitate discussion and analysis.

*Corporate Capitalization*¹ – reflects the amount of debt held in the Corporate segment and our issued and outstanding common and preferred shares. Corporate debt includes unsecured bonds and, from time to time, draws on revolving credit facilities. At September 30, 2020, our corporate capitalization was \$46.3 billion (December 31, 2019 – \$47.1 billion) with a debt to capitalization of 19% (December 31, 2019 – 15%).

*Consolidated Capitalization*¹ – reflects the full capitalization of wholly owned, partially owned, and managed entities that we consolidate in our financial statements. At September 30, 2020, consolidated capitalization increased compared to the prior year largely due to acquisitions, which resulted in additional associated borrowings, working capital balances and non-controlling interests. Much of the borrowings issued within our managed entities are included in our consolidated balance sheet not withstanding that virtually none of this debt has any recourse to the Corporation.

The following table presents our capitalization on a corporate and consolidated basis:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (\$ MILLIONS)	Ref.	Corporate		Consolidated	
		2020	2019	2020	2019
Corporate borrowings	i	\$ 8,587	\$ 7,083	\$ 8,587	\$ 7,083
Non-recourse borrowings					
Subsidiary borrowings	i	—	—	10,584	8,423
Property-specific borrowings	i	—	—	129,646	127,869
		8,587	7,083	148,817	143,375
Accounts payable and other		4,196	4,708	45,153	43,077
Deferred income tax liabilities		383	279	14,314	14,849
Subsidiary equity obligations		—	—	3,989	4,132
Liabilities associated with assets classified as held for sale		—	—	1,503	1,690
Equity					
Non-controlling interests		—	—	80,156	81,833
Preferred equity	ii	4,145	4,145	4,145	4,145
Common equity	iii	29,006	30,868	29,006	30,868
		33,151	35,013	113,307	116,846
Total capitalization		\$ 46,317	\$ 47,083	\$ 327,083	\$ 323,969
Debt to capitalization		19%	15%	45%	44%

i. Borrowings

Corporate Borrowings

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (\$ MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2020	2019	2020	2019	2020	2019
Term debt	4.4%	4.6%	12	10	\$ 8,646	\$ 7,128
Revolving facilities	—%	—%	4	4	—	—
Deferred financing costs	n/a	n/a	n/a	n/a	(59)	(45)
Total					\$ 8,587	\$ 7,083

As at September 30, 2020, corporate borrowings included term debt of \$8.6 billion (December 31, 2019 – \$7.1 billion) which had an average term to maturity of 12 years (December 31, 2019 – 10 years). Term debt consists of public and private bonds, all of which are fixed rate and have maturities ranging from March 2023 until 2051. These financings provide an important source of long-term capital and are appropriately matched to our long-term asset profile.

1. See definition in Glossary of Terms beginning on page 57.

The increase in term debt compared to the prior year is due to the issuance of \$600 million of 3.45% notes with a 2050 maturity, the issuance of \$750 million of 4.35% notes with a 2030 maturity, the issuance of \$500 million of 3.50% notes with a 2051 maturity, partially offset by the early repayment of \$251 million (C\$350 million) of 5.30% notes due on March 1, 2021, as well as \$81 million of foreign currency depreciation.

Subsequent to September 30, 2020, we issued \$400 million of 4.625% subordinated notes with a 2080 maturity.

We had no commercial paper or bank borrowings outstanding at September 30, 2020 (December 31, 2019 – \$nil). Our commercial paper program is supplemented by our \$2.6 billion revolving term credit facilities with maturities ranging from 2022 to 2024. As at September 30, 2020, \$65 million of the facilities were utilized for letters of credit (December 31, 2019 – \$66 million).

Subsidiary Borrowings

We endeavor to capitalize our principal subsidiaries to enable continuous access to the debt capital markets, usually on an investment-grade basis, thereby reducing the demand for capital from the Corporation.

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (\$ MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2020	2019	2020	2019	2020	2019
Real estate	3.2%	3.9%	4	4	\$ 2,930	\$ 2,024
Renewable power	3.3%	4.0%	12	9	2,418	2,098
Infrastructure	3.1%	3.4%	6	6	2,882	2,470
Private equity	2.7%	—%	4	—	538	—
Residential development	5.8%	6.2%	6	5	1,816	1,831
Total	3.6%	4.2%	7	6	\$ 10,584	\$ 8,423

Subsidiary borrowings include listed affiliates' recourse term debt and credit facility draws. It generally has no recourse to the Corporation but are recourse to its principal subsidiaries (primarily BPY, BEP, BIP and BBU).

Property-Specific Borrowings

As part of our financing strategy, the majority of our debt capital is in the form of property-specific borrowings and project financings and is denominated in local currencies that have recourse only to the assets being financed and have no recourse to the Corporation or the listed affiliates.

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (\$ MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2020	2019	2020	2019	2020	2019
Real estate	3.6%	4.4%	4	4	\$ 67,567	\$ 67,909
Renewable power	4.9%	5.0%	10	9	15,984	15,787
Infrastructure	4.2%	4.7%	8	7	22,032	20,776
Private equity and other	5.0%	5.4%	5	6	23,619	23,105
Residential development	4.8%	5.4%	3	3	444	292
Total	4.1%	4.7%	5	6	\$ 129,646	\$ 127,869

Property-specific borrowings have increased by \$1.8 billion since December 31, 2019. The increase in borrowings is largely attributable to acquisitions in our infrastructure and private equity operations and partially offset by the deconsolidation of Atlantis as well as the transfer of assets from our self-storage portfolio to assets held for sale.

Fixed and Floating Interest Rate Exposure

Many of our borrowings, including all corporate borrowings recourse to the Corporation, are fixed rate, long-term financings. The remainder of our borrowings are at floating rates; however, from time to time, we enter into interest rate contracts to swap our floating rate debt to fixed rates.

As at September 30, 2020, 69% of our share of debt outstanding, reflecting swaps, was fixed rate. Accordingly, changes in interest rates are typically limited to the impact of refinancing borrowings at prevailing market rates or changes in the level of debt as a result of acquisitions and dispositions.

The following table presents the fixed and floating rates of interest expense:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (MILLIONS)	Fixed Rate				Floating Rate			
	2020		2019		2020		2019	
	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated
Corporate borrowings	4.4%	\$ 8,587	4.6%	\$ 7,083	—%	\$ —	—%	\$ —
Subsidiary borrowings	4.3%	7,886	4.6%	6,152	1.6%	2,698	3.4%	2,271
Property-specific borrowings	5.2%	53,843	5.2%	49,614	3.3%	75,803	4.4%	78,255
Total	5.0%	\$ 70,316	4.9%	\$ 62,849	3.3%	\$ 78,501	5.0%	\$ 80,526

ii. Preferred Equity

Preferred equity is comprised of perpetual preferred shares and represents permanent non-participating equity that provides leverage to our common equity. The shares are categorized by their principal characteristics in the following table:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (MILLIONS)	Term	Average Rate			
		2020	2019	2020	2019
Fixed rate-reset	Perpetual	4.1%	4.3%	\$ 2,875	\$ 2,875
Fixed rate	Perpetual	4.8%	4.8%	739	739
Floating rate	Perpetual	1.8%	2.9%	531	531
Total		3.9%	4.2%	\$ 4,145	\$ 4,145

Fixed rate-reset preferred shares are issued with an initial fixed rate coupon that is reset after an initial period, typically five years, at a predetermined spread over the Canadian five-year government bond yield. The average reset spread as at September 30, 2020 was 284 basis points.

iii. Common Equity

Issued and Outstanding Shares

Changes in the number of issued and outstanding Class A shares during the periods are as follows:

AS AT AND FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2020 ¹	2019 ¹	2020 ¹	2019 ¹
Outstanding at beginning of period	1,511.5	1,433.8	1,509.3	1,432.7
Issued (repurchased)				
Issuances	—	79.1	—	79.1
Repurchases	(0.7)	(3.9)	(6.2)	(7.2)
Long-term share ownership plans ²	1.4	1.8	9.0	6.0
Dividend reinvestment plan and others	0.1	—	0.2	0.2
Outstanding at end of period	1,512.3	1,510.8	1,512.3	1,510.8
Unexercised options and other share-based plans ²	58.6	70.7	58.6	70.7
Total diluted shares at end of period	1,570.9	1,581.5	1,570.9	1,581.5

1. Adjusted to reflect the three-for-two-stock split effective April 1, 2020.

2. Includes management share option plan and restricted stock plan.

The company holds 61.5 million Class A shares (September 30, 2019 – 59.8 million) purchased by consolidated entities in respect of long-term share ownership programs, which have been deducted from the total amount of shares outstanding at the date acquired. Diluted shares outstanding include 8.7 million (September 30, 2019 – 15.5 million) shares issuable in respect of these plans based on the market value of the Class A shares at September 30, 2020 and September 30, 2019, resulting in a net reduction of 52.8 million (September 30, 2019 – 44.3 million) diluted shares outstanding.

During the third quarter of 2020, 1.6 million options were exercised, of which 0.7 million and 0.2 million were issued on a net-settled and gross basis, respectively, resulting in the cancellation of 0.6 million vested options.

The cash value of unexercised options was \$1.2 billion as at September 30, 2020 (2019 – \$1.2 billion) based on the proceeds that would be paid on exercise of the options.

On April 1, 2020, the company completed a three-for-two stock split by way of a stock dividend of one-half of a Class A share for each Class A and Class B share outstanding, resulting in the issuance of 524 million Class A shares.

As of November 12, 2020, the Corporation had outstanding 1,509,550,594 Class A shares and 85,120 Class B shares. Refer to Note 12 of the consolidated financial statements for additional information on equity.

LIQUIDITY

Corporate Liquidity

We maintain significant liquidity at the corporate level. Our primary sources of liquidity, which we refer to as core liquidity, consist of:

- cash and financial assets, net of other associated liabilities; and
- undrawn committed credit facilities.

We further assess overall liquidity inclusive of our principal subsidiaries BPY, BEP, BIP, BBU and Oaktree because of their role in funding acquisitions both directly and through our managed funds. Overall core liquidity at quarter-end was \$15.8 billion, or inclusive of investor commitments to our private funds, was \$75.7 billion at the end of the quarter, as we continue to pursue a number of attractive investment opportunities.

Capital Requirements

The Corporation has very few non-discretionary capital requirements. Our largest normal course capital requirement is our debt maturities. There are no corporate debt maturities until March 2023 when \$450 million (C\$600 million) is due. Periodically, we will also fund acquisitions and seed new investment strategies.

At the listed affiliate level, the largest normal course capital requirements are debt maturities and the pro-rata share of private fund capital calls. New acquisitions are primarily funded through the private funds or listed affiliates that we manage. We endeavor to structure these entities so that they are predominantly self-funding, preferably on an investment-grade basis, and in almost all circumstances do not rely on financial support from the Corporation.

In the case of private funds, the necessary equity capital is obtained by calling on commitments made by the limited partners in each fund, which include commitments made by our listed affiliates. In the case of our real estate, infrastructure and private equity funds, these commitments are expected to be funded by BPY, BEP, BIP and BBU. On January 31, 2019, the Corporation committed \$2.75 billion to our third flagship real estate fund alongside BPY's \$1 billion commitment. As of September 30, 2020, the Corporation has funded \$1.1 billion of our \$2.75 billion commitment. On August 3, 2020, the Corporation committed \$750 million to our latest distressed debt fund. As of September 30, 2020, the Corporation has funded \$38 million of our \$750 million commitment. In the case of listed affiliates, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings.

At the asset level, we schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels. We refer to this as sustaining capital expenditures. The sustaining capital expenditure program are typically funded by, and represent a relatively small proportion of, the operating cash flows within each business. The timing of these expenditures is discretionary; however, we believe it is important to maintain the productivity of our assets in order to optimize cash flows and value accretion.

Core and Total Liquidity

The following table presents core liquidity of the Corporation and operating segments:

AS AT SEP. 30, 2020 AND DEC. 31, 2019 (MILLIONS)	Corporate ¹	Real Estate ¹	Renewable Power	Infrastructure	Private Equity ¹	Oaktree	Total 2020	Total 2019
Cash and financial assets, net	\$ 3,675	\$ 17	\$ 512	\$ 435	\$ 348	\$ 650	\$ 5,637	\$ 3,575
Undrawn committed credit facilities	2,525	2,246	1,892	1,162	1,737	650	10,212	9,808
Core liquidity²	6,200	2,263	2,404	1,597	2,085	1,300	15,849	13,383
Uncalled private fund commitments	—	12,702	3,531	10,860	6,204	26,567	59,864	50,735
Total liquidity²	\$ 6,200	\$ 14,965	\$ 5,935	\$ 12,457	\$ 8,289	\$ 27,867	\$ 75,713	\$ 64,118

1. We secured an incremental \$1 billion two-year credit facility in April of 2020 to support growth initiatives; BBU and BPY can each draw up to \$500 million or BAM can draw up to \$1 billion. Undrawn commitments of \$500 million are reported within each Real Estate and Private Equity, respectively.
2. See definition in Glossary of Terms beginning on page 57.

As at September 30, 2020, the Corporation's core liquidity was \$6.2 billion, consisting of \$3.7 billion in cash and financial assets, net of other liabilities and \$2.5 billion in undrawn credit facilities. The Corporation's liquidity is readily available for use without any material tax consequences. We utilize this liquidity to support our asset management business which includes supporting the activities of our listed affiliates and private funds, as well as seeding new investment products.

The Corporation also has the ability to raise additional liquidity through the issuance of securities and sale of holdings of listed investments in our principal subsidiaries and other holdings including from those listed on page 52. However, this is not included in our core liquidity as we are generally able to finance our operations and capital requirements through other means.

The Corporation generates significant cash available for distribution and/or reinvestment¹. Our primary sources of recurring cash flows include:

- fee-related earnings from our asset management activities and proceeds in the form of realized carried interest from asset sales within private funds;
- distributions from invested capital, in particular our listed affiliates; and
- other invested capital earnings: comprised of our wholly owned investments offset by corporate interest expense, corporate costs and taxes and dividends paid on preferred shares.

During the third quarter of 2020, we generated \$747 million of cash available for distribution and/or reinvestment, inclusive of:

- \$323 million fee-related earnings, excluding Oaktree;
- \$24 million realized carried interest, net, excluding Oaktree;
- \$41 million of distributable earnings from our investment in Oaktree; and
- \$459 million of distributions from our listed affiliates, other investments, and corporate cash and financial assets; partially offset by
- other invested capital earnings, including corporate costs and interest expense, and preferred share dividends paid, net of equity-based compensation costs, which resulted in expenses of \$100 million.

The Corporation paid \$182 million in cash dividends on its common equity during the quarter ended September 30, 2020 (2019 – \$153 million).

1. See definition in Glossary of Terms beginning on page 57.

Earnings and distributions received by the Corporation are available for distribution and/or reinvestment and are as follows:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
1) Asset management FFO				
Fee revenues.....	\$ 496	\$ 468	\$ 1,406	\$ 1,288
Direct costs.....	(173)	(162)	(518)	(481)
Fee-related earnings ¹	323	306	888	807
Realized carried interest, net ¹	24	39	63	261
	347	345	951	1,068
Our share of Oaktree's distributable earnings.....	41	—	154	—
2) Distributions from investments				
Listed affiliates.....	342	337	1,039	1,019
Corporate cash and financial assets.....	94	(32)	228	101
Other investments.....	23	28	59	87
	459	333	1,326	1,207
3) Other invested capital earnings				
Corporate borrowings.....	(98)	(87)	(282)	(260)
Corporate costs and taxes.....	(37)	(9)	(113)	(82)
Other wholly owned investments.....	46	1	(35)	(68)
	(89)	(95)	(430)	(410)
Preferred share dividends.....	(34)	(38)	(105)	(113)
Add back: equity-based compensation costs.....	23	20	69	63
Cash available for distribution and/or reinvestment.....	\$ 747	\$ 565	\$ 1,965	\$ 1,815

1. Excludes \$80 million and \$5 million for the three months ended September 30, 2020 and \$210 million and \$86 million for the nine months ended September 30, 2020 of fee-related earnings and realized carried interest, net from Oaktree, respectively.

The following table shows the quoted market value of the company's listed securities and annual cash distributions based on current distribution policies for each entity:

AS AT SEP. 30, 2020 (MILLIONS, EXCEPT PER UNIT AMOUNTS)	Ownership %	Brookfield Owned Units	Distributions Per Unit ¹	Quoted Value ²	Current Distributions (Current Rate) ³	YTD Distributions (Actual)
Distributions from investments						
Listed affiliates						
Brookfield Property ⁴	60%	560.4	\$ 1.33	\$ 6,742	\$ 745	\$ 524
Brookfield Renewable ⁵	52%	222.7	1.74	11,971	387	303
Brookfield Infrastructure ⁶	28%	132.5	1.94	6,376	257	194
Brookfield Business Partners	63%	94.5	0.25	2,847	24	18
					1,413	1,039
Corporate cash and financial assets ⁷	various	various	various	3,675	221	228
Other investments						
Norbord	43%	34.8	1.80	1,026	63	14
Other ⁸	various	various	various	various	60	45
					123	59
Total					\$ 1,757	\$ 1,326

1. Based on current distribution policies.
2. Quoted value represents the value of Brookfield owned units as at market close on September 30, 2020.
3. Distributions (current rate) are calculated by multiplying units held as at September 30, 2020 by distributions per unit. Actual dividends may differ due to timing of dividend increases and payment of special dividends, which are not factored into the current rate calculation. See definition in Glossary of Terms beginning on page 57.
4. BPY's quoted value includes \$16 million of preferred shares. Fully diluted ownership is 56%, assuming conversion of convertible preferred shares held by a third party. For the three and nine months ended September 30, 2020, BPY's distributions include nominal amounts of preferred share dividends received by the Corporation (2019 – nominal amounts and \$11 million, respectively).
5. On July 30, 2020, we completed the special distribution of Class A exchangeable subordinate voting shares of Brookfield Renewable Corporation ("BEPC"). Each BEP unitholder of record as of July 27, 2020 received one class A exchangeable subordinate voting share of BEPC for every four BEP units held. The special distribution is analogous to a unit split and has no impact on our ownership and distributions received. Brookfield owned units represent the combined units held in BEP LP and BEPC.
6. Brookfield owned units represent the combined units held in BIP and BIPC. On July 29, 2020, we completed the sale of approximately 5.1 million class A shares of BIPC.
7. Includes cash and cash equivalents and financial assets net of deposits.
8. Other includes cash distributions from our 27.4% interest in a BAM-sponsored real estate venture in New York and a listed investment in our Private Equity segment.

REVIEW OF CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table summarizes the consolidated statements of cash flows within our consolidated financial statements:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
Operating activities	\$ 2,227	\$ 1,898	\$ 5,525	\$ 4,297
Financing activities	3,940	2,166	9,404	18,773
Investing activities	(7,000)	(3,777)	(12,752)	(23,756)
Change in cash and cash equivalents	\$ (833)	\$ 287	\$ 2,177	\$ (686)

This statement reflects activities within our consolidated operations and therefore excludes activities within non-consolidated entities.

Operating Activities

Cash flows from operating activities totaled \$2.2 billion in the third quarter of 2020, a \$329 million increase from the third quarter of 2019. Operating cash flows prior to non-cash working capital and residential inventory were \$2.3 billion this quarter, \$268 million higher than the prior year quarter due to the benefits of same-store growth from our existing operations and the contributions from assets acquired during the last twelve months, partially offset by the negative impact of foreign currency translation.

Financing Activities

The company had a net cash inflow of \$3.9 billion from financing activities during the third quarter of 2020, compared to \$2.2 billion in the third quarter of 2019. Our subsidiaries issued \$7.5 billion (2019 – \$9.0 billion) and repaid \$6.0 billion (2019 – \$6.8 billion) of non-recourse borrowings, for a net issuance of \$1.5 billion (2019 – \$2.2 billion) during the quarter. We raised \$5.0 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions, arranged \$432 million of short-term borrowings backed by private fund commitments and returned \$2.9 billion to our investors in the form of either distributions or returns of capital.

Investing Activities

During the third quarter of 2020, we invested \$13.1 billion and generated proceeds of \$6.3 billion from dispositions for net cash deployed in investing activities of \$6.8 billion. This compares to net cash deployed of \$3.8 billion during the same period in 2019. We paid cash of \$3.3 billion to acquire consolidated subsidiaries, mainly at our Infrastructure segment, and a further \$1.7 billion to acquire equity accounted investments during the quarter. Refer to our Acquisitions of Consolidated Entities in Note 4 and Equity Accounted Investments in Note 8 to the consolidated financial statements for further details. We continued to acquire and sell financial assets, which represent a net outflow of \$301 million, relating to investments in debt and equity securities as well as contract assets associated with managing currency risk.

PART 5 – ACCOUNTING POLICIES AND INTERNAL CONTROLS

ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Overview

We are a Canadian corporation and, as such, we prepare our consolidated financial statements in accordance with IFRS.

We present our consolidated balance sheets on a non-classified basis, meaning that we do not distinguish between current and long-term assets or liabilities. We believe this classification is appropriate given the nature of our business strategy.

The preparation of the consolidated financial statements requires management to select appropriate accounting policies and to make judgments and estimates that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

In making judgments and estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis, as required. These estimates have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report. As we update the fair values of our investment property portfolios quarterly, with gains reflected in net income, we discuss judgments and estimates relating to the key valuation metrics in Note 9 of the unaudited September 30, 2020 Consolidated Financial Statements and below.

For further reference on accounting policies, including new and revised standards issued by the IASB and judgments and estimates, see our significant accounting policies contained in Note 2 of the December 31, 2019 consolidated financial statements.

COVID-19

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. To date, there have been restrictions on the conduct of business in many jurisdictions and the global movement of people and certain goods. The company continues to closely monitor the related developments in light of the economic environment. The longer-term impacts of the restrictions will depend on future developments which are highly uncertain, constantly evolving and difficult to predict. These impacts may differ in magnitude depending on a number of scenarios, which we continue to monitor and take into consideration in our decision making as we continue to assess medium to long-term impacts.

Consolidated Financial Information

IFRS uses a control-based model to determine if consolidation is required. Therefore, we are deemed to control an investment if we: (1) exercise power over the investee; (2) are exposed to variable returns from our involvement with the investee; and (3) have the ability to use our power to affect the amount of the returns. Due to the ownership structure of many of our subsidiaries, we control entities in which we hold only a minority economic interest. Please refer to Part 2 of Management's Discussion and Analysis in the December 31, 2019 Annual Report for additional information.

i. Investment Properties

We classify the majority of the property assets within our Real Estate segment as investment properties. Our valuations are prepared at the individual property level by internal investment professionals with the appropriate expertise in the respective industry, geography and asset type. These valuations are updated at each balance sheet date with gains or losses recognized in net income.

Prior to the end of the first quarter, the global economic shutdown prompted certain responses from global government authorities across the various geographies in which the company owns and operates investment properties. Such responses, have included mandatory temporary closure of, or imposed limitations on, the operations of certain non-essential properties and businesses including office properties and retail malls and associated businesses which operate within these properties such as retailers and restaurants. In addition, shelter-in-place mandates and severe travel restrictions have had a significant adverse impact on consumer spending and demand in the near term. These negative economic indicators, restrictions and closure have created significant estimation uncertainty in the determination of the fair value of investment properties as of September 30, 2020. Specifically, while discount and capitalization rates are inherently uncertain, there has been an absence of recently observed market transactions across the partnership's geographies to support changes in such rates which is a key input into the determination of fair value. In addition, the company has had to make assumptions with respect to the length and severity of these restrictions and closures as well as the viability of our tenants in consideration of any credit reserves that should be applied based on deemed tenant risk and the recovery period in estimating the impact and timing of future cash flows generated from investment properties and used in the discounted cash flow model used to determine fair value. As a result of this material estimation uncertainty there is a risk that the assumptions used to determine fair value as of September 30, 2020 may result in a material adjustment to the fair value of investment properties in future reporting periods as more information becomes available.

The majority of underlying cash flows in the models are comprised of contracted leases, many of which are long term, with our core office portfolio having a combined 91% occupancy level and an average 8.3-year lease life, while our core retail portfolio has an occupancy rate of 93%. The models also include property-level assumptions for renewal probabilities, future leasing rates and capital expenditures. These are reviewed as part of the business planning process and external market data is utilized when determining the cash flows associated with lease renewals.

We test the outcome of our process by having a number of our properties externally appraised each year, including appraisals for core office properties, at least on a three-year rotating basis. We compare the results of the external appraisals to our internally prepared values and reconcile significant differences when they arise. In the current quarter, 24 of our properties were externally appraised, representing a gross property value of \$11 billion of assets; external appraisals were within 0.9% of management's valuations.

The valuations are most sensitive to changes in cash flows, which include assumptions relating to lease renewal probabilities, downtime, capital expenditures, future leasing rates and associated leasing costs, discount rates and terminal capitalization rates. The key valuation metrics of our real estate assets as of September 30, 2020 and December 31, 2019 are summarized below.

	Core Office		Core Retail		LP Investments and Other		Weighted Average	
AS AT SEP. 30, 2020 AND DEC. 31, 2019	2020	2019	2020	2019	2020	2019	2020	2019
Discount rate	6.5%	6.7%	6.9%	6.7%	8.6%	8.1%	7.5%	7.3%
Terminal capitalization rate	5.4%	5.5%	5.4%	5.4%	6.0%	6.6%	5.6%	5.9%
Investment horizon (years)	11	11	10	10	13	14	12	12

We undertook a process to assess the appropriateness of the discount and terminal capitalization rates considering changes to property-level cash flows and any risk premium inherent in such cash flow changes as well as the current cost of capital and credit spreads. These considerations led us to make some discount rate changes to certain of our assets, mostly within our retail portfolio for assets where we have more exposure to anchor tenants who have recently filed for bankruptcy. We did not make holistic changes overall to our discount rates or terminal capitalization rates, as we were largely impacted by detailed revision of our cashflow models and feel comfortable with the level of risk applied in our cashflows. As we learn more about the mid- and longer-term impacts of the pandemic on our business we will update our valuation models accordingly.

The following table presents the impact on the fair value of our consolidated investment properties as at September 30, 2020 from a 25-basis point change to the relevant unobservable inputs. For properties valued using the discounted cash flow method, the basis point change in valuation metrics relates to a change in discount and terminal capitalization rates. For properties valued using the direct capitalization approach, the basis point change in valuation metrics relates to a change in the overall capitalization rate.

	Fair Value	Sensitivity
Core office		
United States	\$ 15,178	\$ 729
Canada	4,808	224
Australia	2,509	150
Europe	2,529	145
Brazil	282	2
Core retail	21,023	1,100
LP investments and other		
LP investments office	8,777	360
LP investments retail	2,705	112
Mixed-use	2,935	134
Multifamily	2,708	124
Triple net lease	4,451	166
Student housing	2,753	116
Manufactured housing	2,588	113
Other investment properties ¹	23,249	1,190
Total	<u>\$ 96,495</u>	<u>\$ 4,665</u>

1. Includes investments in office, mixed-use and student housing properties which are held through our direct investment in BSREP III as well as other directly held investment properties.

ii. Revaluation Method for PP&E

PP&E is revalued on a regular basis. The critical estimates and assumptions underlying the valuation of PP&E are set out in Note 10, Property, Plant and Equipment in our December 31, 2019 audited consolidated financial statements. Our PP&E are measured at fair value on a recurring basis with an effective date of revaluation for all asset classes as of December 31, 2019. Brookfield determines fair value under both the income and cost methods with due consideration to significant inputs such as the discount rate, terminal value multiple, overall investment horizon, useful life and replacement cost. We have updated our valuation assumptions based on the available information as a result of the shutdown. Refer to Note 10 for further information.

MANAGEMENT REPRESENTATIONS AND INTERNAL CONTROLS

Internal Control Over Financial Reporting

No changes were made in our internal control over financial reporting during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. We have not experienced any material impact to our internal control over financial reporting due to the global economic shutdown. We are continually monitoring and assessing the shutdown on our internal controls to minimize the impact on their design and operating effectiveness.

GLOSSARY OF TERMS

The below summarizes certain terms relating to our business that are made throughout the MD&A and it defines IFRS performance measures, non-IFRS performance measures and key operating measures that we use to analyze and discuss our results.

References

“Brookfield,” the “company,” “we,” “us” or “our” refers to Brookfield Asset Management Inc. and its consolidated subsidiaries. The “Corporation” refers to our asset management business which is comprised of our asset management and corporate business segments.

We refer to investors in the Corporation as **shareholders** and we refer to investors in our private funds and listed affiliates as **investors**.

We use **asset manager** to refer to our Asset Management segment which offers a variety of investment products to our investors:

- We have over 40 active funds across major asset classes: real estate, infrastructure/renewable power and private equity. These funds include core, credit, value-add and opportunistic closed-end funds and core long-life funds. We refer to these funds as our **private funds**.
- We refer to BPY, BPYU, BEP, BEPC, BIP, BIPC, and BBU as our **listed affiliates**.
- We refer to our public securities group as **public securities**. This group manages fee-bearing capital through numerous funds and separately managed accounts, focused on fixed income and equity securities.

Throughout the MD&A and consolidated financial statements, the following operating companies, joint ventures and associates, and their respective subsidiaries, will be referenced as follows:

- **Altera** – Altera Infrastructure L.P. (formerly Teekay Offshore)
- **Atlantis** – Atlantis Paradise Island Resort
- **BBU** – Brookfield Business Partners L.P.
- **BEP** – Brookfield Renewable Partners L.P.
- **BEPC** – Brookfield Renewable Corporation
- **BIP** – Brookfield Infrastructure Partners L.P.
- **BIPC** – Brookfield Infrastructure Corporation
- **BPY** – Brookfield Property Partners L.P.
- **BPYU** – Brookfield Property REIT Inc. (formerly GGP Inc. or BPR)
- **BrandSafway** – Brand Industrial Holdings Inc.
- **Cheniere** – Cheniere Energy Partners, L.P.
- **Clarios** – Clarios Global LP
- **EBSA** – Empresa de Energia de Boyaca S.A.
- **Forest City** – Forest City Realty Trust, Inc.
- **G&W** – Genesee & Wyoming Inc.
- **GrafTech** – GrafTech International Ltd.
- **Greenergy** – Greenergy Fuels Holdings Limited
- **Healthscope** – Healthscope Limited
- **IndoStar** – IndoStar Capital Finance Limited
- **NAP** – North American Palladium Ltd.
- **Norbord** – Norbord Inc.
- **Nova Cold** – Nova Cold Logistics ULC
- **Oaktree** – Oaktree Capital Management
- **Sagen** – Sagen MI Canada Inc. (formerly Genworth MI Canada Inc.)
- **Summit DigiTel** – Summit Digital Infrastructure Pvt. Ltd.
- **TERP** – TerraForm Power, Inc.
- **Westinghouse** – Westinghouse Electric Company

Performance Measures

Definitions of performance measures, including IFRS, non-IFRS and operating measures, are presented below in alphabetical order. We have specifically identified those measures which are IFRS or non-IFRS measures; the remainder are operating measures.

Assets under management (“AUM”) refers to the total fair value of assets that we manage, on a gross asset value basis, including assets for which we earn management fees and those for which we do not. AUM is calculated as follows: (i) for investments that Brookfield consolidates for accounting purposes or actively manages, including investments of which Brookfield or a controlled investment vehicle is the largest shareholder or the primary operator or manager, at 100% of the investment’s total assets on a fair value basis; and (ii) for all other investments, at Brookfield’s or its controlled investment vehicle’s, as applicable, proportionate share of the investment’s total assets on a fair value basis. Brookfield’s methodology for determining AUM may differ from the methodology employed by other alternative asset managers and Brookfield’s AUM presented herein may differ from our AUM reflected in other public filings and/or our Form ADV and Form PF.

Base management fees, which are determined by contractual arrangements, are typically equal to a percentage of fee-bearing capital and are accrued quarterly. Base management fees, including private fund base fees and listed affiliate base fees, are IFRS measures.

Private fund base fees are typically earned on fee-bearing capital from third-party investors only and are earned on invested and/or uninvested fund capital, depending on the stage of the fund life.

Listed affiliate base fees are earned on the total capitalization, including debt and market capitalization, of the listed affiliates, which includes our investment. Base fees for BPY and BEP include a quarterly fixed fee amount of \$12.5 million and \$5 million, respectively. BPY and BEP each pay additional fees of 1.25% on the increase in market capitalization above their initial capitalization of \$11.5 billion and \$8 billion, respectively. Base fees for BPYU, BIP and BBU are 1.25% of total capitalization. BPYU capital was subject to a 12-month fee waiver which expired at the end of August 2019.

Carried interest is an IFRS measure that is a contractual arrangement whereby we receive a fixed percentage of investment gains generated within a private fund provided that the investors receive a pre-determined minimum return. Carried interest is typically paid towards the end of the life of a fund after the capital has been returned to investors and may be subject to clawback until all investments have been monetized and minimum investment returns are sufficiently assured.

Realized carried interest is an IFRS measure and represents our share of investment returns based on realized gains within a private fund. Realized carried interest earned is recognized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of preferred returns, in accordance with the respective terms set out in the fund's governing agreements, and when the probability of clawback is remote. We include realized carried interest when determining our Asset Management segment results within our consolidated financial statements.

Realized carried interest, net is a non-IFRS measure and represents realized carried interest after direct costs, which include employee expenses and cash taxes. A reconciliation of realized carried interest to realized carried interest, net, is shown below:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2020	2019
Realized carried interest ¹	\$ 42	\$ 59
Less: direct costs associated with realized carried interest	(13)	(20)
	29	39
Less: realized carried interest not attributable to BAM	(2)	—
Realized carried interest, net	\$ 27	\$ 39

1. Includes \$8 million of realized carried interest related to Oaktree. For segment reporting, Oaktree's revenue is shown on a 100% basis.

Carry eligible capital represents the capital committed, pledged or invested in the private funds that we manage and which entitle us to earn carried interest. Carry eligible capital includes both invested and uninvested (i.e., uncalled) private fund amounts as well as those amounts invested directly by investors (co-investments) if those entitle us to earn carried interest. We believe this measure is useful to investors as it provides additional insight into the capital base upon which we have potential to earn carried interest once minimum investment returns are sufficiently assured.

Adjusted carry eligible capital excludes uncalled fund commitments and funds that have not yet reached their preferred return, as well as co-investments and separately managed accounts that are subject to lower carried interest than our standard funds.

A reconciliation from carry eligible capital to adjusted carry eligible capital is provided below:

AS AT SEP. 30 (MILLIONS)	2020	2019
Carry eligible capital ¹	\$ 83,474	\$ 76,130
Less:		
Uncalled private fund commitments	(27,977)	(35,081)
Co-investments and other	(7,606)	(7,018)
Funds not yet at target preferred return	(16,360)	(10,287)
Adjusted carry eligible capital	\$ 31,531	\$ 23,744

1. Excludes carry eligible capital related to Oaktree.

Cash available for distribution and/or reinvestment is a non-IFRS measure that provides insight into earnings received by the Corporation that are available for distribution to common shareholders or to be reinvested into the business. It is calculated as the sum of our Asset Management segment FFO (i.e., fee-related earnings and realized carried interest, net); distributions from our listed affiliates, other investments that pay regular cash distributions and FFO from our corporate cash and financial assets; other invested capital earnings, which include FFO from our residential operations, energy contracts, sustainable resources and other real estate, private equity, corporate investments that do not pay regular cash distributions, corporate costs and corporate interest expense; excluding equity-based compensation costs and net of preferred share dividend payments.

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
Asset management FFO	\$ 347	\$ 345	\$ 951	\$ 1,068
Our share of Oaktree's distributable earnings	41	—	154	—
Distributions from investments	459	333	1,326	1,207
Other invested capital earnings				
Corporate borrowings	(98)	(87)	(282)	(260)
Corporate costs and taxes	(37)	(9)	(113)	(82)
Other wholly owned investments	46	1	(35)	(68)
	(89)	(95)	(430)	(410)
Preferred share dividends	(34)	(38)	(105)	(113)
Add back: equity-based compensation costs	23	20	69	63
Cash available for distribution and/or reinvestment	\$ 747	\$ 565	\$ 1,965	\$ 1,815

Consolidated capitalization reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements. Our consolidated capitalization includes 100% of the debt of the consolidated entities even though in many cases we only own a portion of the entity and therefore our pro-rata exposure to this debt is much lower. In other cases, this basis of presentation excludes the debt of partially owned entities that are accounted for following the equity method, such as our investments in Canary Wharf and several of our infrastructure businesses.

Core liquidity represents the amount of cash, financial assets and undrawn credit lines at the Corporation, listed affiliates and directly held investments. We use core liquidity as a key measure of our ability to fund future transactions and capitalize quickly on opportunities as they arise. Our core liquidity also allows us to backstop the transactions of our various businesses as necessary and fund the development of new activities that are not yet suitable for our investors.

Total liquidity represents the sum of core liquidity and uncalled private fund commitments and is used to pursue new transactions.

Corporate capitalization represents the amount of debt issued by the Corporation, accounts payable and deferred tax liability in our Corporate segment as well as our issued and outstanding common and preferred shares.

Distributions (current rate) represents the distributions that we would receive during the next twelve months based on the current distribution rates of the investments that we currently hold. The dividends from our listed investments are calculated by multiplying the number of shares held by the most recently announced distribution policy. The yield on cash and financial assets portfolio is equal to 8% of the weighted-average balance of the last four quarters of our corporate cash and financial assets. Distributions on our unlisted investments are calculated based on the quarterly distributions received in the most recent fiscal year.

Economic ownership interest represents the company’s proportionate equity interest in our listed partnerships which can include redemption-exchange units (“REUs”), Class A limited partnership units, special limited partnership units and general partnership units in each subsidiary, where applicable, as well as any units or shares issued in subsidiaries that are exchangeable for units in our listed partnerships (“exchange units”). REUs and exchange units share the same economic attributes as the Class A limited partnership units in all respects except for our redemption right, which the listed partnership can satisfy through the issuance of Class A limited partnership units. The REUs, general partnership units and exchange units participate in earnings and distributions on a per unit basis equivalent to the per unit participation of the Class A limited partnership units of the subsidiary.

Fee-bearing capital represents the capital committed, pledged or invested in the listed affiliates, private funds and public securities that we manage which entitles us to earn fee revenues. Fee-bearing capital includes both called (“invested”) and uncalled (“pledged” or “committed”) amounts. When reconciling period amounts, we utilize the following definitions:

- **Inflows** include capital commitments and contributions to our private and public securities funds and equity issuances in our listed affiliates.
- **Outflows** represent distributions and redemptions of capital from within the public securities capital.
- **Distributions** represent quarterly distributions from listed affiliates as well as returns of committed capital (excluding market valuation adjustments), redemptions and expiry of uncalled commitments within our private funds.
- **Market valuation** includes gains (losses) on portfolio investments, listed affiliates and public securities based on market prices.
- **Other** includes changes in net non-recourse leverage included in the determination of listed affiliate capitalization and the impact of foreign exchange fluctuations on non-U.S. dollar commitments.

Fee-related earnings is an IFRS measure that is comprised of fee revenues less direct costs associated with earning those fees, which include employee expenses and professional fees as well as business related technology costs, other shared services and taxes. We use this measure to provide additional insight into the operating profitability of our asset management activities.

Fee revenues is an IFRS measure and includes base management fees, incentive distributions, performance fees and transaction fees presented within our Asset Management segment. Many of these items do not appear in consolidated revenues because they are earned from consolidated entities and are eliminated on consolidation.

Funds from operations (“FFO”) is a key measure of our financial performance. We use FFO to assess operating results and the performance of our businesses on a segmented basis. While we use segment FFO as our segment measure of profit and loss (see Note 3 to our consolidated financial statements), the sum of FFO for all our segments, or total FFO, is a non-IFRS measure. The following table reconciles total FFO to net income:

	Three Months Ended				Nine Months Ended			
	Total		Per Share		Total		Per Share	
	2020	2019	2020	2019	2020	2019	2020	2019
FOR THE PERIODS ENDED SEP. 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)								
Net income (loss)	\$ 542	\$ 1,756	\$ 0.34	\$ 1.17	\$ (1,108)	\$ 3,716	\$ (0.75)	\$ 2.46
Financial statement components not included in FFO								
Equity accounted fair value changes and other non-FFO items	602	180	0.39	0.12	2,793	52	1.85	0.04
Fair value changes	31	(394)	0.02	(0.27)	1,598	835	1.06	0.57
Depreciation and amortization	1,470	1,299	0.96	0.88	4,255	3,567	2.81	2.43
Deferred income taxes	21	(464)	0.01	(0.32)	93	(408)	0.06	(0.28)
Realized disposition gains recorded as fair value changes or equity	161	190	0.10	0.14	723	429	0.48	0.29
Non-controlling interest in FFO	(1,788)	(1,741)	(1.17)	(1.18)	(5,270)	(5,206)	(3.58)	(3.55)
Total FFO	\$ 1,039	\$ 826	\$ 0.65	\$ 0.54	\$ 3,084	\$ 2,985	\$ 1.93	\$ 1.96

We use FFO to assess our performance as an asset manager and separately as an investor in our assets. FFO includes the fees that we earn from managing capital as well as our share of revenues earned and costs incurred within our operations, which include interest expense and other costs. Specifically, FFO includes the impact of contracts that we enter into to generate revenue, including asset management agreements, power sales agreements, contracts that our operating businesses enter into such as leases and take or pay contracts and sales of inventory. FFO also includes the impact of changes in borrowings or the cost of borrowings as well as other costs incurred to operate our business.

We use realized disposition gains and losses within FFO in order to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in equity and not otherwise reflected in current period FFO, and believe it is useful to investors to better understand variances between reporting periods. We exclude depreciation and amortization from FFO as we believe that the value of most of our assets typically increases over time, provided we make the necessary maintenance expenditures, the timing and magnitude of which may differ from the amount of depreciation recorded in any given period. In addition, the depreciated cost base of our assets is reflected in the ultimate realized disposition gain or loss on disposal. As noted above, unrealized fair value changes are excluded from FFO until the period in which the asset is sold. We also exclude deferred income taxes from FFO because the vast majority of the company's deferred income tax assets and liabilities are a result of the revaluation of our assets under IFRS.

Our definition of FFO may differ from the definition used by other organizations, as well as the definition of FFO used by the Real Property Association of Canada ("REALPAC") and the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"), in part because the NAREIT definition is based on U.S. GAAP, as opposed to IFRS. The key differences between our definition of FFO and the determination of FFO by REALPAC and/or NAREIT are that we include the following: realized disposition gains or losses and cash taxes payable or receivable on those gains or losses, if any; foreign exchange gains or losses on monetary items not forming part of our net investment in foreign operations; and foreign exchange gains or losses on the sale of an investment in a foreign operation. We do not use FFO as a measure of cash generated from our operations.

Incentive distributions is an IFRS measure that is determined by contractual arrangements; incentive distributions are paid to us by BPY, BEP and BIP and represent a portion of distributions paid by listed affiliates above a predetermined hurdle. Incentive distributions are accrued on the record date of the associated distributions of the entity.

A summary of our distribution hurdles and current distribution rates is as follows:

AS AT SEP. 30, 2020	Current Distribution Rate ¹	Distribution Hurdles (per unit) ²	Incentive Distributions
Brookfield Infrastructure (BIP) ³	\$ 1.94	\$ 0.73 / \$ 0.79	15% / 25%
Brookfield Renewable (BEP) ⁴	1.74	1.20 / 1.35	15% / 25%
Brookfield Property (BPY) ⁵	1.33	1.10 / 1.20	15% / 25%

1. Current rate based on most recently announced distribution rates.
2. Incentive distributions equate to 18% and 33% of limited partner distribution increases over the first and second hurdles, respectively.
3. Incentive distributions from Brookfield Infrastructure are earned on distributions made by BIP and BIPC.
4. Incentive distributions from Brookfield Renewable are earned on distributions made by BEP and BEPC.
5. Incentive distributions from Brookfield Property are earned on distributions made by BPY and BPYU.

Invested capital consists of investments in our listed affiliates, other listed securities, unlisted investments and corporate working capital. Our invested capital provides us with FFO and cash distributions.

Invested capital, net consists of invested capital and leverage.

Leverage represents the amount of corporate borrowings and perpetual preferred shares held by the company.

Long-term average (“LTA”) generation is used in our Renewable Power segment and is determined based on expected electrical generation from its assets in commercial operation during the year. For assets acquired or reaching commercial operation during the year, LTA generation is calculated from the acquisition or commercial operation date. In Brazil, assured generation levels are used as a proxy for LTA. We compare LTA generation to actual generation levels to assess the impact on revenues and FFO of hydrology, wind generation levels and irradiance, which vary from one period to the next.

Performance fees is an IFRS measure. Performance fees are paid to us when we exceed predetermined investment returns within BBU and on certain public securities portfolios. BBU performance fees are accrued quarterly based on the volume-weighted average increase in BBU unit price over the previous threshold, whereas performance fees within public securities funds are typically determined on an annual basis. Performance fees are not subject to clawback.

Proportionate basis generation is used in our Renewable Power segment to describe the total amount of power generated by facilities held by BEP, at BEP’s respective economic ownership interest percentage.

Realized disposition gains/losses is a component of FFO and includes gains or losses arising from transactions during the reporting period together with any fair value changes and revaluation surplus recorded in prior periods, presented net of cash taxes payable or receivable. Realized disposition gains include amounts that are recorded in net income, other comprehensive income and as ownership changes in our consolidated statements of equity, and exclude amounts attributable to non-controlling interests unless otherwise noted. We use realized disposition gains/losses to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in prior periods and not otherwise reflected in current period FFO, and believe it is useful to investors to better understand variances between reporting periods.

Same-store or same-property represents the earnings contribution from assets or investments held throughout both the current and prior reporting period on a constant ownership basis. We utilize same-store analysis to illustrate the growth in earnings excluding the impact of acquisitions or dispositions.

Unrealized carried interest is the change in accumulated unrealized carried interest from prior period and represents the amount of carried interest generated during the period. We use this measure to provide insight into the value our investments have created in the period.

Accumulated unrealized carried interest is based on carried interest that would be receivable under the contractual formula at the period end date as if a fund was liquidated and all investments had been monetized at the values recorded on that date. We use this measure to provide insight into our potential to realize carried interest in the future. Details of components of our accumulated unrealized carried interest are included in the definition of unrealized carried interest below.

Accumulated unrealized carried interest, net is after direct costs, which include employee expenses and taxes.

The following table identifies the inputs of accumulated unrealized carried interest to arrive at unrealized carried interest generated in the period:

AS AT SEP. 30 (MILLIONS)	Adjusted Carry Eligible Capital ¹	Adjusted Multiple of Capital ²	Fund Target Carried Interest ³	Current Carried Interest ⁴
2020				
Real Estate.....	\$ 8,911	1.5x	20%	16%
Infrastructure.....	20,377	1.4x	20%	17%
Private Equity.....	2,243	2.9x	20%	18%
	<u>\$ 31,531</u>			
2019				
Real Estate.....	\$ 8,119	1.7x	20%	17%
Infrastructure.....	13,261	1.5x	20%	16%
Private Equity.....	2,364	2.7x	20%	16%
	<u>\$ 23,744</u>			

1. Excludes uncalled private fund commitments, co-investment capital and funds that have not met their preferred return.
2. Adjusted Multiple of Capital represents the ratio of total distributions plus estimates of remaining value to the equity invested, and reflects performance net of fund management fees and expenses, before carried interest. Our core, credit and value add funds pay management fees of 0.90-1.50% and our opportunistic and private equity funds pay fees of 1.50-2.00%. Funds typically incur fund expenses of approximately 0.35% of carry eligible capital annually.
3. Fund target carried interest percentage is the target carry average of the funds within adjusted carry eligible capital as at each period end.
4. When a fund has achieved its preferred return, we earn an accelerated percentage of the additional fund profit until we have earned the fund target carried interest percentage. Funds in their early stage of earning carry will not yet have earned the full percentage of total fund profit to which we are entitled.

The following table summarizes the unrealized carried interest generated in the current and prior year periods:

(MILLIONS)	Accumulated Unrealized Carried Interest			Accumulated Unrealized Carried Interest		
	Sep. 30, 2020	Jun. 30, 2020	Change	Sep. 30, 2019	Jun. 30, 2019	Change
Real Estate.....	\$ 751	\$ 640	\$ 111	\$ 1,035	\$ 906	\$ 129
Infrastructure.....	1,288	1,095	193	1,096	992	104
Private Equity.....	752	552	200	647	639	8
Oaktree.....	728	645	83	824	—	824
Accumulated unrealized carried interest.....	<u>3,519</u>	2,932	587	3,602	2,537	1,065
Less: associated expenses ¹	<u>(1,238)</u>	(1,032)	(206)	(1,244)	(765)	(479)
Accumulated unrealized carry, net.....	<u>\$ 2,281</u>	<u>\$ 1,900</u>	381	<u>\$ 2,358</u>	<u>\$ 1,772</u>	586
Add: realized carried interest, net.....			27			39
Unrealized carried interest, net.....			<u>\$ 408</u>			<u>\$ 625</u>

1. Carried interest generated is subject to taxes and long-term incentive expenses to investment professionals. These expenses are typically 30-35% of carried interest generated.