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Hedge Fund Confidential

The "Buy Side" Special Situations Report
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BAM: The Sum of Its Parts is Adding Up

Brookfield Asset Management is a Canadian powerhouse of a holding company with international subsidiaries in commercial and residential property, electrical utilities, timberlands and fund management. Over the past five years, the company's net income has appreciated at a 40% annual rate, and assets have more than doubled, as the company management has created consistent growth in shareholders value through insightful purchases and management of under priced assets.

NYSE: BAM
Market Cap: $22.21 Bil.
Shares Outstanding: 53.6 Mil.
Current Share Price: $38.06
12-Month Target: $50.00

Yet, a classic sum of the parts valuation shows that the company's current market capitalization is well below its true enterprise value. The share price has pulled back 20% from its high amidst the sell off in the broad indexes and concerns about the continuing crisis in the sub prime credit markets, presenting a rare buying opportunity at present levels.

- The current crisis in the credit markets has impacted the shares of Brookfield's home building stocks, as well as the shares of the parent company. Yet, their total exposure to the sub prime market is limited, as 90% of their real estate holdings consist of commercial property. The company's real estate division is diversified internationally to provide a cushion from a domestic economic slowdown.

- Brookfield owns some of the lowest cost electric energy producing utilities in US, Canada and Brazil. The expiration of the Public Utilities Holding Companies Act will likely increase the value of their assets, particularly their hydroelectric plants. Recent purchases of hydroelectric plants have cost as much as three million dollars per megawatt, nearly tripling from a few years ago.

- The US is facing a potential electricity crunch, as aging utility infrastructure is in desperate need of upgrading. Spare generation capacity is expected to drop below 15% by 2009. The myriad of private equity utility buyouts will exacerbate this electricity shortage, as buyout firms have not been investing in power plants In addition, hydroelectric utilities will become more valuable as fuel prices increase, as they do not rely on fossil fuel to operate.

- The assets under management at Brookfield's equity and fixed income funds have more than doubled in the last 18 months, and net income increased over 70% for the first quarter of 2007, compared with last year. Cash flow from the company's operations increased 65% from the year ago quarter, with an increase in earnings from each subsidiary.

- The financial community often under prices large conglomerates such as Brookfield in relation to their underlying assets. As the company continues its metamorphosis to a more focused holding company with three major divisions, the share price should continue to benefit. In addition, investors at these levels will receive the Brookfield Infrastructure Partners spin off as a valuable dividend.

BAM At a Glance in 2007

Brookfield's management announced plans to spin off 60% of Brookfield Infrastructure Partners to Class A shareholders during the third quarter of 2007, pending regulatory approval. The spin off is part of an ongoing plan to metamorphose from a diversified international conglomerate to a highly focused holding company intent on increasing shareholder value. By spinning off Brookfield Infrastructure Partners, the parent company will enable investors to participate in the ownership of high quality infrastructure assets operated by Brookfield Management. Brookfield Infrastructure Partners will create a well financed public vehicle for future acquisitions, as well as a mechanism to unlock the valuation of their electricity transmission, timberland and transportation infrastructure assets.

History

Brookfield Asset Management evolved from the purchase of a Brazilian power business by a Canadian conglomerate originally founded by the Bronfman family. Brazilian Power and Light was incorporated in Toronto in 1899. Edper Investments Limited, incorporated in Montreal in 1954, was owned by Peter, Edward, and Mildred Mona Bronfman. From 1954 to 1968, Edper was involved in real estate, financial, and industrial ventures, including the foundation and development of Seagram Company Ltd.

After Brazilian Traction, Light and Power Company sold off its telephone operations to the Brazilian government, the company changed its name to Brascan. In 1979, Edper bought controlling interest in Brascan, which included Great Lakes Power Company and its hydroelectric facilities, which provided power to northern Ontario, and the precursor to Brookfield became Brascan . During the 1980's Brascan continued to diversify into the areas of real estate, beer, oil, mining, forest products and insurance. At its peak, the company comprised one third of the value of the Toronto Stock Exchange.

By the early 1990s, Brascan had developed into a massive conglomerate of more than 150 companies, with assets worth $120 billion and 100,000 employees. Having completed its IPO in the early 1980s, the share price was stagnant throughout most of the following two decades, as the performance of the highly diversified Canadian conglomerate did not attract American investors.

The early 1990s were a difficult period for Brascan as the North American economy slipped into a recession, and many of their real estate linked divisions were hit hard. During this period, the company announced a restructuring to decrease family ownership, reduce debt, and open the door for greater management control and potential shareholder appreciation. In 1993, Brascan sold off assets worth over $1.9 billion to begin the process of eliminating debt.

A Fresh Start, New CEO and NYSE Listing in 2000

Following its listing on the NYSE in 2000, the share price really began its trajectory from 2000 to 2007, as the company started to attract American investors and increase its earnings and core value through several notable investments and a highly talented new management team. In of its more famous transactions in 1995, Brookfield sold its 20% holding in Noranda Falconbridge for a $1.35 billion gain. Bruce Flatt, the former CEO of Brookfield Properties Corp, took over in 2002 as CEO of Brascan and demonstrated his insight and expertise by making several purchases during this period which have dramatically increased the value of the company's core portfolio. Subsequent to his arrival, the company changed its name to Brookfield Asset Management.

The contrarian approach taken by Brookfield Asset Management has served the company and its shareholders well over the last decade. Some of the more notable investments include its spin off and subsequent sale of Canadian Hunter, and a purchase of property at Three World Financial Center subsequent to the terrorist attacks of 2002.

In 1998, as oil prices reached a multi decade low, Brookfield brought public Canadian Hunter Ltd, an oil company which was part of Noranda. By 2000, as oil prices began to ascend, Brookfield's stake was sold for a gain of $619 million, a 68% return. Following the terrorist attacks of 2002, Brookfield, under the direction of Mr. Flatt, bought 1.2 million square feet of Three World Financial Center when most of the financial community had skepticism about the area's continuing commercial viability. Five years later, a majority of the property is leased.

In May 2003, Brookfield bought a 9% interest in Canary Wharf, after the share price had lost nearly 70% of its value since its IPO. Management continued to increase their stake in the property to its current ownership of 34%. While Canary Wharf was once a ramshackle dock area, it has developed into prime real estate in London, which is challenging New York as the world financial center. Several prominent financial institutions have signed long term leases, and the area is becoming increasingly accessible to the rest of the city through newly built public transportation.

Brookfield Has Become One of the World's Largest and Most Powerful Landlords

Brookfield owns over170 million square feet of office properties in the US and Canada, as well as smaller residential real estate holdings in North America. The majority of its office businesses are operated through Brookfield Properties Corp (BPO), of which the parent company has a 50% ownership. The book value of these properties is listed as $17 billion on the balance sheet. This is using a carrying cost of $265 per square foot, significantly less than the true replacement cost of the properties.

Locations and Size of Properties Owned by Brookfield

LOCATION	SQUARE FEET
<u>United States</u>	
New York	24,216,000 (including one, two, three and four World Financial Center, 245 Park Avenue, 300 Madison Avenue)
Boston	2,163,000 (including 53 and 75 State Street)
Washington DC	9,000,000
Houston	10,425,000
Los Angeles	10,672,000
Denver	3,095,000
Minneapolis	3,008,000

LOCATION	SQUARE FEET
Canada	
Toronto	14,442,000
Calgary	9,445,000
Ottowa	3,280,000
London	14,350,000
Germany	147,000
Brazil	4,842,000

The replacement value of Brookfield's real estate portfolio could be estimated using several methods. A simple way would be to use an estimate of what property is selling for in each of these markets. For example using a range of $1100 per square foot for prime Manhattan real estate would value the New York property alone at $26 billion. Yet, a sale of property at 450 Park Ave in NY for $1589 per square foot indicates that Manhattan real estate could sell for far more than most estimates. Prime real estate in Boston sells for around $650 per square foot, which would value their Boston holdings at $ 1.3 billion.

The real estate market in London has been appreciating faster than almost anywhere else, as London's stature as a leading global financial center is rivaling that of Manhattan. London's square foot real estate is priced at twice the most expensive property in the US, and is partially attributed to the strength in the pound.

In July of 2007, a 42 story building that was Citigroup's base in Canary Wharf London was sold to an investor for $2 billion, or $1635 per square foot, which indicates how highly valued the area has become. Using this square foot value for BAM's 14,350,000 square feet in Canary Wharf would yield a value which dwarfs Brookfield Asset Management's entire market capitalization.

The replacement value of the properties in Brookfield's portfolio could be estimated as high as $100 billion, depending on price per square foot calculations.

Another method of valuing these properties is through comparison to the other publicly traded commercial property operators. Boston Properties, Kimco Realty Corp, Vornado Realty Trust, Duke Realty and Equity Office Properties trade at an averaged Enterprise value/EBITDA of 18.6.

	MARKET CAP (billions)	ENTERPRISE VALUE (billions)	OPERATING CASH FLOW (ebita)	EV/EBITA
KIM	10.8	14.8	587m	25
VNO	16.2	28.8	1.64B	17.5
DRE	4.6	9.5	272m	17
BXP	11.9	15.6	583m	17
BPO	9.1	20.9	200m	16.3
				MEAN 18.6

Brookfield Office Properties' second quarter net income increased 58% to $79 million or $326 million on an annualized basis. Yet, Brookfield's commercial property division is undervalued compared to its peers in the industry, and the shares of BPO have sold off amidst the overall weakness related to housing. This is a particularly advantageous time for investors in the parent company, as their commercial property segment is particularly well insulated from the subprime troubles which have permeated the industry.

In addition, their commercial property debt is recourse only to the specific properties, reducing the overall risk to the companies.

Brookfield Asset Management's commercial property division reported Q2 07 operating cash flow of $160 million, annualized $640 million. Using the mean 18.6 Enterprise value over EBITDA of the above publicly traded commercial property owners yields an enterprise value of $11.904 billion.

The residential housing segment of Brookfield Asset Management, Brookfield Homes Corp, is similarly undervalued relative to its peers in the industry. Yet, the company has a distinct advantage over the other residential home builders, as the downturn in the domestic housing segment has been partially offset by the upswing in Canadian housing, which has increased 50% over last year.

	MARKET CAP	ENTERPRISE VALUE	EBITA	EV/EBITDA
TOL	3.3b	4.87b	554m	8.7
LEN	4.5b	7.74b	88m	87
DHI	4.76b	9.96b	1.3b	7.3
PHM	5.12	9.3	-	na
BHS	527m	1.8b	na	na

There has been widespread volatility in the mortgage and home builders markets, and multiple bankruptcies of mortgage companies and some home builders. Yet, using a value of EV/ebitda of 7 for Brookfield Asset Management residential property segment would result in an enterprise value of $2.18 billion using annualized second quarter cash flow of $312 million.

Additional International Property Expansion

During the second quarter of 2007, Brookfield made a tender offer to Multiplex to acquire 100% of the shares. If this transaction is completed, it will add approximately $7.5 billion of retail and office space in Australia to the company's portfolio of properties.

Brookfield has been investing in property stocks in other areas in Asia, which are trading at a discount to the underlying intrinsic value. The company management believes that these markets will continue to mature, and that the stocks will begin to trade in line with their underlying value.

Hydroelectric Power is a Key Foundation of Brookfield's Strategy and Portfolio

Brookfield's management team has been investing heavily in hydroelectric power, complementing its history as one of the first owners of a major hydroelectric plant in North America. Having had the foresight to invest heavily in this sector when other market participants were withholding funds, the company currently owns 140 power generating stations, with a capacity of 3798 megawatts. The hydroelectric plants contribute 2794 megawatts, with wind and other sources of energy contributing the rest. The majority of the plants are located in the US and Canada, with an increasing presence in Brazil. Brookfield management announced their intentions to continue to allocate capital to this sector.

Two new hydroelectric plants in New York and Maine were acquired during Feb 2006 totaling 23 megawatts. The company is also the owner of 5 new projects in Brazil totaling 95 megawatts. And Brookfield purchased a Minnesota plant in 2007 with 30megawatts of power. Its most recent purchase in July 2007 included 45 megawatts in Brazil with 188 megawatt pipeline of Greenfield hydro projects.

The Repeal of the Public Utilities Holding Company Act Has Ramifications for the domestic utility industry.

This act was passed in 1935 in response to the collapse of public utilities following the Great Depression. This limited the operation of public utilities to a specified state (or geographic region) and prevented publicly regulated utilities from merging with or engaging in unrelated businesses. The bill expired in 2006, and electric utilities have begun to command higher prices in the private and public equity sector.

The myriad of private equity utility buyouts may precipitate a domestic electricity shortage, as buyout firms have not been investing in power plants.

It is difficult to value hydroelectric plants, since they can not be fairly compared to electric plants based on fossil fuel, particularly in an environment of increasing gas and oil prices. A hydroelectric plant requires the correct size dam, a significant amount of land, as well as approval from the environmental authorities. Only 2400 of the 8000 dams in the US are used for hydroelectric power.

These scarce assets with high barriers to entry do not trade often. However, purchases of hydroelectric plants by Brookfield and others have cost in the range of $ .91 million per megawatt to $3 million per megawatt. The most recent purchases in the second quarter of 2006 and the second quarter of 2007 cost $3.7 million and $3 million per megawatt.

BAM HYDROELECTRIC PLANT PURCHASES

YEAR	ASSET	VALUE (millions)	VALUE PER/MW (millions)
Jan 05	4 plants in PA, ME, NY 80 MW	$73	.91
Sep 04	71 plants NY 779 mw	$900	1.15
1Q 05	2 plants MA NY 23mw	$31	1.35
2Q 06	2 plants ME 39 mw	$146	3.74
July 07	11 stations Brazil 45mw	$150	3.3

A price of $3 million per megawatt would value Brookfield's energy generating assets at approximately $11.24 billion, significantly higher than the value given on its balance sheet. A more conservative estimate of $2 million per megawatt, the average of its last five purchases, would value the portfolio at approximately $7.8 billion.

Hydroelectric plants Replacement Cost Value

Another way of finding a value for hydroelectric plants is to determine their replacement cost. The average construction cost for domestic and international hydroelectric plants has been $1 to $1.3 million per megawatt over the last several years. This would give Brookfield's hydroelectric plants a replacement cost of approximately $4.9 billion.

LOCATION	MW HYDROELECTRIC POWER	ESTIMATED COST CONSTRUCTION (millions)	COST PER/MW
Medellin, Columbia	660	900	1.36
Karkamis, Turkey	180	175	1.03
Nepal, India	9.8	17722	1.7
Lake Elsinore, Nevada	500	1300	2.60
Camanche Dam, California	10	13.5	1.35

For valuation purposes, an average of $2 million per megawatt purchase price and a 1.2 million per megawatt replacement cost, a conservative estimate of the enterprise value of Brookfield's hydroelectric plants would be $6.35 billion.

The US is facing a potential electricity crunch which could drive up the prices of valuable hydroelectric plants by multiples of their current selling prices!

According to Cambridge Energy Research Associates, the electricity sector needs $900 billion of investment to upgrade the ageing infrastructure over the next fifteen years. Spare generation capacity could drop below 15%, which is the minimum required to avoid blackouts by 2009. Long term electricity futures have more than doubled in the last two years, as traders anticipate that the necessary upgrades may not be occur quickly enough to meet increasing demands. Building plants takes time and a huge commitment of capital, which utilities may be reluctant to face in the midst of a burgeoning credit crunch.

Fund Management: The Fastest Growing Company Segment

While Brookfield's property and electric utility divisions have always been the largest contributors to its revenues and earnings, the growth rate exhibited by its mutual fund subdivision has surpassed the other business segments. The specialty investment funds division includes real estate finance, public securities, and bridge lending funds. Assets under management increased tenfold from 2.85 billion in December 2001 to $28.7 billion in 2007, largely attributed to the purchase of Hyperion Asset management in 2005.

Income more than doubled in the quarter over quarter period from $54 million in Q1 2006 to $132 million in the Q1 2007.

For valuation purposes, Brookfield's fund management segment can be compared to other publicly traded mutual funds stocks, such as Franklin Resources (BEN), Trow Price (TROW), Eaton Vance (EV) Affiliated Managers(AMG), and Waddell & Reed.(WDR). These companies have wide variations in their values of EV/operating cash flow, but their EV/revenue figures have less dispersion.

	EV	OP CASH FLOW	REVENUE	EV/OP CASH	EV/REVENUE
Eaton Vance	5.2b	219m	947m	25	5.49
Affiliated Managers	4.3b	588m	1.25b	7	3.47
TROW	12.5b	1b	2b	14	6.5
BEN	31b	2.3b	5.8b	13.8	5
Waddell Read	1.5b	209m	755m	7	2.51
			MEAN	**13**	**4.63**

Using Brookfield's annualized second quarter operating cash flow of $88 million and an enterprise value/cash flow of 13 would give a value of $1.14 billion for the mutual fund division. Using their annualized Q2 revenue of $454 million and a mean EV/revenue of 4.63 yields an enterprise value of $2.08 billion.

An average of these two figures would translate into an enterprise value of $1.615 billion for Brookfield's asset management division.

Timberlands

Brookfield owns of 2.5 million acres of Timberlands in Canada, Brazil and most recently the US. This has a book value of . During the second quarter of 2007, the company completed a purchase of 600,000 acres of high quality timberland in the Northwestern US. Brookfield is one of the top five timberland owners and operators in North America. The timberlands assets were estimated at $1.224 billion on their balance sheet.

Infrastructure Potential to be Clarified by Spin-off

BAM owns over 10000 kilometers of transmission lines in Northern Ontario, Brazil and Chile with an estimated book value of $3.165 billion. The timberland and infrastructure holdings will be spun off with their Brookfield Infrastructure Partners secondary, pending regulatory approval. Since these assets are rare among publicly traded stocks, the BIP should be able to clarify their intrinsic value.

Sum of Its Parts: Far Greater Than the Trading Value, with More to Come

	Enterprise Value
Commercial property	$12.127 billion
Residential property	$1.85 billion
Hydroelectric power	$6.35 billion
Fund management	$1.615 billion
Timberlands (book value)	$1.224 billion
Transmission infrastructure (book value)	$3.265 billion

Total: $26.76 billion

Less corporate debt, capital securities, preferred stock (3.660 billion):	$23.36billion
Plus cash and other financial assets:	$2.24 billion

Total: $25.6 billion

Current market capitalization: $19.7 billion

In sum, Brookfield Asset management's shares are trading at a 41% discount to their true equity value, which is approximately $50.00 per share. As investors have sold residential and office property shares, mortgage companies and REITS in a panicked frenzy as bad news continues to plague the sub prime mortgage sector, Brookfield's assets continue to appreciate in value. The diversified conglomerate structure has been out of fashion for the last decade on Wall Street, which is why the spin off of Brookfield Infrastructure Partners will be a potential catalyst for the markets to value their transmission and timberlands assets. Investors who are able to buy at these levels are likely to find the valuable assets and properties run by Brookfield's insightful management team worth considerably more in the future. Hence, our 12 month price target of $50 per share would yield almost a 40% return from current levels.