



Brookfield Asset Management Inc.: A Value Investor Providing Instant Diversification

Description

Brookfield Asset Management Inc. (TSX:BAM.A)([NYSE:BAM](#)) is one of those companies that follows a value investing approach to building wealth while also providing significant diversification for investors. This creates a unique opportunity for investors to gain strong returns on investment.

All told, Brookfield Asset Management has approximately \$250 billion in assets under management with 62% of it in real estate, 13% in renewable power, 13% in infrastructure, 8% in private equity, and then 4% in public securities. It has \$110 billion categorized as “fee-bearing capital,” which means that it generates long-term fees from managing investors’ funds. Brookfield Asset Management earned \$712 million in fee-related earnings in 2016 compared to \$496 million in 2015 — 44% growth.

Of the \$110 billion, \$31 billion is invested in its listed entities. These are **Brookfield Property Partners L.P.**, **Brookfield Renewable Energy Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)), **Brookfield Infrastructure Partners LP**, and **Brookfield Business Partners L.P.** As the names imply, these are publicly traded subsidiaries that focus on specific types of assets: real estate, renewable energy, infrastructure, etc.

These generate \$1.3 billion in annualized cash flow, which flows back to Brookfield Asset Management in fees and dividends, since it owns shares of the partnerships. But here’s why I like this strategy: Brookfield Renewable Energy, for example, is a value investor in renewable sources. Brookfield Asset Management can use its financial resources, coupled with its subsidiary’s resources, to buy major renewable projects. Brookfield Renewable then manages the projects, allowing the company to eke out stronger cash flows.

Here's an example. In March, it was announced that Brookfield Asset Management would acquire **TerraForm Global** and take over 51% of **TerraForm Power**. Brookfield Asset Management contributed US\$787 million to the deal, and Brookfield Renewable contributed US\$500 million. The logical decision at this point would be for Brookfield Renewable to manage the assets, which would be a big boost to the subsidiary. But it's also a boost to Brookfield Asset Management, since it will generate strong cash flow from the project.

Brookfield Asset Management operates this way with all of its subsidiaries, especially when the projects are large. This strategy has been working really well. Although net income in 2016 was US\$3.3 billion — down from US\$4.7 billion in 2015 — its funds from operations jumped to US\$3.24 billion from US\$2.56 billion. This is a demonstration of its cash flow-generating projects becoming a bigger part of the business.

If you had bought Brookfield Asset Management five years ago, your returns would be over 130%. The **S&P/TSX Composite Index** would have only returned 25%. You get diversification with both, but Brookfield Asset Management is actively growing returns for investors and the S&P Composite is truly passive.

Here's how I would invest in Brookfield: I'd buy all the subsidiaries. Each of the partnerships generate incredible cash flow, which makes for strong dividends. And Brookfield Asset Management generates large fees each year, putting it in a great position to continue growing. With its fundraising ability coupled with its subsidiaries' value investments in strong niches, the Brookfield family is a great investment play.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:BN (Brookfield Corporation)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:BN (Brookfield)

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Date

2025/08/17

Date Created

2017/04/28

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