



Brookfield Asset Management's (TSX:BAM.A) Growth Strategy Is Inspiring Others

Description

Brookfield Asset Management (TSX:BAM.A)([NYSE:BAM](#)) has been one of the best-performing stocks over the past decade. Investors who bet on the stock at the end of the 2008 financial crisis have more than sextupled their capital over 10 years.

Along the way, the company has been a steady dividend payer as well. While the current yield, at 1.16%, is far from impressive, the company has managed to sustain its payout for over two decades and across two major market corrections.

That sort of robustness has made Brookfield a favourite among [passive-income-seeking investors](#). Now, the company's unique strategy to generate wealth is inspiring other publicly traded companies to follow the same framework. Here's a closer look at Brookfield's secret sauce.

The Brookfield playbook

Brookfield's business model is as simple as it is clever — raise external capital as an asset manager and combine the float with internal capital to make investments. In other words, Brookfield gets *paid to hold* its float through money-management fees.

This is similar to the same way Warren Buffett gets paid to hold *insurance float* through regular premiums. The difference with Brookfield is that its various subsidiaries, focused on renewable energy, middle-market business financing, real estate, and infrastructure, are also publicly listed to enhance external capital.

The key to making this model work is to sustain better-than-average investment performance. The fact that Brookfield's assets under management have compounded at a rate of 16% over the last five years suggests this strategy is working out beautifully.

Replicating the model

With Brookfield's track record of success, it was only a matter of time before other asset managers decided to follow the same model. On its recent analyst call,

Tricon Capital Group's ([TSX:TCN](#)) management admitted that they were inspired by Brookfield's phenomenal growth:

"If you believe you've heard this before...[it's] because you have," said Gary Berman, Tricon's president and CEO while describing the company's game plan. "And there is another large Toronto-based asset manager that has done this extremely successfully. And we plan to replicate it — replicate this playbook."

At its core, Tricon is an asset manager with US\$7.3 billion (CAD\$9.6 billion) under management. The company's various subsidiaries are focused on providing rental units for single families, equity financing for home builders and asset management services for property investors.

The fees generated from managing third-party capital is used to cover the company's corporate overheads.

Has the model been working for Tricon, too? Well, the stock is up nearly 40% over the past three years and book value per share has compounded at a rate of [20% since 2012](#). The team now wants to raise external capital by another 15% over the next three years to keep growing.

As a lesser-known stock, Tricon seems to be more reasonably valued than Brookfield. The current stock price is only nine times annual earnings and less than the book value per share.

Bottom line

Managing external capital to generate fees and enhance investment performance now seems like a proven strategy for wealth creation. Brookfield has had the most success with this framework, but others like Tricon are starting to replicate it successfully.

Both stocks should probably be on your radar if you're seeking steady income growth.

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