

# Keynote

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Brookfield Asset Management

## Beating expectations

At \$14bn, Brookfield's third fund broke an industry record for size. Infrastructure head Sam Pollock, renewable energy CEO Sachin Shah and managing partner Justin Beber tell **Joel Kranc** how Brookfield built up to this point and what's next







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**B**acked by the 100-year history of Brookfield Asset Management, Brookfield Infrastructure Partners, with the development and operational guidance of its chief executive Sam Pollock, has come a long way since its initial investments in 2005.

BIP’s claim to fame was recently cemented when it closed its latest Brookfield Infrastructure Fund III – a \$14 billion global infrastructure vehicle that is the largest private infrastructure fund ever raised. The fund not only hit its \$10 billion target

with about 120 institutional investors, but also exceeded it by a wide margin in less than a year on the road.

“As far as the fund size itself, it was established based on the amount of dealflow we thought we had, as well as the demand we saw in the market place,” notes Pollock. As a result, he adds, the ability to raise a large amount of capital was not too surprising. It was, however, speedy, with the fundraising completed in nine months.

The surprising elements of fundraising came from those who showed an interest. Pollock says some 50 percent of the capital were “re-ups” or existing clients in the United States and Canada. About 20 percent of the capital came from 20 Asian investors “and so the amount of capital we saw come out of that market was substantially higher than we’ve seen in the past”, he adds. And given the size and depth of Asian interest in the fund, Pollock predicts the next fund might see half or more than half of its capital coming from the region.

“What it says is that there is a lot of capital in that part of the world that is a little late in getting into infrastructure investing, so that’s one element of it.” Unlike North American or Australian institutional investors, for example, who are nearing their allocation targets, Asian investors have not yet hit those targets because they are new to it.

Chinese investors, in particular, are a huge market opening up to global managers as they look to broaden their allocations in the infrastructure space in a way that they had not done in the past.

And while that appeal lies in pent up demand, and a sound track record by Brookfield, Pollock says there are three elements of their business that investors keep coming back to.

The first is Brookfield’s focus as a value investor. “We’re not just participating in every auction that comes along,” he stresses. “We use our large network of professionals around the world in 19 offices to generate proprietary deals.”

The second element that appeals to investors is the global and diverse nature of Brookfield’s investments. Because it is



**Sam Pollock, CHIEF EXECUTIVE,  
BROOKFIELD INFRASTRUCTURE  
GROUP**

Pollock, who is also senior managing partner of Brookfield Asset Management, has led Brookfield's expansion into the infrastructure sector since 2006 and is responsible for the formulation and execution of the infrastructure group's operating and investment strategy. He joined BAM in 1994 and, prior to his current role, was broadly responsible for Brookfield's investment initiatives, acting as BAM's chief investment officer.



**Sachin Shah, CHIEF EXECUTIVE,  
BROOKFIELD RENEWABLE ENERGY  
GROUP**

Shah, who is also senior managing partner of Brookfield Asset Management, joined Brookfield in 2002 and has held a variety of senior finance roles across the organisation. In 2011, he became the chief financial officer of Brookfield Renewable Energy Partners and has been instrumental in growing the platform into a global business diversified across multiple technologies. Shah is also on the board of the Ryerson University Brookfield Institute for Innovation and Entrepreneurship.



**Justin Beber, MANAGING  
PARTNER, BROOKFIELD  
INFRASTRUCTURE GROUP**

Beber, who is also chief legal officer of the infrastructure group, has overall responsibility for corporate operations and is responsible for transaction execution. Prior to joining Brookfield in 2007, he was a partner with a leading Toronto-based business law firm, where his practice focused on corporate finance, mergers and acquisitions in the public capital markets and private equity transactions.

difficult to predict where geopolitical and regulatory risk can surface, Pollock notes, preaching diversity across regions and sectors is important to a successful track record.

Finally, investors like its operations-oriented approach. Brookfield has a long history of managing businesses and concerns itself not only with finances but active management as well. "That's what differentiates us from a lot of the competitors."

#### **THAT DEAL DOWN UNDER**

If it had not been eclipsed by the record-breaking BIF III, Asciano might be the investment those in the know would be talking about this past summer. Earlier this year, Brookfield, along with the British Columbia Investment Management Corporation and Qatar Investment Authority struck a partnership with Qube (a group including the Canada Pension Plan Investment Board and rival manager

Global Infrastructure Partners) as part of a A\$9.05 billion (\$6.8 billion; €6.1 billion) deal to take over the Australian rail, port and terminal operator.

The two groups had made rival bids for Asciano but set aside differences to work together and split the company between them.

"We recognised that there was a dislocation between the way the company was being valued in the public markets and the way we view assets on a private basis," says managing partner Justin Beber. "Asciano is comprised of high-quality assets in a geography that we know well and we were able to transact with the company in a manner that allowed us to realise that opportunity given the differences in valuation."

Ultimately, Brookfield was able to participate in an unusual scenario. Beber says none of the parties involved really had a clear path to a deal and the company

was an important sponsor of the conclusion of the transaction. The scale of the company allowed each of the partners to target assets they coveted the most within the deal. In Brookfield's case that meant the ports.

"It was only by combining the consortiums that we had the right mixture of investors who could take on the various businesses that the regulators would allow us to own," adds Pollock.

He also notes that despite initially being on competing sides of the same deal, many of the opposing investors had previous relationships with Brookfield from other investments. "Once we were brought together, it was relatively easy to make it work and we are pretty excited working with them."

The funding for this transaction is taking place out of the previous BIF II fund. Besides large-scale transactions,

Brookfield and others have had to contend with issues within infrastructure investing that have some in the industry talking. Specifically, those surrounding the high and sometimes hidden fees managers charge, as well as the length of time investors have to wait to retrieve their initial capital.

For its part, Brookfield says its fees are not hidden. Beber argues investors look for two things – alignment of interests and transparency. “We offer both and we found that our investors are willing to pay fair fees for the services we provide under that structure.”

Significant or larger investors that act as co-investors have the opportunity to “average down” their costs, in other words deploy more capital without fees increasing on the one investment being made. Beber

adds the firm is constantly deploying capital even as it is fundraising. Over the last 15 years, Brookfield has deployed some \$20 billion in infrastructure investments. With the recently closed BIF III, \$3 billion has already been deployed in countries such as Brazil, Peru, Colombia and the US, he adds.

#### CONTRARIAN AND PROUD

Some of that capital from BIF III already deployed exhibits what the firm likes to call a “contrarian view” to other investors (or the general consensus). One of the deals showcased to investors as fundraising was under way was the Colombian hydro business Isagen. “We acquired the largest government-owned utility in Colombia, in an environment where the government was looking to raise capital in the midst of a

very weak oil environment, low GDP, but in a country we believe has tremendous growth prospects and strong GDP outlook,” says Sachin Shah, senior managing partner and chief executive of Brookfield Renewable Energy Group.

He adds Brookfield can take a contrarian outlook on the country while still using its operating experience and ability to understand the market and take a long-term approach as a value investor.

That contrarian view appears to be working in Brazil as well. Brookfield has led the closing of a \$5.2 billion deal to purchase the gas pipeline unit – Nova Transportadora do Sudeste – from state-run oil company Petrobras.

We also understand Brookfield has signed a preliminary contract to buy Brazilian engineering conglomerate Grupo Odebrecht’s 70 percent stake in water and sewage group Odebrecht Ambiental.

In a country like Brazil, where Brookfield has been for more than 100 years, Pollock says the company has seen its economic cycles and has a great track record. “Whenever you can invest in an emerging market without having to pay a premium, we would say that’s a great time to invest and that’s the case [with Brazil] because most people are pessimistic,” says Pollock. Also, Brookfield’s view is that the country and companies

“We recognised that there was a dislocation between the way Asciano was being valued in the public markets and the way we view assets on a private basis” **Beber**



“We would say in some respects people remain more comfortable with closed-ended funds than some of the alternatives” Shah

will return to investment grade and are being purchased at great value.

Interestingly, adds Pollock, regulatory and geopolitical risk can occur in developed markets as well. Risks are often priced into emerging markets but not in developed economies, Brexit being the obvious example. Big premiums have been paid to park assets in so-called safe zones, says Pollock, but the worst thing you can do as an investor is try to predict where these issues may occur.

#### THE MARKET SPEAKS

BIF III, along with pent-up demand around the world (and especially Asia), has shown what large investors are looking for as they pursue long-term capital investments. Recently, though, a survey by EDHECInfra found that 82 percent of those surveyed feel private equity-type funds are “out of date”.

Brookfield, however, remains at the forefront of an industry that continues to grow. “Our experience is that there is a lot of demand for our flagship closed-ended fund and so it didn’t seem to us that we were getting that feedback and that certainly didn’t come across,” says Shah. “In fact, we would say, in some respects, people remain more comfortable with closed-ended funds than some of the alternatives.”



But Brookfield provides more opportunities to invest in infrastructure than other competitors, which is perhaps unique in the market. In addition to its flagship closed-ended fund, the manager also offers two publically listed vehicles – Brookfield Renewable Energy Partners and Brookfield Infrastructure Partners – which together contributed \$4 billion to BIF III. These have the same characteristics as a diversified open-ended fund, explains Shah.

Looking ahead, Pollock says Brookfield is talking to investors about opportunities for continuity vehicles. Although there is no agreed formula, conversations have begun about ways to keep assets for

longer, even though none of its unlisted vehicles are maturing funds yet.

Overall, Brookfield’s recent record-setting fund, along with its ability to make bets in regions others are staying away from, is allowing the firm to acquire assets that are still undervalued. Growth, diversity and 100 years of experience don’t hurt either. ■

Joel Kranc is director of KRANC COMMUNICATIONS in Toronto, focusing on business communications, content delivery and marketing strategies

## Brookfield Asset Management

Brookfield is a global asset manager focused on property, power and other infrastructure assets. It owns and manages one of the largest portfolios of both premier office properties and hydroelectric power generation facilities, as well as transmission and timberland operations, located in North America, South America and Europe.

Brookfield Infrastructure Partners (NYSE: BIP) was established as a listed vehicle to own and operate certain global infrastructure assets. It invests in electricity transmission systems, timberland and social infrastructure across the Americas, the UK and Australia. Two private funds it manages are the Chilean Transmission Fund and the Brookfield Americas Infrastructure Fund.

With Brookfield Infrastructure Fund III, also an unlisted vehicle, the Canadian firm has managed to raise the biggest infrastructure fund to date at \$14 billion. Raised in nine months, BIF III is also double the size of its predecessor, which had closed on \$7 billion in October 2013. ■

### APPETITE

|                 | North America | Western Europe | CEE | Middle East / Africa | Asia-Pacific | Latin America |
|-----------------|---------------|----------------|-----|----------------------|--------------|---------------|
| Unlisted Equity | ✓             | —              | —   | —                    | ✓            | —             |
| Listed Equity   | ✓             | —              | —   | —                    | ✓            | —             |
| Debt            | —             | —              | —   | —                    | —            | —             |

✓ Yes    X No    — N/A    Blank - No data available

### INSTITUTION TYPE

Asset Manager

### ASSETS / FUNDS UNDER MANAGEMENT

\$250 billion

### YEAR FOUNDED

1899

### Allocation breakdown

|                         |   |
|-------------------------|---|
| Unlisted infrastructure | ✓ |
| Listed infrastructure   | — |
| Direct infrastructure   | — |
| Debt                    | — |

### Investment opportunities

|   |   |
|---|---|
| Co-invests                                    | — |
| First time funds                              | — |
| Current number of GPs unlisted infrastructure | — |
| Unlisted Infrastructure                       | — |

### Geography

|                          |   |
|--------------------------|---|
| Global                   | — |
| North America            | ✓ |
| Western Europe           | — |
| Central & Eastern Europe | — |
| Middle East/Africa       | — |
| Asia-Pacific             | — |
| Latin America            | ✓ |

### Sector

|                       |   |
|-----------------------|---|
| Energy                | ✓ |
| Social infrastructure | ✓ |
| Transport             | ✓ |
| Renewables            | ✓ |
| Industrial            | — |
| Waste                 | — |
| Water                 | ✓ |