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Which Brookfield should you own? Here's a simple solution

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The Brookfield name has been attached to a head-spinning number of deals over the past year, either through Brookfield Asset Management Inc. or one of the alternative asset manager's four publicly traded operations. How should investors approach this multi-headed behemoth?

To name several deals, Brookfield Business Partners LP took a controlling stake in Genworth MI Capital Inc., the Canadian mortgage insurer, in a $2.4-billion move earlier this month. Brookfield Infrastructure Partners LP teamed up with sovereign wealth fund GIC in a US$6.4-billion deal to buy Genesee & Wyoming Inc., a U.S. short-line railway, in July.

Also in July: Brookfield Renewable Partners LP teamed up with KKR to buy X-Elio, a Spanish solar developer. And less than a year ago, Brookfield Property Partners LP completed its US$15-billion acquisition of GGP Inc., the second-largest mall owner in the United States.

The pace underscores Brookfield's tremendous size and influence in the area of "real assets" – the pipelines, toll roads, buildings and terminals that underpin the global economy. But it also raises questions about whether investors should focus on Brookfield Asset Management or explore the more specific strategies of its four Brookfield-labelled entities.

One approach: Stick with the parent.

Brookfield Asset Management has spun off some of its operations into publicly traded entities that give investors pure plays on infrastructure, real estate, renewable energy and private equity. The parent company is a significant investor in each, and also generates management fees from these investments and private funds.

This approach has rewarded investors with market-beating gains for the four spin-offs over the past five years.

As of the end of last week, Brookfield Infrastructure had delivered a five-year return of 152 per cent (including dividends), compared with a total return of just 22 per cent for the S&P/TSX Composite Index over the same period. Full disclosure: I've owned

Brookfield Infrastructure since its spin-off in 2009, drawn to the relative stability of its globally diversified portfolio of toll roads, ports and terminals. The dividend is nice, too: It yields 4.5 per cent.

Brookfield Renewable Energy, which offers exposure to hydro, wind and solar-power generation – making it a good choice if you want to bet on the viability of clean energy – yields 5.7 per cent. It has delivered a total return of 102 per cent over five years.

Brookfield Properties, which is making a bold, counterintuitive bet on U.S. shopping malls in addition to its global holdings of retail-and-residential complexes, has returned 40 per cent over five years, driven by its 6.9-per-cent dividend yield.

And Brookfield Business, which is the private equity arm and the most recent Brookfield spin-off, is up 44 per cent since its debut in May, 2016, compared with 26 per cent for the S&P/TSX (also with dividends).

So with the spin-offs performing well, why bother with Brookfield Asset Management?

One attraction is its size, which might not be fully appreciated by many retail investors. Brookfield Asset Management is valued at nearly $65.7-billion, based on the total value of its outstanding shares. That makes it the sixth-largest company in the S&P/TSX, rising from 39th spot at the start of the bull market in 2009.

Brookfield Asset Management has spent some US$33-billion over the past 12 months alone. In March, it acquired a 62-per-cent stake in global asset manager Oaktree Capital Group LLC, in a deal valued at US$4.7-billion. When the deal closes, anticipated in the third quarter, Brookfield expects that its total assets under management will exceed a whopping US$500-billion.

Yet, the company may not be on the radar screens of many individual investors given that savvy institutional investors own a commanding 74 per cent of the outstanding shares, according to Bloomberg. Compare that with the other extreme – Canopy Growth Corp. – where retail investors dominate and institutions own a mere 17 per cent of the marijuana producer’s outstanding shares.

But apart from its heft, Brookfield Asset Management also offers a natural starting point for investors who want one-stop exposure to everything beneath the Brookfield umbrella, sparing them the need to make specific bets on infrastructure, real estate, renewable energy and private equity.

Returns over the past three years (a period that includes performance data for Brookfield Business) suggest that this is a fine approach.

Brookfield Asset Management has delivered total returns of 58 per cent, despite the fact that its dividend yield is just 1.2 per cent. While the performance lags Brookfield Infrastructure (59 per cent) and Brookfield Business (69 per cent) over the same period, it beats the unweighted average of the four entities by nearly 15 percentage points.

Using a more sophisticated approach, analysts at CIBC World Markets last September created an index of the four entities, weighted according to the parent's invested capital in each. The analysts found that there was a strong correlation between Brookfield Asset Management's stock price and the index (at 0.93, where one is perfect correlation). However, the parent outperformed the index of spin-offs over time.

Why? The CIBC analysts wrote in their report that they believe the value of Brookfield's asset management capabilities – that extra layer on top of the company's ownership interests – is growing, as the market recognizes its ability to attract additional capital from outside investors.

Making individual bets on Brookfield's infrastructure, real estate, renewable energy and private equity is a fine strategy. But getting them all in a single stock might be even better.

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