Private Debt Investor

Strategy **Brookfield adds latest partnership**

Brookfield Asset Management, with a credit business amounting to a mammoth $317 billion, certainly boasts a very large internal private debt operation, ***writes Andy Thomson***. But what it has also done is take the partnership model and grown it into numerous corners of the private debt universe. Partnership arrangements are not uncommon in private debt these days – but few firms have embraced the approach with as much enthusiasm as Brookfield.

At the beginning of April, the latest new manager was ushered into the Brookfield stable with the acquisition of a majority stake in Angel Oak, a US firm specialising in US residential mortgage strategies, founded in 2008.

"The area of the market that Angel Oak focuses on requires a high degree of specialisation, says Craig Noble, chief executive officer of Brookfield's credit business. "We believe controlling the origination of these types of loans is very valuable and results in better investment outcomes than public securities in the same space. Our observation is that institutional investors including insurance companies have a significant appetite for these types of investments."

Angel Oak follows in the footsteps of fund managers such as Oaktree Capital Management, LCM Partners and Castlelake in joining forces with Brookfield. "By partnering with highly specialised managers, it's allowing us to cover the entire private markets spectrum," says Noble.

With around half of Brookfield's total credit AUM now accounted for by these partnerships, Noble thinks the approach may have reached its limit. "If there was an additional partnership that made sense, of course we would be open to it, but our view is that we've really got the spectrum filled," he says.

Noble is confident that Brookfield's private credit expansion is justified by the continuing positive sentiment around the asset class. Although there have been plenty of recent shocks to the economic and geopolitical system, most recently from the US government's approach to tariffs, he believes that these are merely short-term developments that shouldn't deflect from long-term strategy.

"We're observing a lot of volatility across different metrics in the public markets but our investment

Craig Noble: looking at long-term fundamentals

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thesis – including anything we do in private credit – is about long-term fundamentals. We're making investments with the expectation of holding them for multiple years in the case of private debt, or multiple decades in the case of owning assets outright.

"Having that perspective allows us to still be open for business and active in the markets throughout an economic cycle. The shorter-term sentiment and volatility is just less relevant."

Mood vs commitment numbers

Where the volatility has been relevant is in helping to suppress fundraising levels for the asset class in general. While survey after survey has confirmed investors' positive sentiment towards private debt, actual commitment levels have fallen over the past few years. This, however, is the overall picture – larger managers with a wide variety of offerings have vacuumed up a disproportionate amount of fresh capital.

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"The last couple of years, we have experienced some of our best fundraising on record, and that's in an environment where there has been some softness more broadly in the market," says Noble. "What we're experiencing first hand is that large institutional investors want to do more with a smaller number of strategic managers.

"They want their capital to be more strategic, they want more touchpoints in their relationships, more co-investments and partnerships, and that, I think, is one of the reasons that larger managers with global scale and a full breadth of offerings are doing well."

It is also worth considering, he says, that volatility is not necessarily a bad thing for private credit. Turbulence in the market can be a way of releasing opportunities that don't make it to the surface in calmer times. "In credit, there continues to be an opportunity for higher returns compared with the public markets for the same type of risk," he says.

"The volatility we've seen recently will probably add to that advantage because it will generate more opportunities for specialised investors. We're continuing to see a lot of demand for multi-strategy programmes with larger institutions which want broader strategic relationships with a fewer number of global managers."

While private debt may have struggled – with other alternative asset classes – to attract institutional capital over the past few years, Noble points out that Brookfield manages around $150 billion on behalf of insurance companies "but it's a highly specialised skill set required to do that properly, so there are relatively few managers focused on it".

With insurance one of the big talking points when it comes to the capital to fuel the asset class's future, another is wealth. Here, too, Noble expects managers like Brookfield to be well placed, given idiosyncratic structuring and liquidity requirements. ■

Three areas of focus for Brookfield

Craig Noble highlights where the firm's credit business is turning its attention

1 Real estate debt

"There's just not enough capital available relative to the opportunity set and there's some amazing top-quality assets across all parts of real estate where the capital structure needs to be addressed or there's a financing need. We think that the current vintage for real estate debt is going to be very interesting, with a lot of opportunities."

2 Infrastructure

"The quantum of capital needed is very large, in the trillions of dollars. A large part of that capital need is equity but an even larger part is on the debt side because of things like data centres, energy infrastructure and deglobalisation as supply chains are moved back onshore in so many countries."

3 Asset-based finance

"We're seeing a lot of interest within our Castlelake franchise, within our Oaktree franchise and within things that we're doing directly. There's a tremendous amount of demand and that's partially because the banks have pulled back over the last couple of years, and I think will continue pulling back significantly and not returning to the ABF part of the market."