



Brookfield Investment Management

Recently, **Sheila Hopkins**, managing director – Europe and infrastructure with Institutional Real Estate, Inc., spoke with **Kim Redding**, chief investment strategist of Brookfield. The following is an excerpt of that conversation.

Who is Brookfield, and how do you differentiate yourself from your peers?

Brookfield is a global real assets manager with over \$175 billion of assets under management. We have a 100-year history of owning, operating and investing in real assets with a focus on real estate, infrastructure, renewable power and private equity investments. Brookfield offers a range of public and private investment opportunities that leverage the company's expertise and experience, including direct investment through private funds as well as listed securities strategies. Given our deep history in the ownership and operation of real assets and our belief in their growth potential, we actively invest a substantial amount of our own capital alongside our clients and partners, ensuring a significant alignment of interests. Overall, we are investing in high-quality real assets that provide stable cash flow streams and have the potential to experience rising revenues over time. We are looking for long-term value creation while minimizing the risk on our invested capital. In order to accomplish this, we have a global footprint of 600 investment professionals and 24,000 operating employees in 100 offices around the world, including New York City, Toronto, São Paulo, London, Sydney, Mumbai, Hong Kong and Dubai.

What makes something a real asset?

To us, a real asset is a tangible, long-lived asset that generates stable and growing cash flow streams, provides enhanced current yield and is typically indexed to inflation. It's true, though, that some investors categorize real assets in the "alternative" bucket, in the sense that they don't fit the typical characteristics of stocks or bonds. In reality, real assets blend the best characteristics of these traditional investment options to provide a unique combination of yield, stability and growth. Much like bonds, real assets offer attractive current income. However, this income has the potential to experience meaningful growth over time that will far outpace a simple fixed bond coupon payment. This growth potential also provides equity-like upside during an economic recovery and a very good hedge against inflation. In short, real assets have the potential to generate attractive returns across market cycles, which leads us to characterize the asset class as the New Essential portfolio investment. We believe real assets are a particularly com-



Kim Redding is chief investment strategist of Brookfield Asset Management and co-chief investment officer of Brookfield Investment Management. In this capacity, he advises on global investment strategy across Brookfield's portfolio of assets under management, including the firm's capital markets investment activities. Additionally, he is responsible for Brookfield's thought leadership initiatives related to real assets. He previously led Brookfield's public securities investment platform and has more than 30 years of real asset investment experience.

elling investment for institutional portfolios because they have low volatility relative to equities and fixed-income investments and low correlations. As a result, the addition of real assets to a mixed-asset portfolio is likely to improve overall risk-adjusted returns.

Do you see some pension funds changing to have a real asset allocation instead of separate infrastructure, real estate, etc. allocations?

The aggregation of the different buckets of real assets into one allocation is a trend that we are seeing globally. I think it is partially because the universe has recently expanded, with the introduction of infrastructure as an investable asset class on both the direct and public sides, which has really rounded out the real assets opportunity set. So I think there are two reasons for choosing a consolidated real assets allocation: one, you can shift allocations opportunistically amongst the various sub-buckets, and, two, there is a trend toward increasing allocations to real assets. When we look at the current global investment environment, we are stuck with, in most cases, very low yields on other asset classes, including bonds and equities. Real assets offer a higher yield and growing income stream along with a hedge against the potential for inflation.

Why is infrastructure developing so much as an asset class?

One reason is the fiscal condition of governments and sovereign balance sheets around the world, as most governmental agencies historically have developed infrastructure, roads, water treatment, water systems and electrical transmission systems. Now with the strained fiscal condition of those governmental agencies, they don't necessarily have the ability to develop that infrastructure. As a

result, they are entering into public-private partnerships to develop these assets with private entities or entrepreneurs who are willing to invest their capital. Additionally, they are selling existing assets into public companies and/or into funds to free up and reduce debt on their sovereign balance sheets. The second reason is the yield advantage of infrastructure, which is typically a higher initial yield than other alternatives. Furthermore, the underlying business often has meaningful protection from competition, so in many cases you get a monopoly or quasi-monopoly. Couple all that with revenue streams indexed to inflation, and it is a pretty powerful story.

If interest rates go up, is that going to affect the infrastructure asset class by making financing more difficult for what are often highly leveraged assets?

Infrastructure assets typically have long-term debt, with durations even longer than that on real estate, leading to a healthy matching of assets and liabilities. Also, the performance of infrastructure assets in a rising interest rate environment will depend on why rates are rising. If interest rates are rising because of economic growth, infrastructure income streams will rise as well, due to increasing demand and/or contractual revenue escalations tied to inflation. As I mentioned previously, we believe that real assets, including infrastructure, are uniquely positioned to generate attractive performance across market cycles. During periods of higher nominal rates, we believe the increased revenues from infrastructure assets will more than offset any potential increase in the cost of financing.

Are you seeing investors start off with listed infrastructure as their first foray into infrastructure, or does the size of the institution matter?

I think the method of investment depends a little bit on the size of the institution. Until you reach a certain critical mass, it is hard to invest directly in infrastructure, so listed is oftentimes the first entry into the asset class for small and medium-sized institutional investors. Also, the United States is behind other parts of the world in this regard. When you look at Canada, Australia and even the United Kingdom, infrastructure as a listed asset has been around much longer. Almost every pension fund in Canada has a history of investing in infrastructure; the same is true in Australia. U.S. institutional investors are quickly catching up to that and are adding an infrastructure allocation. Interestingly, we find that the informational advantage of operating in both listed and unlisted markets is really tremendous; oftentimes the public market leads the private market, so you get a clue as to what is happening to valuation. There are also dislocations in the public market that might key you in to opportunities on the unlisted side that are coming down the road.

How do institutional investors allocate to infrastructure without a benchmark?

We do have benchmarks on the listed side. One in particular is the Dow Jones Brookfield Global Listed Infrastructure Index, which is very much a pure-play infrastructure benchmark that is focused on companies that own hard assets. The index focuses on companies that have 70 percent or more of their revenue coming from the actual ownership of assets.

Could this benchmark be used as a proxy for direct as well?

Some institutional investors are using it as a proxy, recognizing that, because it is a listed benchmark, it would be more volatile than a direct investment.

Where do real assets fit in the investment climate now around the world?

If you think about the investment climate, you have great uncertainty. We are cautiously optimistic about the U.S., where the housing recovery seems to be real, the auto industry is recovering and unemployment is falling. At the same time, growth is slowing in China, which is causing concern among investors. Recent reports say Europe is starting to turn a little bit, but there are still plenty of challenges. Real assets are well positioned to provide investors with attractive risk-adjusted returns in this environment, as they offer stable cash flow streams with upside growth potential and inflation protection. So, you are not stuck in a bond-like investment when the economy does improve and interest rates rise. The combination of downside protection and upside value potential, along with low correlations to other asset classes, really positions real assets to be a growing part of portfolio allocations. ❖

CORPORATE OVERVIEW

Brookfield Asset Management Inc. is a global alternative asset manager with over \$175 billion in assets under management as of June 30, 2013. The company offers a range of public and private investment products and services, which leverage its expertise and experience and provide it with a competitive advantage in the markets where it operates. On behalf of its clients, Brookfield is also an active investor in the public securities markets, where its experience extends over 30 years. Brookfield's public market activities are conducted by Brookfield Investment Management, a registered investment adviser, with over \$10 billion in assets under management as of June 30, 2013.

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