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How $300B Brookfield Built Second-Largest Alts Shop

By Tom Stabile May 16, 2018

Brookfield Asset Management has hauled in more than $100 billion in assets over the past six years, including more than $40 billion since the end of 2016, cementing its status as the second-largest fund manager in the alts market, with $283 billion. But the Toronto-based manager isn't just relying on its flagship real estate and infrastructure funds, having built up its roster with new credit, core-plus, venture capital, and high-net-worth market strategies.

The manager ranks second to Blackstone Group, which since 2012 has more than doubled its assets to $450 billion, but Brookfield has kept ahead of other fast-growing private equity firms such as Apollo Global Management, KKR, and Ares Management. A few massive capital raises – a $14 billion infrastructure fund and a $9 billion real estate fund that both closed in 2016 – have helped Brookfield boost asset totals.

But new offerings will buoy the firm's continued growth, says **Craig Noble**, senior managing partner at Brookfield and CEO and CIO of its public securities group.

"If you look at our offering today… we've evolved to not just have the flagship global funds," he says.

Private Fund Big Shots

Reported year-end assets under management at the largest publicly traded alternative fund managers since 2012, in US$ billions

	2012	2013	2014	2015	2016	2017	Q1 2018
Blackstone Group	$210.2	$265.8	$290.4	$336.4	$366.6	$434.1	$449.6
Brookfield Asset Management	$181.4	$187.1	$203.8	$227.8	$239.8	$283.1	$282.7
Apollo Global Management	$113.4	$161.2	$159.8	$170.1	$191.7	$248.9	$247.3
Carlyle Group	$170.2	$188.8	$194.5	$182.6	$157.6	$195.1	$201.5
KKR	$75.5	$94.3	$98.6	$119.5	$129.6	$168.5	$176.4
Ares Management	$60.2	$74.0	$81.8	$93.6	$95.3	$106.5	$112.5
Oaktree Capital Group	$77.1	$83.6	$90.8	$97.4	$100.5	$100.2	$97.6

Sources: Brookfield Asset Management; Keefe Bruyette & Woods

Product development is a pillar of the long-term growth plans, with strategies designed to meet investor appetite for different risk profiles, longer-term asset holds, or credit strategies, Noble says. "We're just focusing on natural extensions of what we have been doing, what clients want, and where the growth opportunities lie ahead," he adds.

The recipe gives Brookfield a possible advantage because of its specialty in the growing real assets segment, says **Ann Dai**, director for equity research at Keefe, Bruyette & Woods, a capital markets research firm.

"We expect them to grow by taking their core competencies and doing step-outs, so doing infrastructure credit or subsets of infrastructure, or different return-profile funds, like core real estate," she says. "That's going to be a big piece of their growth in the future."

Expanded product menus match up well with large institutional investors facing "huge fee pressure" that has led them to consolidate their private fund manager rosters, says **Liz Weiner**, managing partner at **Sundial Park Group**, a fundraising and strategy consultant.

"So they want to allocate to fewer managers but do more things with them," she says. "And that's the main product development story – managers are responding to the phenomenon."

Brookfield's big funds remain an anchor, such as the latest flagship real estate fund, for which it has raised $9 billion toward a target of $10 billion, making it the largest in the market, according to Preqin data. It also is raising its latest private equity buyout strategy, following a $4 billion vehicle closed in 2016, and has established fund series in timber, where it closed a $1 billion vehicle in 2013, and agriculture, where it raised $500 million in 2016, according to Preqin.

The manager also has built up a commercial real estate credit franchise, having closed its fifth U.S. mezzanine lending strategy in November, which at $3 billion was the largest real estate debt fund last year, according to Preqin.

But Brookfield also raised $500 million last quarter in new products, according to first quarter earnings data. Many of these are the first versions of products that Brookfield executives say could grow significantly, such as new open-end core-plus real estate and infrastructure funds that will be the flagships of units that it projects will each eventually garner $50 billion.

The open-end, core-plus strategies can replace traditional credit products in institutional portfolios, and there are many possible flavors down the line, including country-specific, renewable energy, and credit products, said CEO **Bruce Flatt** on Brookfield's first quarter earnings call last week. "We can only market so many things at once to our clients and only focus on so many things, but there's a big appetite for these types of products as fixed income alternatives," he said.

Some of those options are up and running, including an open-end real estate mezzanine lending fund and an Australian core real estate fund, as well as its first infrastructure credit fund that closed at $885 million in January.

Meanwhile, Brookfield's new venture arm investing in real estate market-oriented technology firms will start with $200 million to $300 million of the firm's own capital, according to a *Wall Street Journal* article. That strategy will eventually raise capital from institutions for future funds, Flatt said.

The venture arm is innovative, Dai says. "Having access to the deal flow and getting the looks at these earlier stage companies will let [Brookfield] see what's coming down the pike, and they can incorporate those technologies into their existing business," she says.

Brookfield also is expanding a foray into the high-net-worth market, where it raised $400 million last year across multiple channels. Its public securities group also added $4 billion in energy infrastructure and master limited partnership assets, as well as an advisor market distribution team, when it acquired **Center Coast Capital Advisors** and affiliates in a deal that closed this year.

Overall, the product development spree is likely to continue, Weiner says. Amid a surge of uninvested capital crowding the deals market, managers of all sizes are adding products to generate new fee streams for their businesses, with the biggest firms nevertheless able to spread more vehicles across a larger platform, she says. But even they may eventually face a point of diminishing returns, she adds.

"We're in new territory with these mega, mega firms," she says. "These platforms are pretty complex organizationally – are you able to manage it and continue to deliver specific solutions to clients through cycles? And you will have built up this huge machine that you have to feed with deals."