

## Brookfield Asset Management Primer

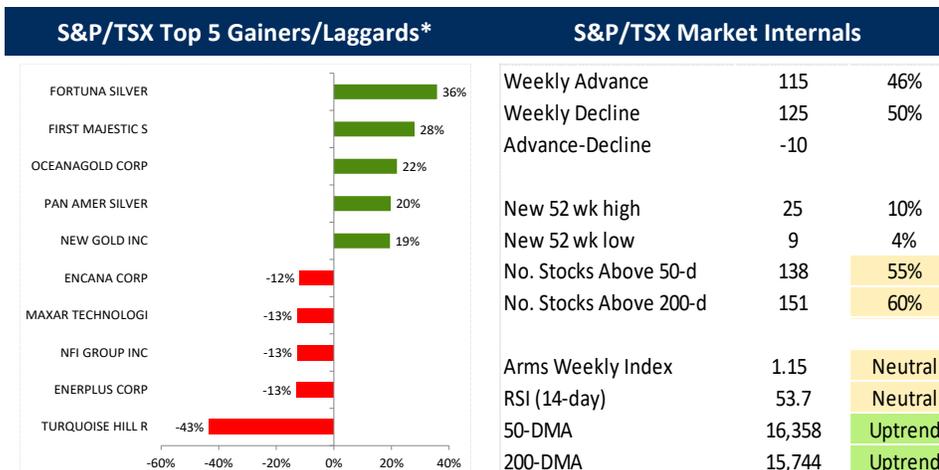
Brookfield Asset Management (BAM) is one of the largest asset managers in the world and a major player in the Canadian equity markets. BAM and its publicly traded subsidiaries can be a very attractive way to gain exposure to a variety of industries for Canadian investors. However, understanding how Brookfield's businesses work and how the different companies are related can be very confusing. In this edition of *Weekly Trends*, we demystify the relationships among the Brookfield group of companies and suggest some ways to invest in them.

- Brookfield Asset Management (BAM.A)
- Brookfield Infrastructure Partners (BIP.UN)
- Brookfield Renewable Partners (BEP.UN)
- Brookfield Property Partners (BPY.UN)
- Brookfield Business Partners (BBU.UN)
- Investing in the Brookfield Group of Companies

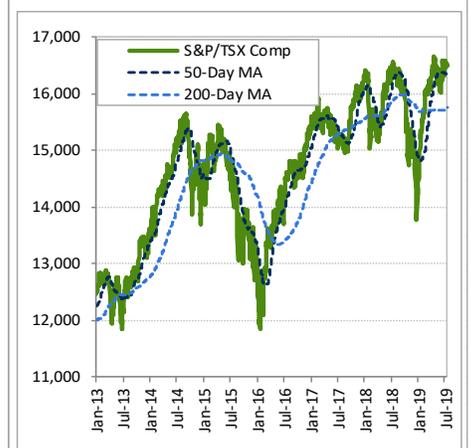


Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.2	Underweight
Consumer Staples	3.9	Overweight
Energy	16.9	Underweight
Financials	31.8	Overweight
Health Care	1.8	Underweight
Industrials	11.4	Market weight
Technology	5.3	Market weight
Materials	11.4	Market weight
Communications	5.6	Market weight
Utilities	4.3	Market weight
Real Estate	3.4	Market weight

Technical Considerations	Level	YE Target
S&P/TSX Composite	16,538	15,600



Source: Bloomberg, Raymond James Ltd; \* 5-day price return



Source: Bloomberg, Raymond James Ltd.

Sectors are based on Bloomberg classifications

Please read domestic and foreign disclosure/risk information beginning on page 7

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## Brookfield Asset Management (BAM.A)

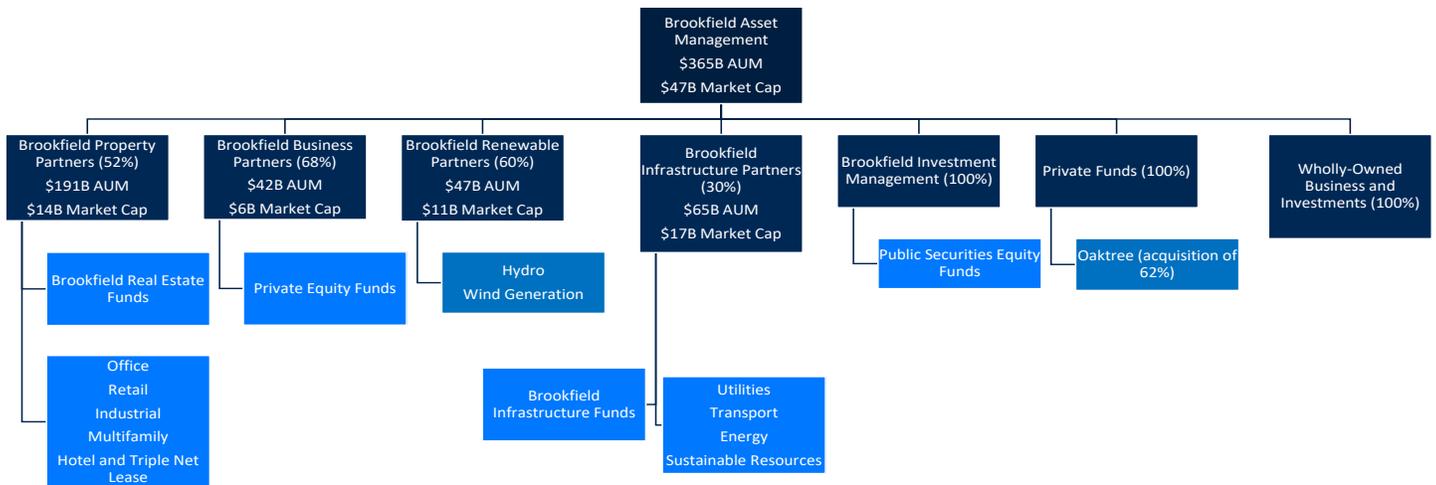
The parent company of the Brookfield group of companies, Brookfield Asset Management, is one of the largest asset managers in the world with large-scale capital pools, solid operating expertise and a global presence. These factors, coupled with a strong framework of institutional and sovereign investment partners and its own self-funded, publicly-traded subsidiaries, allow Brookfield to conduct large investment transactions in both public and private markets. BAM's operational expertise is focused in the real estate, energy, infrastructure and utilities sectors and its assets span the globe with concentrations in Canada, the USA, Brazil, Western Europe, India and Australia.

### BAM.A 1 Year Total Return



Source: Bloomberg, Raymond James Ltd.

### Brookfield Org Chart



Source: Company Reports, Raymond James Ltd. Percentage indicates BAM.A ownership.

When it comes to investments, Brookfield treats these much the same as an individual portfolio manager does for a group of stocks and bonds -“buy low, sell high”. BAM uses a disciplined, value-based approach to look for mispriced assets through illiquid/private markets or opportunistically in times of economic or corporate crisis. In order to raise the value of its invested asset base, BAM improves the book value and cash flow of its businesses through shrewd operating expertise and is not afraid to sell businesses upon creating greater value. It actively redeploys capital from mature, fully valued businesses (selling high) into new opportunities (buying low).

BAM has over US\$350 billion in assets under management across several categories of assets, which include infrastructure, renewable power, real estate, and private equity. Brookfield has two ways of owning and managing their assets - either direct ownership or through private funds. With private funding, Brookfield acquires capital from investors in combination with their own capital to invest in assets; direct

ownership allows the firm to own 100% of the business. The company makes money through base management fees and carried interest from funds, listed partnerships and subsidiaries, as well as through capital appreciation of public securities (mutual funds, separately managed accounts and closed-end funds). Brookfield uniquely aligns with their investors' interests to differentiate from the competition by investing +25% of their own capital in both its funds and subsidiaries. Brookfield measures success based on return on capital, sustainable cash flows and profitability rather than growth (as growth alone does not necessarily add value). The company creates shareholder value through increasing fee-bearing capital (increases earnings from funds), achieving high performance returns (interest income) and capital appreciation of its businesses.

### Brookfield Profit Model



Source: Company Reports

### Subsidiaries

Brookfield Asset Management has a number of operating subsidiaries in its stable of businesses but the most consequential are its publicly-traded yield companies: Brookfield Infrastructure Partners (30% ownership by BAM), Brookfield Property Partners (52%), Brookfield Renewable Partners (60%) and Brookfield Business Partners (68%).

There are a number of reasons and benefits for operating separate public companies. First, as these businesses (with the exception of BBU.UN) pay out a high percentage of cash flow in the form of dividends, their shares are typically valued higher than BAM, giving them a cost of capital advantage. This allows them to be more competitive in the M&A market as they can offer higher prices for assets while still producing accretion. Second these businesses are specialised in their respective industries and allow for a more efficient allocation of people and capital. This also serves a purpose for investors who may not want to exposure to the entire Brookfield portfolio and/or international investment partners who want to focus on a particular industry. Finally, using subsidiaries allows Brookfield to incorporate the businesses in the best suited locations for accounting and tax purposes.

Below we give a description of each subsidiary's operations and show share price performance vs. BAM.

### Brookfield Infrastructure Partners (BIP.UN)

**BAM.A versus BIP.UN 1 Year Chart**



Source: Bloomberg, Raymond James Ltd.

This segment manages utility, transport, energy, data infrastructure and sustainable resource holdings such as moving passengers and goods via railways as well as energy distribution through pipelines. BIP.UN is one of the largest diversified infrastructure companies in the world. This subsidiary sells infrastructure assets that have low returns and reallocates the proceeds to high-returning assets. BIP’s cash flows are correlated with inflation and global growth and their balance sheet is consistently healthy with valuable assets.

### Brookfield Property Partners (BPY.UN)

**BAM.A versus BPY.UN 1 Year Chart**



Source: Bloomberg, Raymond James Ltd.

BPY.UN is Brookfield’s flagship real estate business. The subsidiary purchases and manages a portfolio of real estate assets diversified by sector and geographic region. The company owns and operates retail, office and multi-family/industrial properties across 450 mln square feet of commercial space in Asia, Europe, South America, North America and Australia. BPY has posted annual asset returns of +20% by acquiring undervalued assets and experiencing capital appreciation. In addition to directly owning and operating real estate assets in North America, Europe, Australia and Brazil, they also manage private funds. BPY generates stable and sustainable cash flows with organic growth opportunities, which are supported by real estate funds that invest in logistics, multifamily and self-storage facilities.

**BIP.UN Holding Breakdown**

Asset Type	
Utilities	47%
Transportation	41%
Energy	12%
Communications Infrastructure	1%
Geographic Area (AUM%)	
Canada	20%
Brazil	20%
Australia	16%
United Kingdom	14%
United States	13%
Other	18%

Source: Bloomberg, Raymond James Ltd.

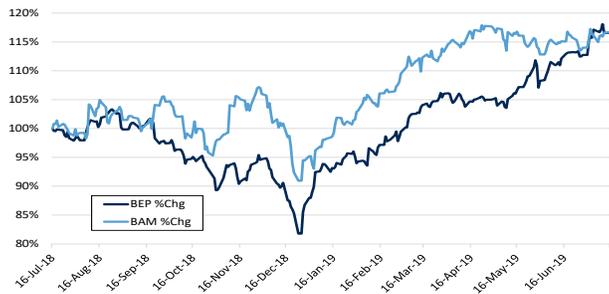
**BPY.UN Holding Breakdown**

Asset Type	
Retail	42%
Office	41%
LP Investments	17%
Geographic Area (AUM %)	
US	70%
UK and Europe	13%
Asia and Australia	7%
Canada	5%
Brazil	1%

Source: Company Reports, Raymond James Ltd.

### Brookfield Renewable Partners (BEP.UN)

BAM.A versus BEP.UN 1 Year Chart

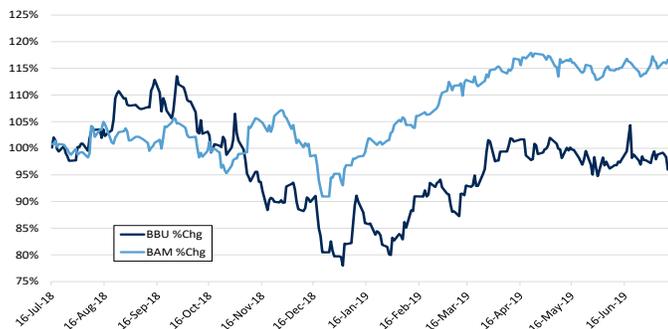


Source: Bloomberg, Raymond James Ltd.

BEP.UN owns and operates one of the largest publicly traded renewable power portfolios in the world, with upwards of 800 generating facilities worldwide. It includes wind, solar, water, storage, distribution and other types of renewable technologies as well as power generation facilities across several continents. In total, this segment has 17,000 MW of capacity. The portfolio is largely composed of hydro, which is beneficial for Brookfield as it has a long asset life. This subsidiary differentiates itself from the competition as it grows by investing with diverse partner companies.

### Brookfield Business Partners (BBU.UN)

BAM.A versus BBU.UN 1 Year Chart



Source: Bloomberg, Raymond James Ltd.

The private equity division buys high-quality, high-potential businesses to generate value and enhance cash flows. In order for these positive results to occur, Brookfield’s operating expertise is employed to optimize company operations and execution where high barriers to entry are present. Their differentiator is the opportunity for investors to publicly invest in the private sector. Brookfield tends to focus primarily on business services, infrastructure services and industrial operations, which generate 60% of revenue. Within these areas, BBU specializes in construction and energy services. The Thomson Reuters Private Equity Buyout Index has traditionally outperformed the US market (by approximately 17% in 2017), yet this is coupled with greater volatility and the risk of private equity. This reveals the significant risk-reward profile of this business line.

BEP.UN Holding Breakdown

Asset Type	
Hydroelectric	71%
Wind	19%
Solar	7%
Storage and Other	3%
Geographic Area (AUM%)	
North America	74%
Brazil	12%
Columbia	9%
Europe	5%

Source: Company Reports, Raymond James Ltd.

BBU.UN Holding Breakdown

Asset Type	
Construction Services	43%
Industrial Operations	28%
Business Services	28%
Geographic Area (AUM%)	
United Kingdom	59%
Canada	13%
Australia	8%
Europe	8%
Other	13%

Source: Bloomberg, Raymond James Ltd.

## Investing in the Brookfield Group of Companies

Armed with a better sense of how the different parts of the Brookfield empire work and interact, an obvious question is how one should invest. For many investors, the easiest way to gain exposure is through BAM.A. Investing in the parent company exposes investors to all of the components of the Brookfield business while only investing in one security. The main drawback is that the dividend yield is the lowest of the five companies, but in return it should also provide the best growth over the long term as a greater proportion of cash flow is reinvested in new businesses and funds.

With the exception of BBU.UN, the subsidiaries provide above market yields with varying levels of dividend growth. If income is a primary investment concern, a combination of BIP.UN, BPY.UN and/or BEP.UN will provide investors with a current yield materially higher than the S&P/TSX. Investors who want to differentiate between the Brookfield investments can also dig down into the differences in the underlying businesses and their locations. As an example, we would expect BEP.UN's renewable power businesses to be the most resilient throughout the business cycle as most of its business is based off long-term fixed priced power contracts, which would not fluctuate much in good times or bad. Investors in BPY.UN are gaining significant exposure to the US and UK real estate markets, while BIP.UN is the most internationally diversified with >\$65 billion of AUM across the globe. Finally, BBU.UN provides the greatest potential for capital appreciation as the company invests in out-of-favour or earlier stage businesses that have more potential for growth.

### Comp Table

Name	Ticker	Current Market Cap (bln)	Dividend Indicated Yield (%)	Gross 1 Year Dividend Growth (%)	EBITDA Growth YoY(%)	Total Debt to Total Equity (%)	EV/Next Yr Est EBITDA (x)	
BPY-U CN Equity	Brookfield Property Partners	BPY.UN	24.1	7.2	9.7	15.1	138.6	23.7
BEP-U CN Equity	Brookfield Renewable Partner	BEP.UN	14.6	5.9	8.9	18.2	62.3	15.3
BAM/A CN Equity	Brookfield Asset Manage-Cl A	BAM.A	62.9	1.4	10.9	34.3	125.7	24.9
BIP-U CN Equity	Brookfield Infrastructure Pa	BIP.UN	22.4	4.8	11.5	24.3	103.0	19.3
BBU-U CN Equity	Brookfield Business Pt-Unit	BBU.UN	7.3	0.7	3.8	293.9	167.3	10.6

Source: Bloomberg, Raymond James Ltd.

### Conclusion

Ultimately, investors that are interested in investing in the Brookfield group need to consider their personal investment priorities to determine the best way to gain exposure to a group of companies that have performed extremely well in the decade following the 2008 credit crisis (BAM.A up 20.4% annually since March 2009, versus the S&P/TSX composite index at 9.5%). Yield requirements, geographic exposure and risk appetite are all factors in deciding whether to go for the buffet (BAM.A) or a la carte (subsidiaries).

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