Q&A: Why Brookfield Private Equity

The private equity industry rebounded quickly from pandemic-related market disruption, resiliently roaring back with strength amid record levels of dry powder, historically low interest rates, and valuation disparities between public and private markets. Brookfield's private equity business has grown to over $110 billion in assets under management,[1] making Brookfield a leading global private equity investor. Anuj Ranjan, head of Europe and Asia Pacific private equity for Brookfield, discusses what distinguishes Brookfield's approach to private equity investing and where the team is finding opportunities in today's private equity market.

Q. What distinguishes Brookfield's private equity business from that of its competitors?

A. Brookfield is one of the world's largest alternative asset managers, with over $750 billion of AUM and a wide geographic footprint spanning more than 30 countries on five continents.[2] We have approximately 1,000 investment professionals and 150,000 operating professionals across the globe. Our private equity business benefits from Brookfield's global presence, owner-operator heritage, and local knowledge and expertise. This enables us to follow the pulse of local markets and access proprietary deal flow.

Our investment strategy centers around acquiring high-quality businesses for value, which we can enhance through operational improvements. We often approach the market in a contrarian way, acquiring businesses that could be considered complicated or multifaceted. We then utilize our global operating capabilities to enhance the cash flows of those businesses. As a result of our approach, Brookfield's Private Equity Group has a 20-year track record of consistently generating strong investment performance.

BROOKFIELD PRIVATE EQUITY GROUP'S INVESTMENT STRATEGY

FOCUS ON HIGH-QUALITY BUSINESSES + INVEST ON A VALUE BASIS + OPERATIONS-ORIENTED APPROACH

Q. How has the private equity business at Brookfield held up during the pandemic?

A. We actually held up quite well in 2020. We quickly responded to the lockdowns, taking a hands-on approach and utilizing our operating capability to support management teams through the downturn. For the most part our businesses provide essential products and services and are inherently high-quality businesses, a key tenet of our strategy. As a result, they showed great resiliency over the past 18 months. We also leveraged our nimble investment approach to act quickly and decisively on certain public market opportunities. When markets declined dramatically in the second quarter, we invested a significant amount of capital in high-quality businesses we had been watching for some time, as a precursor to a potential public-to-private transaction in the future. However, markets then recovered so quickly that the opportunity for a public-to-private transaction got away from us, but we were able to generate significant proceeds just through our public exposure. This was only possible because our deep knowledge of these businesses allowed us to act decisively and with conviction.

We also put quite a bit of capital to work in private transactions throughout 2020, and we have continued to do so this year. The pandemic and related lockdowns have impacted businesses differently across regions, so we used our global presence to move our resources and capital to where we identified the best opportunities. Today, we are back to doing what we do best, which is surfacing value opportunities in an otherwise frothy environment. Corporate carve-outs, sponsor exits, partnerships and, in some cases in certain sectors, public-to-private opportunities continue to exist. Our teams around the world are continuing to use their local contacts and knowledge to surface such opportunities.

Q. What are the long-term opportunities you are thinking about at the moment?

A. An uneven recovery is underway. Government intervention is at an all-time high, with corporate debt at record levels. This could introduce distress opportunities in the future. Earnings are being impacted disproportionately across sectors. When looking at opportunities, business quality always matters, regardless of the economic environment. We look for market leadership; durable, defensive business models; mission criticality (i.e., an important good or service for the end user); and operational leverage. Our long-term investment horizon and access to the Brookfield Ecosystem, our information network derived from our many partnerships around the world, give us the ability to take contrarian views and find the most attractive opportunities.

Q. How are you able to find value amid stretched valuations and record levels of dry powder?

A. Public market valuations are at an all-time high and record amounts of dry powder are flowing to alternative asset managers, resulting in an expensive market. This means we need to maintain our discipline and capitalize on our competitive advantages, including our global presence, scale and size, and operating capability across sectors. These advantages provide opportunities for us to transact with very limited, if any, competition, and we have the necessary operating expertise to add value post-acquisition.

Q. What sectors and themes define the group's long-term investment focus?

A. We are focused on high-quality businesses—particularly in the industrials, infrastructure services, and business services sectors, and we are expanding our reach into healthcare and technology services. Among industrials, we have seen an accelerated pace of investment in technology in order to improve operations and meet customer demand. We are focused on identifying businesses that have resiliency post-COVID and are well positioned to withstand inflation and generate a predictable earnings stream. Some large-scale industrial and manufacturing companies are seeking to shed high-quality, non-core assets and reshape themselves into technology companies, creating investment opportunities for us.

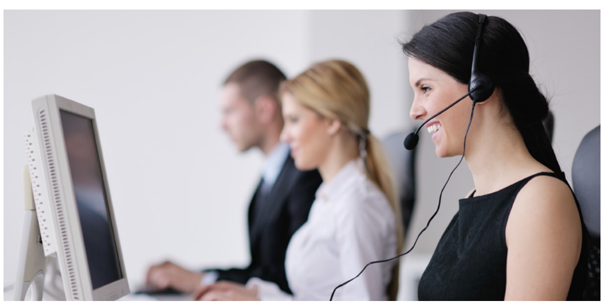
Meanwhile, healthcare companies are using technology to measure and improve outcomes and streamline services, and the sector faces strong secular growth drivers. Finally, technology companies are providing tools that help businesses advance. With global information technology spend pegged at $5 trillion-plus and growing, the sector has demonstrated resiliency, strong organic growth and outsized returns.

Successful execution on these themes requires finding high-quality assets that provide essential services, are resilient with durable cash flows, can be acquired for value, and enable us to take an operations-oriented approach to drive improved profitability. It also means avoiding assets with low barriers to entry, limited pricing power, a research & development focus, and regulatory risk. Our consistent, disciplined investing approach is one we employ regardless of geography, sector or economic cycle.

Q. How do you use operational expertise to enhance value?

A. Our operations-oriented approach to investing involves asserting influence or control to execute improvements in underlying portfolio companies. We seek to ensure each portfolio company has a clear, concise business strategy built on its competitive advantages, developing simple business plans focused on profitability and ensuring that portfolio companies operate with sustainable operating and product margins and cash flows. While the operations-oriented value-add opportunity underpinning a particular investment thesis will depend on the circumstances, it generally involves some combination of strategic repositioning, focus on operational excellence and enhanced commercial execution.

CASE STUDY: OUR APPROACH IN ACTION



We recently acquired a firm in Asia that provides customer management services for large global healthcare and technology clients, representing our first technology services investment.

Customer management services is a $60 billion market, with healthcare and technology segments growing at two times the rate of the overall market.[3] The company has been consistently profitable and it has substantial wallet share, and the management team is capable and experienced. In addition, it's a high-quality business, with attractive commercial terms, including long 3- to 5-year contracts, no foreign exchange risk, and long-term relationships with 95% insurance company retention rates.

We identified an opportunity to help the business grow through leveraging the Brookfield platform. We expect to drive meaningful operational improvements, resulting in improved margins. Since we acquired the company, we have already seen our operations-oriented approach generate value. We redomiciled the business to the U.S., attracted high-quality professionals to join the team, and landed some additional high-profile clients. We plan to further grow the company through organic growth and market consolidation.

ENDNOTES

[1] As of June 30, 2022.

[2] All data of June 30, 2022. Brookfield Asset Management's AUM of $750+ billion is as of June 30, 2022, and it includes assets in connection with Brookfield's completed 62% acquisition of Oaktree Capital Group, LLC, which closed on September 30, 2019.

[3] As of June 2021. Source: Brookfield Private Equity.

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