Bird's Eye View of Brookfield Asset Management (BAM) with Adrian from Stratosphere

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Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we have a special guest from the great white north, we have Adrian from Stratosphere. Adrian is the head of research and lead analyst at Stratosphere at one of our favorite platforms, and a good friend of Braden Dennis, who we've had on the show a few times.

And so Adrian here is here to talk to us about some interesting things. We're going to talk about a company and maybe how to do some research outside of the United States and see works kind of across the border. And I thought it would be an interesting conversation. So Adrian, thank you for joining us today. We really appreciate it. And could you maybe give us kind of a quickie overview of kind of how you got to where you are like what got you interested in investing, and just kind of how we met.

Adrian

0:44

Yeah, thanks for having me how I got into investing, I actually started off with the most speculative of things started off, you know, you talked about Brookfield and constellation software, being huge in Canada, what was even bigger in Canada back in 2017, was cannabis stocks. So that was my start back then. It was awful. It was a disastrous experience, I made some money, I thought I was the king of the world, things came crashing down, it got legalized and everybody sold everything. And it's been going that way ever since it's just been going down and down and down. I eventually cashed out I lost 50% of my money. Thankfully, it was a very small amount of money. But I learned a lot of lessons from that.

And, you know, when I look back, it's frankly embarrassing, because I trained to be an accountant. So, you know, these were not concepts that were foreign to me analyzing a business looking at the fundamentals. So it really just made me reflect on, you know, my psychology. Why did I, you know, approach these sorts of investments? When I have this background knowledge and accounting and finance, why don't I just use that. And so that was sort of my evolution over the next couple of years. I'm 26. Today. So graduated four years ago, let's say. So my investing journey has been fairly short so far, but I think I've learned a lot over the last little while. And a big help along the way was Twitter, actually, I started on Twitter in 2019, I found that there were a lot of great resources, a lot of people talking about investing, whether that was real estate, or stocks, or any sort of asset class, and they had genuinely intelligent opinions on these sorts of things.

So you know, I kind of learned by myself, I guess you can say, but the other hand, not really, because I had all this help indirectly from all these people on Twitter. And then fast forward to today, I'm still on Twitter very actively, except now I'm not, you know, just a spectator, I try to contribute as much as I can, I can probably contribute more. But that's really where I'm at today. And Dave, you and I, we met while sharing some Brookfield videos. I think Bruce blod is one of the greatest investors out there today. Man, I just love what he talks about.

We'll get more into that later on. But I just started sharing those things with a couple of snippets from those videos, some intelligent things that I think he said during some interviews, and I guess you caught on somehow, I'm not quite sure how we got there. But that's essentially how we met. And then we just started talking about how difficult it is to analyze. So that was really my start.

Dave

2:58

Yeah, that's awesome. So I guess it's interesting that you had an accounting background, but you still made some booboos investing? Why do you think there was a disconnect between your knowledge of financial statements and what you were investing in at the time?

Adrian

3:13

Yeah, I think and I still believe is to this day, investing psychology is probably the biggest factor that will determine whether you'll be a successful investor or not. So you can have all the accounting knowledge in the world, you know, you can understand industries in and out, understand every single competitive force, all the competitive advantages. But if you can't sit tight, if you can't, you know, avoid FOMO, you're probably going to do very poorly, you'll catch on at the very last moment, right? When things are about to turn, that's when all the hype is that's when you feel safe, you have all this confirmation bias around you. But that's just not the way it's usually investing is uncomfortable.

That's a reality. You know, you got to be investing. Usually, when it hurts, that's when there's value most of the time. That's just the biggest thing for me and think I realized that early on, that was the main thing that I worked on. It wasn't the technical stuff. It wasn't, you know, I don't understand I have for us versus US GAAP, I don't understand, you know, certain accounting concepts or certain finance concepts, how do I tweak, you know, a discount rate and a DCF. Those are all additional and incremental things that I think, you know, help with theory overall. But I think the biggest thing is just sitting tight, understanding your investments, and you know, having the stomach to not get whipsawed around as the market moves up and down. So to answer your question more briefly, I think it's just it's really easy to look around you and feel comfortable when there's all this hype, and then feel scared when it goes away. So psychology, it's a tough thing to get over in the investing world.

Dave

4:40

Yeah, it really is. So let's dive in a little bit on some ideas about research. So one of the things that I struggle with when I try to invest outside of the United States is where do I go to start trying to find information out about the companies? You know, here in the US we're a little bit spoiled because we have sec.gov And we have all these new great sites like BAM sec.com that allow you to look at the financials, and you kind of understand everything that, you know, a 10k, a 10, q, an 8k, you know, all these different terms that we all understand.

But once I step outside of my comfort zone, then it becomes a little bit more challenging. So I guess through the eyes of somebody that looks at companies in both places, how would somebody in the United States work for a company in Canada? Like, where's the best resource? And please don't say CTR,

Adrian

5:30

CTR is awful. That out there, that thing has been put up in the 1600s. And not updated ever since. So please avoid at all costs. It's very frustrating to use. I don't use it personally.

Dave

5:41

For people who don't know what CDR is, what could you kind of explain that to them?

Adrian

5:45

Yeah, it's essentially Adguard. In the US, there's just the Canadian version, but it's extremely outdated. You got to put in this confirmation code every single time you want to look at a document, and it's just clunky. It's hard to use. And it looks like a very, very outdated website,

Dave

5:59

I'll be honest with you, the first time I tried looking at a company, it majorly turned me off. In Canada, I was like, I can't do this. And so then I actually reached out to Braden and Simone from the Canadian investor podcast and asked him, Hey, how can I start looking at a company? So I guess, if we were here, if I want to start looking at a company in Canada, let's say Brookfield asset management, or any, you know, insert name here, where would we start?

Adrian

6:21

Yeah, so something that I'm actually working on a stratosphere right now is putting together KPIs for I think, now we have well over 250 companies, and you know, that's a mix of Canadian and US companies. And so what I found the best resource for me, and what I like to use is just the Investor Relations website of whatever company, so I avoid Adguard altogether, CDR altogether, I don't really look at those, it's just more difficult for me to find information there. I like going on the Investor Relations website.

And then you know, we've got your exhibit 99.1 99.2 99.3, which is, you know, accounting code or SEC code for press release your management, discussion and analysis and your financial statements. In Canada, it's very similar. I used to work for a publicly traded company in Canada. And I'm familiar with a lot of these things, because it's a duly listed company. So it's also on the New York Stock Exchange, as well as the TSX. But the documents are the same. It's a standard sort of thing. It's pervasive around the world, I would say maybe not in Europe, but at least, you know, I guess our world in North America, you got your press release, and then your financial statements and your MDNA. So that's where I like to look, I avoid these, like standardized websites, as much as possible. I like to look at the company resources.

And then usually when I'm there, you'll pick up on other documents as well, like the supplemental or shareholder letters, and which I find very useful as well, in my research, so investor relations websites for me.

Andrew

7:45

So question regarding that, because, you know, back in 2017, there had this huge scandal with the Chinese companies who are listing in the United States turned out a lot of them. So basically, the way the international rules worked, were these Chinese CEOs are lying in their financials. And because the way the law works, the US basically, the US investors had no recourse against the Chinese CEOs who are lying in the statements.

And the Chinese CEOs did not get in trouble because they're in China, and they're under China rule. And there was nothing in China to basically allow other countries to prosecute on these companies. So obviously, Canada is not China. But how do you differentiate between maybe a situation where you're like, I don't trust this investor relations? Is it like dependent on the country? Is it company by company?

How do you make that determination when you're looking at financials, because the nice thing about like a CDR as an example, is we know that there's Canadian checks and balances in place there. And so when you talk about going to investor relations websites, the plus sign is it's not as convoluted as sealer, the downside potentially, is, there could be less checks and balances with that data.

Adrian

9:06

That's a fair point, actually, it's not a risk that I really thought about, I think mostly because my sphere are, you know, these are companies that would be listed on major exchanges. But I guess when we're talking about over the counter companies, or you know, these like micro caps and small caps, then it gets a little bit, you know, strange when, when it comes to that. So you might come across a lot of things that could be concerning, but you don't have that extra check on top of it.

So but in general, how I approach these sorts of things, you know, from time to time, it is a geographic thing. Depending on what country these companies come from, I may kind of approach it with a little bit more skepticism. But that doesn't mean that I don't go in with an open mind. I just might be a little bit more careful. But it's mostly a company to company approach to me. So I think it's mostly about what is the content in there are the risks sections filled out?

Do I think that they're comprehensive? It's really just the judgment at the end of the day, you got to be careful, I think, especially when these companies are not listed on major exchanges. So I think to answer your question, I think A good filter would be to check if they're on those major exchanges. And if they are, they're probably well governed. But if they're not, if they're over the counter, then you probably need to approach that with a little bit more skepticism.

Andrew

10:09

Yeah, totally agree.

Dave

10:10

Yeah, that's a very good thought. So you helped maybe filter that a little bit? Do you restrict yourself to a certain size of companies? Or are you more open to just kind of looking across the range of market caps.

Adrian

10:21

So currently, I'm all over the place, I would like to get into smaller companies. So let's call that you know, below 10 billion. And I have a couple of holdings that are below there, but not too many. There's one small bank in Canada, there's another bank in the US that I believe is under 10 billion in market cap. But for the most part, these are large cap companies, I think a lot of that is a function of where I'm at today, I would call myself a quality investor.

So I look for quality of earnings, a great history, in free cash flow per share growth, you know, great returns from a shareholder perspective. So, you know, are buybacks happening? Or, you know, is the dividend being upheld? If there is a dividend being paid? Or the earnings quality? Are they good? Or are they manufactured earnings. So that's really where I'm at today. And it's just a lot easier for me to get on board with a lot of these large cap companies, things get a little bit more difficult when we're looking at micro cap, I just think my experience is probably not quite there yet. But that is an area that I want to get into. I think there's a lot of opportunity over there, because it is overlooked. I'm just not quite sure how to approach it, I maybe I need to go back to Twitter and find some micro cap investors and kind of learn off of them and restart the cycle. And you know, maybe use a barbell approach. So do what I'm doing right now. And then, you know, maybe five to 10% of my portfolio can be dedicated towards trying out a different strategy. But for the most part right now, these are large cap companies. So let's call that 10 billion and above, and that includes mega caps as well. So

Andrew

11:43

since you guys are both active on Twitter, and I'm like the curmudgeon who's ever on there, how do you guys handle groupthink and some of the biases that can come in through that, Adrian, I love the backstory of you, you know, getting sucked into the cannabis stocks. And when you first started, and we were talking to Jake, the other day, they've he mentioned how people get sucked in, on whatever the hottest thing is, and we saw that, I mean, I saw it on Twitter, I was barely on, but I felt like it was NF T's this NF T's. And it's like, completely disappeared. So I guess it could be a question for either Adrian or Dave. But I'd like to hear Adrian first, how do you deal with some of the biases that can creep up on Twitter? And, you know, why should I jump on there?

Adrian

12:32

Yeah, so for me, personally, I think I've developed a decent framework at this point, I know what I'm looking for. So when I see investments, or you know, any sort of asset come up, and you know, it's just being preached on Twitter as the next big thing, I'll sort of go in and do my little valuation, most of the time is just a very simple back of the napkin valuation approach, you know, entry, multiple revenue growth, put a margin on that Exit Multiple, I will always, always, always factor in a sizable contraction on the multiple.

So I don't want my investments to ever be driven by any sort of multiple expansion, or even the multiple, just staying there, right? Because over time, companies do slow down. And I want to factor that in even if the company might be growing like crazy, I do want to factor that. And that's sort of my margin of safety. If it doesn't meet that requirement, it's a no go for me. So I think from a psychology standpoint, that's just sort of my framework. It's a quick filter for me. And that kind of that helps me filter through these 1000s of stocks that people are preaching every single day. So you know, a lot of sass companies, it just goes right out the door, I just can't get on board with a lot of these multiples, you know, cannabis stocks, they have no profit, do they have a path to profit? I don't know. That's a tough judgment to make.

So that's an automatic pass. So that's sort of my framework over there. And then, in terms of like the groupthink on Twitter, what I like to do is just research it on my own and do a balanced approach, you know, let's look at the risks, but also the opportunities, how might that flow into the financials of the company, and then what I've been trying to do, and sometimes it's really difficult, but what I try to do is I try to delay, you know, when I make a decision to buy something, I try to delay that by a couple of days or a week or even breaking that purchase up over time. And that's actually something that I did with intercontinental exchange, I finished the research on stratosphere and I really liked the company, and I purchased my first tranche of stock. It was a small position, maybe 1%.

And then I realized as I was doing more research that I probably don't understand it as much as I should. So although you know, it's glorified on Twitter, even though it's not talked about much, there are people that have positions and that it was just difficult for me to get on board. And so I sold the position, probably a moderate loss, or I broke even on it, I think, but those are sort of my filters, running the numbers very quickly, trying to instill a margin of safety off the bat and then, you know, taking my time with purchases, there's no rush opportunities are always there. So, you know, you don't need to be the first one, the first one and you can be the second one in or the third one in and you can do it

Dave

15:00

You don't have to swing at every pitch, I think, you know, the way that I kind of look at it. And I like a lot of the things that Adrian is saying, I guess the way that I do it, I guess initially is I've worked really hard to try to curate the people that I follow on my timeline. And then I also got some suggestions of creating lists, that are people that I like and follow. I have somebody like Adrian in my list. And so every time Adrian post something, that's something I see. And by using the list, as opposed to what Twitter wants to show me, that helps filter out a lot of the noise in the junk. I've also muted different things like I don't, I got so tired of the whole NFT crypto thing that I muted both of those words. So I just didn't get showed that stuff.

Because, you know, it was for a while there, it was kind of gross, I did that to help filter. And then guess the other thing is, is I just I'm curious about everything. And if I come across a company that somebody that I respect, or think has good insights into it, I will look at it. But so far, I think I've only bought one company, maybe two, from my time with Twitter, but it was only after doing, you know, my own research, not basing it on what somebody you know, told me to do, I have plenty of speed bumps in a way to prevent myself from just getting super excited about, you know, flavor of the day on Twitter and moving away from it.

The other thing that it helps with the list that I found is every day that there's a new cycle of whatever particular thing it is whether it's interest rates going up, or something political or something like that, then all of a sudden, all the experts, the daily experts show up and start telling you about whatever it may be, and it can get really noisy. And so when you stick to those ideas with keeping a list of different kinds of topics that you want to follow, then it helps avoid some of that you don't get sucked into, you know, the Doom scrolling, you know, sitting there reading about something and the next thing you know, you're scrolling for half an hour looking for something. So it helps avoid a lot of that stuff. That's what I do for me, but I like Adrian's ideas, too. I think those are great ones.

Andrew

17:11

It's like going back to the basics. I remember when before the algorithms, that's how you consume content on social media, right? Only people you followed, right. So Adrienne, I really enjoyed you have a lot of great research reports on Stratusphere. Particularly, there was one on Blackrock that I went through when I was doing my own research on the company. And I just loved the way that you really gave a balanced approach of you know, these are the things that are really exciting about the company.

But here are some of the risks that maybe people aren't thinking of. And that really should be front and center. I feel like that's a very rare skill these days for to be almost like pessimistic before you're optimistic on a company you're doing research in, because even the way that companies will write their annual reports, it's always trying to make the company look the best that they can, in the best light. So for an investor who's again, trying to beat biases, how do they do that, from a financial statement perspective, to make a more balanced viewpoint, kind of like what you did with BlackRock and some other companies?

Adrian

18:21

Yeah, I think you know, from a high level, like a lot of it just comes from understanding the company and to understand the company requires a full top to bottom research. So my approach is usually just reading the TENCATE. That's, I guess, as close as you can get to the truth, you have management talking about all the risks, and then also all the opportunities in the MDNA section. And so that's sort of the approach that I take, and you want to see how that translates into the financials. Right. So for something like BlackRock, right, they have this massive equity exposure. So you can take a look at how financials performed during times of turbulence versus times of, you know, prosperity.

And, you know, last couple of years, we've had a lot of prosperity. But last couple of months, things have been dire. So you know, that's just sort of a thing that popped up into my head, I was reading about it. And you know, you see all this equity exposure and fund exposure, they sell ETFs and, and other products. And that really has you thinking if flows were such a major part of the story the last two years that helped them then won't that also hurt them, when things go down. It's kind of it's very similar to a lot of other industries, right, like oil, when oil prices are really high, then oil companies do very great. But what happens if that turns the other way, there's just a lot of reliance on one thing performing really well and it's sort of out of their control flows are not really in their control. So it's a company that has more risk in that regard. And the way that I've adopted this approach, I think it was really, you know, my CPA program, a qualified CPA in Canada, and I feel like they really nailed it into our heads.

Our exams are case based. So everything is you need three points of opportunities or your positives and then you need three points of risks. It was just that like clockwork for years, and years and years and years, so I think I'm just swipe to think that way. And when I looked through financial statements, that's what I look for. And, you know, strategy that I have is when I'm going through it, I have I use Adobe, just the standard reader. And I'll go and highlight all highlight things in green, if it's good, and then I'll highlight things in red, if I'm concerned about it, or if it's an outright risk, and then I'll kind of summarize at the end, I'll look through the PDF, I'll see what I highlighted. And then, you know, if there's far more green, which also outweigh the red in terms of magnitude, then you're probably looking at a great company.

But if it's, if you're looking at it the other way, then may not be the case. So that's sort of my approach. And then, you know, investing, it's really an art at the end of the day, like Black Rock to me, is a little bit too risky for what I'm looking for, I already have a ton of equity exposure, just you know, holding equity. So holding BlackRock, but just add a little bit more beta, in my opinion. So I just don't really understand really the value driver that I'm getting there. Although I think it's a great company, it really just depends on what your investment goals are, what your risk profile is like and what you want your portfolio to look like. And Blackrock just doesn't fit that bill. But I still think it's a great company. And that's what I tried to show through in the research on stratosphere.

Andrew

21:07

Yeah, it really shortcutted for me, like some of the risks were obvious to me, and some of them are obvious reading the risk factors. But then also, like you said, this idea of like a double edged sword might not jump out immediately. And so if somebody can shortcut that thought process, it's that's always helpful. And that's why I enjoy about your work on stratosphere. So now to take the balance of muddy the waters with all of our negativity for investing, let's actually bring some optimism into the conversation. So can you give an example of a company that you see the business model and there seem to be more green than red on your highlights?

Adrian

21:46

Yeah, so I think a great example of that would be Brookfield Asset Management. Dave, again, like you said, it's it would be unpatriotic of me to not talk about Brookfield, so

Dave

21:58

it's kind of like catnip for Canadians. I found,

Adrian

22:00

yeah, Brookfield asset management, I think there's a lot more green than red, there is St. This is a fascinating case study or, you know, a company to talk about, because there is this is a glaring red mark all over the place. It's a very difficult business model to understand, Dave and I have tried, you cannot pick apart the financial statements and understand them fully. And I don't think any investor in Brookfield ever can, it's just a massive conglomerate with a very difficult ownership structure management has essentially total control of the direction of the company. Whereas you know, the shareholders like you, and I may not have as much say, as we think we do initially. So it's just a really difficult business model to understand. But I think there's a lot of positives as well. Yeah, I'm happy to dive into that. Unless you guys have anything to say to those risks.

Dave

22:44

I agree with you the braid and put it to me, they're a bit of a black box as far as the financials go. And I'm not saying that in a shady way. It's just because of the way that they're structured. It makes it complicated to determine kind of where some of the things how much impact something may or may not have for my uneducated viewpoint. And I guess one of the things that maybe to kind of give people an overview, can we kind of talk a little bit of maybe kind of how the conglomerate is kind of set up in a kind of umbrella kind of way?

Adrian

23:15

Yep, so Brookfield asset management is the holding company have a lot of invested assets, including some publicly traded companies. So we have Brookfield renewable partners, Brookfield business partners, there's oak tree. Under the umbrella, we have the infrastructure partners, there's a lot of listed companies under the Brookfield Asset Management umbrella. And then the holding company itself Brookfield asset management also invests on its own and for its clients. So there's just a lot of things going on, there's money kind of moving all over the place, and these subsidiaries sort of help each other out through this ownership structure. But the ownership structure itself is also not quite intuitive, because you know, Brookfield may own 25% of one of them, but 60% of another subsidiary, even though they all support the Brookfield name.

So it's quite complicated, but the overall goal, the holding company, and the subsidiaries are the same. It's to invest in great assets, purchased them at a low price, they fix them up, they started gushing cashflow, and then eventually they're sold if either the subsidiary you know the unit or Brookfield Asset Management feels that it's time to sell. So that's the overview of Brookfield.

Dave

24:24

I think one of the things that I like about the company is it, it feels a little bit decentralized, a little bit like Berkshire and constellation software, and that, you know, there's a headquarters, and then there's subsidiaries that are running businesses and those subsidiaries have their own, I guess, latitude to do, what they feel like they need to do, for example, the Brookfield renewable partners, they have renewable assets globally.

So they have them in Europe. They have them in Brazil, they have them in Mexico and Colombia, and United States and Canada, primarily in hydro, but they've also started investing in solar Are as well as wind assets. And I know this because I was really trying hard to find a company to buy in the renewable space and Brookfield was one of the Brookfield renewable is one that kind of kept coming back to me as well. The thing that I like about it is that that business model is profitable in itself. And then that helps contribute to Brookfield asset management's profitability, same with the infrastructure partners, and so on. So they think something that I think I really like about the company. I guess my question then is, what are your thoughts on kind of the management of the company and I guess the big part of it is the capital allocation, because of the convolution of the ownership structure, you really got to have a lot of faith in management. I think that's probably a good segue to talk a little bit about Bruce flat.

Adrian

25:42

Yeah, for sure. So I think this is one of those scenarios where it would be great to talk about, you know, the green highlights significantly outweighing the red. And you know, you have this very strange ownership structure, it looks, you know, frankly, scary to any sort of investor just getting into Brookfield. But I think it's important to note before we delve any deeper into this, that Bruce flat has a ton of ownership and Brookfield. So it would not be in his best interest at all to make some sort of crazy, you know, convoluted structure that, you know, eventually turns out to be a fraud or something like that, because his entire net worth is essentially tied into Brookfield, he owns about 68 million shares in the company.

And then you know, if you look at all the other managers that hold shares in the company, the insider ownership of the company is quite large, I think it's about 20%. But that might be an outdated number. But either way, whether that's 10%, or 20%, or 30%, those are massive numbers, Brookfield is a multibillion dollar company, they have a lot of their net worth tightened so that when I read that, that gives me a lot of comfort. So although it is a black box, in terms of the ownership structure, and what that means, what the risk is, to me, you know, you're kind of flying blind, but on the other hand, you're sort of a partner with them, and you feel a bit of comfort, because they're heavily heavily invested in the company. So with that said, Bruce flot, I think, you know, like I mentioned earlier, I think he's one of the greatest investors of all time, certainly one of the best today, he does have this sort of Warren Buffett approach to investing, although it is a little bit different.

His his focus is on real assets. And sort of the the underlying fundamentals of how Brookfield works is, and I've learned this from the videos, I'm sure you have as well, they they seek assets, real assets around the world. So not just in Canada and the United States, we're looking all around the world, he looks for assets that are severely undervalued, or distressed, where capital is scarce. So you know, a lot of institutions may avoid these, you know, fix me up assets. So the way that I think it's really just the real estate private equity approach, you look for a distressed asset, you buy it at a given, you know, market cap or a cap rate, you put in some money, you fix it up, cash flows start gushing, you stabilize those cash flows, right.

So, in other words, they become mature, and then you look for a sale or you keep it, it depends, if you think that the asset is worthwhile to hold for a very long period of time, then you hold it. And that's what Brookfield does, in some cases, or in other cases, if they think, you know, they would get a really great sale out of it. So, you know, they purchased that, or they stabilized that a 15% cap rate, which means that, you know, the cash flows coming out of the asset are 15% of what they paid for it and what they put into it on top of that. And now we can solve for, say 5% or 6% to another institutional investor who is looking for a stabilized and mature and easy to control asset, then that might be the case. So I think Brookfield very much operates like what a private equity fund should operate as, and they've done a great job with that. Yeah,

Andrew

28:43

they certainly have, what kind of real assets are we talking about here? Is it real estate? Is it a specific type of asset, whether they primarily do

Adrian

28:52

it's all over the place? It's literally any sort of asset they can get their hands on? I think they've started to get into typology, but a lot of these assets are just regular infrastructure. So I know they purchased for example, a toll road in India and there IRR was very high on that. I think it was either in the mid teens or low 20s. So we're looking at toll roads, things like bridges, even roads, standard roads, you know, recently they struck a deal with Intel to help out with their manufacturing facility. So that would be for semiconductors. So they look at things like that wind, thermal, anything like that. So renewable energy or even just standard utilities, what else they have, they have a private equity unit.

So you know, I think they focus mainly on real assets over there as well. They have oak tree so oak tree is run by Howard Marks, and Howard Marks is very well known for investing in distressed debt. So when things get bad, you can buy some credit for cents on the dollar. And then what else we have real estate. So his area or Brookfields area of focus, I think is mainly office and retail, which are asset classes that a lot of people kind of get scared of and that really gave them an opportunity to get to that unit used to be publicly traded, but Brookfield bought it out because it was trading for what they believe to be below intrinsic value. And so they they brought that in, that's just under the Brookfield umbrella as a private business now, but those are really the main assets. It's really just anything and everything pretty much under the real asset umbrella.

Dave

30:15

It's quite established and quite elaborate. And like Adrian said, they literally will buy everything, anything that's they feel like has, you know, an asset. So kind of go back to Bruce a little bit. He's a younger guy, and he's been running the company for he's 55. Now, I believe, and he's been running the company for about 25 years. And so he still has, as the video I saw a few days ago, he said, I still got 1015 years ago. So you know, that to me, gives me comfort to that somebody that has done as well as he does, it still has plenty of life left in them, if you will, and still wants to do this here. thing that was kind of telling about the last video I watched, was that everything that he talked about, he's a very humble guy.

And everything that he spoke about was we he never talked about I even when the interviewer would ask him specific questions about how did you do this? He would always refer to his co workers and other management. It was always Oui oui, oui, oui, oui. And so I think that's kind of telling to about the culture of the company and kind of what they're trying to establish. And I think, you know, if you look at it something like glass box, you don't see a lot of negative reviews about him or the company as well. So those are other I think, insights that I think make you feel a little bit better about, who's kind of running the show.

Adrian

31:28

Yeah, if I may add as well, on top of that, you know, referring to everybody as we it's not just a company culture thing. But I think that's also how they approach shareholders. So if you read any of those shareholder letters, there's this talk all the time about maximizing shareholder value, which again, is very similar to how Warren Buffett writes his letters. So I think we can definitely throw that in there as something that we that he continues to refer to implies on when he says that,

Dave

31:51

yeah, for sure. When Brookfield buys all these assets, how are they funding that you would think, just without looking at the financials, this has got to have some serious massive debt going on? Maybe we could touch on that a little bit.

Adrian

32:02

Yeah, I think very difficult to see on any one asset, because that's not disclosed. For the most part, yeah. But it's a combination of, you know, equity and debt, bro, people will put in, some of their own money will go out, and they'll raise some limited partner money or LP money. So they go to institutions, and they grab some money from them, they'll raise a fund, and then they'll go and buy a bunch of assets. And then the rest of it, the balance would just be coming from debt, which proves flat talks about as conservative and prudent amounts of debt that they think will not only enhance IRR, but also be manageable if there is a downturn or any sort of negative events.

So it's really a mix of that Brookfield can be looked at as a general partner, like the typical private equity structure, they invest their own money, but they're also investing on behalf of others with their money. And that's how they get paid like like a private equity business, right? They make money on the funds that they manage, they also have carried interest in this. And then with their own invested assets, that would just be the cash flow. So the funds from operations and then the just the value of the invested capital going up or down depending on what it's valued at or what they can sell for.

Dave

33:05

So it's kind of structured a little bit like a REIT, like the real estate investment trust,

Adrian

33:10

I guess you could say so yeah, yeah.

Dave

33:12

So if we're looking at the, I guess, the returns that the company has generated over the last 10 years, how have they done, I guess, to add on to that real quick, Bruce talks a lot about them being a great inflation hedge, if you will, for different inflationary periods. So what are your thoughts on? I guess those two ideas?

Adrian

33:32

Yeah, I think there's a little bit of confusion that comes out of that, because it's not quite clear when he talks about it. But I think I've discovered what it is and what he means by that. I think a lot of the cash flows that any of the businesses have, I think they're indexed to inflation, their contractual cash flows that have some sort of inflation, you know, raised and built in every single year. And if inflation goes up, and you know, the cash flows will rise as well.

But on the other hand, inflation and interest rates going up, obviously, that hurts asset values. So the invested capital value may go down if there's not as much demand or if financing is more expensive. So you know, maybe on a sale, instead of getting a 13x, multiple on something, they might get 11. So that would impair the value of the assets temporarily, but the cash flows would be strong, so but I think the way that they invest, if they're looking long term, they won't sell if it doesn't, give them what they want. If it's not the IRR hurdle that they're looking for, then they'll probably just keep the cash flows going, which are indexed to inflation. And then once the environment sort of normalizes that could be an opportunity to sell. And I think that's what they did over the last couple of years when interest rates were near zero, that inflated the value of assets all over the place.

And there was some in particular that were highly in demand and alternatives were booming. So that gave them an opportunity to sell things off. But now interest rates, you know, much higher and inflation raging. Their cash flows are indexed to that, while they're invested, capital may go down on the other hand, this helps them out because they can, they can go and purchase assets at higher cap rates, right? So the underlying cash flow would be higher. So it's really said dependent, asset class dependent as well. But I think that's what they mean, when they talk about these assets overall being, you know, beneficiaries of inflation,

Dave

35:16

you know, that makes a lot of sense. So we've talked about a lot of the positive besides the ownership structure, are there any red marks, like anything that gives you pause about the company?

Adrian

35:26

I think that's, I think that's mostly the main thing, the other thing would be some of the asset classes that they're maybe investing in. So like retail, for example, or office, I know, they're continuing to buy some of those asset classes that I may not necessarily agree with. But you just got to think that if you know, they got to be aware of their exit opportunities with that as well, I don't think they're looking at this in a short sighted manner. So you know, the price of this went down, let me buy it, it's great value,

I think they are looking at the overall environment and what this means on a potential sale or the durability of those cash flows. But I think overall, it would mainly be that I think, also if this environment continues to rage on, so if inflation continues to stay high, although they are indexed, I think eventually, you know, if the overall invested capital value goes down significantly, then you know, if their exit opportunities dry up substantially, that might mean that a lot of their capital is tied up. And that could also mean that raising money might be a little bit more difficult for them, because the performance of the assets are just not as great. So I think those would be the main ones.

For me, they're mostly general and high level risks, but the biggest one, I think, would definitely be the ownership structure. You just don't know what's brewing under the surface. I mean, I don't think we'll ever know unless it happens. But that's what Brookfield is, I think it's a sidecar investment. It's a bet on management. And it's a bet on their assets under management continuing to go up. Some they do pay dividend, right? They do. Yeah, I think it's like one and a half percent. It's, it's quite small, Oregon.

Andrew

36:49

There's a lot of analysis in that. And we really appreciate you taking the time and sharing that with the audience. Again, I really love the green highlight, read the highlight idea gives a nice visual to be able to think about how you look at companies and taking a balanced approach to, which is interesting to hear you realize that that's been ingrained in you. And to hear that realization of kind of how that came about. I think a lot of investors can learn a ton from that, especially if things get really crazy in the markets. So Adrian, where can people learn more about you what you're doing online, and get more access to your work?

Adrian

37:30

Yeah, so the best way would be to go on stratusphere.io. And that's where I write research. Primarily. I'm also on Twitter, but I don't post too much. Again, I think I should probably post more, but I'll work on that my Twitter handle is at Compass in strat, I'd made this three years ago, and I haven't changed this since but compass inv s t r a t, I'm an anonymous account for now. I think that'll change soon. So you might see my face there. But those are the two main places where I post either my current thoughts or longer form research. Yeah,

Dave

38:02

that's awesome in I highly recommend you give him a follow on Twitter. He doesn't post as much as he should yet. But he does offer some great insights and a lot of good thoughts on stuff. And his write ups on Stratusphere are very, very good. I enjoyed them a lot. I learned a lot every time I read something that he writes. So Adrian, thank you very much for taking the time out of your day to come join us. We really appreciate this. This was a lot of fun. And so everyone out there, go out and invest with a margin of safety emphasis on the safety. Have a great week, and we'll talk to you all next week.