Brookfield's Sam Diedrich Talks About Their New Fund

22 December 2016
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The Brookfield Real Assets Income Fund (NYSE: RA) was launched in early December with shareholder value in mind.

Greater Than The Sum Of Its Parts

The Public Securities Group of Brookfield Asset Management, a global alternative asset manager, has recently merged three of its U.S. listed closed end funds into one. The legacy funds Brookfield Mortgage Opportunity Income Fund (BOI), Brookfield Total Return Fund (HTR) and Brookfield High Income Fund (HHY) are now the Brookfield Real Assets Income Fund (RA). The new fund is an aggregate of its predecessors and comes with a feature unique to funds of this sort; specialist portfolio management teams drawn from among the managers of the legacy funds work closely with the portfolio managers responsible for the overall allocation, to drive the fund's investment strategy.

I was able to speak with Sam Diedrich, a member of Brookfield's asset allocation investment team, about the new fund and he had some interesting things to say. My first question was, of course, why merge these three funds? His answer was simple, there were three reasons or advantages for the merger that Brookfield felt should lead to enhanced shareholder value; scale, potential for income growth and investment strategy flexibility.

In terms of scale, the legacy funds were each worth between $200 and $400 million, the new fund's net asset value is over $900 million making a much larger, centralized offering with potentially greater visibility. Greater scale leads into their second reason for merging as well; possibility for greater income and growth. One plan in the works includes enhancing the overall yield by selling lower yielding bonds in order to redeploy cash at higher rates of return. Along the way Brookfield hopes to attract the attention of sell-side analysts as well.

All of this is intended to attract new attention, market awareness etc. for the fund. Brookfield believes this new attention should help narrow the spread (discount) of where the fund's market price on the NYSE is trading relative to the fund's net asset value. The discount is running near 13% as of this writing and when asked how much they would like to see it narrow Mr. Diedrich replied "as close to NAV as possible".

The Strategy

The strategy is simple, invest in securities of real assets companies/issuers, assets that Brookfield believes tend to generate income, with a focus on infrastructure, real estate and natural resources. The three legacy funds, while focused generally on similar areas, achieved their goals in different ways so that when combined, created a fund with a broad scope and built in investment strategy flexibility. Corporate bonds make up 29% and asset backed securities nearly 63.8% with no single holding equaling more than 2.5% (according to the Fund's first published fact sheet).

Along with investment strategy flexibility, should come, in the words of Mr. Diedrich, "inherent inflation protection" due to the inflation link real assets have with the economy; typically when inflation rises so do the cash flows of real assets. Managing such a fund, one invested in corporate debt of real assets companies/issuers and mortgage backed securities, is a complex task which is why investment teams from each of the legacy funds were assembled to provide direction for management of the collective fund.

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Income is the focus here, as the name implies, although growth of capital is also targeted. The fund was initiated with a distribution rate of $0.1990 monthly, or $2.38 annually. Looking forward, when asked about the future and in particular the future under a Trump administration, Mr. Diedrich's response was that, while it is unclear exactly what will happen next year, the prospect of tax reform, deregulation and infrastructure spending is a positive for the economy and the market, but we'll have to wait until next year to see just how positive. He likened the recent rise in interest rates on the back of the Trump election as similar in scale to the Taper Tantrum of 2013, however with one very notable exception; at that time credit spreads widened as the market was afraid the FOMC's tapering of bond purchases was too much too soon and was likely going to stop the recovery dead in its tracks, at this time the market is growth oriented with positive outlook and credit spreads have instead been tightening.

The Brookfield Real Asset Income Fund, Greater Than The Sum Of Its Parts

The Brookfield Real Asset Income Fund is a U.S. closed end fund focused on investing in listed securities of real assets companies and issuers, namely real estate, infrastructure and natural resources. The Fund may invest in corporate bonds of real assets companies, asset backed securities and, to a lesser extent, equity securities of real assets companies, with the intention of generating high current income and, secondarily, growth of capital. This is done with an active management approach that utilizes the professional experience of specialized teams. It is listed on the NYSE under the ticker symbol RA and can be purchased through any broker.

When you break it down and look at what came before, RA is not just a corporate bond fund, it's not just an MBS fund, it is not just a handful of investments in real estate, natural resources and infrastructure, it is a fund with investment strategy flexibility, invested across the real assets sector.