BRIAN LAWSON

True Strategic Business Partner

By Ramona Dzinkowski

As a 25-year veteran of Brookfield Asset Management, CFO Brian Lawson has seen some of the wildest times in the history of equity markets, real estate volatility, and risk management as any finance professional. During one of the worst global downturns since the Great Depression, Lawson has helped steer company revenue growth from $12 billion in 2009 to $18.7 billion in 2012, making Brookfield the largest company of its kind in Canada and ranked among the top 25 largest companies in the country.

After more than a century in business, Brookfield has 23,000 employees in 100 offices around the globe. It also has $181 billion of assets under management (AUM), including: 131 office buildings; 175 shopping malls; 19,800 units of multifamily homes (apartment buildings and condominiums); 200 hydroelectric dams in Canada, the United States, and Brazil; 11 wind farms in Canada and the U.S.; Western Australia's only railroad; 3,200 kilometers (3,000 miles) of South America toll roads; electrical transmission networks in Chile, Colombia, Canada, and Texas; natural gas pipelines in the U.S., New Zealand, and the U.K.; and port facilities in Europe and Asia.

Earlier this year, Lawson was named Canada's CFO of the Year, an award presented annually by Financial Executives Canada, PwC, and Robert Half International. *Strategic Finance* was able to speak with Lawson recently about how Brookfield's defensive strategy of sticking to the knitting and conservative management saw them through riskier times and how five years later the company has turned on the offense with a more aggressive growth and acquisition strategy. At the same time, we asked him about what it takes to be a strategic partner in the executive suite, as well as about his insights into what makes for great financial leadership.

On Global Risk Management

RD: Can you describe how your risk management strategy saw the company through recent volatility in asset prices and what separated Brookfield from other companies?

BL: Having a lower risk strategy both on the asset side and on the financing side put us in a very strong position when things started to get challenging. Historically, our approach has been to be a global alternative asset manager with a particular focus on real assets—office buildings, power dams, infrastructure. In other words, high-quality assets where the cash flow streams tend to appreciate over time with growth and inflation. Cash flows tend to be very durable and backed by long-term, high-credit-quality contracts.

Three years ago, when things were pretty tough globally, having assets of that quality and the robustness of those cash flows was very important. Assets of that nature tend to be much more resilient during downturns. The other side of it is we didn't get caught up with excessive leverage and excessive asset valuations. Our financing model very much focused on investment grades, long-term financings mostly secured by specific assets—a single mortgage on a single building, for example. Finally,

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we weren't involved with complicated structured financing that, as we've seen in other companies, could suddenly unravel.

RD: Brookfield also maintains residential real-estate holdings. What was your strategy to combat against asset devaluation in that class?

BL: Our residential holdings at the time were primarily in Canada, the United States, and Brazil. The only one that really got hit during that period was the U.S., for obvious reasons, and it did require some deleveraging. However, we also put some capital into U.S. residential assets at a cyclical low point, and that has put us in a position where we've created tremendous value as the

BENCHMARK

Brookfield assets under management (AUM): $181 billion
Brookfield revenue: $18.7 billion

Blackstone AUM: $210 billion
Blackstone revenue: $4.1 billion

Carlyle Group AUM: $170 billion
Carlyle Group revenue: $2 billion

KKR & Co. AUM: $76 billion
KKR & Co. revenue: $1.5 billion

Onex AUM: $42 billion
Onex revenue: $27.4 billion

BRIAN LAWSON, 53, graduated from Trinity College, University of Toronto, with a B.A. degree in 1983 and was certified as a Chartered Accountant (CA) with the Canadian Institute of Chartered Accountants (CICA) in 1985. (CICA is now part of CPA Canada.) In 1983, Lawson joined the audit practice of Touche Ross & Co. (now known as Deloitte). In 1988, he moved to Brookfield Asset Management Inc., where he has held senior management positions within Brookfield since the early 1990s. In 2002, he became the chief financial officer. As senior managing partner and CFO, he's responsible for Brookfield's financial reporting, risk management, and funding activities. Lawson is a native of Toronto, Ontario, and is married with three children.

market is recovering. It's time to rebalance the weightings somewhat, repatriate, and harvest some of that capital.

RD: How has your strategy as a CFO changed over the past three years?

BL: The basic principles of the business haven't changed much at all because of our fundamental approach to risk. Like most companies, however, we were playing more defense in '08 and '09. After 2009, what was exciting was going from defense to offense—undertaking acquisitions like buying general growth properties in America or buying the Babcock & Brown global infrastructure portfolio. We'll look back on those as being two of the best transactions we've done.

RD: Against the backdrop of continuing nervousness over Eurozone stability and a slowdown in emerging markets, what do you see as some of the economic risks and opportunities that will affect Brookfield and others in your business?

BL: There's no doubt that there are a number of risks. You've got economies around the world moving at different speeds—some forward, some back. At the same time, you've got a higher degree of interconnectivity among all of them. So the thing that is challenging in a lot of ways is trying to anticipate how those different influences will get transmitted from one economy, one region, or one asset class to another and, ultimately, how it will manifest in terms of interest rates, currencies, prices, or even liquidity. Those are things that I think a lot of people, including ourselves, are more focused on perhaps than we might have been in the past. I think where the opportunity comes is that a lot of these factors really support what we've seen as a shift in investor strategies toward real assets, which, of course, is the investment product that we offer. At the same time, we still see a lot of opportunity to acquire because there is still a need for some owners to deleverage. Because of some of this ongoing angst, we've been able to acquire a number of very-high-quality assets in markets that we're very familiar with, at extremely attractive values.

On Governance and Control

RD: How has the global regulatory environment changed since you've become CFO, and how has this impacted your governance and control processes?

BL: Changes in the regulatory and reporting environment certainly have had an impact, but it's more of an administrative impact as opposed to a fundamental impact. We have a long history in operating as owners of public companies, so none of this is new to us. Certainly the rules are evolving. There is definitely a lot more compliance to consider. There is certainly more complexity in the regulations. On the other hand, some things have reduced our administrative burden. IFRS [International Financial Reporting Standards] adoption in Canada, for example, was a positive regulatory development for us. Historically, we used to file both Canadian GAAP [Generally Accepted Accounting Principles] and U.S. GAAP. Now as a Canadian entity, being able to file under IFRS in America has simplified our financial reporting, and, certainly for our business, IFRS is a far superior reporting framework because it enables us to provide our investors with ongoing information on the fair value of a number of our major asset classes.

RD: What is your opinion on the impact of mandatory auditor rotation?

BL: There are certainly pros and cons. There are a lot of cost and effort involved in changing audit firms, and there's a lot of loss of institutional knowledge. We're operating with a five-year partner rotation, and I think that already achieves a lot of what you might get with having a firm rotation. I get the point about people growing too close, and I don't want to underplay that at all, but the change in the audit partner can give us that fresh look every five years without having to necessarily go through the whole bidding and selection process.

The Evolving Finance Function

RD: Can you describe some of the major challenges facing senior finance executives today vs. perhaps 10 years ago?

BL: Our business has grown a lot, and our firm is a lot more global than it might have been 10 or 15 years ago. Having said that, I think you could say that about most business. Whether it's directly global because it operates in multiple parts of the world, and, even if it isn't, it's still impacted by everything that is happening internationally. And that's certainly something that is a challenge. At the same time, technology is an even greater enabler today than a decade ago, but it also puts a lot of pressure on individuals, the culture, and the decision-making process. At the end of the day, the best way to deal with that from a financial management perspective is having a very open, communicative culture where information flows among different parts of the organization.

BROOKFIELD SHARED MANAGEMENT PHILOSOPHY

BUSINESS PHILOSOPHY

- Build the business and all our relationships based on integrity.
- Attract and retain high-caliber individuals who will grow with us over the long term.
- Ensure our people think and act like owners in all their decisions.
- Treat our client and shareholder money like it's our own.

INVESTMENT GUIDELINES

- Invest where we possess competitive advantages.
- Acquire assets on a value basis with a goal of maximizing return on capital.
- Build sustainable cash flows to provide certainty, reduce risk, and lower our cost of capital.
- Recognize that superior returns often require contrarian thinking.

MEASUREMENT OF OUR CORPORATE SUCCESS

- Measure success based on total return on capital over the long term.
- Encourage calculated risks, but compare returns with risk.
- Sacrifice short-term profit, if necessary, to achieve long-term capital appreciation.
- Seek profitability rather than growth, as size does not necessarily add value.

RD: It would seem to me you would need a pretty significant support structure to assess the various risks around the world. Have you noticed a change in perhaps how the finance function needs to operate given globalization of business generally?

BL: The way our finance function operates reflects the philosophy and strategy of the company as a whole. We

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tend to be incremental in nature, and we tend to try to focus on things that are alike. I think this is something we pride ourselves on in our organization.

We try not to overcomplicate. We try to find the commonality and the simplicity in things, find the easy corelations. For example, we own quite a number of office buildings in a number of different parts of the world. But there's a high degree of commonality in terms of the risks and how we assess those risks. Whether it's Sydney or New York or London or Toronto, you're often dealing with the same types of tenants, and, ideally, from a financial management perspective, you're trying to take the same approach toward leasing and financing. Similarly on the power side, we own over 150 power dams, and they're all relatively similar in a lot of important ways.

Now there's no doubt there are micro trends within each of those markets, but that's why we have roughly 20,000 operating employees who know those markets cold. Again, that's where the communication between the field and head office comes into play. As long as people are very effective in communicating the important things, both the good and the bad news, it makes it all a lot more manageable.

On the Role of the CFO

RD: In terms of the characteristics of a successful CFO, do you have a certain framework in your mind that you like to operate from?

BL: The thing that is very important for me personally is that I just always try to put things in order, try to create logic, create flow, and try to create simplicity out of many different variables. That's something that is shared by my partners, and it's something that we also see throughout the management team. Ultimately, for any CFO these days, it's all about having the strongest team that you can possibly have and giving them opportunities to grow. At Brookfield we're blessed with a lot of growth opportunities, which has enabled us to attract, develop, and retain a number of very highly qualified individuals, and that just makes everybody's life a lot easier.

RD: In terms of any advice you might have for senior executives on the CFO trajectory, does any one thing stand out specifically that would be a favorable approach to career advancement?

BL: If I think about what I would view as being strong CFO candidates, they'd obviously have to have a solid grasp of a number of different technical points. That probably goes without saying. But further to that, I think one of the most important personality traits of a CFO is just being inquisitive by nature. You know, having a real passion for the business that you're in so that you can really visualize how the technical side of it lines up with the business objectives. And I think, particularly in a world that is so fast-paced and complex, to be able to shift your perspective from the forest to the trees and back again, to be able to take those deep dives into an issue but at the same time to retain an overall vision of what's at play, is extremely important. The CFO has to be an "integrator"—they're an enabler because they pull together a number of different elements within an organization.

RD: The terminology that's been thrown around a lot lately in terms of the role of the CFO is "business partner." Have you seen this change over the last number of years, where perhaps the CFO was strictly the numbers person and now they're more involved at the front end of the thinking of the organization?

BL: Maybe it just goes to the legacy in the firm and where a number of us came from, but the CFO has always been very much of a partner to the CEO. In a number of cases, we've had CEOs who have first been CFOs or have been in that profession. So I think we haven't really seen a change on that front. Because we're big believers in the CFO's having a well-rounded skill set and definitely being an important partner to all of the senior executives in the business, I think "business partner" describes the role quite accurately, and I believe this is the trend today in most large, complex companies. **SF**

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