

# An interview with Andrew Brown, East 72

Andrew Brown is renowned for his long-form letters that analyse little-known, complex investment cases.

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**Swen Lorenz (SL):** I am so excited that you are attending the Hong Kong edition of the Weird Shit Investing conference. Your quarterly letters are among my all-time favourite publications. When I get one of them in my inbox, I put everything else aside! Why did you decide to write these extremely in-depth, thoughtful missives?

**Andrew Brown (AB):** Three main reasons.

First, I have a strong view the initial move organisations perform when elevating someone to portfolio manager is to remove their pen. Especially for those who have a performance benchmark where all they write about is underweight this and overweight that. Some of it is monotonous drivel increasingly written by AI, not a passionate stock picker. Since I used to collect fountain pens and still write with one (see my ink-stained fingers – a leftover from grammar school in England), I had too many pens to take away. People like reading passionate but realistic stories. Given I deal in controlled companies (see below), some of the histories are astonishing and should be told, containing marvellous investment lessons.

Second, your investors – actual and prospective – want to know why you own some of your stocks and gain an insight on your analytical techniques, style, thought processes, and integrity. You bought shares because you have a thesis as to why they are undervalued, and what will develop to bring change to fruition. Once you are positioned and not commercially compromised, enunciate and share it. But make it interesting.

Finally, with various social media platforms I can share my work across the globe with others, not just to attract investors, but to network with suitable contacts. I'm not interested in writing as a full-time vocation, so never wanted to do your job, Swen! I sometimes take forever to put the pieces together; on other occasions words just flow. I'm not consistent enough to sell a written product on a weekly or even monthly basis.

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**SL: For those who haven't come across your letters yet, tell us about East 72 and your approach to investing.**

AB: I have invested in a number of different arenas – obviously Australia – and from mega-cap to micro-cap equities – but it dawned on me some three years ago that the investments which had done best for me, over time, and with which I was most comfortable letting me sleep at night, were companies with **controlling shareholders**. Funnily, it was a reversion to when I was in my last year of high school and won the stock picking competition in economics with Thomson Organisation, a genuine conglomerate with package holidays, a related airline, newspapers (*The Times*) and North Sea oil interests. In the late 1970s, which schoolboy wouldn't want their own airline, newspapers, and oilfield?

This investment strategy – especially in family-controlled entities – has been shown to beat market indices **over time** by empirical research from Credit Suisse, UBS, Harvard Business School, and others. The most topical and up-to-date work is from Canada where family-controlled companies make up well over 15% of the S&P/TSX Composite Index – stocks like Shopify, Alimentation Couche-Tard, Fairfax Financial (we own), Thomson Reuters (yes, the same company as above), Power Corporation and GreatWest Financial. National Bank of Canada publishes a regular assessment of the genre ("NBC Family Advantage") and has published five such reports.

So in late 2022, we established East 72 Dynasty Trust as an Australian wholesale unit trust to invest in global companies with a controlling shareholder – not always families – could be management, another corporate or even private equity.

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**SL: I'd describe your approach as a combination of original idea generation, differentiated analysis, and detailed valuation techniques. Would that be a fair description? How did you develop your style of research and investing?**

AB: That's an excellent description. I have one bit of advice for young analysts: study insurance and banking securities – I guarantee, if you are part of an investment team, no-one else will want to. Insurance, especially, is highly numerate and complex but you gain a real background in separating capital from the operating business. A mature insurer of any description must have a capital buffer, which the regulator will stipulate, but the company has to deal with the residue in an appropriate manner. Understanding the concepts behind actuarial science is useful, but you don't need to be an actuary. Likewise, the other advice is to learn accounting, especially how to break apart companies by deconsolidation, why that sometimes fails (cross-guarantees). I don't have

an accounting qualification but am a respectable practitioner. You will come to realise accountants are the mortal enemies of securities analysts, especially those who create international financial reporting standards (IFRS) accounting rules and enable companies to quote bulldust numbers like "normalised EBITDA" which has swathes of cost lines missing – not least rent!

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**SL: Describe one of the more unusual cases you wrote about in recent times.**

AB: I loved writing 16 pages about what some would regard as the world's most boring company: a Canadian life insurance holding company, with two other public investment entities and a listed shipping business, ~ 70% owned by one family, in its third generation. **E-L Financial Corporation (ELF.TO)**, controlled by the Jackman family of Toronto, was profiled at 31 December 2023 (<https://east72.com.au/wp-content/uploads/2024/01/E72DT-Quarterly-Report-Dec-2023.pdf>). We showed that including its predecessor companies (E-L was only formed in late 1968), E-L had a **compound internal rate of return to shareholders of 13.1% per annum over 72 years**. It first started doing share buybacks in 2020 but has always been parsimonious about issuing stock. It now has less shares on issue than in 1971. And you could buy it at a 47% discount to net asset value at the time.

If the 13.1% p.a. over 72 years wasn't enough, since our report, over 17 months, the shares have added 53% in capital value, paid two special dividends which with regular quarterly payments have contributed a further 22% return (before the Canadian tax man gets his fingers on your money). They've just had a 100-1 stock split. We own it and one of the associated companies, Economic



Investment Trust, which itself owns 11% of ELF, and is Canada's oldest closed-end investment company, and also controlled by the Jackman family.

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**SL: You also once wrote about SBM, which is how we first met since I also covered this truly unique company in the past. Do you have a current view on the stock?**

AB: Virtually every publicly listed luxury group is family-controlled; the greater the "luxe", the tighter the control. We own two – SBM and Hongkong and Shanghai Hotels – controlled by the Kadoorie family here in Hong Kong, owners of the "Peninsula" properties and who built London's first GBP 1bn hotel in Mayfair. Therein lies the issues with companies of this nature: do the controllers channel the free cash flow or financing capacity into ever MORE upgrades to the properties to attract the exclusive clientele leaving shareholders without a morsel, let alone a feed! Sometimes yes, but there are buyers at very high prices for these trophies, notably from the Middle East.

SBM has elements of that but is starting to exploit its brand outside Monaco. That yielded a massive win to holders via *betclix* which became Banijay Entertainment where they still own 10%, and the profits from the sale of a 10% tranche were channelled into high-end apartments ("One Monte Carlo") which are immensely profitable. The recent half-year results – SBM has a March year-end but **all the money is made in the first half** – were really encouraging, with 14% revenue growth in apartments and hotels.

The "value" in SBM is in reverse order to the glamour: the casino is volatile and low return, the hotels are improving nicely, but the apartment and commercial buildings are the real growth engine within Monaco. The expansion into Courchevel (the ski resort with the airport runway featured on YouTube) and tight branding "Monte Carlo One" (as per Monaco) makes sense and will be open in about 18 months. I still hold all my shares, and it has a "medium" weight in the portfolio.

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**SL: In your LinkedIn profile, you mention that you also use "*alternative sources of information*". What kind of sources are they, and how has that worked out for you in the past?**

AB: Obviously I use the networks I have built with folks in four corners of the world, but the one area I do dig into is regulatory filings other than the exchange. For example, in HAL Trust, I extracted many of the subsidiary filings with the Dutch corporate regulator to get the **actual results** of the subsidiaries, match them up with the parent, understand the parent-sub loan structure. It also yielded that the controlling family's parsimony had cost them money by

leaving two tiny public companies with small minorities in place (Westag and TABS) and Westag having net cash – which can't be accessed – of EUR 38m. These filings are cheap across the world – effectively a dollar or two – except Australia where they are equivalent to USD 31 apiece. (A few years ago, the Australian government was going to IPO/sell the "registry" component of the regulator! Every private equity firm on the planet would have been there. Thankfully that idea was canned, but Australians don't respect that corporate disclosure is PUBLIC property and should set up a proper repository like Canada and the UK.)

Like everyone, I use AI searches and would be lost without translation programmes.

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**SL: You truly are a man for finding the unusual and coming up with original investment ideas. What's your #1 piece of advice for anyone who is looking to do similar work?**

AB: Commit. In two senses:

1. the obvious. Have an obsessive focus on hunting down such ideas, and yes, use AI and screens. Don't be afraid to be different but do the work. I obviously pick up other people's ideas – like *Viel et Cie* from Weird Shit Investing last year – but you must must must do your own homework!! The biggest danger I face are value traps.
2. ignore the distractions. It's hard when your "inverse L" return stock (all the return may come in a short period, sometimes who knows when) is doing nothing in a world of tech frauds, or mediocrity is producing hefty transitory returns from market sentiment or loose monetary policy. If it bothers you that much, commit some money to an index-type fund (washes mouth out with soap), then focus on your real passion.

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**SL: Are there any investors that you follow, or which have proven a valuable source of inspiration to you?**

AB: I'm not attached to one investor in particular. I have as much respect as anyone for the 94-year-old from Omaha, but don't obsess in the manner of some others. I have an amalgam of really good minds from past and present to encompass value but quality. My past influences are as varied as Jim Slater (despite the ending), the late Ian Cumming and Joseph Steinberg of Leucadia National to end 2012 – download the ten-page letter to shareholders from that year signing off (June 2013 – track record on next page), and Peter Lynch.

### Leucadia National Corporation Scorecard

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Shareholders' Equity	Net Income (Loss)	Return on Average Share- holders' Equity
(Dollars in thousands, except per share amounts)								
1978	(\$0.04)	NA	NA	\$0.01	NA	(\$7,657)	(\$2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59 <sup>(b)</sup>	(33.9%)	21.0%	7.71	26.4%	1,121,988 <sup>(b)</sup>	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95 <sup>(c)</sup>	61.4%	4.9%	23.73	2.5%	3,661,914 <sup>(c)</sup>	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
2007	25.03 <sup>(d)</sup>	39.1%	5.5%	47.10	67.0%	5,570,492 <sup>(d)</sup>	484,294	10.2%
2008	11.22 <sup>(e)</sup>	(55.2%)	(37.0%)	19.80	(58.0%)	2,676,797 <sup>(e)</sup>	(2,535,425)	(61.5%)
2009	17.93	59.8%	26.5%	23.79	20.2%	4,361,647	550,280	15.6%
2010	28.53 <sup>(f)</sup>	59.1%	15.1%	29.18	22.7%	6,956,758 <sup>(f)</sup>	1,939,312	34.3%
2011	25.24	(11.5%)	2.1%	22.74	(22.1%)	6,174,396	25,231	0.4%
2012	27.67	9.6%	16.0%	23.79	4.6%	6,767,268	854,466	13.2%
CAGR								
(1978-2012) <sup>(a)</sup>			11.2%	25.7%				
CAGR								
(1979-2012) <sup>(a)</sup>			18.2%	11.0%	19.3%	18.8%		

(a) A negative number cannot be compounded; therefore, we have used 1979.

(b) Reflects a reduction resulting from dividend payments in 1999 totaling \$811.9 million or \$4.53 per share. Leucadia's CAGRs do not reflect the benefit of annual dividends or the special 1999 dividend.

(c) Reflects the recognition of \$1,135.1 million of the deferred tax asset or \$5.26 per share.

(d) Reflects the recognition of \$542.7 million of the deferred tax asset or \$2.44 per share.

(e) Reflects the write-off of \$1,672.1 million of the deferred tax asset or \$7.01 per share.

(f) Reflects the recognition of \$1,157.1 million of the deferred tax asset or \$4.75 per share.



In the present day, I enjoy following David Einhorn, Chris Mackay – an Australian global large-cap investor with a closed-end fund (MFF Capital Investments) who writes wonderful common sense and has a stellar record. I find great controlled company ideas from Des Kinch of OAM in the Cayman Islands, and you should check out Dave Waters who runs the micro-cap fund, Alluvial Capital. All different. For sheer inspiration, Vincent Bolloré extracting EUR 2.5bn+ of gains from 5-company corporate-raiding campaign takes some beating. The story of raiding his "benefactors" Lazard via Rue Imperiale in 1999-2000, and doubling his money over 18 months gives a great insight into the man.



**SL: You have written a lot about special situations in Europe in the past. European value was long considered boring. Do you think we are finally seeing growing interest in Europe?**

AB: I was at a recent allocator conference in New York, and the overriding theme of the people there was that US equities, relative to the rest of the globe, had seen their best and folks were desperate for knowledge on elsewhere – bluntly, they had let it slip in recent years because of the great "domestic" returns and industry dominance in technology. They've taken notice because of the vastly improved returns from the absurdly cheap banking sector.

Europe has to be a part of that, but many had forgotten the sheer depth of economies like France and Italy with their technology and aerospace expertise. There is a clear desire for some of the cheaper stocks in markets to the East – obviously Poland – but less so for the Nordics. What I do find is that US investors are really concerned about capital management and ensuring the returns from strong operating business translate to shareholders. So many European "holdcos" don't get that.

## About East 72

Andrew has been in equity markets for over 40 years, on both buy, sell and corporate sides, as well as having sat on 14 smaller listed-company boards. He runs East 72 Dynasty Trust, an open-ended structure investing in publicly listed "quality businesses under the aegis of controlling shareholders". The trust has no benchmark, is long only, doesn't hedge in any way including currency, and has open-ended structures available in Australia and the US. We are also happy to run separate account portfolios fully replicating our core offering.