

October 2024

Church House Human Capital – Quarterly Letter

It has been a busy first quarter for the Human Capital Fund putting our seed capital to work. At the point of writing, we are 90% invested in a list of 23 companies and expect to be close to 100% by the end of this month. On 30th September the NAV of our accumulation shares stood at 101p, reflecting a generally in-line Q2 earnings season for our Human Capital businesses.

One of the great joys of establishing and now running Human Capital has been the number of one-to-one company meetings that we do. The quieter summer months were an ideal time to speak with management teams on a less formal basis than the traditional results roadshows that tend to focus far too much on short-term trading in our opinion. Thanks to the persistence and persuasion of Rose (our analyst for these companies), we were able to have first-time meetings with the leaders of 35 businesses over the quarter, headquartered from the Arctic Circle to sunny Sydney.

Of these 35 Human Capital candidates, two new names stood out head-and-shoulders above the rest and have now been added to the Fund. These are:

- **Savaria Corporation:** listed on the Toronto Stock Exchange, Savaria are a leading manufacturer of stairlifts, home elevators and wheelchair lifts predominantly in North America and Canada. It is the most remarkable example of how to build a successful business in an unglamorous but very necessary niche. Savaria as it is today began in 1989, when Marcel Bourassa purchased a small but profitable wheelchair lift company based in Canada called Savaria. Over the next 35 years Marcel steadily built the business through organic expansion (into new regions and adding more products) and via acquisitions. Marcel remains Chairman and the largest shareholder and Savaria will hit CAD \$1bn of revenue this year. Since IPO in 2002 Savaria equity has compounded at +27% annually and we believe that there is plenty of runway for further exceptional growth. Marcel's son, Sébastien Bourassa, stepped up to the role of CEO at the beginning of this year and we have been impressed with him so far, specifically his success in increasing margins during his previous role as COO. We hope that Sébastien can make it another successful 35 years of Bourassa Family leadership.
- **Comfort Systems:** we first heard of from a different company who name-checked Comfort Systems (CS) as a business that they admire, who run a decentralised and acquisitive model. We were straight on the phone to them and were similarly impressed. It is usually a good sign when we get in touch with a business and they do not have an investor relations team and in the case of CS, we were put through to a lady named Julie, who had been their Chief Accounting Officer since 1999. Julie is a straight-talking Texan who spoke to us from what looked like a den of Iron Mountain boxes and accounts printed on A3 sheets. Over the course of a somewhat intimidating hour (for us) Julie explained how CS had been established in 1997 when twelve unloved air conditioning contractors were merged to form a holding company, restructured in the wake of the dotcom bubble and subsequently went on to acquire 45 more mom-and-pop contractors in the HVAC (Heating Ventilation Air Conditioning) sector, spread across over 170 locations in the US. CS equity has compounded at over 20% since their restructuring in the early-2000s and they make astronomic returns on capital of over 40% (for context, 20% would be our usual gold standard and 10% is about average). CS's CEO is aligned with investors to the tune of his \$80m shareholding in the equity and we are happy to have joined him as shareholders.

A fascinating part of our journey with Human Capital so far is that the more people we meet, the longer our list of potential new ideas seems to become. As with the introduction to Comfort Systems, there exist networks of outstanding and like-minded management teams, investors and often family groups that are more than happy to tell us all about other businesses that they look to as guiding lights. In the case of two holdings in the Fund (one German, one British), their two CEOs attend the Berkshire Hathaway AGM together each year and have become firm friends, despite being in completely different sectors. It is not just management teams that have been a great source of ideas, we have also been given plenty of interesting ideas from Human Capital investors and potential investors that we have spoken to – please keep the ideas coming! While we will be disciplined in keep the number of holdings in the Fund relatively focused, our watchlist of companies that we are looking to meet and are actively following is now over forty companies and span all corners of the developed world. This only helps to reinforce our high standards for entry into the Fund and gives us the opportunity to be ruthless in cutting positions that do not live up to our expectations – a discipline that our CIOs at Church House have drilled into all of us.

As we head into the final quarter of this year markets seem to be fixated on the macro (rates and US elections) and AI, while business fundamentals are somewhat less in vogue. History tells us that narrow markets driven by the outcome of just a few heavily analysed factors can get dicey and we certainly have the ingredients for just that. In the meantime, we will keep our heads down and focus our efforts on investing in the highest quality Human Capital businesses and look for any market opportunities to add on weakness.

Thank you for your support and please do get in touch if you have any questions.

Fred Mahon

11th October, 2024

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