

July 2024

Church House Human Capital – Quarterly Letter

I am delighted to be writing our first investor letter for the Church House Human Capital Fund. If you are reading this then you will be founder shareholders or you will be those friends of Church House (and myself) whose time, feedback and support has been fundamental in getting Human Capital up and running. **I would like to begin by thanking each one of you** – a fund cannot be dreamt up in a vacuum around a boardroom table, it is the product of thorough analysis, honest conversations and earning trust. We are hugely grateful for your support and wisdom.

The idea for the Human Capital Fund came to us through years of being admirers of businesses such as Halma, Diploma and Judges Scientific in London, Investor AB in Stockholm, Constellation Software in Toronto and a certain Berkshire Hathaway in Omaha, Nebraska. Many of these companies have long been mainstays of our funds and have generated exceptional returns for Church House clients.

At first look, this list is an idiosyncratic collection of mostly industrial holding companies specialising in a wide range of unglamorous sectors, from fire sprinklers (Halma), to medical devices (Investor AB), to See's Candies (Berkshire Hathaway). However, as we got to know these companies and the people involved (sadly we never got to meet Charlie Munger in person) at a deeper level we began to see shared characteristics emerging – these Companies do not behave like most businesses that we meet, they are passionately decentralised, believing in the power of decisions made at the coal face by appropriately incentivised and entrepreneurial individuals. “Corporate” is seen as a dirty word and the inevitable creep of bureaucracy is fought with a passion. To bend Ronald Reagan’s saying, the nine most dreaded words in the English language are:

“I’m from [central office], and I’m here to help.”

In total we identified five key characteristics that these companies shared and that allowed them to consistently punch above their weight:

- 1. Decentralised Culture**
- 2. Organic growth**
- 3. Impressive financials (CASH IS KING)**
- 4. Acquisitive**
- 5. Exceptional leadership**

Of these five pillars, it is leadership that truly sets these businesses apart. Leaders who see their role as being to create the best conditions for the individuals within their companies to perform at their very best. Leaders who understand that nothing kills entrepreneurial spirit like interference from above, and nothing focuses the mind like setting clear and generous incentives. The Human angle is so often overlooked in business and in investment, allowing those who do appreciate it to succeed just as Warren and Charlie have shown with such aplomb. In his study of corporate successes and failures *Great by Choice*, Jim Collins states:

“Environment doesn’t determine why some companies thrive in chaos and why others don’t. People do. People are disciplined fanatics. People are empirical. People are creative. People are productively paranoid. People lead. People build teams. People build organisations. People build cultures. People exemplify values, pursue purpose, and achieve big hairy audacious goals. Of all the luck we can get, people luck – the luck of finding the right mentor, partner, teammate, leader, friend – is the most important.”

Fred Mahon

10th July, 2024

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