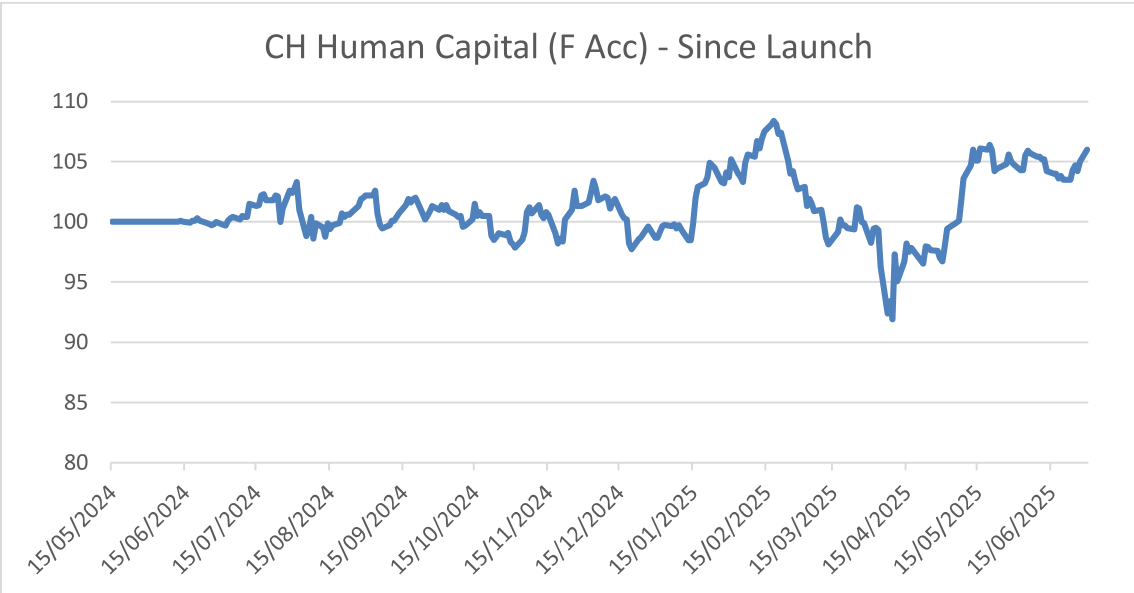
Summer 2025

Church House Human Capital – Quarterly Letter

Our first anniversary

It has been a year since we launched the Church House Human Capital Fund and Mr Market[1] has been on suitably noisy form. If one had been told in June 2024 that in the year ahead the US would be dropping 'bunker busters' on Iran, the India/Pakistan cold war would turn hot and that President Trump would engineer a media pantomime to publicly humiliate Volodymyr Zelenskyy and threaten to cut military aid to Ukraine, we would not have been blamed for steering clear of equity markets. The beauty and beast of markets is that we never know what is around the corner. The important thing with a new fund such as Human Capital is to stick to the process and not attempt to 'time' investments too much. We wrote at length in our last investor letter about the importance of sticking to the process through thick and thin and this is what we have been doing.

Performance



Source: Bloomberg

[1] Mr Market was originally Benjamin Graham's construct, later made famous by his student Warren Buffett. The best description I know is in the Berkshire Hathaway's 1987 letter: https://www.berkshirehathaway.com/letters/1987.html

Over our first year, Human Capital returned 6.0% for investors. Broadly speaking, the first six months were somewhat uneventful as we patiently put our seed capital to work during volatile markets and then the sharp rally in US Big Tech during late-2024 largely passed us by. During 2025 to date we are pleased to report that the unit price began to reflect steady growth in our underlying companies, and it is no coincidence that Human Capital in its short history has tended to have its best months of performance during reporting seasons. Weighted EPS growth across the Fund over the last year was over 15% and the average return on capital is above 20%. Given that our unit price has not grown at the same rate as our underlying investments, simply put, our stocks have become that bit cheaper and so more attractive at these levels.

Our top performing businesses over the last year have been:

- **Chapters Group**: the German-listed business investing in small companies in Northern Europe. Predominantly, Chapters own software businesses across a wide variety of sectors and the unifying thread is that they must provide ‘mission critical’ services to customers. We are flying to Hamburg this week to spend two days with management and attend their AGM.

- **Topicus**: spun-out of Constellation Software (the legendary Canadian business) in 2021 and have hardly missed a step since, with the share price tripling in four years. Similar to Chapters, Topicus “build, acquire and manage industry specific software businesses” – these are typically tiny software businesses that have close to 100% market share in their particular niche, giving strong pricing power and subscription revenues.

- **Comfort Systems:** provide installation, repair and maintenance of industrial-scale air conditioning units. Their growth rates have gone from good to great in recent years on the back of huge demand for their products in the data centres that fuel the internet and the recent AI boom. They are a lovely ‘picks and shovels’ way to get exposure to the AI theme without having to rely on the Nvidia bandwagon.

Our laggards have been our US-listed companies where Mr Trump’s scattergun policy making has hurt short-term trading.

- **Installed Building Products (IBP)** distribute insulation to builders across the US, while **Watsco** specialise in heating, ventilation and air conditioning products. Both are excellent businesses with rock-solid balance sheets and good growth records. As would be expected in uncertain times, US construction markets have taken their foot off the gas while they wait for some clarity

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of what their futures look like under Trump, so this has had the knock-on effect of IBP and Watsco seeing slightly lower levels of new orders. We have been using the share price weakness as an opportunity to add to both holdings.

- **Tetra Tech**: provide consultancy to large government and corporate clients on all things water, from how best to capture scarce rainwater in California for fighting wildfires, to efforts to undo damage done to Vietnamese waterways during the Agent Orange contamination of the 1960s. When Trump triumphantly froze all USAID work at the beginning of the year, Tetra, sensibly, warned the market that this left considerable uncertainty around their overseas contracts which, in turn, hit the share price. Subsequently, Tetra delivered excellent results despite these headwinds and upgraded their guidance – testament to the resourcefulness and flexibility of their leadership in tricky times.

Top Ten Holdings:

		Weight	Listing
1	CHAPTERS GROUP AG	6.9%	Europe
2	LIFCO AB-B SHS	5.9%	Nordic
3	LUMINE GROUP INC	5.4%	Canada
4	LAGERCRANTZ GROUP AB-B SHS	5.4%	Nordic
5	TOPICUS.COM INC-SUB VOTING	5.2%	Canada
6	DIPLOMA PLC	5.1%	UK
7	ADDNODE GROUP AB	4.4%	Nordic
8	JUDGES SCIENTIFIC PLC	4.4%	UK
9	KELLY PARTNERS GROUP HOLDING	4.3%	Australia
10	VITEC SOFTWARE GROUP AB-B SH	4.3%	Nordic

Source: Church House

Fund Activity

In an ideal world turnover with Human Capital would be close to zero, allowing our investments to compound for many years, whilst keeping transaction costs to a minimum. This is not an ideal world, however, and so we must be fast to move when we feel that one of our positions is not living up to our high expectations. To this end, we exited one position over the last quarter and have now cut a total of four companies since launch. The good news is that we have healthy competition for places in the Fund and so each exit was swiftly replaced with a new Human Capital business, net-net strengthening the portfolio.

Over the last quarter we sold our position in **Brenntag** and introduced a new holding in **Novanta**

- **Brenntag** (sold): are a German chemical and ingredients distribution business. We invested in Brenntag because we liked their decentralised and entrepreneurial culture, as spearheaded by their CEO Dr Christian Kohlpaintner. Therefore, we were disappointed when it was announced that Dr Kohlpaintner would be retiring in December 2025 and that henceforth the business would be looking to pursue a more centralised and hierarchical structure – good luck to them but this is not what we are looking for. We made a small loss on our investment over the nine months we were shareholders.

- **Novanta** (bought): had been sitting on our watchlist as a strong Human Capital contender since we first met them in September 2024. Novanta manufacture highly specialised parts that go into industries such as medical devices, robotics and automation. In our first call with their management team they told us that 'we openly stole most of our business model ideas from Roper Technologies' – that was music to our ears. Roper now has a market cap of $61bn, having compounded at an annual rate of 19.2% since IPO in 1992. At a market cap of $4.8bn, Novanta has plenty to go for.

The two questions we are asked the most

Over the past year Rose Taylor (our analyst on Human Capital) and I have been lucky enough to present the Fund to a wide range of investors across the UK and Ireland. We love discussing Human Capital and are delighted to report that we almost never get past page two of the slide deck – our attempts to stick to a formal presentation quickly descend into a much more interesting conversation. During these chats, which have been overwhelmingly positive, two points are raised more than others. Let us attempt to answer them succinctly:

1. **How do you screen for Human Capital companies?** By far our most fruitful source of company ideas for the Fund has been YOU our network of investors, friends, supporters and investee companies. This is the Human Capital Fund and, fittingly, it is the humans that have engaged with our strategy and understood the kind of unique business that we are looking for that have helped us to unearth some gems. For example, we were introduced to Chapters Group by our good friends at Judges Scientific and we first began tapping into our rich seam of Swedish

investments after we spotted the family behind our long-term holding in Industrivarden (in our Esk Global Equity Fund) were also the largest investors in a smaller and faster growing business, Indutrade, in which Human Capital is now a shareholder. Of course, we do all the research and company meetings ourselves when analysing a potential new investment, but that first spark of an idea can come from anyone, we are always open to suggestions and are delighted that people have been keen to make them. More of the same please, dear reader.

2. **Is there not significant key person risk given the quality and longevity of CEOs within Human Capital?** The holding company structure of our Human Capital investments significantly diversifies leadership risk. Think of our companies as networks of small, high quality private businesses owned under a listed “umbrella” business. Each of these private companies have their own management teams, in many cases still the founding team, who are responsible for the day-to-day running of their businesses. The central holding company management team steers this ship of entrepreneurial businesses so as to deliver value to us, the shareholder, and are responsible for allocating capital. Yes, this central management team is important, and we have many wonderful CEOs within the Fund, but we take confidence that the beauty of an effective decentralised structure is in the strength of many small teams, rather than just one grandstanding captain.

Thank you

Thank you all for your support with Human Capital over its first year. It has been a challenging and fascinating time for us and we are hugely grateful to those who have backed us at this early stage. We will keep our heads down, stick to the process and look forward to reporting further progress to you in our second year.

Fred Mahon
July 2025

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