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Ensemble Capital's Tech-Approach Helping Propel Growth

Ensemble Capital is not a technology-focused manager, but the firm's embrace of technology has helped it excel, particularly since COVID-19 forced the entire world into even greater technological dependence to function.

"We don't just pick tech stocks, but we think that technology is no longer a sector to think about being invested in. Every business is a tech business now. If you're not leveraging technology in your business there's a problem," President and CIO Sean Stannard-Stockton said.

The Ensemble team did an analysis for investors in 2018 that showed that approximately 65% of its portfolio was made up of businesses undergoing some sort of digital transformation or using technology to serve markets in a way their competitors were not, according to Stannard-Stockton.

"So, we kind of came into COVID with a portfolio that was – not about a short-term call but more a long-term call – that we think that the speed of technological change is not going to slow down, and we want to be on the right side of that change," he said.

First American Financial Corporation, a 100-year-old title insurance company, exemplifies Ensemble's belief that even "non-technology" companies need to embrace and deploy the change, as Stannard-Stockton noted the company has automated over 85% of its title claims to be sitting on "the right side of the shift."

Ensemble's core philosophy is to invest in competitively advantaged companies while remaining focused on continual improvement and refinement. The firm's concentrated strategy stands at 25 names and focuses on quality growth at a reasonable price by targeting strong leaders in niche markets that have growth characteristics and reasonable price-to-earnings ratios.

Each of the firm's companies also features what the firm refers to as a "moat" that helps to insulate it from other competitors' attempts to eat into cash flows.

"When we think about moats … every stock in our portfolio, if you ask why we own it, it will be some answer around 'this is the reason why this business is protected competitively from other companies to steal their cash flows.' That gives us confidence in saying that therefore we can pay for those future cash flows because they're protected – they're not going to evaporate quickly," Stannard-Stockton said.

The firm's equity composite has exceeded the Standard & Poor's 500 Index over the last decade, returning 35.60%, 19.83%, 19.40% and 17.32% over the one-, three-, five- and 10-year periods ending Sept. 30 compared to 30.00%, 15.99%, 16.90% and 16.63% for the index over the same time frames.

"It's been a really strong three-year period both leading into COVID and then also the whole COVID year," Stannard-Stockton said. "What's been really nice is that this year some of the biggest COVID winners have pulled back – some of the really speculative stocks – so we've held in with the S&P because our performance wasn't so much driven by those stocks, for better and worse."

The 100% employee-owned firm has risen to $1.7 billion in assets under management as of Sept. 30, up from roughly $1 billion at the onset of the COVID-19 pandemic, an increase bolstered by new inflows from existing clients after the initial drop related to COVID as "they knew this was the time to deploy capital and they were well rewarded for that," according to Stannard-Stockton.

Ensemble itself has been a firm to embrace the changing landscape that technology and COVID have brought to the larger workforce and the investment management space in general as the firm instituted a "work from anywhere" approach in January 2020 after experimenting with remote work for the prior three years, Stannard-Stockton said, adding that investment team members reside in San Francisco, San Diego and Cincinnati.

"We were already prepared to [work remotely], which really helped the investment team in not thinking about 'How do we communicate?' We were already there. But also, we were really prepared to serve clients and so we ended up having an all-time biggest year of new clients and on-boarding clients via Zoom," he said, noting a 10% growth in new clients while not suffering any client losses since the onset of the pandemic.

The San Francisco-based firm's investment staff consists of Senior Investment Analysts Arif Karim and Todd Wenning, Director of Portfolio Analysis Paul Perrino and Portfolio Analyst Juwon Hill and it intends to hire an investment analyst next year, Stannard-Stockton said.

The firm's move to remote work was a gradual process, beginning with remote work one- and two-days a week before instituting a work from anywhere process, he said, noting he expects the whole equity research and investment industry to head toward remote work and those that do not adapt or embrace the trend will cut themselves off from access to the top talent.

Moving forward, Stannard-Stockton plans to continue embracing technology and the ability to work remotely, while also making in-person interactions with both staff and clients, which he finds to have "extreme value," more intentional rather than being a default option.

"I think there are cios out there who have been doing this for a long time that are going to say we want everyone back in the office. What they're really saying is they themselves are not prepared to operate in a digital world – which is understandable it's hard – but that this is a challenge that's going to have to be surmounted because I don't think you're going to be able to hire equity analysts and say 'I need you commute in an hour and sit in this desk next to me because I don't know how to instant message,'" he said.

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