

TRANSCRIPT: EPISODE 364

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[INTRODUCTION]

Staci West (SW): Welcome back to the Investing on the go podcast brought to you by FundCalibre. This week we're focusing on a global income strategy focused on diversification and consistent dividend growth.

Chris Salih (CS): I'm Chris Salih, and today we're joined by Sam Fitzpatrick, co-manager of the Murray International Trust. Sam, thanks for joining us once again.

Sam Fitzpatrick (SF): My pleasure.

[INTERVIEW]

CS: Let's start with the good news that you are now a dividend hero, which is 20 years of consecutive increases in the dividend. So congratulations on that. But I guess what would be quite interesting is maybe to talk us through what that actually looks like...for example, a lot of people would immediately think of the UK as perhaps the hotbed of dividends.

Has that evolved in terms of how you look to reach those sort of income targets over the past 20 years? Maybe talk us through how that's evolved in terms of the structure of the companies you hold and maybe the geographies. Is it all purely bottom up or is there a bit of sort of wanting to have that diversity within that income element of the portfolio?

SF: Yeah, I think that a global trust we've always strived to be as diverse as possible. But given the shape of the markets and what's been happening in markets over time, we have gone from a position of really having to be heavily exposed to the UK and then going back 20, 25 years we had 40% in the UK because we had to have that to deliver on the income front.

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Nowadays it is wildly different and I'm really delighted with that. So even 10 years ago we had something like 15% in the UK, we had about 7% in North America because there just weren't enough income opportunities there. But nowadays those weights are about 7% in the UK, 27% in the US. So much, much more to choose from these days. And it's not that we are targeting any particular weight to any particular region, it is all bottom up. It's driven by what we're seeing at company level, but just to have that variety now, that choice is far, far stronger.

CS: I think you mentioned the last time we talked that you thought the portfolio was as diversified as it's ever been last when we talked last year. Just in terms of the UK, is it purely a case of there are better opportunities elsewhere in the market at the moment when it comes to the UK in terms of those income positions? May maybe just give a a bit of insight on that.

SF: Yeah, I think, I mean, we were down to something like 5% in the UK at one point just because you'd see a company, you'd think, yeah, that's pretty good. That's a contender. But if you compare it to a similar company elsewhere, like I say AstraZeneca, compare that to something like Merck in the US also a pharma company, you know, also a kinda pioneer in cancer drugs, et cetera. So there's a lot of similarities, but higher dividend growth at times has been better valuations better. So it's just that we've not got over the line sometimes with some of these UK businesses. And also, I mean, it's just a case of keeping your options open really.

I should've been adding a little bit to the UK so it's not that we're anti our home market by any means. We actually introduced Taylor Wimpey into the fund about six months ago now. And that's really our only domestic UK name. It's got like an 8% dividend yield you know, strong land bank, but like the management team, it's on the smaller side of what we can cope with from a liquidity point of view. So we're always looking for options, you know, but I think there has been an evolution in where you've kinda had to be and not be over time.

CS: One of the areas that's done quite well for you in the past year or in the last financial year was technology. I think it's about 15% of the trust. Maybe just talk us through how, where that growth has coming from. What parts of the tech sector are you targeting and also has tech always been a strong theme in the portfolio? Is it something that's increased given the sort of additional flexibility you have given that there's more attractive yields elsewhere? Because I'm guessing it's a balancing act with those yields. Some are more growthier, some are more defensive. I guess just an insight into where that growth come from would be really useful.

SF: Yeah, I think that's absolutely true. So it's a barbell approach. So some of the tech names we have currently, which are mostly semiconductor related currently those do have relatively low yields for us. The smallest yield we have is Broadcom with a dividend yield of just under 1% now. But we can have a little bit of room for names like that, you know, we can't stuff the portfolio full of them, but there is, you know, an allocation we can make to names like that because you have the likes of your telcos and your healthcare and your staples from all over the world really offering, you know, yields in excess of 7% for example. So there is a balancing act.

The exposure to tech has changed over time. So again, going back to the end of 2010 for example, we've only had 4% in technology because a lot of tech companies then just saw it as a bit of a death nail. If you paid a dividend, you were holding your hands up, you were ex-growth. And that thankfully for us is no longer the case. And so we have, it's a bit of everything. We've got opportunities elsewhere to give as the ability to have some lower yielding names within tech if we think that dividend growth is there. We think the capital side looks really interesting. But we can move over time depending on just what opportunities we see.

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CS: Okay. I just want to spend a quick minute on a couple of the other companies in there. So TSMC and, and Hong High. Maybe just give us a line on both of those because obviously they would be big contributors to that sector.

SF: Yeah, they were fantastic performers as well. So those both increased over 70% in sterling terms last year and we took money out of these names and Broadcom, we've been constantly trimming them because they've been doing so well. But we still like both companies.

TSMC, I think we were going to own one name in tech, it would be TSMC and I don't think that's particularly groundbreaking. It is a very, very well followed company. A well regarded company. It's cyclical, don't get me wrong. You know, there's good years and not so good years with a name like that, but it certainly is the company to beat in terms of foundries. It makes semiconductors for a whole host of other players and the expertise it has and the efficiency it has within that is just miles ahead of anybody else. So, and that company for us is really still one that we like.

HAI is a company that's changed over time. So we went into this, it's really a contract manufacturer, electronics manufacturer for Apple historically. But now it is providing equipment to Nvidia. So it's been caught up in that AI story. It's also involved in electric vehicles. It's trying to get more involved with the actual making of those and the design of those rather than just being purely reliant on Apple for its business. So it's a company that's changed, it's evolved. And so that's one that has been a strong performer for us over time also.

CS: Okay. On the other side of things, got to keep it balanced. [**SF:** Yeah.] You've got Walmart in Mexico, which has been a bit of a detractor in the portfolio, but maybe talk us through not just the challenges, but when I sort of last looked at some of the intellectual capital, you guys really seemed quite keen that we do support this business and we think that there's reasons to hold it for. Maybe just explain why in amid the sort of challenges it's had.

SF: Absolutely. So yeah, this was one of the key detractors last year. It was down 34% in sterling terms. Now roughly one third of that was currency. So the Mexican peso was weak and we take that in the chin. That's what happens sometimes with a global mandate. And the issues with Walmart in Mexico weren't really or a great deal to do with the company itself. It was more to do with sentiment around the Mexican markets.

So like most places in the world, actually, they had a big election last year. The incoming president had an absolute landslide victory in the first female president and the worry was that she had too much control potentially. And there has been talk and actually it started now of making judicial reforms. So that was a bit of a concern to people looking from the outside in and wondering what would that be going to mean. But actually with all things considered, it was more to do with people pulling money out of the country. It was a big liquidity issue rather than anything to do with the company specifics.

Now, they did have one issue to contend with. They were under the spotlight from the competition commission who were seeing, and they were accusing them of squeezing the suppliers too. But that's all been resolved now to get an absolutely tiny fine which they're appealing. So there wasn't really any proper evidence to support that claim. And the reason that we've stuck with it is because on a standalone basis we think this is still a really, really well managed company. And even comparing it to the parents.

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So it's owned 70% owned by Walmart in the US but if you look at even those two companies, we would say Walmart's also a good company, but Walmart Mexico is on half the valuation. It ends double the margins, its net margins are about 6%, which is really strong for a retailer. It has about three times the dividend yield. So it just jumps out at you as this is something that in the context of retailing, is a really, really well managed business. It has good market share, it's net cash, so it's on balance sheet. So a lot of the things that we hone in on and focus on, and we have people on the ground meeting companies and analysing all these things the way they would do with any business, it does stack up in our mind as something that warrants its place in the trust.

CS: Well you mentioned currency there. I was gonna ask this a bit later, but I feel like now is probably the best sort point to ask about it. Maybe just talk us about the role in a global portfolio of currency. We will go into your exposure to EM and LatAm in a bit more detail in a minute.

Maybe just talk to us about how that impacts it. Is it headwind? Is it tailwind? When is it headwind? When is it tailwind? And you know, maybe, maybe give some insight into what it's been like recently in terms of currency because there's been a lot going on as we know. We don't have enough time to go through all of that...

SF: Yeah, I know that would take a while, but yeah, you're absolutely right. So we are currently invested in 22 different countries in Murray International, 16 different currencies and with a relatively small part of that exposed to Sterling. So there are lots and lots of moving parts. You're absolutely right. And we take a very simple approach of not hedging.

So it is what it is — basically in any given year, it can be a real tailwind, it can be a real headwind depending on how Sterling reacts, you know, compared to all these other currencies. Last year it was a detractor. So Sterling's strength is typically bad for us. So it means that your overseas income is worth less in sterling terms, that was a factor last year, but then you do get years like 2016 for example, where the flip is true. And so coming out of Brexit sterling was incredibly weak and that was a great tailwind for us that year.

And it's something actually that the board do consider from time to time, you know, should we hedge, what would it mean? And we actually just looked at this in a strategy day and not so long ago, and we put all the numbers before them. We could do it from a technical standpoint, we could within Aberdeen. But the conclusion we got to was that it is very complicated and actually we don't get a lot of pushback from our shareholders to why we don't hedge. I think people understand this is an international fund. If that's a real concern, then there's plenty other options if they're worried about the currency side and looking at history, you know, going back over 20 years, all these different basket of currencies, the impact is zero really.

So that we worked out like average of the averages if you like, and it is zero. So it would be adding a layer of complication for not an awful lot of benefit in the past. Now if you were to get, you know, year after year after year, it's consistently working against you. That would give you perhaps more of a reason to look at it and to do it. But that hasn't been the case.

CS: If someone was to sort of do a Google search on the trust, I mean they probably see things like it's typically underweight the US, it may not have the Mag7 in there that everyone's sort of lauded until recently. And by contrast you've got these sort of big exposures to EM and Latin America — maybe just explain how you look for these companies and in terms of that diversification because I mean people might not necessarily who don't look at this every day, think that defensive resilient businesses and then you see the exposed to EM and sort of LatAm, they may not think that that sort of compares together and makes sense.

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But obviously you are being very high conviction. Maybe just explain to us how you go about looking for these companies and the benefits of that diversification over the long term. I mean, I think for example, LatAm has been one of the strongest performers year on year in the trust over the past couple of decades.

SF: That's right. Yeah. Over the past, again, 20 years LatAm has been the top contributor, if you look at it by region. So it's generated 17% returns annualised and sterling over 20 years. So that alone makes it worthwhile considering and it's not a play on that region, it's at the moment it's only four companies in Latin America. So again, it's not that we're rushing in there it's got to be a company that we believe in. It's covered just as rigorously as any business we would invest in. We have a team in self, we cover that part of the marketplace.

And the same with any region and whether any company makes it into the trust, it's all about does it help me deliver the investment mandate at the end of the day? And this is why there's no Mag7. So sometimes people try to get as can put words in their mouth almost like why we don't like them. And it's not at all. It's just that if you're trying to deliver an above average dividend yield to grow the income, to grow the capital ahead of inflation over time, then having a big allocation and there would be big allocations even as a neutral position in these companies, it just would not make sense in terms of trying to deliver the mandate.

Whereas other companies with decent growth in dividends with decent dividend yields from different parts of the world do make sense and it just hedges your bets. And it's funny because people kinda do even now sometimes look at Latin America and think, well it must be lower quality, it must be more volatile. Yeah. You do get the currency volatility. That's true. But the businesses themselves, if you kind of take the time to get to know them like a Walmart, New Mexico, it's not that they're any less well managed or any less well followed by the people within Aberdeen than any other company.

CS: Okay. I guess one of the questions that sort of comes out of that is you talked about it a little bit there, but it would worth to go into a bit more detail is when you evaluate these companies, for example in eM, there's more of the incomes are probably lower, but there's a more of a growing element to them say with the UK when you evaluate these companies on a company by company basis. Are there any different subtle differences when you look at an emerging markets company versus a developed markets company? You know, we talked about currency as one example. Are there any other examples of things that stand out in terms of what you're specifically looking for from these businesses versus ones from the UK or the US or Europe?

SF: Yeah, it's actually interesting because they're running yield on all the different components of their trusts. There's not a lot of difference between them. You know, like what the yield we're getting from the UK isn't wild or different from what we're getting from LatAm or what we're getting from Asia. And it's because of the specific companies that we are interested in. And apart from currency one, one issue that is different and can be a bit frustrating at times is that from a visibility perspective the US is good and dividends. So the typically pay quarterly, the companies that we invested in anyway tend to follow quite a set pattern.

So at the start of the year, myself and my colleague Martin who managed the trust, we've got a list of the companies, we make our predictions on each and every company as to what we think in monetary terms it's going to deliver on an income standpoint. And the US is where we always start because that's pretty easy. You can still get surprises but you've got the predictability there that you just don't get often in other parts of the world. So parts of LatAm can be a bit more haphazard with their paying patterns, with the amounts, but you can get some really nice boosts from that part of the world as well. So I'd say that's a difference.

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But in terms of the willingness and the ability to pay dividends, the dividend growth, but there's not really enough companies anyway. There's not a big difference. And actually the best growers of dividends last year were in Asia. A mixture of EM and DM. So TSMC, one of their tech names that we mentioned earlier, it's increased its dividend 30% last year. So it's a relatively low yield, but it increased at 30%. Singapore telecom was another like 20 odd percent increase. SCB in Thailand was another 20 odd percent increase. And then you've got the likes of Atlas Copco in Europe and industrial company that was a 22% dividend increase year on year. So again, it's not that one particular part of the world is better than others and there is choice in that regard. And it's something, the dividend growth aspect is really important. It's something that we do spend a lot of time looking at as well.

CS: And just because obviously this doesn't just invest in equities, there's a fixed income element to as well. I think I read that the holdings have gone down from about 14 a year ago to around eight now. Is there a specific reason for that? Are the opportunities dwindling or is it a case of some of the things that you invest in in reach maturity? Just explain that — is the opportunities in equity's better? What's the reason behind that falling exposure?

SF: Yeah, it really does come down to your opportunity set. So you're absolutely right. So where we would like swap from one equity into another just because we think it's a better opportunity. It's the same with the fixed income stocks we own. And going back a bit further, I mean we did have a good bit more going back a few years ago now. We sold out some during COVID because we were able to pick up higher yields in the equity side then, and it's been kinda similar.

So the bonds that we sold out of, and we tend to have smaller weights in each of the bonds. So we sold out four bonds just in May and one Dominican Republic Bond and three Indonesian government bonds. And we sold out of those and we put them into higher yielding equities that we believed in. So we added to things like Mercedes and in Tesla. So these were trading we thought attractive valuations, 8% dividend yields. So when we sold all these bonds about par. We've actually got another few that are due to expire next year as well. So all our other things being equal, that waiting will probably dwindle down and remarkable happens. I mean, we were into bonds in size, we've only done it twice over the past 20 years and it's been a real extreme situation where we've seen.

CS: That was gonna be my next question quickly was was obviously your focus is very much bottom up company by company. Surely there's some macro that comes in when it comes to bonds and that exposures between bonds and equities that you look at. Is it just extreme situations that are where the bonds come in or are there the preferences for equities in general?

SF: Yeah, no, it's bottom up and we rely on our emerging market colleagues to give us real insight into this. So when we went into some emerging market debts going back 10 years ago now, we were leaning heavily on their expertise. And what we found at that point in time was that there were corporate bonds like a value bond, for example trading at 60 cents on the dollar. We already held the equity, we like the equity, both the corporate team and the equities team are happy with the management team, et cetera. So that was a real jump off the page kinda opportunity at that point in time to buy some of those value bonds, which we incidentally like sold at one 40. Like, so they went like too way, too far the other way on valuation as well. We sold them out so that, that is extreme. So it's not something that's going to happen, it's not gonna swing around every year. And as I say, the general trend is for that weight to fixed income to be coming down because they've been fine, they've held up okay. But we've seen more opportunities on the equity side more recently.

CS: Okay. I just wanna finish on annoying with bit of macro and how it relates in. So it's kind of completely counterintuitive to what you said, but you have said that you are sort of cautious on the economic backdrop

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with volatility and all this geopolitics. Donald Trump, we don't wanna mention him again. We talk about him lots. Maybe again with that backdrop of, you've said the portfolios as diversified as it's ever been, is that from and centre of what you're thinking at the moment as the best way to mitigate what's happening in the world to be as diversified as possible? Or are you looking at these companies that can be sort of robust to any tariff stuff that comes in? How do you sort of try to manage that sort of surround of volatility in geopolitics when you're just trying to focus on companies by company at the same time?

SF: Yeah, it's been incredibly difficult recently because it's just changed all the time. You know, even the headlines change and then there's backtracking and almost like gaslighting, like I never said that. Yeah, you did. You just said it yesterday. So that's been incredibly difficult and it's difficult for the companies who have a lot of the time just, you know, taking away guidance because they don't know the environment they're going to be working in going forward. And I'd rather companies just said that than try and pretend otherwise. So I think that the idea of having just such a mix of different businesses operating in different parts of the world, some businesses we own are very domestic focused, others are truly global and they are potentially going to be really seriously impacted by things like tariffs. But until we really know what we're dealing with, we haven't made any changes and it's just an awareness and just an understanding.

CS: Did you just sit on your hands then when he came up with his bingo board with tariffs?

SF: Yeah, well on that so-called Liberation Day there was some quite big moves and we did some changes, but changes we had been thinking about anyway, to be honest with you. So we changed, for example, we put money from Esco, one of our Brazilian banks into bank and Tessa, San Paolo, sorry it's called now. But that was something we've been thinking about. Bank of Bscio year to date had been holding up really well and Tessa had fallen really quite significantly, significantly. They were trading on similar yields. And Tessa just has that more predictability on the income side. So we did that and we also made a switch within tech from global wafers into emphasis. So again, that was more to do with global wafers had cut its dividend emphasis has given us a bit more variety within tech. It's a services company rather than semiconductors. So the stock price moves had worked in our favour because of the volatility, but I couldn't tie it directly to, because Donald Trump said something on tariffs. It was just kind of using that uncertainty in general and volatility in general to take the opportunity to do things that we've been mulling over beforehand.

CS: So, apologies that we finished on Trump, but thank you very much for your time today, Sam. We could have finished on something a bit more positive than him, but that seems like the the best point to conclude.

SF: Thank you so much.

SW: As the name suggests, this trust offers an international portfolio of UK and global equities, as well as some bonds. The manager may invest anywhere in the world and in any sectors, with a focus on maintaining an above-average yield for investors. For more information on the Murray International Trust, please visit fundcalibre.com