

TRANSCRIPT: EPISODE 370

9 October 2025 (pre-recorded 1 October 2025)

Please be aware that the accuracy of artificial intelligence-generated transcripts, such as those utilised in our interviews, may fluctuate based on factors like audio quality, subject matter complexity, and individual speaker enunciation. Consequently, these transcripts are unlikely to achieve 100% accuracy. However, it is important to note that, at FundCalibre, we do not consider the correction of automatically-generated captions to be an effective or proportionate use of resources.

Given the inherent limitations of machine-generated transcription, we strongly advise against relying solely on this transcript when consuming our content. Instead, we encourage you to use the transcript in conjunction with the accompanying interview to ensure a more comprehensive and accurate understanding of the topic.

Please remember we've been discussing individual companies to bring investing to life for you. It's not a recommendation to buy or sell. The fund may or may not still hold these companies at your time of listening.

[INTRODUCTION]

Staci West (SW): Welcome back to the Investing on the go podcast brought to you by FundCalibre. The UK stock market may be unloved, but it's far from underperforming. In this episode, we explore the true state of the UK economy and where hidden opportunities could lie for patient investors.

Darius McDermott (DM): I'm Darius McDermott from FundCalibre. Today I'm delighted to be joined by Simon Murphy, who is the fund manager on the VT Tyndall Unconstrained UK Income Fund. Nice long title for that fund there. So, Simon...

Simon Murphy (SM): Just rolls off the tongue, doesn't it?

[INTERVIEW]

DM: It rolls off the tongue. Absolutely, absolutely. So UK's been sort of basically a very unloved stock market for quite a number of years. Investors broadly favouring the US and there's, you know, as we know, people will chase past performance. But just before we came on, I just had a little look and the FTSE is at 9411, which is about two points off its record, which was probably earlier this morning.

So the FTSE at a record high, but other parts of the market have yet to catch up. I particularly mid and small-caps an area I know that you always have focused on what's going on in the stock market and how do we get some performance out of those sort of mid and small-sized companies.

SM: Yeah, thanks Darius. It's a great question. Just focusing on the FTSE for a minute, you're right. So obviously end of the third quarter yesterday and for the first three quarter of this year, in total return terms, 3,100 is up nearly 18%. And that's in Sterling. That's outperforming the Dow Jones, the S&P, it's broadly in line with the Nasdaq. And actually, if you were to convert that into dollars, if you're an international investor, the FTSE is up, you know, in dollars nearly 25% this year. So, the UK you're right, in general, the UK's been

TRANSCRIPT: EPISODE 370

a pretty unloved market, but actually performance wise, certainly at the larger end of the spectrum, things have been, they're going pretty well. Yeah, even though people have really been sort of shouting about it and the flows has still been negative and every, everything else.

But despite that, the large caps have done pretty well. Now, the large cap as as you know very well very international in nature, roughly 75% of FTSE 100's earnings come from overseas. They're not really focused so much on the domestic UK economy. And that's where the big difference, certainly in perception, but there's some truth in it as well comes with a mid and small-caps because they are typically more exposed to the domestic UK economy. And that's where, you know, for a number of reasons, not least of course, you know, political uncertainty.

People still have a lot of concern about the state of the UK economy and what may happen going forward. So I have to say they've had a lot of concern about the UK economy for several years now, and actually we've managed to sort of through. Okay. but it doesn't stop people worrying understandably. So I think that's the primary reason why we've still yet to see, you know, very strong performance from mid and small-cap, albeit again, yeah, year to date, the mid 250s up nearly 10%, which isn't too bad in the context of the negative headlines.

So I think it takes two things to see material performance in the mid and small-cap space. I think it takes some alleviation of the concerns around the domestic economy. And it takes some flow back into the market. I think the first of those, you know, we can probably talk about, but I'm more sanguine than most.

The second one is the real conundrum is when we start to see investor appetite come back and, you know, I've been guilty myself of the last few years of sort of saying sentiment can't get any worse and then it goes and gets worse. So I'm sort of slightly reticent to predict the timing of that one. But what I do know is that we've got some great companies that typically are on incredibly low valuations that are trading well. They're getting bought by, you know, other actors in on a regular basis because their valuations are so attractive. So I think it's a matter of when not if we start to see that performance, if that makes sense.

DM: Yeah. And I think it's about perspective as well, isn't it? As you say. I mean the FTSE in local currency, which is our currency is up 18% this year in mid-caps up around 10%, which is perfectly acceptable return. It's just the perception is it's not, you know, markets haven't performed as well as the US and actually in 2025 so far they have. And you are a multi-cap fund that you run. I know you like to have valuation as a supporting metric when you buy into a stock, has that pushed you more into mid-caps and small-caps in the last 12 months? Or have you sort of kept that nice balance with some large-caps as well?

SM: Yeah I mean you're right, we are multi-cap. We do tend to focus predominantly, I call it the mid-market rather than just the mid-cap. It's a little bit broader than just the FTSE 250. Yeah. If you wanna think about it in sort of FTSE terms, my sort of area of focus is probably FTSE number 50 down to about 300 ish. That's where we sort of spend most of our time. And we consciously diversify away from the very large companies in the FTSE 100 really, because frankly a lot of other people do that. And we find it more interesting, there are more interesting individual stock opportunities further down the market cap spectrum both in terms of geography of exposure, industry of exposure, stage of evolution of the company, all that sort of stuff. So we find it more interesting that part of the market now.

And so we've always sort of been heavily exposed there and I would say something like 75-80% of the portfolio is in that part of the market. We have a little bit of very large-cap exposure and a little bit of small-cap exposure, but most of what we do is in that mid-market. And I don't think really actually over the last

TRANSCRIPT: EPISODE 370

few years that's changed. I've been talking about the valuation opportunity in that part of the market for what seems like forever.

And I'm sort of conscious that it's taking some time, you know, typically mid and small-caps outperform over the long term for the, you know, well-documented size effect and everything else. We haven't really seen that for the last four or five years because we've been in quite an unusual market, I think. But I have full expectation that outperformance will reassert itself and that's why I'm so focused on that area of the market. I think in the long term is a very, very attractive area for superior capital performance.

DM: And you talked about you being a bit more sanguine on the UK market generally, or the UK economy. Let's get into that a little bit because as we've said, the mid-caps are more domestically exposed, not entirely, and some really good mid-caps that that sell overseas. But as a rule of thumb, a large gap, a bit more overseas mid-cap, a bit more domestic. So I think the economy then is important to a fund like yours. Tell us about your thinking on the UK economy because you say you are a little bit more sanguine rates have come down to an extent yet that sticky inflation won't go away. Where do you see us on that tipping point at the moment?

SM: Yeah. I mean I feel like I've been arguing this sort of story for about two or three years really about the relative resilience of the UK economy. And I think in fairness to me I think the economy has proved to be quite resilient over the last few years compared to what seems like expectations. People have been desperate to almost predict a recession every five minutes, it seems to me. But the reason I think it's been resilient, and I think it will continue to be resilient is because we've got some quite interesting characteristics in a difficult environment. And what I mean by that is when you look at it there's three big parts to the economy broadly. There's the private sector in terms of consumers, there's the private sector in terms of companies, and then there's the government sector.

Now both sides of the private sector are in reasonable health. Now, it doesn't mean we're off to the races, but we're in reasonable health. Consumers have very strong balance sheets. They've been saving a lot of money, so savings rates are very high. We've got still relatively low unemployment certainly in the last year or two. We've had decent wage growth and higher than inflation albeit, that wasn't the case previously. So consumers actually are in an okay place. What they lack is a bit of confidence to go out and spend materially. But they've got the wherewithal to do so. And to a similar degree, I think corporates, UK corporates are in a pretty good place as well. If you think back to when the pandemic struck corporates massively sort of repaired their balance sheets and preserved their cash flows very aggressively in the face of, you know, obviously an extreme uncertain event.

And then obviously if you roll forward from 2020 through the last few years we've been through various sort of almost rolling crises, you know, war in Ukraine, cost of living crisis, energy shocks, interest rates, inflation. And so corporates haven't really had that period where animal spirits have been allowed to reign and they've spent a lot and they've leveraged up their boundaries and that sort of stuff. So corporates generally are in reasonable health and those two bits are, you know, a huge part of the economy.

And the final piece of the private sector. Bit to that, add to that is that the banking sector is in really, really good health. And you can see that obviously in the performance of some of the bank shares. So when you look at the aggregate of the core the private sector side of the economy, we are in pretty robust shape.

The concern obviously, that one that's front and centre for everyone is the state of the public sector, finances, the government's finances, and there it is more difficult. I agree. And you know, obviously that's crazy

TRANSCRIPT: EPISODE 370

uncertainty with the upcoming budget, which I'm sure we'll talk about and all that sort of stuff. But the private sector is such an important component of the economy and those two bits are in such relatively robust health. That is why I think the economy has basically surprised people with its resilience over the last few years and why I think it will continue to do so.

DM: Yeah, and I fully accept what you say about the corporates, but I think things like the national insurance rise has dampened certain sectors and whilst unemployment is still low, I don't think there's a lot of new employment, particularly that sort of casual, you know employment around the hospitality industry and stuff like that.

But maybe now's a good time to have a little think ahead with respect to the budget because we're in early October, very early October, and the budget's not for another 5, 6, 7 weeks away. Yet when you touch on the government side of this, which is where the concerns are about the government's balance sheet, some form of tax rises I think are almost inevitable where they can palatably push them through. Have you got any views on what might we might get in the budget and do you expect that to impact consumer confidence further?

SM: Yeah, it's great question. And just to be clear on my previous answer, you know, I have to really stress this to people, what I'm not trying to argue is the economy is in incredibly robust shape. What I'm trying to argue is it's just more resilient than the very, very negative perception out there. And I think that's what's creating the opportunity generally.

So I'm a bit frustrated really because I think a lot of what they've done the new government is sort of shot themselves in the foot really. And again, to try and be objective about it, it's their first time back in powering over 15 years. They don't have a lot of experience in how they manage the economy and how they manage expectations around what they're gonna do with policy and so forth. So, and I think they are learning lessons.

I think the first mistake obviously was the sort of scaring everyone with us with the so-called black hole in the finances last year. And then the budget, as you alluded to the budget of last autumn with the NIC changes and everything else was a real, real sort of kicking their teeth for business. But I think, the reaction of the business community and what it's meant for companies and hiring, and as you sort of alluded to, I think they're learning from, but they have created this this sort of almost vicious cycle, I think whereby, you know, they feel like they need to fix the medium term finances to meet their somewhat arbitrary rules for 2029/2030. And, you know, each six months the OBR do a review and growth hasn't quite met their expectations. So there's a bigger hole. So we need more tax increases, which dampen spirits and so on and so on. And the circle goes round. And I think that is a difficult situation.

I'm not gonna deny that at all. And it is creating tremendous angst bill leading up to this budget specifically. And the fact that we have to wait till the end of November is also not helpful. So I'm not trying to sugarcoat this by any means, but I do think perhaps there needs to be a little bit of perspective. And by that I mean, so obviously I talk to a lot of companies on a daily basis and most of the companies I speak to in the UK today, even the very domestically focused companies are basically saying, yeah, of course it's not fantastic out there right now, but actually it's still not that bad.

I've been talking to some of the big ticket retailers recently, like DFS Furniture for example, Dunelm, those sort of sorts of guys that they're doing. Kingfisher the other day, not not share I own, but doing okay, Tops Tiles this morning have announced continued strong trading in the UK. So it is creating some uncertainty, but I don't think it's having a super, super negative effect on actual activity right now. House builders are still

TRANSCRIPT: EPISODE 370

saying, it's okay, we may see a bit of slowing into the budget, but we are not expecting things to fall off a cliff.

So then it comes to down to what will they do in the budget? And I suspect actually given the level of pessimism that's out there and the level of uncertainty and negativity and fear, I suspect from a market event, from a stock market event, I think there's a reasonable chance that the fear ends up being worse than the reality.

So I suspect you're right, we will see some tax increases that's pretty inevitable, but I think they may be somewhat less aggressive than people are fearful of at the moment. And again, stock markets are all about pricing in, you know, what think things that happen at the margin. So if at the margin, whatever they choose to do in the budget in November is somewhat less draconian than we're all sort of worried about today. The stock market will take that in an incrementally positive way.

So again, I don't want to appear panglossian by any means. We have some very rare issues, particularly in the government finances or their, the way they want to manage them. But I think the stock market is well aware of that. I think perception and sentiment is already extremely negative. And I think there is a chance that we end up being surprised a little bit on the positive side as we sort of roll through from the budget and into early 2026.

DM: I mean, I think you're right, the stock market comes in two parts. There's the actual stocks and then there's our good old friend, the bonds, the government bonds. And will the government bond market particularly at the long end as sanguine around the budget?

SM: Please take this with a massive pinch of salt because I'm certainly not a bond expert, but again, I sort of feel there's a little bit of perspective needed in the context of what's going on with gilt yields in the sense that that given longer term gilt yields rise longer term bond yields rising is very much a global phenomenon. It's not specific to UK obviously you're seeing it in the US, you're seeing it in Japan, even across parts of Europe. And we have some specific nuances in the UK gilt market as I understand it basically making exaggerating the effects a bit. And we've got a lot less liquidity in our long end of the gilt market than other bond markets have. Obviously the natural buyers of long dated gilt historically have been defined benefit pension funds and the like and given the maturity of some of those vehicles, they're not as natural a buyer in quantity as they used to be.

Obviously the Bank of England has been selling long dated gilts in their quantitative tightening program, albeit they've now sort of moved away from that, which will be a bit helpful at the margin as well. So again, I'm not a bond expert by any means, but our public sector debt to GDP is no certainly no worse than others in the G7. Yes, we have a bit more sticky inflation. I think you are right in that respect, and some of that is policy related. But again, I think that will probably peak very, very soon and start to unwind as we go into 2026. So, again, I really don't wanna sound like, you know, I'm being in any way sort of you know, treating these issues lightly because they are serious issues. But I just think the scale of pessimism and in many respects sort of panic sort of narrative, I think is just needs a bit of context, I think.

DM: And look, that's really good because, I see lots of fund managers, some share your views, some don't, but actually having someone come on and say it's not great, but it's not as bad as people are making out, I think is extremely positive message.

TRANSCRIPT: EPISODE 370

So let's just do the last couple of minutes or so actually on the fund. Let's have a little delve under the so-called bonnet. You've touched on some retailers which are sort of house improvement type retailers, Top Tiles, Dunelm, you know, let's make your house look nice or redo your patio type thing. What other type of sectors are you excited about within the fund? Name stocks if you can then don't if you can't.

SM: Yeah, sure. So I mean we do have quite a lot of exposure to the domestic economy. And again, you know, I hope for the reason I outlined, which is that the valuations are incredibly attractive because pessimism is where it is and those businesses are generally speaking, trading a bit better than people think. So DFS furniture, for example, in their last trading statement, they're, you know, you a sofa is the ultimate sort of discretionary big ticket item, right? So DFS have just seen 10% year on year order intake growth, both in the first half of their financial year and the second half of their financial year. So that's a nice illustration of the fact that there is still some activity going on out there. So domestic economy, for of a variety of reasons, we quite like exposure.

The other big thematic we have in the fund right now is sort of, I think, is general industrial exposure and we've got quite a lot of industrials in the mid-market in the UK with all sorts of different end market exposures themselves, you know, aerospace and defence, generally industrial, automotive, all those sorts of things. But generally speaking manufacturing globally has been under the cosh for the last couple of years. And business has been difficult and these companies have sort of managed themselves and right size themselves to a fairly subdued environment. They're still making good profit margins, they're still making good cash flows, good strong boundaries and everything else.

And I'm quite excited about the industrial cycle recovering over the next year or two. And these businesses very disproportionately benefiting from that. Examples I would give you would be companies like body coats which is a specialist heat treatment business across multiple applications in the industrial space. Or Vesuvius, which is a specialist in sort of consumable bits of kit that go into the steel manufacturing area or RS Group, which is a component distribution business.

They're all very, very different companies, but they all have characteristics of having had a difficult few years having had to do a lot of self-help within their business to get them to a good situation whereby as global industrial activity recovers these businesses ought to perform really, really strongly. So that would be another big theme in the portfolio right now.

DM: Simon, thank you very much for talking through markets, economies and a little bit on the fund. The fund is paying a reasonably handsome income at the moment and you know, there's that potential if you believe as Simon does, that there's opportunity in the domestic economy. This is the sort of product that that could well be of interest. And if you would like to get more information on the VT Tyndall Unconstrained UK Income fund, please do visit fundcalibre.com