Downing Fox

The MGTS Downing Fox Funds

Monthly commentary – October 2026

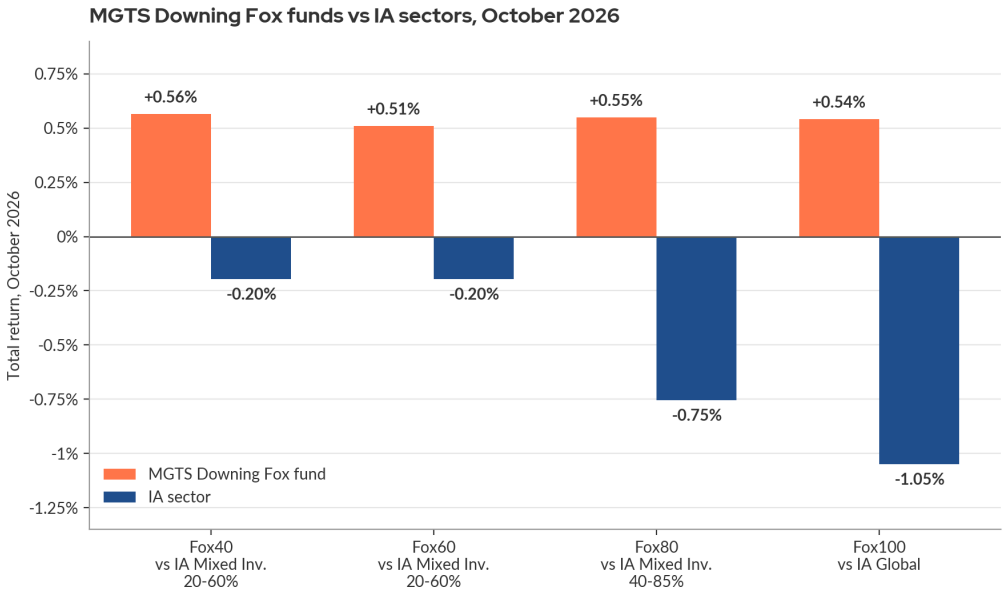


Alex Paget
Fund Manager
MGTS Downing Fox Funds

There are times when being away from the herd is uncomfortable, emotionally draining and, to be candid, makes you feel utterly stupid. For much of the past three years, that is what managing the MGTS Downing Fox Funds has felt like. Unlike the market and the majority of our peers, we are diversified by style, region and market cap. That is sensible for long-term investors, but it has often left us looking "slow" in an environment where all you needed to own was giant, mostly US-listed tech and AI stocks.

It's a quirk of markets that when one theme dominates, everything gets pulled towards it. The winners grow, so indices and passives own more of them, and active managers drift towards the theme to feel "safer" against their benchmarks. Then a month like October happens, the dominant theme wobbles, and you're reminded that the wisdom of crowds isn't all it's cracked up to be.

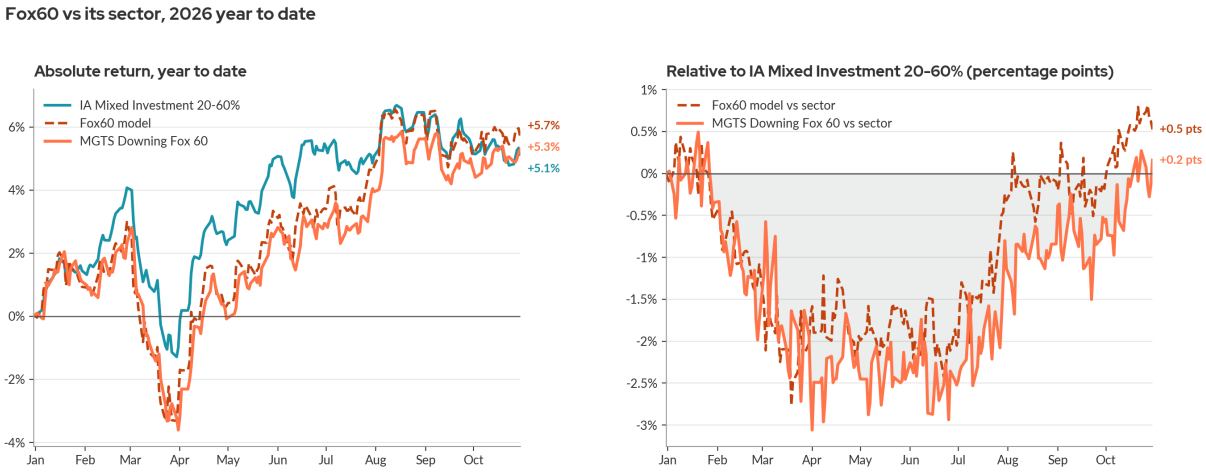
This commentary focuses on the **Growth Component**, which drove the Fox outperformance against peers. A quick shout out to the **Defence Component**, though: it rose over the month, having already held up nicely through the bond sell-off in August and September.



Source: Morningstar, total return in GBP, 1–30 October 2026

Past performance is not an indication of future performance.

All of the MGTS Downing Fox Funds made money in October while their peer groups fell. The reason is the diversification above, at a time when markets were dragged down, sometimes abruptly, by falls in very large AI-related stocks. Intel fell around 45% in the month alone and SK Hynix around 20%, while NVIDIA, Meta and Alphabet each lost between 11% and 19%. This has been building for six months or so, as investors worry about valuations at the top of the index and grow more sceptical that the vast AI infrastructure spend will earn a return. After a tough start to the year, our funds have been gradually winning for most of the past few months (Fox60 is a good example).



Source: Morningstar, total return in GBP, 31.12.2025 to 30.10.2026. Relative return = fund (or model) less sector

Simulated past performance and past performance is not an indication of future performance.

Broad-based outperformance

The outperformance was broad-based. When stock markets are dominated by one theme, there's a danger of conflating "the market" with "all equities". My colleague Simon has written a lot about this. We don't disagree with those who worry "the market" is overvalued, but "the market" really only represents a small number of very big stocks. We think the AI trade is at risk of unwinding, and we also believe large swathes of the market could rise if it does. October showed exactly that, in five places:

- **Quality:** Castlebay UK Equity, Evenlode Global Equity and Latitude Global rose between roughly 8% and 10%, with Langdon Global Smaller Companies up almost 5%. These funds spent much of the past year in the wrong part of the market, owning stocks with nothing to do with AI (consumer staples, healthcare) or ones deemed AI losers (software and other capital-light businesses).
- **US:** Our US funds rose about 2% against a fall of roughly 1.7% for the US market, led by Snyder US All Cap Equity and Iridian US Corporate Change.
- **Global Value:** Redwheel Global Intrinsic Value, Havelock Global Select and Kempen Global Value all rose, and the sleeve edged ahead (+0.8%) while global equities fell by around 2.5%.
- **UK:** As has been the case for most of the past six months, our active (small-cap biased) managers outperformed the FTSE All Share.
- **Emerging markets:** Our funds fell, but by around 2% against nearly 9% for the index, because we own much less of the chip-heavy Korea and Taiwan exposure that dominates it.

We aren't Luddites...

For the record, this isn't an anti-AI portfolio and we are not Luddites (we use AI extensively to support our human process). We have genuine exposure through funds such as Landseer Global Artificial Intelligence and Liontrust Global Dividend, and through plenty of individual holdings elsewhere. The difference is one of scale. The ten biggest stocks in the iShares MSCI ACWI ETF make up around a quarter of the index, but only around 3.5% of our look-through holdings, and semiconductors are about 5% of our equity portfolio against around 15% in the tracker. Our outperformance in October isn't because we are completely avoiding AI stocks, it is because we just own a lot less of them than everyone else.

It's also why we aren't getting overly down on the detractors this month (these were largely our most AI-sensitive funds, plus our Japan funds, which fell in line with the Japanese market). To explain in more detail, it's worth looking at one of our best performers this month, Castlebay UK Equity.

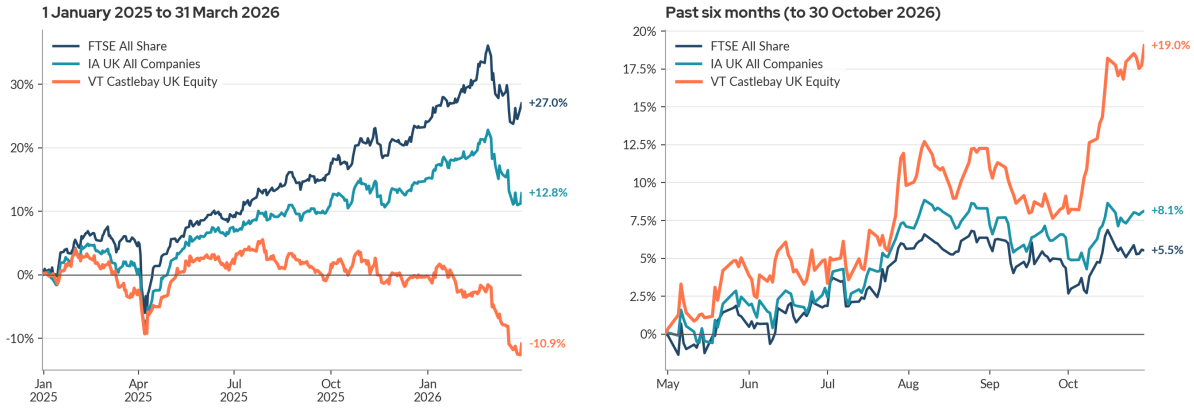
The unhero's journey: The Castlebay edition

Castlebay is a great example of how we operate, and its story is similar to other quality funds we own.

2025 was frustrating for the fund, as it was essentially flat when the index produced double-digit returns. Then, in Q1 this year, it became painful, falling more than the market because of its exposure to stocks deemed AI losers.

It's easy to see why investors capitulate, as they just want the pain to stop. It's what we refer to as the "cruel god of markets": the moment the pain is most acute is often when you make your worst decision. Our view in early April was that David Ridland (the manager) could have done some things differently, but anything he did would have been mere window dressing, as his style was brutally out of favour. He kept making the case that the quality of the businesses was intact and the share price falls had created value. Six months later, Castlebay has nearly quadrupled the index's return and is the second best-performing IA UK All Companies fund, helped in October by Avon Technologies, his largest position, rallying around 40% on a strong earnings update.

VT Castlebay UK Equity vs sector and index



Source: Morningstar, cumulative total return in GBP, rebased to 0% at the start of each period

Past performance is not an indication of future performance.

So when the growth funds with the most AI exposure have a bad month at the exact moment the theme wobbles, our reaction is the same. The aim is that while one holding is having its near-death experience (Castlebay in Q1), another is having a purple patch, giving a smoother relative ride. You do need confidence that the underperformance is down to style rather than the manager genuinely getting it wrong, and that's what our process is designed to test.

But there is the broader point on what we are trying to achieve. Active funds are very hard to hold, and no-one can predict the future. What do we mean by this? Well, let's be honest, most investors tend to buy active funds after a strong three or five years, which is often the

peak of relative performance, then watch 12 months of poor returns before selling and moving on to the next top performer. Our process is designed to stop us falling into that trap and to allow investors to experience the great things active funds can achieve, but with less of the emotional anguish.

(If only I applied it to my fantasy football team, where I'm a momentum junkie who ditches players after a couple of quiet weeks, immediately regrets it and is now languishing in the fourth quartile of the Downing league.)

Final thoughts

Of course, October doesn't settle anything. It was a good validation of what we do, but it was also a relatively small fall compared to the unrelenting rise we have seen from that part of the market over the past decade or more. There is also a chance the AI trade comes roaring back as well. If it does, we will look slow again. We can live with that. To be clear, by "slow" I mean Fox100 has annualised 13% over three years, so I am very much talking about relative "slowness" here.

But it's why we do what we do, and why we've been warning investors against blindly following the herd into passive and mega-cap options (either to lower costs or feel "safe" in the crowd), as these are highly concentrated and, given current valuations, carry a risk we think is badly underappreciated. We are simply playing a different game. We believe the day of reckoning for the passive AI trade will come at some point (it might have already started), and for any investors who've found the moves of the past few months unsettling, you know where we are.

Thanks for your continued support.

Alex Paget – Fund Manager, MGTS Downing Fox Funds.

Opinions expressed represent the views of the fund manager at the time of publication, are subject to change, and should not be interpreted as investment advice.

Important notice:
This document has been prepared for existing investors and their advisers and has been approved as a financial promotion. Capital is at risk. The value of investments may go up, as well as down. Past performance is not a reliable indicator of future performance. Any subscription to the fund should be made on the basis of the relevant product literature available from Downing, and your attention is drawn to the charges and risk factors contained therein. Downing does not offer investment or tax advice or make recommendations regarding investments. Downing is a trading name of Downing LLP. Downing is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 545025). Registered in England No. OC341575. Registered Office: 10 Lower Thames Street, London EC3R 6AF.