The MGTS Downing Fox Funds

July 2026

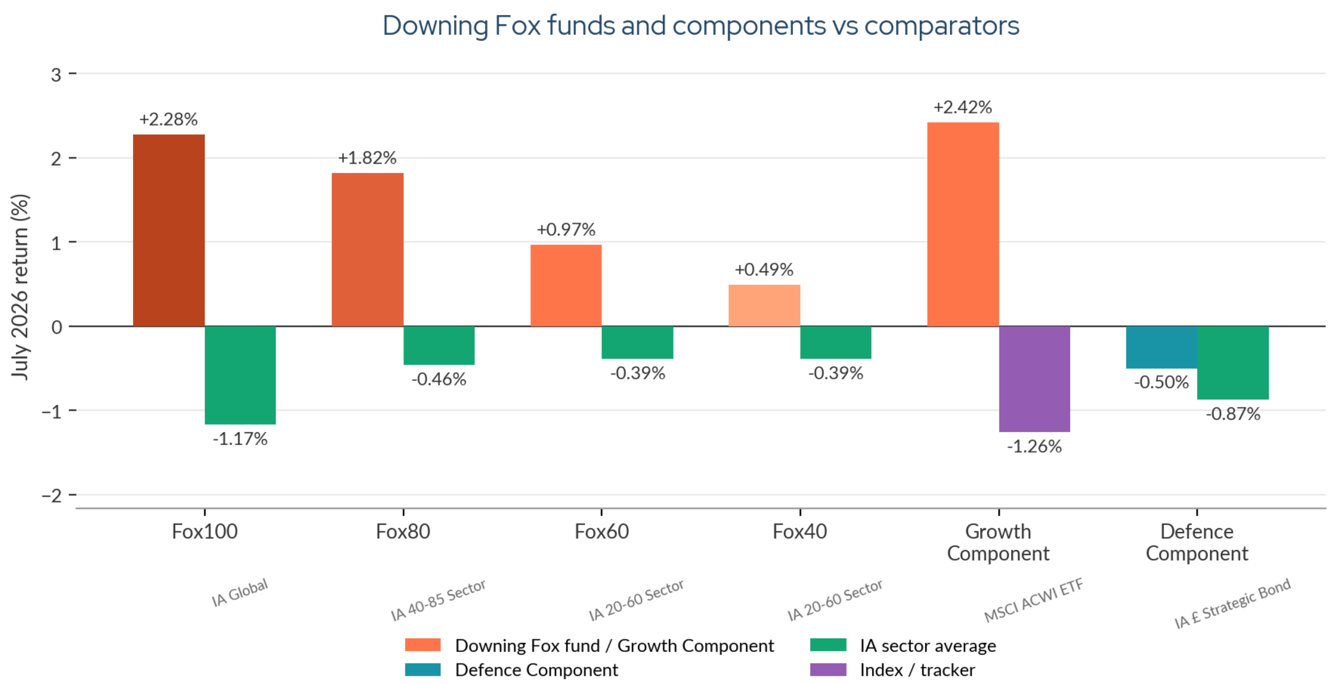
July 2026 commentary

July proved to be a very good month for the Downing Fox range, with all four funds sitting in the top quartiles of their respective IA sectors. After what had been a challenging period prior to this (on a relative basis), it was encouraging to see conditions more suited to our diversified approach.

The message behind this commentary isn't that the market regime has changed for good, and it's active managers' time to shine again. Rather, it's to illustrate what could happen going forward (we'll see whether this is the turning point or not, but we think the last few weeks have given us a glimpse of what the future might hold), and why we believe our portfolios offer a differentiated source of long-term returns versus an increasingly risky, passive-dominated market.

In terms of the numbers, all four of our funds outperformed and, importantly, produced a positive return while their respective IA sectors all fell.

The primary driver was what happened in equity land, so the focus here is on the **Growth Component**, though it's also worth noting the **Defence Component** offered protection when needed and outperformed the IA Sterling Strategic Bond sector too.



Source: FE fundinfo, 31.07.2026, names available on request

Past performance is not an indication of future performance.

The AI unwind

The Growth Component outperformed the global index (using the iShares MSCI ACWI ETF as a proxy) largely because of the unwinding of the AI trade. Semiconductor names had been on an absolute tear in 2026, buoyed by AI capex (and, we suspect, a decent amount of investor FOMO). This peaked on 22 June, with those stocks falling c.20% over the following six weeks.

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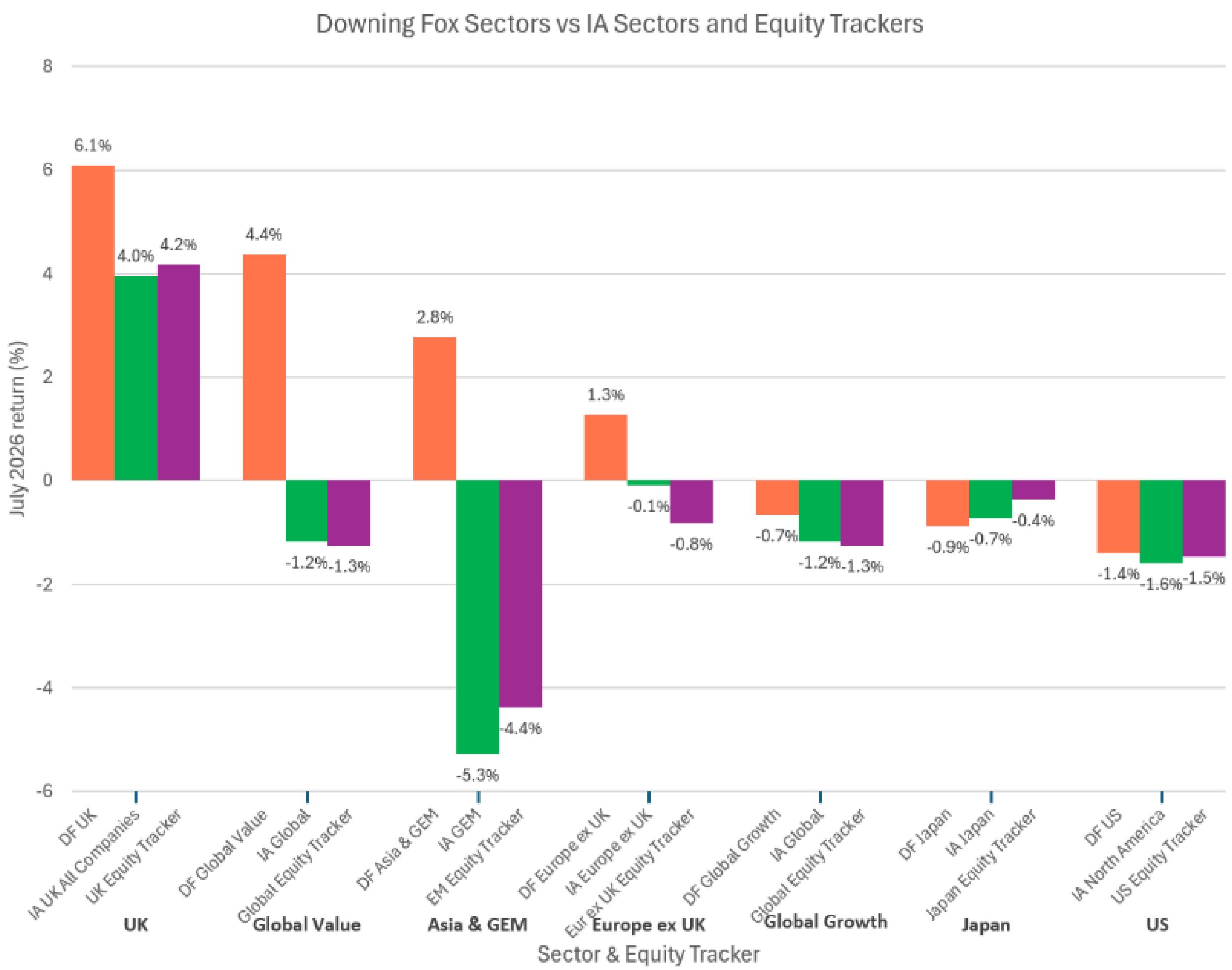
With all areas of the market being sucked towards this AI capex theme, the fallout was widespread. Our outperformance was driven by lower exposure to semiconductors and technology more broadly (NVIDIA and other Mag 7 names also had a mildly negative month), and, in turn, lower exposure to the US.

However, the tech sell-off only tells part of the story, as our outperformance was broad-based. All of our regional/global sleeves within the Growth Component, barring Japan, beat their respective IA sectors and equivalent trackers.

The standout areas were our UK and global value holdings, but a special mention goes to our Asia and GEM funds. It's been a nightmare to be an active manager in emerging markets lately, with the index hijacked by the AI theme. As we've mentioned before, three stocks – TSMC, SK Hynix and Samsung – make up around 25% of that index, all flying high on the AI build-out this year and leaving active managers in their dust. July was a lesson in why concentration is dangerous: those stocks fell, taking the index with them (the EM index would have been down 10% last month without a final-day +6% surge). Our EM holdings have some exposure to these names, but far less than the index does – proof that away from those Korean and Taiwanese giants, it was a good month to be active.



Source: FE fundinfo, 31.07.2026, names available on request

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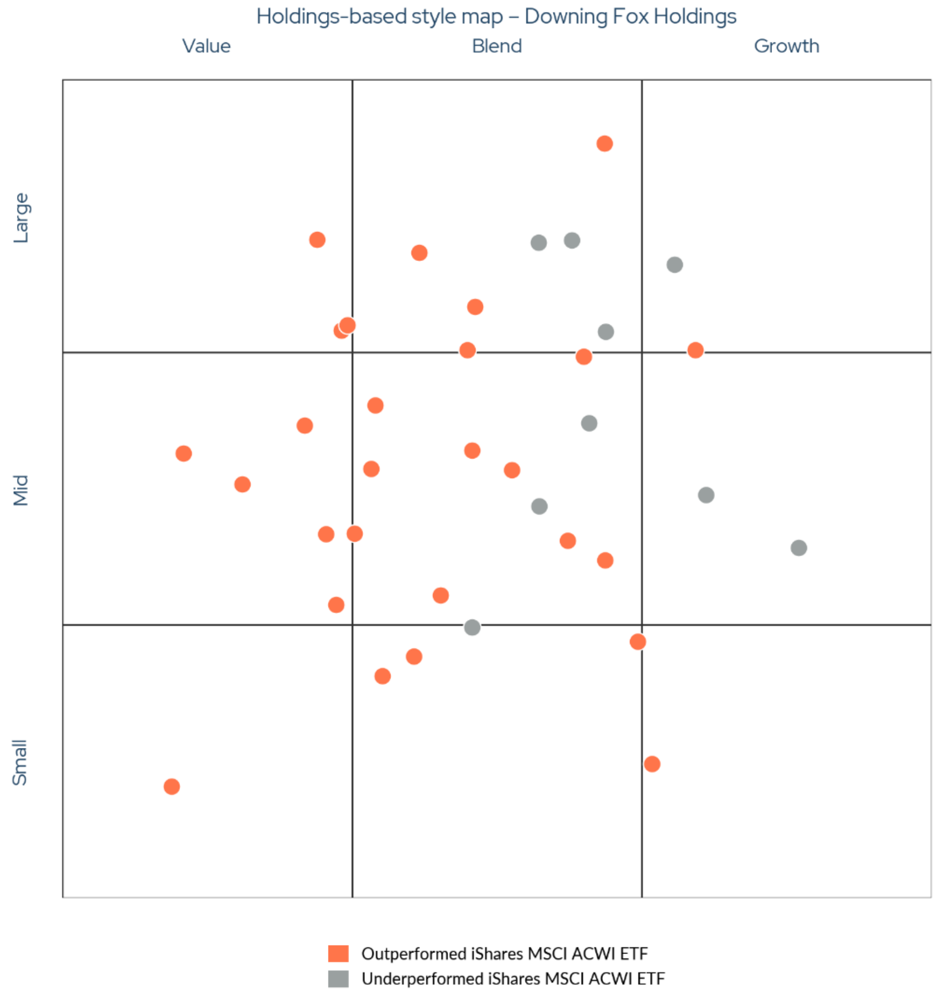
Broad-based winners

Looking at individual names, 27 of the 36 funds we hold outperformed global equities last month, including many of our value-orientated and small-cap-focused holdings, as the style map below shows.



Source: Morningstar, 31.07.2026

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The largest individual contributor was **Dowgate Cape Wrath UK Focus**, the small-cap value fund, which rallied c.10% thanks to holdings such as Robert Walters and YouGov.

Our UK portfolio (biased towards smaller companies) has been making steady ground versus the UK market over recent months, and it was encouraging to see **Tyndall UK Unconstrained Income**, **Premier Miton UK Value Opportunities** and **Castlebay UK Equity** among the top contributors.

Within our global portfolio, value names like Ranmore Global Equity, Redwheel Global Intrinsic Value and Havelock Global Select performed strongly, many powered by stocks previously deemed AI losers, such as software and call centres. We also saw a welcome revival for quality-orientated funds like Evenlode Global Equity, Latitude Global and Langdon Global Smaller Companies, which outperformed the index by making gains while it fell.

Our detractors were largely limited to higher-growth funds that had outpaced the index over recent months, such as Liontrust Global Dividend, Amati Global Innovation and Landseer Global Artificial Intelligence. Even so, while they fell behind the index, they held up much better than other previously high-flying funds.

Landseer is a good example. Manager Chris Ford believes the AI trade is far wider than the market currently gives it credit for. Speaking to him early in the month, he felt the market's myopic focus on AI "picks and shovels" was becoming frothy, so he'd shifted the portfolio towards "regular" businesses using AI for competitive advantage, like convenience store operator Alimentation Couche-Tard and water utility Veolia.

Yes, it was our worst absolute performer, but this valuation-aware approach meant it fell just 8% since the sell-off began, versus c.20% for AI peers "all-in" on memory and chip makers.

Looking ahead

We won't pretend to know whether this is the start of a new regime or just a summer air pocket for AI and mega-cap names. We didn't call the top of the semiconductor rally, and we're not about to call the bottom either – that's never really been the point of how we run these portfolios.

What July did do is illustrate why we've been banging on about diversification for so long. For advisers using passive multi-asset funds as a core holding, most of which lost money last month, Downing Fox can be a useful complement – something that behaves differently precisely because it isn't dominated by the same handful of mega-cap names. We believe that, when this cycle turns for good, it could cause index-based strategies to struggle for years, not just a month. For those who share our reservations about that concentration altogether, we'd argue the range is a legitimate home for long-term returns that don't live and die by the AI capex cycle.

We remain genuinely excited about the opportunity set within our diversified portfolio. There are early signs that smaller companies, particularly in the UK, are finding their feet again after a torrid couple of years, and if that continues, it should suit us well.

At the same time, we're as wary as ever of what's happening at the top end of global indices. The EM index swing last month – down 10% intra-month before a last-day surge dragged it back – shows just how fragile things can get when a quarter of an index is made up by three stocks. We're seeing similarly violent share-price swings in some of the world's largest companies, increasingly driven by passive flows and hedge fund positioning rather than fundamentals. That's not a healthy dynamic, and we don't think it's gone away just because July went our way.

Either way, we like where we sit. The Fox Den's enthusiasm remains intact, underpinned by the managers we own and the belief that being genuinely different, rather than a watered-down version of the index, is what will serve clients best over the long run.

Thanks for your continued support.

Alex Paget – Fund Manager, MGTS Downing Fox Funds.