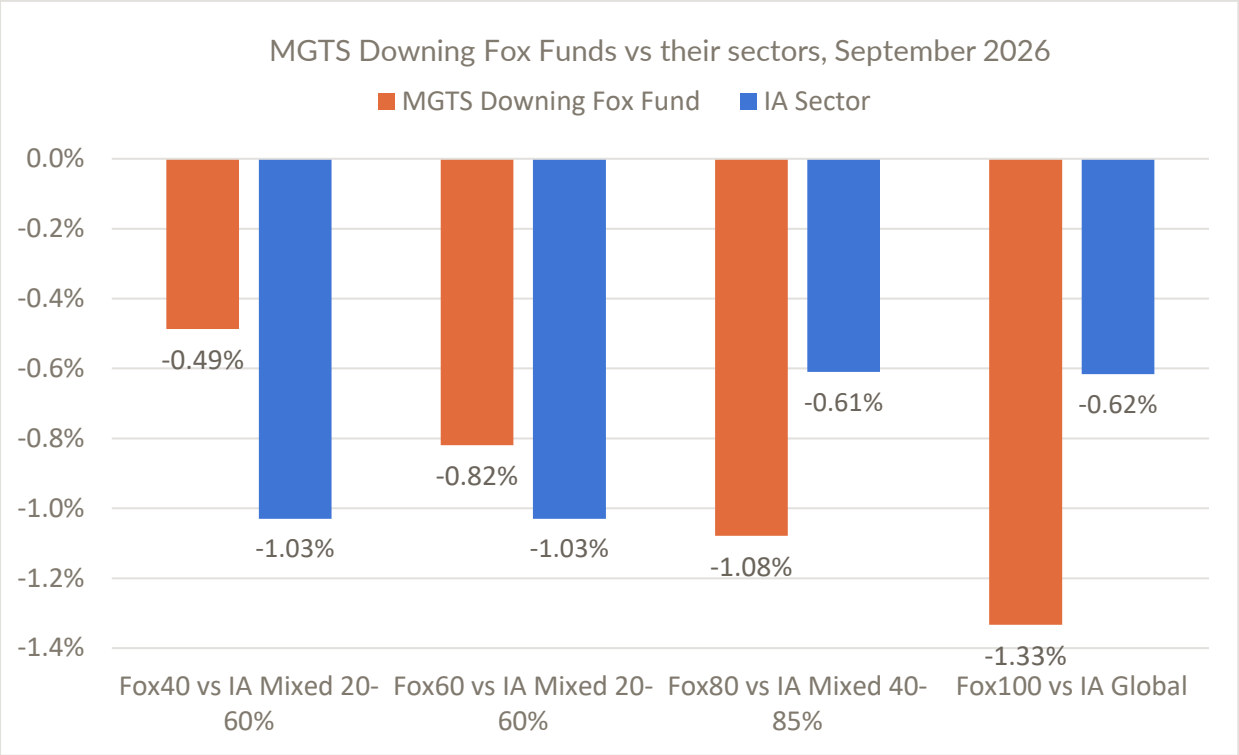
The MGTS Downing Fox Funds

September 2026

September was a much tougher backdrop for markets, and a mixed month for the MGTS Downing Fox Funds too, with half of the range outperforming their sectors and half underperforming.

The main themes were worries about government debt, potential interest rate rises and inflation, which pushed bond yields higher (and raised the underlying question of what falling bond prices might mean for the wider economy). In equity land, despite warnings that AI might end human civilisation, AI stocks went gangbusters once again. I'll come back to this, but while the AI mania made September look like a good month for equities, the reality was far different.

Fox40 and Fox60 both outperformed their IA Mixed Investment 20-60% sector, while Fox80 underperformed the IA Mixed Investment 40-85% sector and Fox100 was a decent way behind the IA Global sector. It's worth remembering that all of our funds beat their sectors by a healthy margin over Q3, as for most of that time we were rewarded for not being all in on AI stocks and mega-caps. So, you can probably guess why our higher equity-weighted funds lagged last month...



Source: Morningstar, 30.09.2026

Past performance is not an indication of future performance.

To understand our funds' relative and absolute performance, it helps to look at our two components: Growth and Defence.

Defence Component

The Defence Component drove the outperformance of Fox40 and Fox60. It fell by c.10bps over the month, but the IA Sterling Strategic Bond sector fell closer to 2%. So, what made the difference?

First, we were shorter duration than many peers. We've held duration of c.4 years for some time now (short, but higher than the sub-1 year we had in 2022), reflecting our view that we don't know what will cause the next equity market tumble. If it's an inflationary event, long duration would be a mistake. If it's deflationary, too little duration (i.e. too much cash) leaves us with no offsetting force (i.e. something that is negatively correlated) when the Growth Component falls. There's method behind our macro fence-sitting, and it paid off as longer-dated yields rose around the world, largely because the war in Iran pushed up energy prices and inflationary pressure. The US raised interest rates and many suspect other central banks will follow. The UK was at the epicentre of the sell-off, and as most of our peers hold sterling debt, that helped us on a relative basis.

Second, the big help was our Japanese Yen exposure, which rose against sterling. We like the yen as a "safe haven", given its record of rising when panic ensues. It's a very cheap currency in our view, so if the bond market falls escalate, we think it has a lot further to rally.

Finally, not owning corporate bonds has been a major drag on Fox40 and Fox60 over recent years, as credit (particularly high yield) rallied with equities. Last month it was a big help, as corporates were pulled down by the sell-off, with concerns about the sheer scale of hyperscaler debt issuance to fund AI infrastructure also part of the story.

Growth Component

The Growth Component was the reason Fox80 and Fox100 underperformed. Between June and August our style was winning, but just like a George Lucas trilogy, the big bad index struck back in September. Just four of our 37 actively managed equity funds outperformed the iShares MSCI ACWI ETF.

Ten largest contributors to iShares MSCI ACWI ETF return, September 2026

#	Name	Sub sector	Country	Weight	Return	Share of index return
1	NVIDIA	Semiconductors	US	4.84%	+7.4%	**41%**
2	Meta Platforms	Internet Content	US	1.23%	+28.3%	**40%**
3	Apple	Electronics	US	4.62%	+6.4%	**34%**
4	AMD	Semiconductors	US	0.73%	+34.3%	**29%**
5	Micron	Semiconductors	US	1.02%	+16.7%	**20%**
6	Intel	Semiconductors	US	0.38%	+37.3%	**16%**
7	TSMC	Semiconductors	Taiwan	1.84%	+4.3%	**9%**
8	SK hynix	Semiconductors	S. Korea	0.66%	+11.3%	**9%**
9	Samsung Electronics	Electronics	S. Korea	0.86%	+8.2%	**8%**
10	Microsoft	Software	US	3.42%	+2.1%	**8%**

Weights are opening weights rescaled to 100%; returns in sterling; share of index return based on a +0.87% index return.

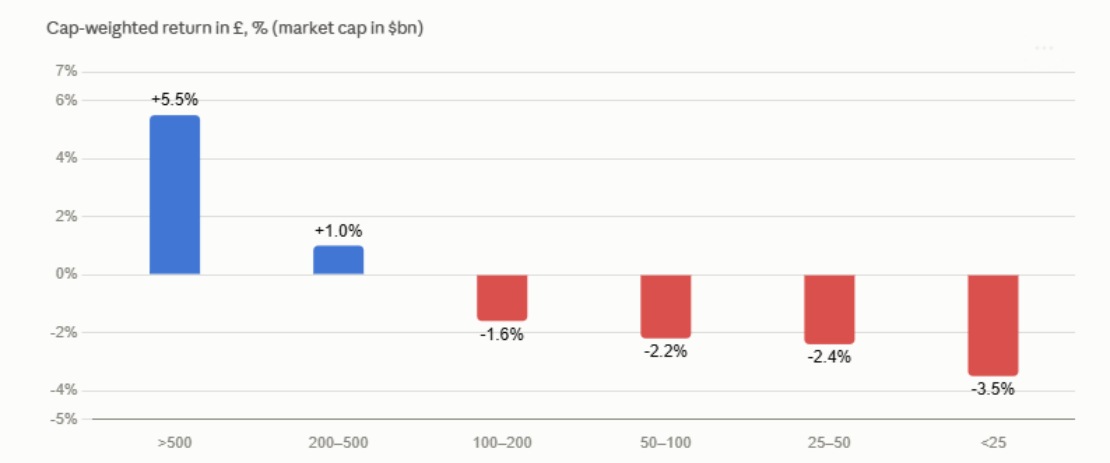
Source: Morningstar, 30.09.2026

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Before you write us off as terrible fund selectors, some context. We've long talked about the narrowness of markets, but September took the biscuit. The ETF returned 1.13%, yet the average stock within it fell 2.2%. Most global stocks fell, except for a handful of very large technology and semiconductor names. The ten stocks above (all technology companies) contributed 215% of the ETF's return, meaning the other 1,000+ stocks detracted.

As we diversify by style, geography and, importantly, market cap, this was a real drag. Returns by market cap tell the story: the bigger the company, the better the return.

Returns of iShares MSCI ACWI ETF constituents by market cap



Source: Morningstar, 30.09.2026

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Of the funds that beat the index, three were Japanese holdings (SMD-AM Japan Mid Small Value, Zennor Japan and Cadira Sustainable Japan Equity), while Guinness Global Innovators was our only non-Japanese outperformer.

To show just how hard it was for active managers, I asked Claude to run some complicated maths I'd be incapable of doing myself. It came back with: *"A randomly selected equal-weighted portfolio of 30 stocks beat the index in only about 3% of 20,000 simulated draws. For 50 stocks it was under 1%."* Wowzers.

The major detractors included global value funds such as Kempen Global Value and Havelock Global Select, while "quality" names like Latitude Global and Evenlode Global Equity were also up against it. A common theme was funds that had leaned into supposed "AI losers" (think software) earlier in the year. That drove their strong summer returns, but the market's renewed focus on the AI rollout made them the main casualties in September (which is why growth fund Spyglass US Growth was among the otherwise value-heavy names on the detractors list).

A bright spot: Though modest in absolute and relative terms, our UK exposure performed well. It is very small and mid-cap in nature, which is where our managers are finding the best opportunities. After facing headwinds early in the year, our active UK funds have generally been "winning" since April versus the UK index and outperformed again in September, thanks largely to domestic cyclicals. Whisper it quietly, but maybe things have finally turned in the UK.

Looking forward

For most of the last few months, our diversified approach has worked in our favour, but we always expected some form of snapback in the AI trade. But the volatility at the top end of the index is exactly why we don't want to be overloaded in those areas. When a handful of stocks can decide whether the whole market has a good or bad month, we'd rather own a spread of things that can do well in different environments.

There are also genuine reasons to think this trade could be long in the tooth. Hyperscaler debt issuance is rising sharply, valuations are demanding, and hard figures on the return on all that investment remain thin on the ground. Meanwhile, there are growing calls to limit AI spend over fears that we are building a technology that could lead to the destruction of the human race. As investment risks go, "the product may eliminate its own customer base" is a new one, and not something analysts usually have to model into a DCF.

None of this means AI is going away, or that we are calling the top. Of course, index domination could go on for longer than anyone expects, and we may have to endure more months like September. But the longer it lasts, the more stretched the gap between the index and the rest of the market becomes, and the larger we'd expect the eventual catch-up to be, with our active managers (who are finding genuine opportunities away from the mega-caps) outperforming by even more when it comes.

Again, this is why we believe the MGTS Downing Fox Funds are a good, differentiated home for investors who share our concerns about index concentration. In the meantime, we take comfort from the mix of defensive assets across our Defence Component. We keep it ready for either an inflationary or deflationary shock. Meanwhile, the Growth Component stays diversified, so that no single trade, however exciting, decides our fortunes.

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.

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