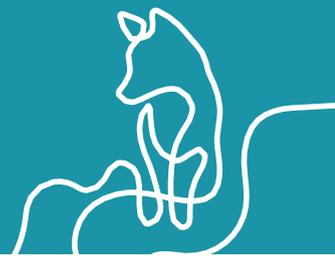


The MGMTS Downing Fox Funds

February 2026



February commentary

Executive Summary

- **Solid absolute returns, mixed relative outcomes** – The Fox Funds have delivered good absolute performance year to date, but no exposure to UK equity index funds and gold has made us look slow versus some peers.
- **Portfolio positioning evolving** – We have reduced exposure to areas most exposed to AI disruption and remain positioned for a reversal in UK small-cap relative performance over time.
- **Long-term conviction unchanged** – Despite looking slow versus some peers over the short-term, we believe the portfolios are well set up to deliver strong, repeatable returns over the long run.

February was eventful, and trying to summarise everything that happened over the past four weeks (and what it might mean) would turn this commentary into a 10,000-word monster. For my time and your sanity, I won't do that. Instead, I'll focus on the key performance drivers (both absolute and relative) that have impacted the Fox Funds so far this year.

I will briefly mention the Iran conflict. What is going on in the Middle East is deeply unpleasant and, as ever, nobody can tell you with any confidence how events will unfold. At the time of writing, equities have sold off broadly leaving few places to hide, but our Defence Component has held up and done its job. Importantly, we aren't making any changes as a result.

My gut feel is that, while the conflict is worrying, much of the recent sell-off reflects profit-taking, with the war acting as a convenient narrative following strong returns across most asset classes. No one knows what will happen from here, though. It is worth reiterating that Simon and I continue to hold the overwhelming majority of our investable wealth in our funds.

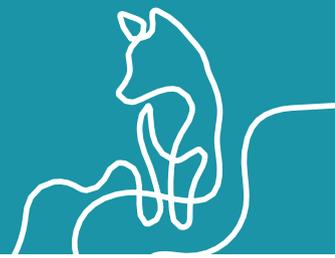
As mentioned, the main focus of this commentary is the performance of the Fox Funds this year. Markets have been swirling around and we continue to plot our own course with some parts of the portfolio working very well, and some parts less so.

In terms of 2026, there have been three clear positives:

1. **Absolute performance:** In absolute terms, 2026 has started well. Over the first two months, our four funds delivered returns of between 1.9% and 3.2%. As they price a day later than the market, they miss the strong up days at the very start of the year and at the end of February. On a "truer" basis, our internal models show returns of between 2.4% and 4.2%. Either way, that is a solid outcome for two months, although the recent Iran-related sell-off is not reflected in those month-end numbers.
2. **The Growth Component is outperforming:** Despite our frustrations (which I'll come on to), the Growth Component has performed well and is ahead of the global equity market this year. We have seen strong contributions from Global Value, Japan, Emerging Markets and European funds,

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alongside a handful of fund-specific positive developments. Overall, this component has outperformed what you would have received from a global equity tracker.

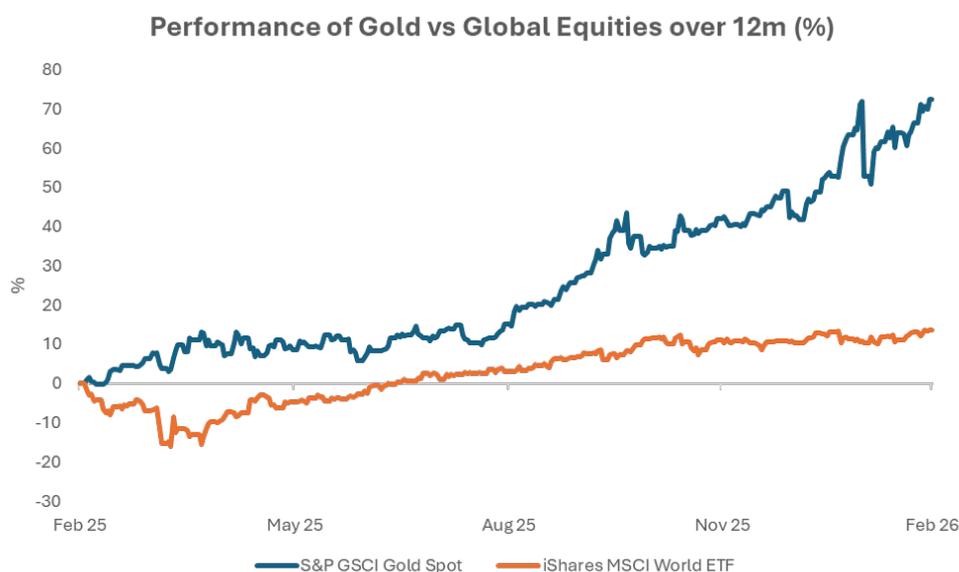
3. **The Defence Component remains resilient:** Given the strength of equity markets until recently, the Defence Component hasn't really been needed. Nevertheless, it has risen steadily and provided an offset during bouts of volatility, helping to keep overall portfolio volatility low.

So, generally, it's been a good start. However, this strength is not fully reflected in the performance of the MGMTS Downing Fox Funds *relative* to their peer groups, particularly our lower-risk strategies. Before explaining why, it is worth reiterating our modular approach.

We run a Growth Component and a Defence Component, which combine to create four funds. These funds sit across three different IA sectors, each with different characteristics and peer group exposures. As a result, certain market moves can be positive for one fund and unhelpful for another at the same time. These nuances mean that discussing individual funds in isolation can be misleading, which is why we usually focus on how the components are performing. That said, the factors below have caused some of our funds to look a little slow on a relative basis.

Gold

I touched on this last month, but not holding gold has been a major drag on *relative* performance this year, and there is little we can do about it as our fund prospectus doesn't allow us to own it. Gold is up around 20% so far in 2026. Given we estimate the average exposure to gold in the IA Mixed Investment 20–60% sector is around 5%, this alone has likely cost Fox40 and Fox60 approximately 1% of relative performance year-to-date. The story is similar for Fox80 versus the IA Mixed Investment 40–85% sector.



Source: Morningstar, 28.02.2026 in GBP
Past performance is not an indication of future performance.

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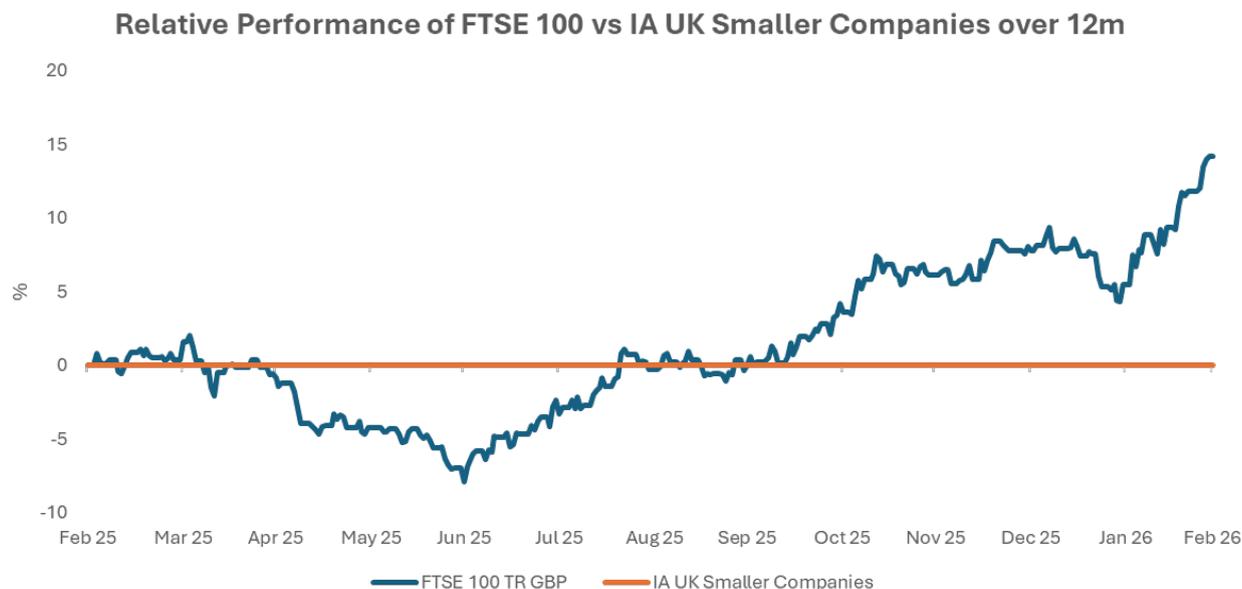


[Simon covered this topic in detail in his recent investment letter](#), so I won't labour the point. While gold has often acted as a defensive asset historically, its behaviour is inconsistent. That unreliability is the main reason we chose not to include it within our Defence Component. Moreover, gold has recently been outperforming equities by a wide margin, making it look more like a growth asset than a defensive one.

We have already seen gold price falls of more than 10% this year, which is not what we would expect from a defensive holding. It's also notable that since the Iran conflict began, gold has actually sold off more than equities. Anyone relying on it to hedge equity risk over the past week would have been sorely disappointed.

FTSE 100

The continued strength of the FTSE 100 has been another *relative* headwind, particularly for Fox40 and Fox60 and, to a lesser extent, Fox80.



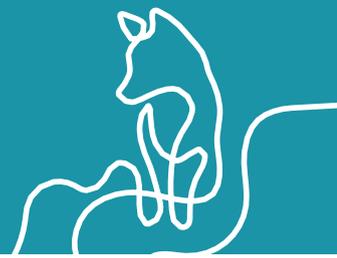
Source: Morningstar, 28.02.2026 in GBP
Past performance is not an indication of future performance.

Our portfolios are constructed with roughly 50% in global funds (which tend to be large-cap), with regional exposure accessed primarily through small- and mid-cap managers. Over the long term, we believe UK small-caps should outperform large-caps, but that has not been the case for several years, and especially not in 2026.

Many peers gain their UK exposure via FTSE 100 stocks, particularly in the IA 20–60% sector, which has a structural home and income bias. The fact the FTSE 100 has more than doubled the return of the average UK small-cap fund this year, while also outperforming most other regions, has boosted our

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peers far more than it has us.

Despite this, we remain convinced that UK small-caps offer compelling long-term value and quality. At some point, we expect the FTSE 100's extraordinary run to falter. When that happens, our positioning should move from being a headwind to a meaningful tailwind, given how contrarian our UK exposure currently is.

“SaaSocalypse”

“SaaSocalypse” refers to the sharp sell-off in February among software-as-a-service (SaaS) companies, driven by fears that AI will disrupt what were previously considered high-quality, “undisruptable” business models.

The immediate catalyst was Anthropic's release of “Claude Cowork”, a suite of AI agents capable of executing multi-step professional workflows (in English; it allows you to develop apps and programs in one day that would previously have taken six months and a squad of software developers). This fundamentally shifted the narrative from AI supporting SaaS businesses to it potentially replacing them.

Given SaaS companies have long been seen as high-quality, asset-light businesses with strong recurring revenues, many of our growth managers had exposure. Quality growth as a style had already been struggling, but this accelerated the sell-off. Funds such as Evenlode Equity, Nutshell Growth, and Spyglass US Growth fell sharply.

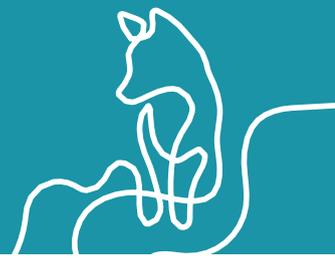
Newspaper share prices troughed *slightly* ahead of consensus earnings estimates



Source: [Latitude Investment Management “Bricks and bytes”](#), February 2026
Past performance is not an indication of future performance.

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The issue is complex. Some argue the baby has been thrown out with the bathwater, and that many SaaS businesses will ultimately benefit from AI. Others draw parallels with the newspaper industry, where share prices collapsed well before profits did, with earnings holding up for several years before eventually deteriorating.

Clearly, having less SaaS exposure would have improved both absolute and relative returns. However, we are aiming for the “unheroic journey” and this means holding funds that are struggling at times (given we are never betting on one style of investing over another). And sure enough, on the other side of our portfolio we saw very strong returns from many of our value strategies during that sell-off. Nevertheless, we have been proactive in response, reducing exposure to the most affected funds and tilting the Growth Component towards areas less directly exposed to AI disruption, while maintaining a balance between growth and value.

These headwinds are frustrating but should fade over time. They are also largely a matter of *relative* performance and are not stopping the funds from doing their main job, which is to make your clients money. In the meantime we continue to refine them to improve our chances of delivering strong relative returns in an unheroic, repeatable way, and we’re confident they are positioned to do exactly that.

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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