

The MGTS Downing Fox Funds

March 2026



March 2026 commentary

March was a chaotic month for financial markets. The conflict in the Middle East has created a lot of uncertainty, resulting in falls across nearly all major asset classes. The reason is simple: energy.

Given the negative impact this has had on financial markets, it's no surprise this has changed the direction of our fund performance this year in absolute terms – as prices have fallen when before they were rising. But in *relative terms*, it has made little difference to our funds versus our peers: we're continuing to face the same headwinds that have been pummeling us since the funds launched, which is basically that the widespread move from active funds to passive funds is boosting the performance of the latter at the expense of the former.

We'll come back to this shortly, but first I'll address the headline-grabbing events in Iran. Disruption to supply - whether due to the narrow Straits of Hormuz or attacks on oil infrastructure - pushed energy prices higher, which in turn put upward pressure on inflation. That, in turn, raised concerns that central banks may respond by raising interest rates, which (in my view) would risk compounding the problem rather than solving it.

This setup left investors with very few places to hide. FE data shows that only two out of 56 IA sectors delivered a positive return in March (these were the IA Short Term Money Market and IA Standard Money Market sectors – i.e. cash). Every bond, equity and mixed asset peer group fell over the month. At the individual fund level, only 218 of the 5,456 funds in the IA universe - around 4% - managed to finish the month in positive territory. Those that did were almost exclusively equity funds exposed to energy and commodity stocks. Every fund in all four IA Mixed Asset sectors posted a loss.

The MGTS Downing Fox Funds were clearly among those and Fox40 was the only fund in our range to outperform its IA peer group last month. To understand why, it's worth breaking performance down into the Defence and Growth Components.

The Defence Component

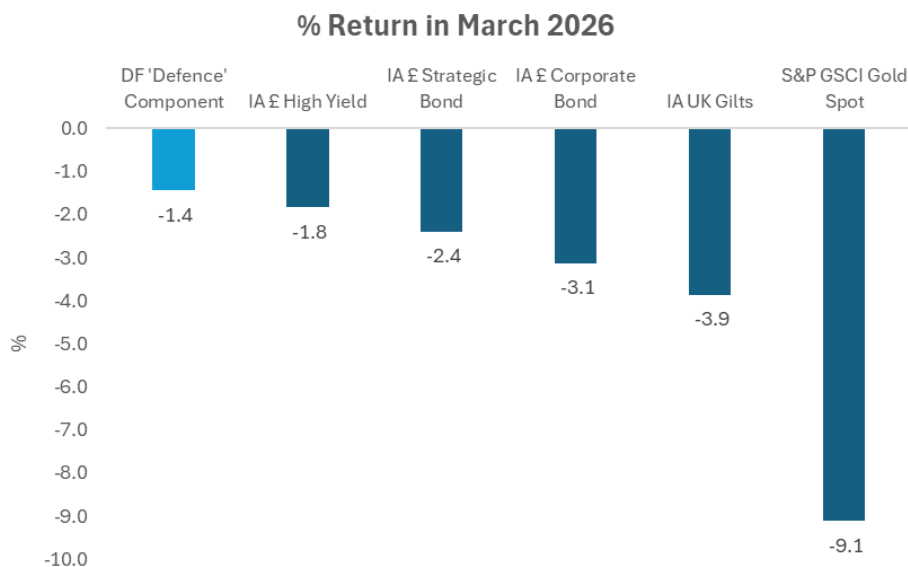
A relative positive during the month was the performance of our Defence Component. While it fell by 1.4%, this was materially better than most other "defensive" assets.

The primary reason for the Defence Component's resilience was our meaningful exposure to sterling cash and money market funds, which leaves us - by our estimates - with significantly lower duration than the average peer. This positioning was intentional. We don't attempt to predict the next macro shock, and we don't know whether the next equity sell-off would be deflationary (which higher-duration bonds generally like) or inflationary (which they don't).

In March, the market's focus shifted firmly towards inflation risk. Government bond yields rose sharply, and investment-grade corporate bonds offered little protection. Our exposure to government bonds was therefore a drag on returns, but this remains an important part of our defence should markets become more disorderly from here. Indeed, given their higher yields and improved value, we bought more of these bonds later in the month.

The MGMTS Downing Fox Funds

March 2026



Source: Morningstar, 31.03.2026 in GBP
Past performance is not an indication of future performance.

Gold is also worth addressing. Until this sell-off began, gold had been causing us some relative pain given its strong run and popularity with peers (we cannot own it). We've long argued that while gold can behave defensively, it is capable of acting in a 'risk-on' fashion too.

It would have been reasonable to expect gold to perform well after the unexpected outbreak of war in the Middle East. Instead, it fell around 17% from peak to trough during the month. The reasons why are unclear. Some argue that higher interest rates hurt non-yielding assets, though I'm not fully convinced by that explanation. It feels more like classic profit-taking from an asset class that had already run hard. While gold has since rebounded alongside equity markets and is one of the better long-term diversifiers against financial trouble, its close recent correlation with equities reinforces our concern that it is not acting as a diversifier against short-term stock-market falls.

Overall, the Defence Component did its job and was the main reason Fox40 outperformed its peers. Importantly, this component is designed to protect capital in big sell-offs. While the past few weeks have felt uncomfortable, global equity markets have not yet entered correction territory (defined as a fall of more than 10%). In fact, this has only been the fifth largest drawdown of the 2020s.

If the sell-off deepens from here, we would expect our Defence Component to look increasingly robust relative to peers - particularly as assets such as high-yield corporate bonds, which aren't particularly liquid, haven't really joined in. As these are the riskiest corporate bonds, you would expect them to suffer if prolonged high energy prices cause economic weakness.

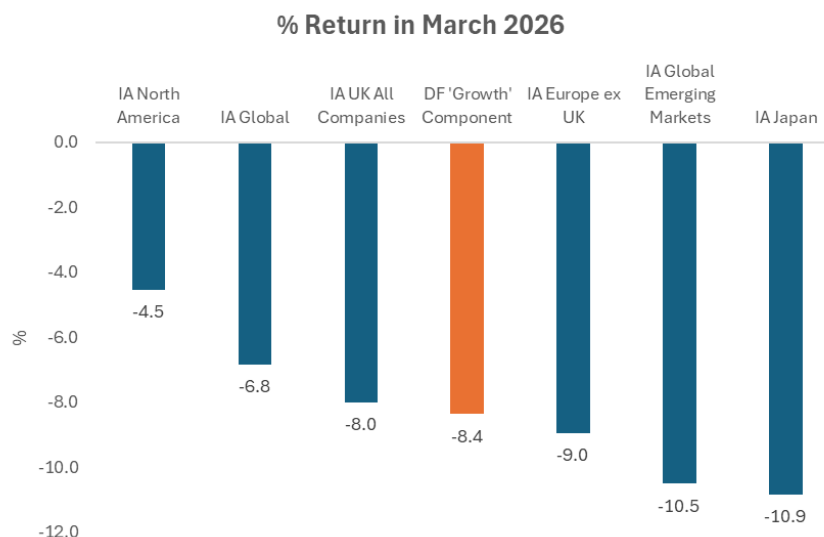
The MGMTS Downing Fox Funds

March 2026



The Growth Component

March was a tough month for our Growth Component. We are diversified by style, geography and market capitalisation - and that diversification worked against us during the month.



Source: Morningstar, 31.03.2026 in GBP
Past performance is not an indication of future performance.

Despite starting the conflict, US equities held up far better than most other regions. The US produces a significant share of its own oil and gas, which insulated it relative to Europe and parts of Asia. Given that we have less US equity exposure than both the benchmark and our peers, this was a headwind.

The bigger issue, however, was market capitalisation. Small and mid-cap stocks generally fell more sharply than their large cap counterparts, particularly in the UK. The FTSE 100 - dominated by energy stocks such as BP and Shell - fell around half as much as the average IA UK Smaller Companies fund.

We maintain exposure to small and mid-caps because we believe diversification lies at the heart of delivering the UnHero's Journey. But in a world where passive investing now outweighs active, many so called "active" managers have drifted closer to the index - and therefore towards large cap stocks.

On top of that, consolidation in the UK adviser and wealth manager market is driving more client money into fewer firms. And increasingly the large firms simply use index funds for client portfolios and are selling out of any inherited active exposure. This is boosting index performance while applying downward pressure on active funds.

As a result, our portfolios look increasingly different from the industry norm, which has hurt relative performance of late.

To better understand this, we analysed the attribution of our Growth Component versus the iShares MSCI ACWI ETF using the look through stock exposure of our underlying managers.

Attribution splits relative performance into two parts: allocation and stock selection. Allocation reflects

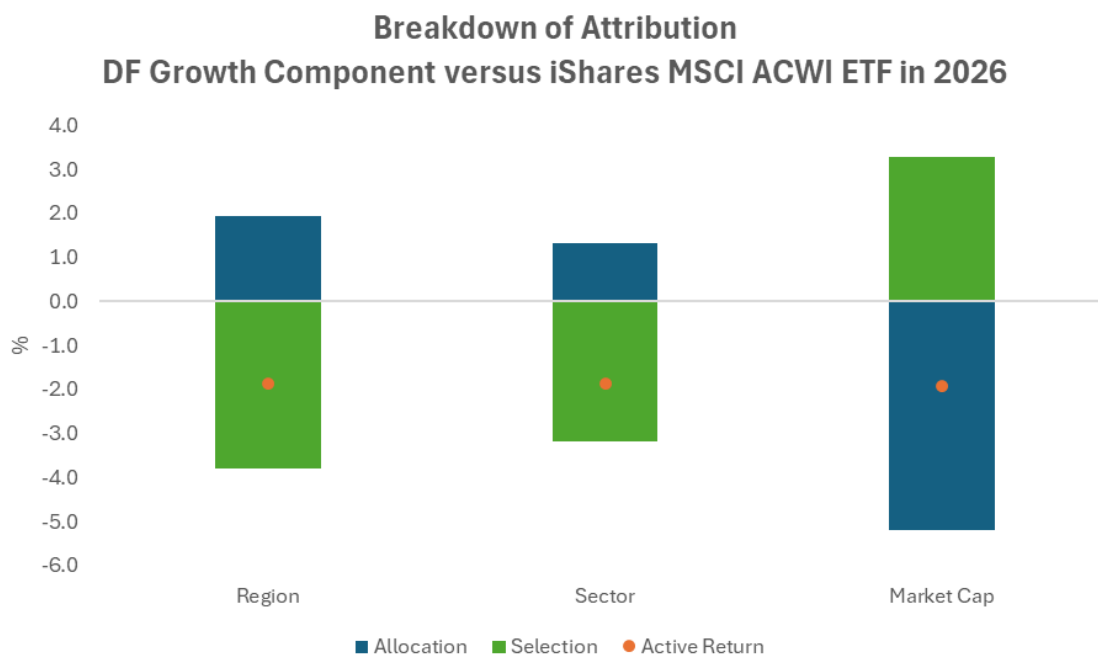
The MGMTS Downing Fox Funds

March 2026



whether you had more exposure to areas that outperformed or underperformed the index. Stock selection measures how your holdings performed versus the index's holdings within those same areas.

Our allocation - both geographically and by sector - were positive. Over 2026 as a whole (March aside), the US and technology stocks have underperformed regions such as Europe, Japan, the UK and emerging markets, where we have had greater exposure.



Source: Morningstar, 31.03.2026 in GBP
Past performance is not an indication of future performance.

However, our stock selection has detracted meaningfully. This is almost entirely explained by market cap exposure. Our higher allocation to small and mid-caps has overwhelmed the benefits of being underweight in US mega caps and technology. The frustration here is that our stock selection within small and mid-caps has been strong - our holdings have comfortably outperformed the index's small cap exposure - but the index simply doesn't hold enough of these companies for that to matter.

An attempt at an outlook...

Starting with the war - because that will rightly dominate adviser and client conversations - the honest answer is that we don't know how this plays out (and I'd suggest being wary of anyone who thinks they do).

Market moves have been extreme and, at times, driven by something as flimsy as social media posts. At the time of writing, comments from Donald Trump suggesting the US might disengage within weeks have sparked a 3.5% rally in the Nasdaq in a single day.

Alas, Trump is not a reliable guide to future outcomes. While we would all like the conflict to deescalate, there are no guarantees. If it persists, it is difficult to see how equity markets avoid further pressure. That

The MGTS Downing Fox Funds

March 2026



said, if it does, we are confident that our Defence Component will hold up well in the short term, while in the long-term we're confident the quality and value of our equity holdings will protect wealth. Crucially, Simon and I continue to hold the majority of our own investable wealth in the Fox funds.

The underperformance of the Growth Component has been harder to digest, but we are not about to change our approach. If indiscriminate large caps continue to dominate returns, we will underperform. That is the unavoidable consequence of not owning the market in its most concentrated form - and it is a conscious trade-off.

Record levels of passive investment, extreme index concentration, and growing reluctance among investors to stray from benchmarks have created a market structure that feels increasingly fragile at the top. In our view, there is a real risk that many investors are sleepwalking into this concentration without fully appreciating it.

Personally, I don't want to follow the crowd into the index at this point in the cycle. Our growing band of adviser supporters see the same risks and are grappling with how best to respond. We're proud to be a key part of their response. Our answer has been to take our ball away and play a different game - one that is more diversified, less index-led, and more exposed to areas that passive capital consistently overlooks, meaning valuations look very attractive.

That decision may mean we lag over the shorter term, but over the long term, we think it sets us up for strong returns, which I don't think can be said for the wider market.

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.