

The MGTS Downing Fox Funds

June 2025

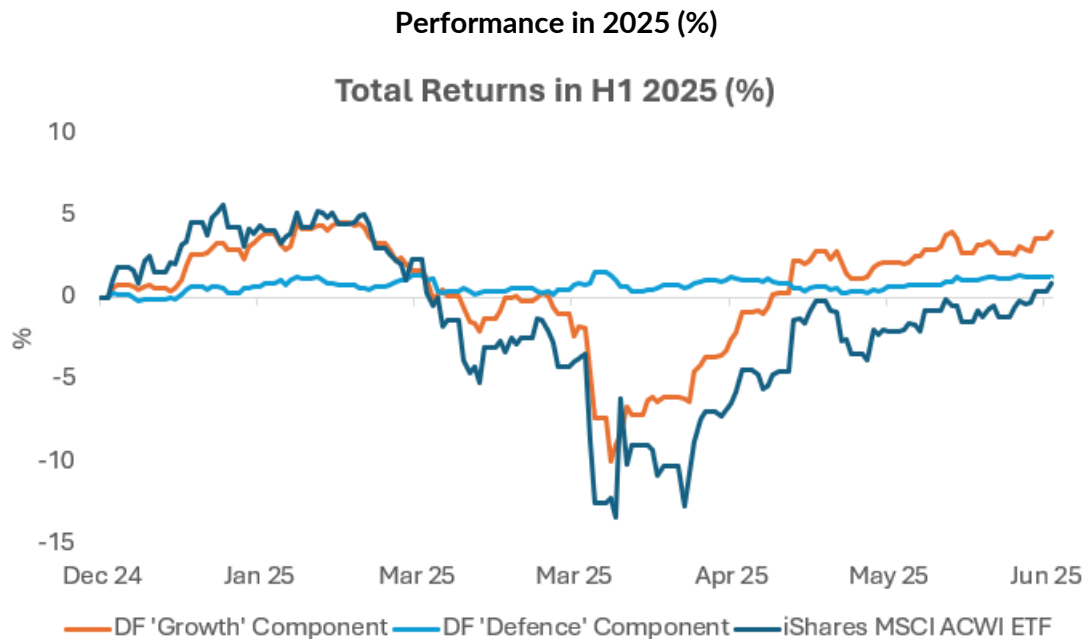


June Commentary

Somehow, we are halfway through 2025, so it's time to give you a mid-year report on all things Downing Fox.

How are we getting on? What's worked? What hasn't? And, finally, what obscure analogy can we use to sum up the current market? Spoiler alert: it's Star Wars themed.

How are we getting on?



Source: Morningstar, 01.01.25 to 30.06.2025. The Downing Fox Growth and Defence components are simulated and based on the target allocation model for the MGTS Downing Fox Funds.

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

As you know, we break our portfolios into two parts; our Growth Component and our Defence Component. The major positive is that our Growth Component is well ahead of the global equity market in 2025, defending better than a global equity tracker in the first quarter, then rallying back more swiftly in the second. Meanwhile, our Defence Component (the water to our whisky) has been reassuringly boring. It has stuck to its defensive guns, importantly rising in value when global trade looked like it might collapse in early April (see chart – that little upwards bump is what we want to see when it's all hitting the fan).

The performance of our two components means Fox100 and Fox80 are ahead of their respective sectors year-to-date, while Fox60 and Fox40 are narrowly behind. This is frustrating, but largely due to the make-up of the sectors they sit in (our sector averages are in the 'wrong' order this year: the one with the lowest equity content – IA Mixed Investment 20% to 60% Shares – has outpaced the others despite the positive conditions). I'll touch more on this later. We've included both the fund and model performances here.

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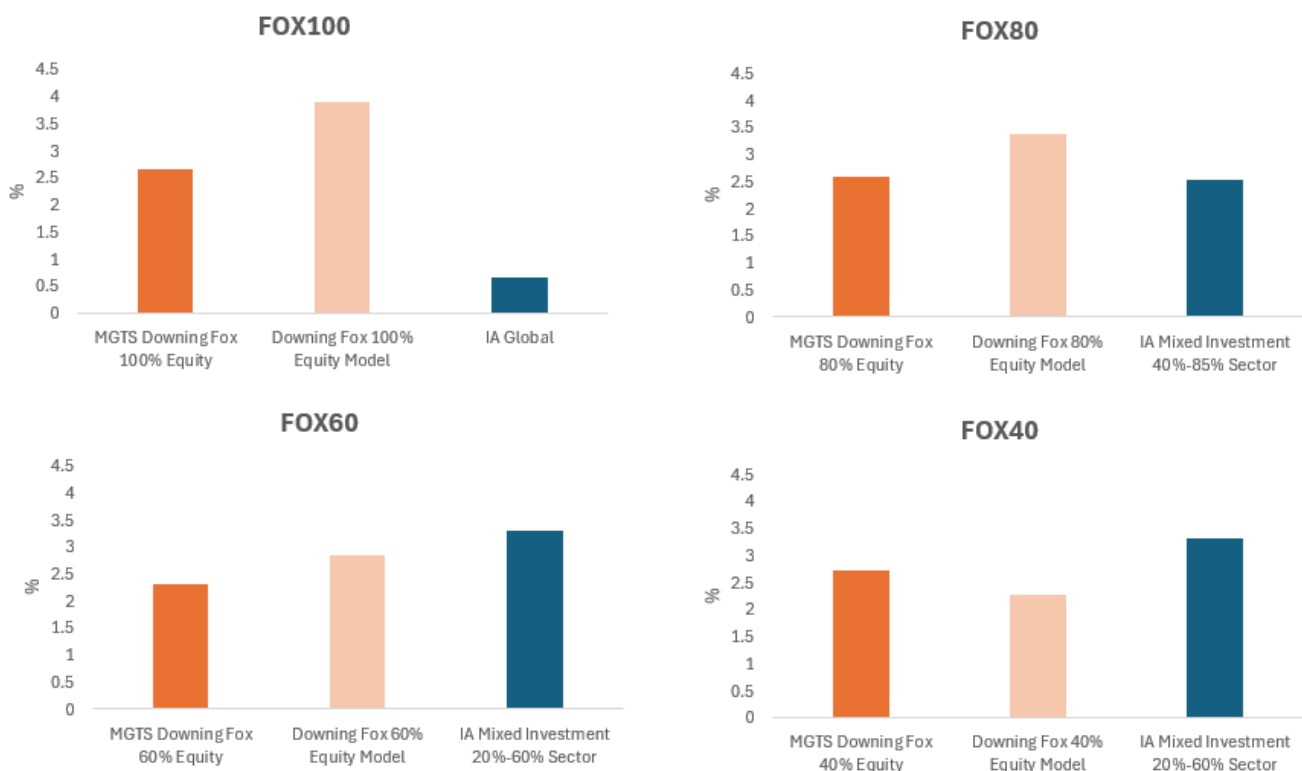
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The funds and the models are the same in terms of their make-up, but thanks to a peculiarity of fund of funds, our funds always price a day after the market (and therefore the models). So, our models are a useful way for us to illustrate the (annoying) impact of our funds' pricing lag.

It means the YTD figures for the funds don't include the 'up' day in markets on the last trading day of June 2025 and start with a 'down' day (because that's what happened on 31st December 2024), while the models (and the wider market) enjoyed an 'up' day on the first trading day of 2025. Yes; it's confusing and frustrating in equal measure!

Performance in 2025 of Funds, Models & Sectors %



Source: FE Analytics, 31.12.2024 to 30.06.2025. The Downing Fox model performance is simulated and based on the target allocation model for the MGTS Downing Fox Funds.

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Anyway, to answer the questions of what's worked and what hasn't, we'll look at the two components individually.

The Growth Component – what's worked?

Following a tough few years for active management, we've finally experienced a tailwind to our approach (albeit a gentle one so far). Our outperformance can be explained by three factors:

1. We don't have as much US equity exposure as the wider market.
2. We are more stylistically balanced than the wider market.

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3. There hasn't been one area of the market that has dominated, creating an opportunity for active stock pickers to add value.

Firstly, our “look-through” exposure to the US is about 33%. This still makes it our largest country weighting, but that is roughly half the exposure of the global index. Given US equities have generally struggled thanks to questions surrounding mega-cap technology, Trump’s tariffs and a weakening US dollar, our lower weighting to America has helped us a lot.

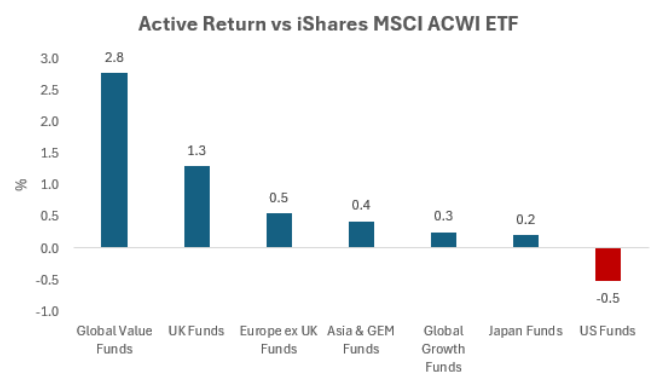
Secondly, we maintain an equal blend of value and growth funds in our Growth Component as we try to travel our Unheroic Journey. Strangely, because we have that equal split, it means we are heavily tilted to value funds **relative** to the wider market, which is very growthy these days given that style has dominated for most of the past 15 years.

Thirdly, the past couple of years have been characterised by US equities dominating everything else. If you invested anywhere other than a handful of huge US stocks, you probably underperformed. In 2025, it has been way more chaotic with no clear market leader. Yes, European stocks have performed well, but so too have certain emerging markets and UK small caps over recent months. We like chaotic, and that’s because - in the absence of a clear market trend - our active managers can add value by selective stock picking.

In total, 29 out of our 38 active equity funds have outperformed the global market this year. The charts and tables below show how all our sectors, bar our US funds, have been additive to our relative returns this year. You can also see the 10 largest individual contributors to our relative returns, and while they include a number of our global value names, they also feature UK, European, and emerging market funds.

10 Largest Contributors & Attribution vs iShares MSCI ACWI ETF in 2025

| Name | Sector | Rescaled Weight | Return | Contribution | Active Return % |
|--------------------------------------|--------------|-----------------|--------|--------------|-----------------|
| Ranmore Global Equity | Global Value | 5.00 | 14.97 | 0.72 | 0.90 |
| Palm Harbour Global Value | Global Value | 3.34 | 11.31 | 0.34 | 0.48 |
| Latitude Global | Global Value | 4.00 | 7.00 | 0.28 | 0.42 |
| Premier Miton UK Value Opportunities | UK | 4.23 | 9.57 | 0.44 | 0.42 |
| Kempen Global Value | Global Value | 2.43 | 10.85 | 0.26 | 0.34 |
| Havelock Global Select | Global Value | 3.56 | 9.57 | 0.35 | 0.28 |
| Schroder Emerging Markets Value | Asia & GEM | 1.78 | 15.47 | 0.28 | 0.26 |
| Gresham House UK Smaller Companies | UK | 3.98 | 6.29 | 0.27 | 0.25 |
| Dowgate Cape Wrath UK Focus | UK | 3.75 | 8.21 | 0.27 | 0.23 |
| Invesco European Focus | Europe ex UK | 2.31 | 12.60 | 0.27 | 0.21 |



Source: FE Analytics, as at 30.06.2025.

Past performance is not an indication of future performance.

The Growth Component – what *hasn't* worked?

Though we have benefitted from regional (less US) and style (genuine mix of value and growth) factors, we have been hindered by the fact that large caps have generally outperformed small caps this year.

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We are well diversified in terms of our market-cap exposures, but across most equity markets (notably the UK), you'd have been better off holding only big companies. This is one of the reasons why Fox60 and Fox40 are behind the IA Mixed Investment 20%-60% this year: The "average" fund in that peer group has a similar UK equity weighting to our funds, but is more exposed to FTSE 100 stocks than to the small and mid-caps our manager's favour. When small caps start doing better relative to their larger counterparts, we expect our relative performance to improve again.

Of course, we can't blame it all on the market. We own a few funds that have disappointed relative to their Expected Performance (xP) and we have either sold or reduced our exposure to these funds while we decide on their futures¹.

The Defence Component – what's worked and what *hasn't*?

As mentioned, the Defence Component has delivered a modest gain in 2025 and rose in value when equity markets plummeted in early April. In absolute terms, it has done its job. The best performing areas within our Defence Component have been our short-dated UK government bonds and the introduction of euros (via ultra-short dated European government bonds).

The major detractor to the Defence Component has been our exposure to the US dollar, which has fallen dramatically this year thanks to Mr Trump's policies. That said, we have been active in reducing our exposure to the greenback, given it now makes up just 5% of the Defence Component compared to 21.5% at the start of the year. We've brought in euro and Japanese yen exposure to diversify, as we believe both can now act as safe havens for UK investors during times of market stress.

Though it's done its job from an absolute point of view, our Defence Component often looks pedestrian versus the non-equity portions of most other multi-asset funds in sunnier times (again, explaining why Fox60 and Fox40 have lagged). This is because we don't own corporate bonds, while our peers do. Corporate bonds, and particularly high-yield corporate bonds (i.e. the lowest quality), have rallied strongly again this year. We may sound like a broken record on this, but when equity markets *really* fall, corporate bonds will too – and it's this type of event that our Defence Component is positioned for, as these are the events that upset your clients.

What's next?

I promised you a Star Wars analogy, and here it is:

For our style of investing, 2025 is, so far, following the order of the three OG movies.

The first five months of the year felt like *A New Hope* (Luke Skywalker destroying the Death Star vibes), as the massive headwind we had faced (US tech domination) had turned into a tailwind. The past few weeks, though, have had a real *The Empire Strikes Back* feel to them, with the global market being (once again) led by tech-heavy Nasdaq (you may have seen the recent headlines about the Nasdaq and the S&P 500 hitting new

¹ This metric xP (Expected Performance) was explained in our previous document found here: [How football stats inspired an alternative way to analyse funds | Adviser Education Hub](#). This is calculated for each fund held or those considered buying, by creating a customised benchmark, which matches the fund's historic style and market cap exposures. We can then determine whether a fund manager has been able to demonstrate excellence in their stock picking, or whether their performance is simply down to being in the right place at the right time.

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record highs). Should we all just give up and buy a global tracker, then?

We don't think so. Firstly, the US market is not at record highs in sterling terms (in fact it's down 8% from its previous peak in January for us UK investors thanks to the weakening dollar). We think the deteriorating dollar story has longer to run, and if we're right, this could have a sizable impact on how non-US investors view the American market.

Performance of Vanguard US 500 Stock Index in 2025 (%)



Source: Morningstar 01.01.2025 to 30.06.2025.

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Also, the reason US markets have rebounded strongly is because the White House paused the planned tariffs rather than getting rid of them completely. The real-world economic impacts of the new global trade order have yet to feed through into company profits. So, despite the apparent calm, we aren't convinced that this storm has actually passed.

Of course, we could be wrong, and the US market may continue to batter everything else. However, there are numerous reports suggesting that the recent relief rally has been powered by retail investors (a lot via leveraged tech-focused ETFs for example), while institutional investors are selling down their exposure. This is something that often happens after the peak of a market trend.

As one US manager puts it, *"while the 'smart money' does not always come out on top, this has the hallmarks of late cycle behaviour. Is the shoeshine boy once again giving out stock tips?"*

If our Star Wars analogy holds, then we can expect our *Return of the Jedi* moment later in the year (partying with Ewoks, and all that) as stock market returns broaden out, once again allowing active managers to add value. In other words, we have a good feeling about this.

Thanks for your continued support.

Alex Paget
Fund Manager, MGMTS Downing Fox Funds.

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