

The MGMTS Downing Fox Funds

November 2025



November commentary

Our exposure to the UK has been one of the largest drags on our relative performance of late, so this month we're looking at why that is and what we are doing about it.

Introduction

Us Brits are renowned for our self-deprecation, but we have taken that to whole new levels of late. We are in a real funk. Read through any news medium and the headlines are all depressing. However, the UK equity index has not got the “everything is terrible and its never getting better” memo: The FTSE 100 has been FLYING over recent years.

Unfortunately, the FTSE 100 really has little to do with the UK, as around 80% of its revenues are generated overseas. A better gauge of the UK is its small and mid-cap names and, boy - they have certainly got the memo.

So far this year, the FTSE 100 is up a hefty 23%. Its smaller sibling, the FTSE 250, is up a respectable 11%. Then there is the average UK Smaller Companies fund (which is smaller still), which is up just 3%. That is one of the biggest gaps in the performance of large and small-caps in the UK that we have ever seen – but more on that later.

The UK's Magnificent Three

It's interesting to deconstruct the return of the FTSE All Share, which is the UK index most commonly used by UK trackers (80% of this is made up of the large caps of the FTSE 100 Index, with the rest in mid and small caps¹). 66% of its return has come from ten stocks (see list below). Some 45% of that has come from five stocks, and around 30% of it has come from just three stocks: HSBC; AstraZeneca; and Rolls-Royce.

Top 10 contributors to HSBC FTSE All Share Index Fund Return in 2025

Name	Weight in Index %	Return in 2025 %	% of FTSE All Share* Return in 2025
AstraZeneca PLC	7.75	43.8	12.08%
HSBC Holdings PLC	6.88	36.4	11.54%
Rolls-Royce Holdings PLC	3.35	90.2	8.70%
British American Tobacco PLC	3.28	61.7	6.91%
Lloyds Banking Group PLC	2.14	83.9	5.48%
Shell PLC	6.05	17.1	5.29%
Barclays PLC	2.24	64.7	4.93%
GSK PLC	2.68	38.8	4.16%
NatWest Group PLC	1.89	65.8	3.92%
BAE Systems PLC	1.84	46.5	3.26%
Top 10 Contributors	38.1	54.9	66.27%
Other 441 stocks	61.9	11.5	33.73%

Source: Morningstar, 30.11.2025

Past performance is not an indication of future performance.

Now, there are good reasons for why this has happened. European banks (like HSBC) have seen a weight of

¹ FTSE All Share breakdown is c.80% FTSE 100, c.15% FTSE 250 and c.5% FTSE Small Cap.
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money come their way due to previously low valuations and the higher interest rate environment, Rolls-Royce has benefitted from the global theme of greater defence spend, and AstraZeneca has delivered very strong growth (again, thanks to global revenue growth). Nonetheless, it means the FTSE's almighty returns have been powered by a very small handful of stocks.

We don't analyse companies, so we don't know if this trend of large-cap domination will continue. However, since 1983, the FTSE 100 has (on average) delivered an annualised return of 9.6% and over the past 12 months, its return has been more than double that at 21.5%, suggesting it is experiencing something of a purple patch. Plus, it is interesting to note that a number of our global managers have been selling/avoiding these names due to concerns over valuation/better opportunities elsewhere.

Nevertheless, the fact that the largest stocks have dominated the market doesn't just mean the returns have been highly concentrated, but the index itself is now just as concentrated as the S&P 500.

Largest holdings in FTSE All Share & S&P 500

Name	% of FTSE All Share	Name	% of S&P 500
AstraZeneca	7.7%	NVIDIA	7.2%
HSBC	6.9%	Apple	6.9%
Shell	6.1%	Alphabet	6.2%
Unilever	4.1%	Microsoft	5.9%
Rolls-Royce	3.4%	Amazon	4.1%
British American Tobacco	3.3%	Broadcom	2.9%
GSK	2.7%	Meta	2.7%
BP	2.7%	Tesla	2.3%
Barclays	2.2%	Berkshire Hathaway	1.8%
Lloyds	2.1%	Eli Lilly	1.2%
% of Index	41.1%	% of Index	41.1%

Source: Factset, FTSE All Share & Morningstar, S&P, 30.11.2025

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An active manager's nightmare

This is carrying on a longer-term trend. Since September 2021, the FTSE 100's c.60% return has matched that of S&P 500 (without its fancy tech names) whereas the average UK small cap fund has lost more than 20%. That makes it the worst performing equity sector in the IA universe over that period.

The only time we have seen anything like this divergence in relative performance between large and small-caps was the dotcom bubble of the late 1990s, when the FTSE was being powered higher by the likes of Vodafone. However, at least you still made decent absolute returns in UK small-caps during those times.

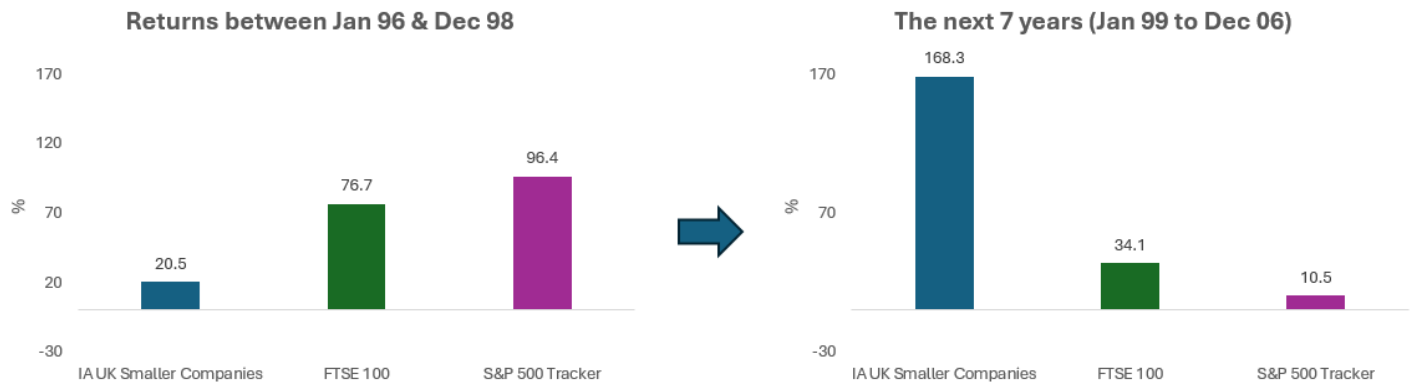
This is what a bear market feels like (seemingly endlessly grinding down) and it is a nightmare for active managers. If the biggest stocks in the index are also the best performing ones, adding value beyond that of market-cap weighted index is a very, very difficult task. In fact, just 14% of active UK equity funds are outperforming the FTSE 100 over three years.

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Performance in late 1990s and what happened after

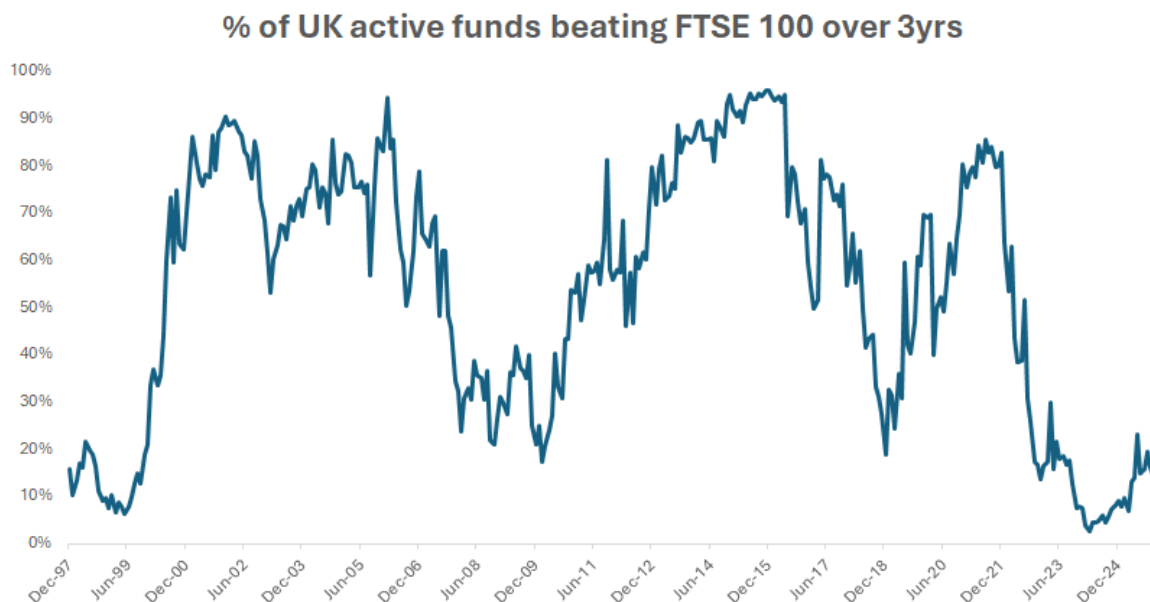


Source: Morningstar, 31.12.1995 to 31.12.1998 & 31.12.1998 to 31.12.2006

Vanguard US 500 Investor Index used for S&P 500 Tracker

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That's a grim number. However, before you start thinking active management is a con, I should say that figure has been as high as 96% in the not-too-distant past. The chart below illustrates this (and the cyclical nature of active management) and that active managers have typically outperformed with the average percentage of funds outperforming standing at 54%. It doesn't include survivorship bias either as it includes funds that no longer exist.



Source: Morningstar, 30.11.2025

*For this, we used every fund that has resided in the IA UK All Companies, IA UK Equity Income & IA UK Smaller Companies sector

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The optimist in me looks at this chart and sees the beginning of a reversal in fortunes for active managers in the UK, but I'll touch on that later.

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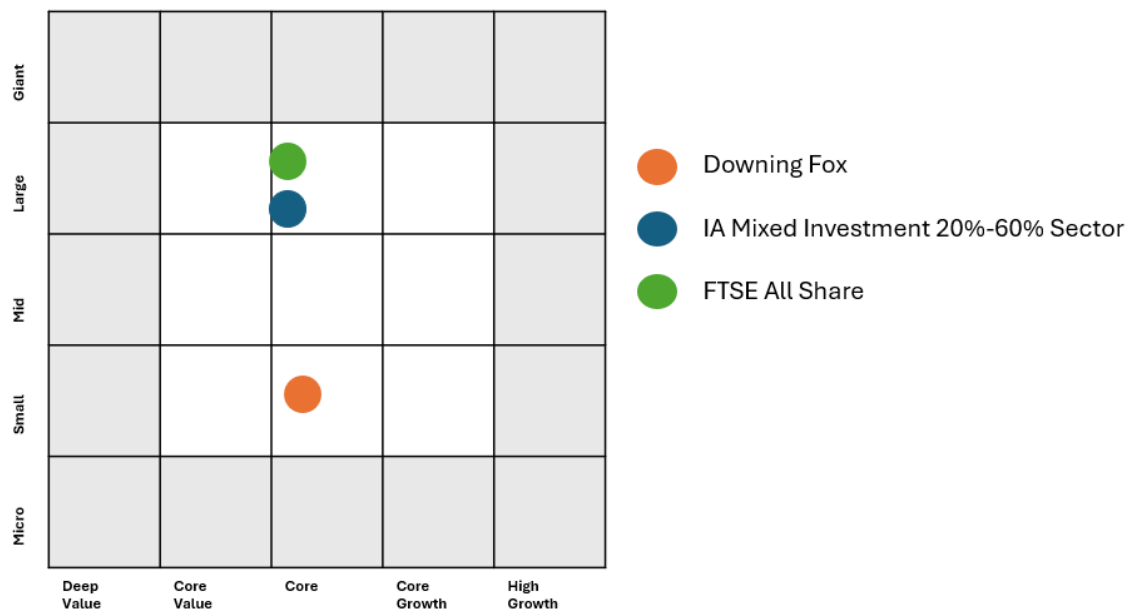


The impact on Downing Fox

The huge difference in performance between UK small caps and large-caps has been one, if not the, biggest impact on our funds' relative performance – particularly our lower risk strategies.

Fox60 is the best example of this. We have a traditional home bias in our Growth Component, which means our geographic allocation in Fox100 is very different to the average IA Global fund, but is broadly similar to the average fund in the IA Mixed Investment 20%-60% sector (where Fox60 resides). However, when you break down our UK equity exposure and compare it to the average “balanced” fund, you can see just how different we are. They are large-cap, we are small-cap.

Holdings-Based Style Map



Source: Morningstar, 30.11.2025

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This is by design – our global equity funds (which account for c50% of the Growth Component) tend to be generalist large-cap managers, so in the regions, we target specialist small-cap expertise. Our UK portfolio has outperformed the average UK smaller companies fund, which is good to see, but is a long way behind that of the FTSE All Share – and this is primary reason why Fox60 looks so pedestrian this year relative to its sector.

Why bother with the UK at all?

In darker moments, it's a question that crosses our minds.

We do appreciate that it's hard to be a raging bull on the UK at the moment. The Budget was uninspiring, businesses are facing challenges, and our equity sectors have been in continuous outflow. However, I think we need a sense of perspective. Basically, every developed market economy is facing similar challenges and while our press gleefully suggest we are lurching from one crisis to another, the data shows the UK is on course to be one of the fastest growing G7 economies in 2025.

Combine this with low absolute and relative valuations, world leading businesses (yes, we still have those)

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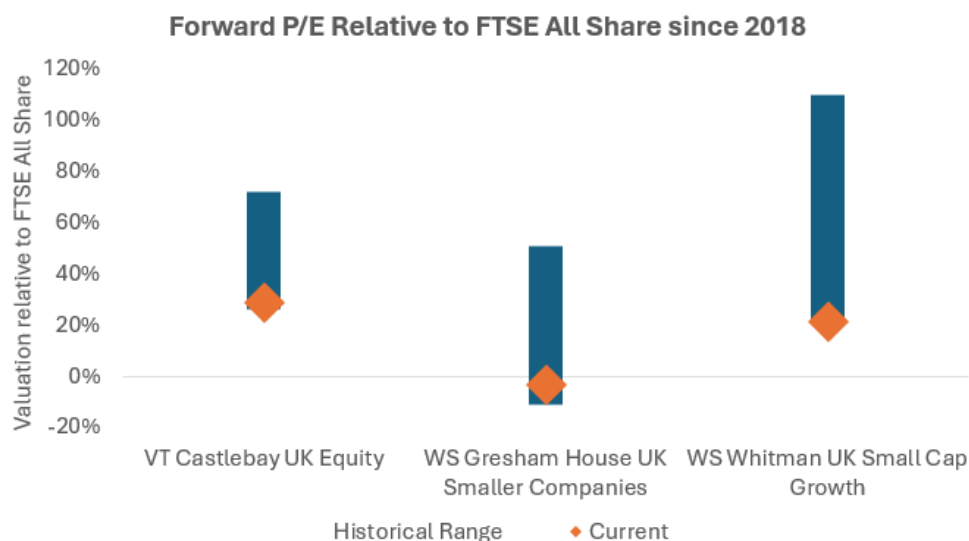
and a positive picture starts to emerge.

No one knows what the catalyst will be, but if you speak to anyone involved in UK small-caps, they will tell you that it only takes a small amount of capital to flow back into the sector for the market to turn quickly.

Conclusion

We aren't going to change our exposure based on short-term underperformance. It's been an incredibly difficult period for active managers in the UK due to the concentration levels in the FTSE 100, but the chart showing the rolling performance of active managers illustrates the cyclical nature of all this. It wasn't that long ago that the FTSE 100 (and the FTSE All Share by extension) was a very easy index to beat and that will happen again.

We remain hugely positive on our UK equity exposure due to the calibre of the managers we own, the quality of the stocks they hold and the valuations now on offer, with our growth-orientated names (VT Castlebay UK Equity, WS Whitman UK Small Cap Growth and WS Gresham House UK Smaller Companies) all currently trading on their lowest ever forward P/E relative to the FTSE. These are growth funds, so you should expect them to trade at a premium to the wider market. But the chart shows these funds are now only trading on a very mild premium (and in the case of Gresham House, a discount) despite owning faster growing businesses or those with higher returns on invested capital and less debt than the wider index.



Source: Morningstar, 30.11.2025

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There is also the fact that, particularly in the UK, smaller companies outperform larger ones over the long-term and, despite the heroics of the FTSE 100 of late, we don't think that is going to change from here. Having decent exposure to small-caps (both here in the UK and elsewhere) makes us very different to the crowd and, because of that, we think it stands us in very good stead for strong absolute and relative returns over the coming years.

Thanks for your continued support.

Alex Paget – Fund Manager, MGTS Downing Fox Funds.

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