The MGTS Downing Fox Funds

October 2025

October commentary

In November 1993, France only needed a draw against Bulgaria to qualify for the 1994 World Cup. With seconds left and the score at 1–1, David Ginola received the ball near the corner flag. Instead of keeping possession and running down the clock, he attempted a speculative cross into the box, hoping to create a winning goal and all the plaudits that would come with it.

But he overhit the cross.

Bulgaria regained possession, launched a counterattack, and Emil Kostadinov scored a dramatic winner. France was eliminated. Ginola was vilified by the media and manager Gérard Houllier called it a “crime against the team”. Ginola never played for France again.

Yes, David Ginola is niche for a commentary about multi-asset funds of funds, but his final game for France neatly illustrates the danger of prioritising *relative* risk at the expense of *absolute* risk.

Relative risk is seductive. It’s easy to measure, easy to compare and, in many cases, easy to justify. In the world of investing, relative risk can be incredibly helpful but, at the same time, very misleading.

We don’t and can’t ignore relative risk. Like anyone, we feel good when we are outperforming the pack and frustrated when we aren’t. However, we are also very aware that relative risk can be incredibly dangerous – especially if you focus on it so much that you forget or ignore *absolute* risk. Just think of poor old David’s international career.

Risky business

In finance, obsession with relative risk is rife. Outperformance leads to flows, which leads to profits, while underperformance is testing for investors, fund managers and asset management executives. It often means (usually) right-minded individuals can be suckered/forced into joining the herd, with the belief that there is safety in numbers (i.e. looking different is risky and means you could underperform by a wide margin) and that if the herd is indeed wrong, it won’t really matter because everyone will be wrong.

Past performance is not an indication of future performance.
Source: Morningstar, 31.12.2024 to 31.10.2025 in GBP. ETFs used are iShares NASDAQ 100, Amundi DJ Global Titans 50 & iShares MSCI ACWI.

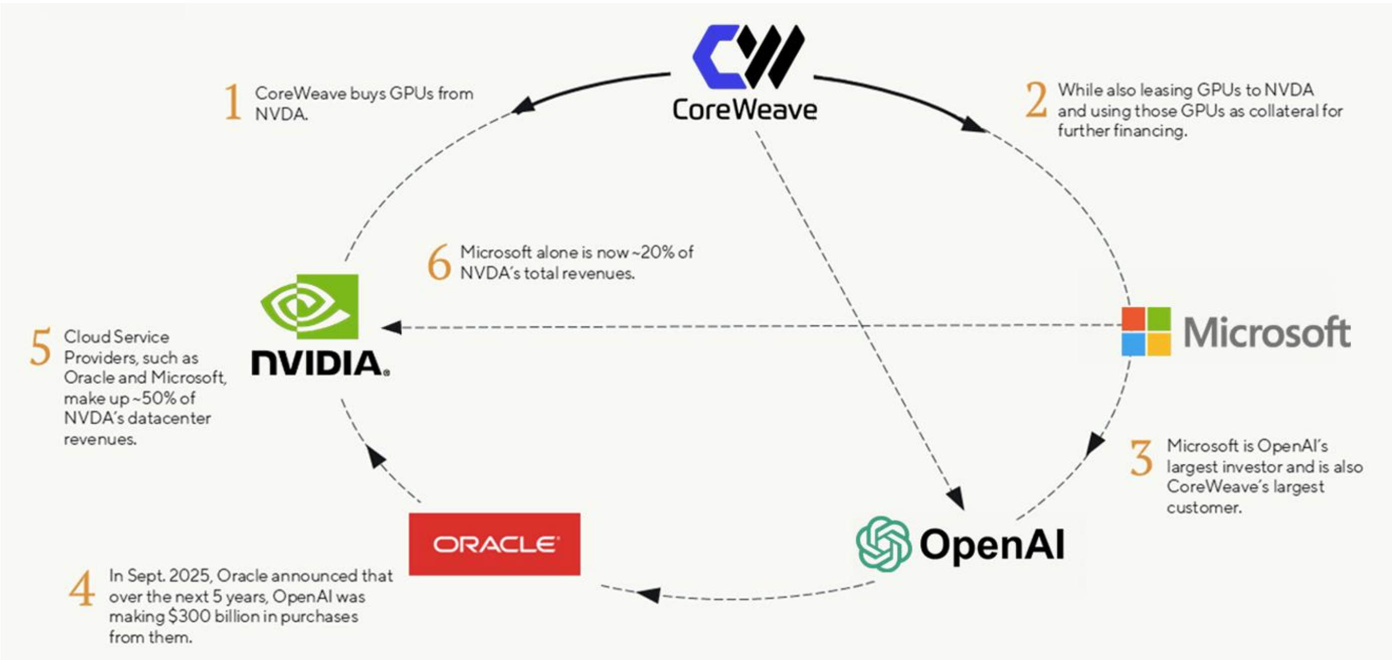
The investing world's focus on AI stocks and the Magnificent 7 is very much an example of this. As many of you reading this will know, they have been flying again – continuing a tech rally that started 15 years ago and has been propelled even further from mid-2023.

Over the past six months, the Nasdaq (the tech-heavy US index) and the Dow Jones Global Titans Index (which tracks the 50 biggest stocks in the world and is therefore heavily weighted to the Mag 7) are both up more than 30%. Because the Mag 7, the US, and technology more broadly now make up such a massive proportion of the global stock market, it means your average global tracker is up close to 25%.

Of course, those areas of the market endured a tough Q1 and are therefore coming off a low base, but Q1 was only a brief pause in a very upward trend. And, as we have noted on many occasions before, when such a dominant theme persists, there are very, very few ways to produce strong relative returns without holding those types of stocks. Put simply, to have outperformed over the past six months (and, basically since mid-2023), you have had to own more of the Magnificent 7 than the pack (which is quite the challenge when those seven stocks account for 20-25% of the global market).

This comes at a time when valuations are nearing all-time highs, the market has never been more concentrated, capex in the AI space has hit eye-watering levels and more details are emerging about vendor financing behind these AI deals. In other words, there is a lot of absolute risk (i.e. potential for a very large fall) associated with the current market.

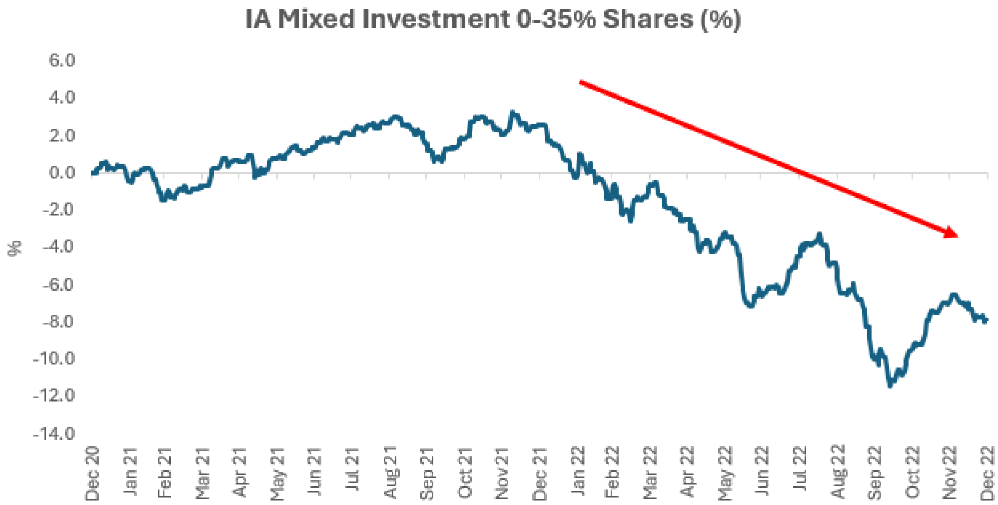
Example of AI Vendor Financing Model



Source: GQG Partners LLC (illustration), 15.10.2025. Company financials (data). Content does not constitute investment advice, and no investment decision should be made based on it. Link to research paper here.

What is frustrating/amazing (take your pick) to us is that many investors are aware of this absolute risk, but are mentally compartmentalising it in the pursuit of relative glory/safety. The trade press has been littered with stories of professional investors ditching underperforming areas and increasing their exposure to mega-cap tech (often via passives). We've also spoken to and are aware of those who know about the risks of having such a top-heavy, US-focused portfolio at the moment, but believe they will be able to quickly sell when that area of the market inevitably falls.

We've seen this kind of thing before, though, and that strategy didn't work.



Past performance is not an indication of future performance.
Source: Morningstar, 31.12.2020 to 31.12.2022 in GBP

In late 2021, most professional investors were aware that bonds offered "return-free risk", and despite all the talk of huge absolute risks with yields near 0%, few multi asset managers did anything about it. Then 2022 happened, and the overwhelming majority of low-risk investors (i.e. those who simply could not stomach big falls) got whacked. After the event, we even saw some of our peers talking up their credentials in 2022 as their lowest risk fund "only" lost 10% compared to 12% for the sector.

We didn't follow that herd and we won't be following this one.

Looking slow

Most of you reading this will know that we are not loaded up on large-cap US stocks at Downing Fox. It means that, while we believe we have generated good absolute returns, from a relative standpoint we look slow again (having fared well in the first six months of the year).

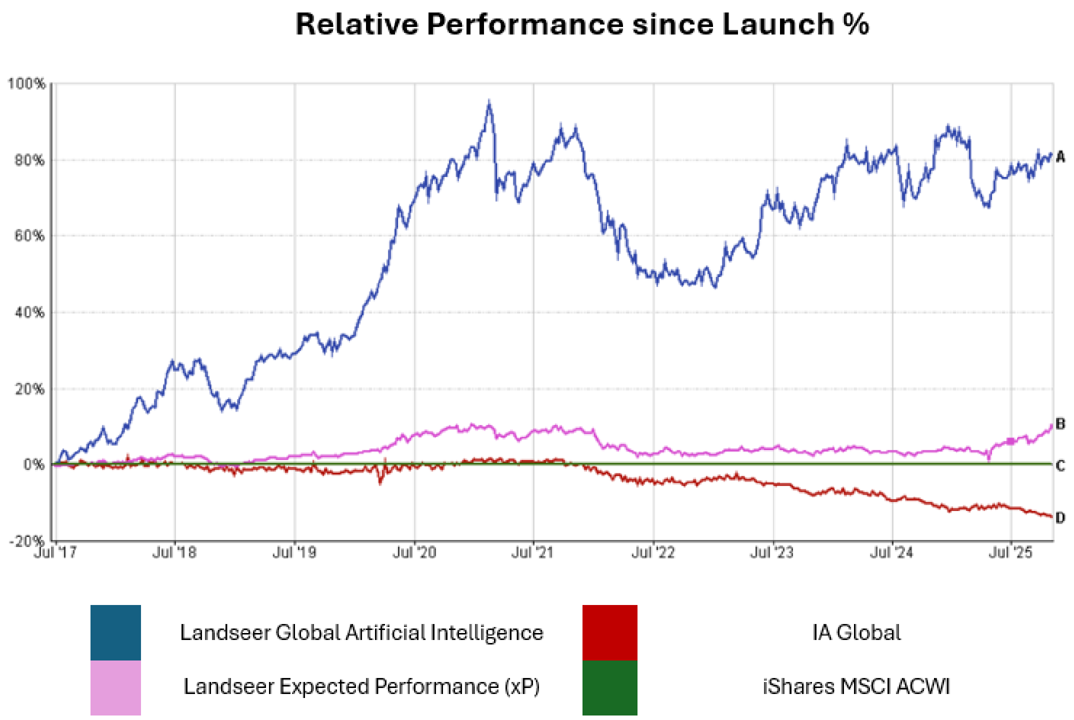
Frustratingly, we are not advocating completely ditching the US, AI stocks, or the Mag 7. In fact, the US is still our largest individual country weighting on a look-through basis. The problem is, it is only c.30% of our portfolio, compared to more than two thirds of the global stock market and the average global fund.

We also have high conviction in funds that give exposure to this part of the market. Like Landseer Global Artificial Intelligence, which is managed by Chris Ford and his team. It is a global equity portfolio that invests in companies where future creation of economic value is dependent on AI and where AI, as a platform, is integral to the underlying business. It holds NVIDIA, but also has broader exposure because they will only consider stocks that, if their AI function were to be turned off, the company would be unable to exist (hence their holdings in company's like John Deere and RELX).

Chris and the team meet the credentials we look for in active managers, and they have already produced a GOAT-worthy track record since they launched the strategy in 2017 (yes, they were big into AI before it was cool). (A reminder of the GOATometer can be found here).

We also know that Chris and the team are experts in this area and sweat over each stock in the portfolio. As and when they believe there is a better opportunity to invest in companies utilising AI to gain or maintain a competitive advantage (rather than today's winners who are seen as being at the forefront of AI as a technology), we trust them to manoeuvre the portfolio accordingly.

However, we wouldn't want the majority of our portfolio invested in that one fund. Our goal is to make sure our investors meet their financial goals, and for the large majority, this not only requires generating good returns, but just as importantly, taking them on a palatable journey.



Past performance is not an indication of future performance.
Source: FE fundinfo, 23.07.2017 to 31.10.2025 in GBP

Taking a look at the relative performance chart (above), the fund has massively outperformed but thanks to the highly active nature of the strategy (which is why we like it), it has been through some very painful periods of relative performance (which would simply be too much for most retail investors to stomach). We therefore blend the fund with other independently minded stock pickers who invest in a completely different way.

Playing the percentages

Our point is, we believe now is the time to be diversified.

While we own funds that invest in the current go-go areas of the market, we are not all in on them and have a genuine mix of stylistic, geographic and market cap exposures. This is because we care deeply about the absolute level of risk we are exposing our investors to, and we believe that not only are there sizable risks brewing in that part of the market, but also incredible opportunities elsewhere. As we have mentioned in the past, it means that if the AI frenzy continues, we will look slow from a relative perspective – but we are not going to swing the ball into the box in the last minute like Mr Ginola to try and catch-up.

While we will find that relative underperformance frustrating (we are competitive people, after all) we take heart from presentations we gave last month to the underlying clients of one of our largest investors (i.e. the people we manage money on behalf of). We asked the question; if you were starting your investment portfolio today would you want to put 70% of your wealth in the US stock market?

Of the 150 people in the audience, not one of them raised their hand. Why? Because they were instinctively concerned about the *absolute* risk that would entail. However, this is the exact model a huge number of other advisers' clients are now being put on because of *relative* risk considerations.

Thanks for your continued support.

Alex Paget – Fund Manager, MGTS Downing Fox Funds.