Reflections on 2025 and the Outlook for 2026

As 2025 draws to a close, the underlying fund managers of the Third Link Growth Fund have come together to share candid reflections on the year that was, the themes shaping markets, and what they're watching most closely as we step into 2026.

This year's commentary is more personal, more conversational, and a little more revealing, capturing not only the investment insights our managers are known for, but also the summer escapes, reading lists, and lighter moments that define the end-of-year reset.

Managers Perspective of Markets in 2025 - A Year of Volatility, Surprises and Sharp Style Rotations

Across the manager group, the clear common thread was volatility, a defining feature of 2025 that created both challenges and opportunities. Most agreed that small and mid-caps were standout performers, supported by more favourable conditions including interest-rate cuts and ongoing AI-driven enthusiasm that buoyed sentiment. Gold and resources also delivered strong results, benefiting from safe-haven flows and elevated geopolitical uncertainty. Across the ASX 300, returns were tightly concentrated, with the Big Four banks and defensive sectors accounting for around three-quarters of performance to 31 October. Although their perspectives on the year ahead varied, managers were aligned in seeing 2025 as a year of wide dispersion that favoured disciplined, active investing.

Firetrail Invest with Conviction

Volatility was the headline story this year, but it also created many opportunities we were able to take advantage of, particularly in the small-cap end of the market. Some of the strongest alpha drivers for the Firetrail Small Caps Fund included Greatland Gold, Life360, Genesis Minerals, Generation Development Group, and Aspen Group.

eiger capital

Small and mid-caps were the real standouts of 2025 - outperforming the top 50 stocks by two to four times. In hindsight, the brief setback during April's "Liberation Day" proved to be an attractive buying opportunity, as the most concerning elements of Trump's proposed tariff policies ultimately did not materialise. Expectations of lower interest rates have also supported the smaller end of the market, where companies are generally more sensitive to economic growth.

While AI-related investment has played a smaller role in Australia than in the US, it has nonetheless contributed to improved sentiment toward domestic small and mid-caps.

However, the outlook for 2026 is far less certain and warrants a more cautious stance. Inflation remains persistently high, making the prospect of further rate cuts less assured; consumer signals are mixed, reflecting a "K-shaped" dynamic; and geopolitical risks remain elevated—and may intensify. In addition, equity valuations appear stretched.

Taken together, these factors, alongside the exceptional gains of the past year, suggest investors should approach 2026 with increased caution.

L1 CAPITAL

In 2025, market returns were dominated by large caps, particularly the ASX20 with notable stock disappointments in typical market darlings such as CSL and James Hardie. In 2026, I'm looking forward to returns being driven by a broader set of names from across sectors and not in large part from the ASX20.

LENNOX CAPITAL PARTNERS

The main theme through 2025 for us was that Australian equities were volatile but surprisingly resilient, with key factors like interest rate cuts and AI enthusiasm buoying sentiment. Small caps also outperformed our large cap peers with those macro drivers supplemented by multiple negative earnings surprises from blue chip large caps. Overall we'd say a good year but more in the tank!

Australian Eagle Asset Management

In the end, the financial markets reflected a relatively benign economic back drop, despite geopolitical and regulatory upheaval throughout the year – which was somewhat unexpected.

Despite this benign backdrop, there were periods of extreme volatility. Individual stock volatility reached extreme levels during the reporting seasons, and this is not expected to ease in the near future.

CHESTER ASSET MANAGEMENT • 2017 •

Our strongest view on markets in 2025 is currently how small earnings changes can dramatically impact the share momentum (in either direction) of a company given the rise of momentum investing, trend following and passive flows. To us, this creates opportunities for patient investors when the fundamentals of a company are disconnected from the share price. The ongoing fascination with AI and hyperscale capex spending on data centres leaves us curious as to how this is sustainable.

SPHERIA ASSET MANAGEMENT

The Australian share market in 2025 began on the same tired script: banks, technology and any other market darling dominated while small and mid-caps lagged. That pattern was shattered in the first quarter by the late-January DeepSeek AI shock—triggering a brutal global tech sell-off that the resource-heavy ASX mostly escaped—and, far more painfully, the rapid escalation of U.S. tariffs from February to April. The tariff war drove a sharp correction that wiped out the year's gains and briefly pushed the S&P/ASX 200 into negative territory.

From April the tables turned. Small and mid-cap indices have since significantly outperformed large caps, propelled by small resources—especially gold—riding record prices, safe-haven flows and persistent geopolitical tension. Rare-earth stocks like Lynas (up >130%) piled on the momentum despite deteriorating cash flows. A positive August reporting season also showed there were signs of life in heavily oversold micro, small-cap names which has been a catalyst for a broader rally in this section of the market.

Since mid-October the market has been pressured again. The hardest hit have been the same high-multiple, low-earnings-quality names (i.e. heavy in stock based compensation and capitalised R&D) that led the earlier rally: over-hyped AI and tech-related stocks down 30–60% from their peaks, recent "defence darlings" giving back a year's gains in weeks, and serial acquirers drowning in debt as their promised synergies evaporate and interest costs bite.

What stood out most was how often narrative trumped fundamentals for a good part of the year. Large caps on inflated multiples used scrip and debt to make aggressive, peak-cycle acquisitions built on revenue growth and fairy-tale synergies rather than cash earnings. Gold lifted every boat in the sector (we'll soon see who's swimming naked when the tide recedes). An "AI" sticker or a vague defence-spending link sent valuations into orbit regardless of returns on capital—often negative—while competitive moats were largely ignored.

ELEY GRIFFITHS GROUP

2025 was a year of heightened volatility - Liberation day tariff impacts; AI euphoria evolved into concerns around adequacy of returns on capex spend and disruption to business models. Even blue chip, large caps weren't spared.

Resources significantly outperformed Industrials with the ASX300 Resources +20% CYTD vs ASX300 Industrials +1% over the same period.

Auscap Asset Management

To date, 2025 has been a solid year for our funds. We think genuine stock picking is going to be critical to delivering performance over the coming decade. The increased volatility in markets is creating opportunities, so we're looking forward to the ongoing challenge in 2026 and beyond, trying to take advantage of dislocations over time.

ECP

The past year has been extremely challenging for an investor who prioritises quality and growth characteristics. This is true in circumstances where we have seen an outperformance of "low quality" stocks over higher quality ones. See Exhibit 1 below.

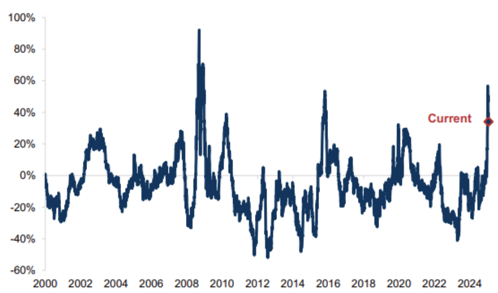
Characterised by low ROE and high leverage, the last six months have witnessed the strongest outperformance of these lower quality stocks in the last 25 years (outside of the GFC recovery). At an ASX 300 index level, the Big Four Banks, defensive sectors such as REITs, Telcos, Utilities and Materials have accounted for circa three-quarters of the index return over the year (to 31 Oct 2025).

Assessing the prospects of the portfolio today compared to the benchmark we remain as high conviction as ever - the challenges we've faced this year are viewed by us as future alpha opportunities. The portfolio is a collection of high-growth, high-quality, and capital-light businesses, with the current expected returns for the portfolio as good as they have ever been.

Exhibit 1: The rally in 'Low Quality' stocks faltered this week after having rallied by c.90% from the markets post-Liberation day lows.
Return of ASX 300

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: Low Quality stocks saw the strongest outperformance outside the GFC recovery over the past 25 years.
Relative 6m performance of Low vs High Quality



Source: Goldman Sachs Global Investment Research, FactSet

2026 Outlook: What Managers are Leaving Behind, What they Retain, and What they Expect Next

The Third Link Growth Fund's managers share a clear expectation that 2026 will mark a return to fundamentals, with valuation discipline, earnings quality and selective stock picking taking precedence over the momentum-driven themes of recent years. Small and mid-cap companies remain a common area of appeal, viewed as attractively valued and well placed to benefit from lower interest rates, improving funding conditions and a broader spread of market leadership. Managers also highlighted ongoing but more measured opportunities in technology and digital infrastructure, while sector preferences diverged across industrials, consumer names, healthcare and real assets—particularly those insulated from AI-driven disruption.

Reflecting on the lessons of 2025, most emphasised that volatility, dispersion and periods of dislocation reinforced the importance of backing quality businesses with resilient balance sheets, and of recognising when narratives diverge from underlying fundamentals. Despite differing nuances, they agreed that the challenges of 2025 have only strengthened their commitment to disciplined, long-term, fundamentals-based investing, setting the tone for how they approach opportunities in the year ahead.

Firetrail
Invest with Conviction

2025 was a great year for the team at Firetrail, with all funds outperforming the benchmark year-to-date, so there isn't much we're looking to leave behind. What we do hope, is that we can bring forward this strong performance into 2026 and continue delivering for our clients.

In 2026 barring any left-field macro events we are cautiously optimistic about mid and small-caps, and we are very excited about a number of opportunities in the portfolios today. Mid and small-caps still look cheap relative to large-caps, and most of the EPS growth is coming from this segment of the market.

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Every investor would like to see 2025's strong market momentum carry through into 2026—while leaving behind the uncomfortable volatility experienced over the past year—but this is unlikely to be realistic. It's important to remember that Australian equities have delivered average nominal returns of around 10% per annum over the very long term (approximately 6–7% after inflation).

By contrast, Australian small and mid-cap equities have generated returns of roughly 20% per annum over the past two years—about double their long-run average. Such outsized gains suggest that investors should approach 2026 with a more measured mindset. It is very likely that returns over the next two to three years will be more muted.

L1 CAPITAL

I would like to leave behind markets driven by momentum and take forward markets driven by fundamentals.

LENNOX
CAPITAL PARTNERS

In 2025, markets reminded investors that volatility can obscure strong fundamentals. Quality companies with capable management and resilient balance sheets continued to deliver, while periods of dislocation created compelling opportunities, reinforcing that disciplined, active investing remains key to long-term outperformance. Being selfish industrials-only investors, we'd also love to see the performance of industrials turn the tables on resources through 2026!

Appreciating the 'crystal ball' nature of these comments….key themes for

2026 could include supportive monetary policy and a renewed focus on company fundamentals as rate cuts continue – both of which would be positive for small caps. Technology and digital infrastructure should remain strong growth areas, while industrials may outperform more volatile resources given the latter's strong 2025. Lower funding costs could also drive corporate activity and earnings upgrades across small and mid-caps.

Australian Eagle Asset Management

We tend not to leave anything behind. As with every year, the more difficult lessons we've learnt are the ones we carry closest to us. We tend to have a stronger memory of the things that challenged us the most.

Even the extreme outperformance of the bank stocks - though difficult to understand from our process perspective - needs to be acknowledged and considered into our thinking about risk going forward

Looking ahead, our stock conviction will be more evident, however, this should be balanced with an even stronger focus on the broader portfolio exposure and overall positioning.

The interaction between technology and financial markets is currently an interesting topic. Not just how technology is used in finance, but how new technology is being valued and priced by the market. We are still determining if the exuberant phase of this new technology cycle will continue at the current pace. Capital availability will likely be the key determinant.

Chester Asset Management 2017

It's never a year of investing without making some mistakes, with our largest challenge being the continued underperformance of CSL, which we have held for 12 years. It has been disappointing for the past 6 years, as the share price has fallen 50% while earnings have increased 60% since 2019. That has led to a material derating of the CSL business which is now a former market darling. When we look for areas to invest, we are far more comfortable allocating capital to CSL trading on a FY26 PER of 16x for 7-8% eps growth relative to CBA which is trading on an FY26 PER of 25x for 3% eps growth. Allocating capital is a relative game, and we see far more opportunities in a relative sense in healthcare and certain unloved industrials as we look to 2026.

We have been focused on areas of the economy that AI can't disrupt. Real assets such as storage facilities, railway tracks, supermarkets, property, infrastructure and gold miners. We have also witnessed 3 years of significant underperformance from the healthcare sector. Given we tend to be contrarian, this looks to us to be an area of opportunity in 2026.

SPHERIA Asset Management

What I want to leave behind in 2025 is the endless debate about where the gold price is headed next. I don't know, nobody does. The safe-haven and monetary-debasement themes are intellectually appealing—central banks and governments are patently addicted to printing money—but gold remains overwhelmingly a speculative asset with very little industrial demand. Trying to call the next move is a mug's game and distracts from the real job of finding businesses that can compound value regardless of the gold price.

Looking forward into 2026: A healthy respect for how quickly and violently narratives can unravel once reality bites. When valuations are treated as an afterthought and stories are priced for perfection, the eventual reckoning can be brutal. That lesson keeps us anchored to cash flows, balance sheets and management teams who treat shareholders like partners.

I'm looking forward to an environment where interest rates are stable to easing and we hopefully see a sustained rotation away from the very narrow leadership of the past few years. That should bring capital back toward the many cash-generative small and mid-cap companies with strong franchises that have been overlooked while the market chased growth at any price.

Key themes I expect to be relevant:

- A gradual return of investor attention to the small-cap universe as the recent value destruction in parts of the large-cap space becomes clearer.
- A continuation of corporate activity, with more takeovers of strong smaller businesses that remain cheaply priced.
- A normalisation in some of the more stretched thematic pockets – AI-related stocks, parts of the gold sector, and certain defence names—freeing up capital to flow into more reasonably valued areas.

Valuation dispersion is still at decade-plus extremes, which is where active, bottom-up small-cap managers thrive. After the carnage we've seen in over-hyped large caps this year, the set-up for disciplined small-cap investing feels as constructive as it has been in a very long time—provided we remain selective and valuation-aware.

ELEY GRIFFITHS GROUP

As we farewell 2025, I'm looking forward to less volatility particularly if it relates to short term noise.

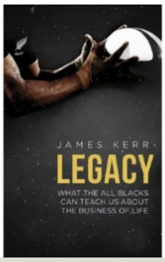
Looking ahead to 2026, we expect the ongoing, or at least perceived, threat of AI disruption is likely to continue to weigh on sentiment which may present opportunities for companies who are either insulated or likely to benefit from improved productivity and lower costs. We anticipate that select consumer discretionary names may finally get some breathing room after a tariff impacted 2025, particularly as a lower rate environment begins to support a recovery in demand.

ECP

Periods such as those described in Exhibit 1 above can test investors' resolve, however our team remains extremely consistent in applying our investment philosophy, which is built on the belief that the economics of a business drives long-term investment returns. Allocating capital to high quality, growing businesses with superior economics and sustainable competitive advantages in a valuation disciplined manner has delivered outperformance over time, and while there will be bumps along the way, we believe the current opportunity set is fertile ground for quality-growth investors such as ourselves.

Summer Reading & Listening: Manager Recommendations

Firetrail
Invest with Conviction



Legacy — James Kerr
A leadership and culture classic built around the All Blacks' philosophy.

🎧 ***Firetrail Equity Edge Podcast.*** *Bite-sized, sub-7-minute stock deep dives — ideal for time-poor listeners.*

eiger capital

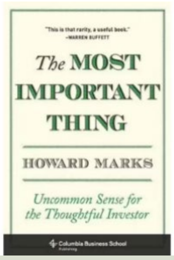
🎧 ***Macro Voices***

🎧 ***Monetary Matters***

🎧 ***Hidden Forces***

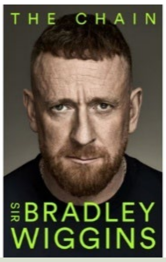
A mix of global macro insights, policy analysis and deep-dive conversations on geopolitics, technology and culture.

L1 CAPITAL



The Most Important Thing — Howard Marks
A foundational read on risk, cycles and investment thinking.

LENNOX
CAPITAL PARTNERS



The Chain — Bradley Wiggins
A candid memoir of the five-time Olympic cycling champion.

Australian Eagle
Asset Management

🎧 ***Macro Mondays***

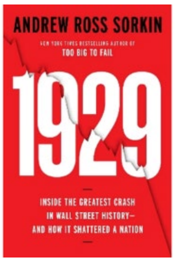
🎧 ***Macro Trading Floor***

🎧 ***Thoughtful Money with Adam Taggart***

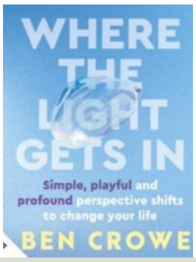
🎧 ***Huberman Lab*** (select episodes)

A blend of finance-focused and intellectual/health science podcasts — often played at 2x speed

Chester Asset Management

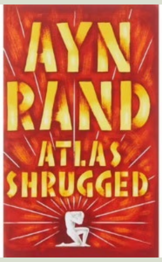


1929 — Andrew Ross Sorkin
A deep dive into the people and events behind one of history's most volatile periods.



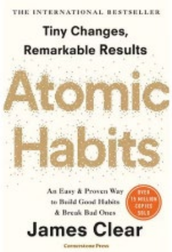
Where the Light Gets In — Ben Crowe
Insights into mindset, perspective and personal resilience.

Spheria Asset Management



Atlas Shrugged — Ayn Rand
A philosophical, heavyweight novel exploring incentives, productivity and society.

Eley Griffiths Group



Atomic Habits — James Clear
A practical guide to building better habits and systems.

ECP

Holiday fiction picks curated by the Financial Times.

Auscap Asset Management

A mixed stack of finance, markets, business, psychology and history books waiting at home — with plans to finally make a dent in the summer break.

We are really looking forward to continuing our partnership with Third Link. We think it's a terrific initiative, one we are proud to support.

Summer Recharge

Across the manager group, summer is shaping up to be a season of family time, sunshine and slowing down after a fast-moving year. Beach escapes remain the most popular way to recharge – with Patrick Hodgens (Firetrail Investments) enjoying a few weeks on the Sunshine Coast, and Rob Tucker (Chester Asset Management) heading to the Mornington Peninsula with his family. Victor Gomes (Eiger Capital), Liam Donohue (Lennox Capital), James Hawkins (L1 Capital), Jared Pohl (ECP Asset Management) and the Eley Griffiths team are also planning plenty of sun, surf and relaxed days outdoors. Many are looking forward to switching off from market noise and embracing simple routines like swimming, reading, morning dog walks or catching the Ashes and the Australian Open.

Tim Carleton (Auscap Asset Management) is making the most of having kids at the perfect age for summer fun, with plans for bike rides, backyard cricket, kicking a footy and beach days. Sean Sequeira (Australian Eagle) will be taking a shorter break but focusing on quality time with family and friends, while Matt Booker (Spheria Asset Management) is heading in a different direction - travelling to Japan for a family ski trip featuring fresh powder, onsens and a rare "no screens" week.

Across the board, the theme is the same: recharge, reconnect, and return refreshed for the year ahead.

We extend our sincere thanks to all our managers for their insights, their continuous hard work managing capital on behalf of the Fund, and their generosity in rebating their management and performance fees. We look forward to continuing our partnership in 2026, delivering strong investment returns and meaningful community impact together.