# BEYOND THE INDEX

COMPANY
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## WHAT AUSTRALIA'S LEADING ACTIVE MANAGERS ARE SEEING FOR FY27

**INSIGHTS FROM THE INVESTMENT MANAGERS BEHIND THE THIRD LINK GROWTH FUND**

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Every year, we spend considerable time reviewing our underlying managers, not simply looking at returns, but assessing how they think, where they find opportunity and whether they remain disciplined through changing market conditions.

One of the strengths of the Third Link Growth Fund is that it doesn't rely on one investment style or one market view. Instead, we combine some of Australia's leading active investment managers, each bringing a different philosophy, specialist expertise and perspective to the portfolio.

Following the end of FY26, we asked ten of our underlying managers a simple question: **What are you seeing today that the broader market may be missing?**

While their portfolios differ significantly, what stood out was how often their answers converged.

Across growth managers, value managers, small-cap specialists, quality investors and activist managers, five consistent themes emerged.

Collectively, they believe:
- valuation matters more than ever;
- opportunities are emerging beyond Australia's largest companies;
- passive investing is creating pricing distortions;
- volatility is creating opportunities for active managers; and
- patient stock selection will become increasingly important through FY27.

This paper brings together those insights and highlights why we believe a diversified portfolio of specialist active managers remains well positioned for the opportunities ahead.

Chris Cuffe AO
Founder & Portfolio Manager
**Third Link Growth Fund**

# WHAT AUSTRALIA'S LEADING ACTIVE MANAGERS ARE SEEING FOR FY27

The past financial year was one of the most unusual in recent history.

While the S&P/ASX 300 delivered another positive return, the headline index masked an increasingly concentrated market, heightened stock-specific volatility and widening valuation gaps across sectors. Passive investment flows continued to favour Australia's largest companies, while many quality businesses outside the ASX 20 traded at historically attractive valuations.

Leading Australian Equity Active Managers

Diversified Australian Equity Portfolio

One common conclusion: **Active Management Matters**

# FIVE THEMES EMERGING FOR FY27

## 1 Active management is becoming more valuable

One of the strongest themes from our managers was the growing opportunity for active investors.

After several years where passive investing dominated fund flows, managers increasingly believe those flows are creating pricing distortions across the Australian market.

Rather than reflecting company fundamentals, many share prices are now being driven by index weightings and ETF flows.

As passive capital continues concentrating in Australia's largest companies, active managers see increasing opportunities to identify businesses trading well below intrinsic value.

What our managers are seeing:

- Greater stock dispersion
- More valuation anomalies
- Increasing concentration risk
- Better opportunities outside the benchmark

**"The volatility in recent years has provided great opportunities for active managers."**
1851 Capital

**"We strongly believe that active management is alive and well – as long as you know where to look."**
Firetrail Investments

**"The continued rise of passive investing, combined with a market that is increasingly short-term in its focus, will continue to create genuine opportunity for bottom-up stock pickers."**
Eley Griffiths Group

**"The current environment is becoming increasingly supportive for differentiated active investing. Greater stock dispersion and volatility are creating situations where the market may be overreacting to short-term issues or underestimating the underlying value of individual businesses."**
L1 Capital

**"As more money moves into passive investing we think this is creating an increasing number of mispricing opportunities."**
Auscap Asset Management

# 2 Opportunity exists beyond the ASX20

If there was one message repeated throughout the interviews, it was this:

**The biggest opportunities are increasingly outside Australia's largest companies.**

Several managers noted that the ASX20 now represents around two-thirds of the ASX200 by market capitalisation, resulting in greater concentration risk for passive investors.

Many believe valuations across the largest companies, particularly the major banks, remain stretched, while quality businesses further down the market offer stronger earnings growth at significantly lower valuations.

**ASX20**
More than 60% of the ASX200 by market capitalisation is made up of the ASX20 companies.

**Passive Flows**
Passive investment flows and index weighting drive more capital into these large companies.

**Valuation Premium**
Increased demand, regardless of pricing, has contributed to a valuation premium for many ASX20 companies.

**Opportunity Elsewhere**
Valuation gaps have widened across the broader market, creating opportunities for active, bottom-up stock pickers.

**"We are finding stronger opportunities outside the ASX 20, particularly in companies with attractive valuation support, strong cash-flow generation and clear pathways to value realisation."**
L1 Capital

**"The most attractive opportunities now sit beyond the mega caps, where valuations are lower, earnings growth is stronger and passive distortion is far smaller."**
Firetrail Investments

## 3 Valuations matter again

Managers repeatedly observed that FY26 wasn't simply about earnings. It was about valuation.

- Quality healthcare has de-rated despite resilient long-term earnings.
- Software de-rated.
- Banks became increasingly expensive.
- AI winners attracted enormous capital.

Many quality companies traded well below intrinsic value despite continuing to deliver solid earnings.

## Where active managers are finding value today

### Healthcare

- Large sell-off despite long-term quality; valuation becoming attractive.
- AI-driven healthcare innovation with significant long-term growth potential.
- Structural demographic growth and attractive long-term outlook

### Software & Technology

- Attractive earnings growth at more reasonable valuations.
- AI and digital infrastructure continue to drive long-term demand.
- Market has become increasingly selective, rewarding profitable growth.

### Large Caps

- Valuations don't fully reflect long-term earnings potential.
- Short-term market concerns have created buying opportunities.
- High-quality businesses with resilient cash flows and global growth exposure.

### Small & Mid Caps

- Benefiting from AI, electrification and infrastructure investment.
- Strong earnings outlook supported by structural growth.
- Less researched than large caps, creating greater alpha opportunities.

### Growth Companies

- Consistent earnings growth with expanding market opportunities.
- Valuation resets have created attractive entry points.
- High-quality management teams with long growth runways.

**"While sentiment and narratives can influence share prices in the short run, the economics of a business is what drives long-term investment returns."**
ECP Asset Management

**"Momentum often pushes share prices well beyond fair value, creating opportunities for patient active managers as valuations eventually normalise."**
Chester Asset Management

**"The more crowded and price-insensitive one part of the market becomes, the more mispriced the 'disdained' part gets."**
Sepheria Asset Management

## 4 AI isn't one investment theme

Perhaps the most fascinating observation was that managers are investing in AI very differently. Few are attempting to own AI directly. Instead, they are investing across the broader ecosystem - from the infrastructure powering AI to the businesses benefiting from increased productivity and digital adoption.

| | |
|---|---|
| **AI** | OpenAI, ANTHROPIC, Microsoft |
| **Data Centres** | NEXTDC, Megaport |
| **Power** | NexGen |
| **Copper & Resources** | BHP, igo, Pilbara Minerals, FireFly Metals |
| **Contractors** | SKS Technologies, Mineral Resources, MAAS |
| **Software** | Life360, block, technology1 |
| **Healthcare/ Medical AI** | EchoIQ, ARTRYA, 4DMedical |

**"AI medical device companies are probably one of the most exciting themes to watch heading into FY27."**
Eiger Capital

**"Rather than playing the capital heavy data centre plays, we adopted a 'picks and shovels' approach with strong contributions from electrical contractors SKS Technologies and Southern Cross Electrical."**
1851 Capital

# 5 Volatility is creating opportunity

While markets appeared relatively calm at the index level, individual companies experienced enormous swings. Several ASX20 companies suffered one-day share price declines of between 10% and 40%.

Rather than fearing volatility, our managers increasingly view it as a source of opportunity.

**Volatility**
Markets overreact to uncertainty, driving sharp price swings.

**Mispricing**
Emotional trading drives prices away from intrinsic value.

**Research**
Deep research can uncover quality businesses others overlook.

**Opportunity**
Dislocations create the opportunity to invest in high-quality businesses with strong growth potential.

**"High quality companies like Cochlear suffered the largest single-day fall in 30 years."**
Australian Eagle

**"Periods of volatility create opportunities where the market overreacts to short-term issues."**
L1 Capital

**"Back your process. Staying close to companies and understanding the drivers of their success has never been more important."**
Eiger Capital

**"Global macro events and markets are very fluid, and active managers are best positioned to respond to this volatility as it arises."**
1851 Capital

# OUTLOOK FOR FY27

## One Common Conclusion: Active Management Matters

While each of our underlying managers invests with a different philosophy, their outlook for FY27 was remarkably consistent.

Markets remain highly concentrated, passive investing continues to influence pricing, and short-term volatility is creating wider gaps between share prices and underlying business value. Rather than viewing this as a challenge, our managers believe it is creating one of the most attractive environments for active stock picking in recent years.

## The Themes Defining FY27

### Valuations Matter Again

After several years where momentum often dominated fundamentals, many managers believe valuations are once again becoming an important driver of investment returns. High-quality companies are trading at attractive discounts to intrinsic value, creating opportunities for patient investors.

### Volatility Creates Opportunity

Macroeconomic uncertainty and shifting investor sentiment are driving greater dispersion across markets, allowing active managers to identify businesses where prices have become disconnected from fundamentals.

### Structural Growth Continues

AI, digital infrastructure, healthcare innovation, electrification and defence remain powerful long-term investment themes, creating opportunities across multiple sectors of the Australian market.

### Corporate Activity is Increasing

Several managers expect mergers, acquisitions and strategic corporate activity to accelerate as attractive valuations encourage trade buyers and private equity to pursue quality listed businesses. For active investors, corporate activity can act as an important catalyst for unlocking shareholder value.

## A Common Conviction

Despite investing independently, our managers shared the same fundamental belief:

- Active management is becoming increasingly valuable.
- Opportunities are greatest beyond the largest index stocks.
- Long-term returns will continue to be driven by disciplined stock selection and valuation.
- Patient investors are well positioned to benefit from the widening gap between price and intrinsic value.

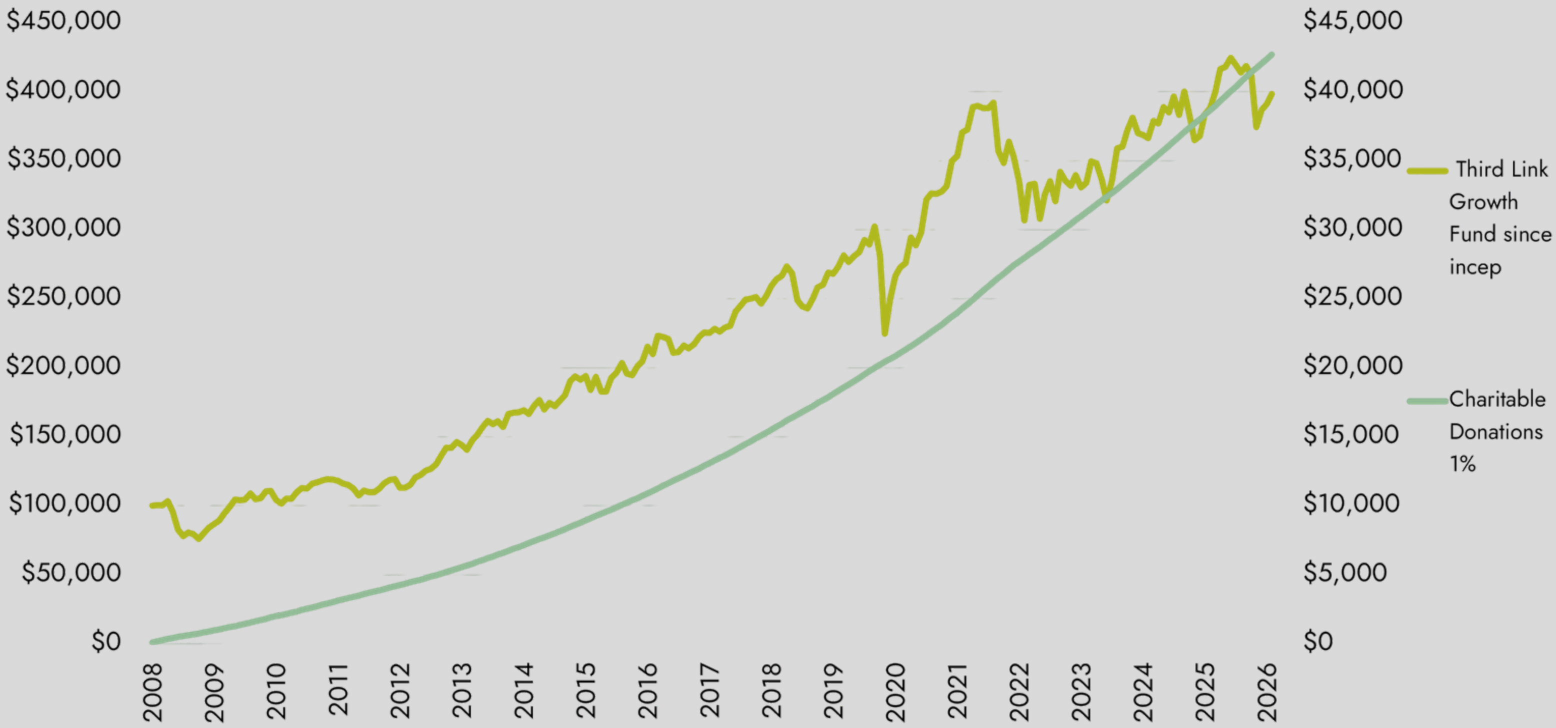
**"While markets will continue to be driven by short-term headlines, long-term investment success comes from owning exceptional businesses at sensible valuations. That remains the common conviction across our managers as we head into FY27."**

Chris Cuffe

# WHY THIRD LINK GROWTH FUND?

The Third Link Growth Fund is built on a simple philosophy. No single manager will outperform in every market. Instead, we invest with a carefully selected group of specialist Australian fund managers, each bringing a distinct investment philosophy, complementary expertise and independent thinking.

Together, they provide investors with diversified exposure across market capitalisations, sectors and investment styles, while maintaining a shared commitment to rigorous research, disciplined portfolio construction and long-term value creation.




Since inception*, a $100,000 investment would have grown to **$398,465**, while simultaneously generating **$42,710** for charity through the Fund's unique fee-structure—all without diluting investor returns.

**9.18%**

per annum since inception*

**$25m**

donated

1% of FUM donated to charity each year

**12 managers**

Investing in growth

* The Fund was registered on 12 March 2008, commenced operations on 18 April 2008, and commenced investing on 1 June 2008 as a multi-sector growth fund. In February 2012 the Fund's investment strategy changed from multi-sector growth to Australian equities.
Performance figures are shown net of fees and costs. Past performance is not a reliable indicator of future performance.

**Delivering long-term investment returns while creating lasting social impact.**