marlin
growing globally

Quarter Update Newsletter

1 July 2016 – 30 September 2016

MLN NAV	SHARE PRICE	DISCOUNT
$0.86	$0.78	9.1%

as at 30 September 2016

Marlin's gross performance rose by 6.5% during the quarter to 30 September 2016, slightly ahead of the benchmark^ at 5.2% for the same period, despite headwinds from another strong quarter from the New Zealand dollar.

International equity markets shrugged off the surprise Brexit vote with a strong performance in the third quarter. No doubt there are challenges ahead for the European and UK economies as they negotiate their future relationship. The US presidential election also remains a wildcard for all asset prices, but for now the combination of accommodative monetary policy and positive earnings expectations is proving supportive for stock markets.

The second quarter earnings season (reported during the September quarter) was generally positive for our stocks. From a portfolio of 32 stocks, only 4 companies delivered quarterly results that disappointed investors. As a consequence portfolio performance was relatively stable over the quarter. There are also signs that revenue and earnings growth are starting to inflect positively, particularly in the US market which has seen negative sales and earnings growth for the last two quarters.

The strong performance of global equities over the last quarter makes our task of adding high quality companies that represent reasonable value a bit more difficult. However, we continue to scour the globe for stocks that we believe will generate strong returns over the course of an economic cycle. We are also continuing to build a robust list of stocks that we believe are strong candidates for inclusion in the portfolio at some point in the future.

During the quarter, **Alibaba** was the best performer for the portfolio. Exceptionally strong revenue growth of 59%, improving monetisation trends in their mobile and cloud products and better financial and operating disclosure underpinned a 40% price appreciation. **eBay** similarly performed well, appreciating 37% over the quarter as the company significantly beat revenue and earnings estimates. Importantly, some of the initiatives to improve the quality and breadth of their products are now starting to pay off resulting in an improved customer user experience and good revenue acceleration. **Wirecard**, a global payment services provider similarly performed well, bouncing back from weakness following a short sellers report on the company. Improving disclosures and continued strong growth in operating earnings underpinned a 22% price rise.

Notable Returns in the Quarter

EBAY	ALIBABA GROUP	ADIDAS	VARIAN MEDICAL SYSTEMS	STERICYCLE
+37.6%	+30.3%	+19.2%	+18.5%	-19.8%

On the negative side, shares in the infant milk formula company, **Mead Johnson** fell 9% over the quarter as ongoing inventory and pricing issues in the China market caused the company to report revenue growth below investor expectations. We believe that in the short term price discounting could remain problematic but selling conditions should improve into 2017 as Chinese regulation significantly reduces the number of brands in the marketplace with the larger companies like Mead Johnson best placed to succeed. Pre-paid giftcard operator **Blackhawk**, was similarly weak due to delayed implementation of chip and pin in some larger retail networks in the US. While frustrating for Blackhawk, we believe the problem is transitory and should be largely addressed by the end of the year.

Over the quarter we didn't add any new stocks to the portfolio and exited from two companies. We sold our position in **United Internet**, a mobile virtual network operator (think 2degrees) based in Germany. United Internet has been a good performer for the portfolio since we initiated a position in 2012. A strong growth profile supported by low smartphone penetration and a stronger value proposition to its customers than the mobile network operators (e.g. Vodafone) underpinned our original investment thesis. Our decision to exit the stock is based on a weakening growth outlook as price competition intensifies and smartphone penetration rises. Furthermore, United Internet has yet to negotiate full access to a 4G network and we believe this will eventually impact on their competitive position.

We also exited **Stericycle**, the largest US provider of regulated medical waste. Stericycle was a relatively new position for us so the early exit is disappointing. We believe Stericycle is a wide moat company and has many of the features we find appealing — dominant market position in a niche market, a high degree of recurring revenue, defensive earnings stream in a highly regulated market and significant up-sell opportunities. However, our rationale for exiting was based on Stericycle transitioning to a lower growth profile as larger hospitals buy up physician practices and use their considerable clout to renegotiate prices lower, a trend that was not apparent to us when we bought

^ Blended index: World Small Cap Gross Index until 30 September 2015 & S&P Large Mid Cap/S&P Small Cap Index (hedged 50% to NZD) from 1 October 2015 into the company. Furthermore, Stericycle are now reassessing their international growth opportunities which could further pressure growth. We believe it is prudent to be on the sidelines during this transition phase and will look to re-evaluate the company when we have more visibility on their growth prospects.

Roger Garrett
Senior Portfolio Manager
Fisher Funds Management Ltd
21 October 2016

Carmel Fisher
Managing Director
Fisher Funds Management Ltd
21 October 2016

Performance
to 30 September 2016

	3 Months	3 Years (accumulated)	Since Inception November 2007 (accumulated)
Marlin Adjusted NAV*	+5.5%	+22.5%	+50.4%
Total Shareholder Return*	+1.1%	+38.9%	+45.1%
Gross Return^	+6.5%	+36.4%	+102.8%
Relative Performance			
Benchmark Index^^ (in NZ dollar terms)	+5.2%	+43.8%	+69.3%

^ Gross of fees and tax and adjusting for capital management initiatives
^^ Blended index: World Small Cap Gross Index until 30 September 2015 & S&P Large Mid Cap/S&P Small Cap Index (hedged 50% to NZD) from 1 October 2015

***Definitions of non-GAAP measures**

Adjusted Net Asset Value (NAV)
The adjusted NAV per share represents the total assets of Marlin (investments and cash) minus any liabilities (expenses and tax), divided by the number of shares on issue. It adds back dividends paid to shareholders and adjusts for:

» the impact of shares issued under the dividend reinvestment plan at the discounted reinvestment price;
» shares bought on-market (share buybacks) at a price different to the NAV, and;
» warrants exercised at a price different to the NAV at the time exercised.

Adjusted NAV assumes all dividends are reinvested in the company's dividend reinvestment plan and excludes imputation credits.
The directors believe this metric to be useful as it reflects the underlying performance of the investment portfolio adjusted for dividends, share buybacks and warrants, which are a capital allocation decision and not a reflection of the portfolio's performance.

Total Shareholder Return (TSR)
The TSR combines the share price performance, the warrant price performance (when warrants are on issue), the net value of converting warrants into shares and dividends paid to shareholders.
TSR assumes:

» all dividends paid are reinvested in the company's dividend reinvestment plan at the discounted reinvestment price and exclude imputation credits, and;
» all shareholders that have received warrants (for free), have subsequently exercised their warrants at the warrant expiry date and bought shares (if they were in the money).

The directors believe this metric to be useful as it reflects the return of an investor who reinvests their dividends and, if in the money, exercises their warrants at warrant maturity date for additional shares. No metric has been included for investors who choose other investment options.

Comparative information
Marlin's TSR and Adjusted NAV historical information has been restated. The restated values are based on the methodology described above. This methodology has resulted in some differences between the TSR and Adjusted NAV reported in this communication compared to previous communications. Please note this methodology will be used for all future communications.

Portfolio Holdings Summary
as at 30 September 2016

Company	% Holding
Canada	
Descartes Systems Group	2.1%
Denmark	
Coloplast	3.2%
Germany	
Adidas	2.1%
Biotest	2.6%
Stratec Biomedical	2.3%
Wirecard	4.8%
Ireland	
Icon	2.7%
Israel	
Sarine Technologies	2.6%
Italy	
Brembo	3.2%
Japan	
Park 24	2.7%
Mexico	
Cognizant	2.2%
United Kingdom	
IMI	2.0%
Worldpay Group	1.0%
United States	
Alibaba Group	4.4%
Alphabet	5.1%
Amazon.com	2.2%
Blackhawk	2.0%
Cerner Corporation	3.1%
eBay	3.6%
Ecolab	2.5%
Expedia	2.9%
LKQ	3.0%
Mastercard	4.7%
Mead Johnson	2.3%
Nike	3.2%
PayPal Holdings	4.7%
Plantronics	3.7%
United Parcel Service	3.4%
Varian Medical Systems	3.4%
Zoetis Inc	3.0%
Equity Total	**90.7%**
Total foreign cash	7.3%
New Zealand dollar cash	2.2%
Cash Total	**9.5%**
Forward foreign exchange contracts	-0.2%
TOTAL	**100%**

Company News Dividend paid 30 September 2016

A dividend of 1.72 cents per share was paid to Marlin shareholders on 30 September 2016, under the quarterly distribution policy. Interest in Marlin's dividend reinvestment plan (DRP) remains high with 40% of shareholders participating in the plan. Shares issued to DRP participants are at a 3% discount to market price. If you would like to participate in the DRP, please contact our share registrar, Computershare on 09 488 8777.

marlin growing globally

Marlin Global Limited
Private Bag 93502, Takapuna, Auckland 0740
Phone: +64 9 484 0365 | Fax: +64 9 489 7139
Email: enquire@marlin.co.nz | www.marlin.co.nz

The Marlin quarter update newsletter is produced for the March and September quarters only. The annual and interim reports cover the June and December periods. If you would like to receive future newsletters electronically please email us at enquire@marlin.co.nz