marlin
growing globally

Monthly Update

March 2018

MLN NAV	SHARE PRICE	DISCOUNT
$0.99	$0.86	13.0%

as at 28 February 2018

A word from the Manager

February started with a lot of excitement in equity markets. It was a good reminder that low volatility does not persist forever and is regularly punctuated with periods of stress. After a strong 2017 for global markets, where the S&P 500 Index was up every single month, February saw the US index fall 3.9%. This final result masks an even bumpier ride, with the US market down by 10% at one point during the month. Share market investing will always be two steps forward and one step back. The recent volatility no doubt spurred a lot of investors around the globe to think about their portfolio and whether they are comfortable with their positioning.

Marlin was down 1.2% (gross) in February, compared with our global benchmark[1] which fell 2.6%. One benefit of owning international equities from New Zealand is that in periods of market stress the New Zealand Dollar can often fall and cushion the impact to domestic investors. We saw this in February and portfolio returns were supported by a 2.4% decline in the New Zealand Dollar during the month.

Recent Results

Reporting season was in full swing in February, with fourth-quarter or full year results announced for the majority of Marlin's portfolio companies.

Hearing aid manufacturer **William Demant** was a standout performer, returning 16%. The company reported stronger than expected organic growth, with hearing aid sales growing by 10% on the back of market share gains from its new Oticon Opn range of hearing aids.

The second-best performer was recent addition and jewellery brand, **Pandora**, which gained 13% during the month. We added Pandora to the portfolio in January and after its recent investor day the market now seems to be warming to its refined growth strategy, which will see the continued rollout of concept stores and the gradual acquisition of existing stores from franchisees.

IT services provider, **Cognizant**, delivered revenue growth of 11% on the back of strong demand for consulting expertise to help corporate clients execute on new digital initiatives. Clients across a range of sectors are increasingly looking to move IT infrastructure to the cloud, develop better customer facing technology (eg. mobile banking apps), and automate internal processes that have historically been labour intensive (like payroll and accounts payable processing). In our opinion this digital transformation has many years to run, which should provide a good tailwind for Cognizant.

Expedia, the online travel agent, reported results that were weaker than expected and growth guidance for 2018 that disappointed the market. It was the largest drag on portfolio performance, with the stock down 18% in February. While both room nights at its core properties and revenue continued to grow strongly, earnings were depressed by investments that Expedia's new CEO is making in sales staff to expand its hotel inventory in Europe and Asia. The company is also spending money upfront to move its entire IT infrastructure onto Amazon's cloud platform, which should significantly reduce ongoing server and IT related capex. While we certainly don't want to gloss over Expedia's recent poor performance, we believe these are important long-term investments that should position the business better for future growth. We met Expedia's new CEO in San Francisco to discuss these investments and we continue to monitor progress closely.

United Parcel Service results reflected both the benefit of strong ecommerce growth, and the difficulties UPS is having meeting this demand profitably. Revenue grew 11% year-on-year in the fourth-quarter on the back of a strengthening US economy and a solid holiday season for ecommerce deliveries. On the other hand, UPS's profit before interest and tax grew only 3% as it found managing peak holiday season volumes challenging. The higher proportion of ecommerce packages depressed margins, as delivering packages to residential addresses is far less efficient than delivering to businesses, with longer driving distances between stops and

[1] S&P Large Mid Cap/S&P Small Cap Index (50% hedged to NZD)

fewer packages per drop. UPS has announced a significant investment programme (an extra $7bn over three years) to add more aircraft, automate more of its sorting facilities and introduce more Saturday delivery options. While this step up in investments disappointed the market, they are aimed at ultimately allowing UPS to handle more volume at peak times and improve margins. UPS was down 17% for the month.

Portfolio Changes

During February, we added **TJX Companies** (TJX) to the portfolio. TJX is an off-price retailer in the US, which also has stores in Canada, Europe and Australia. The company sells branded clothing, such as Nike and Ralph Lauren, as well as some homeware at a 20%-60% discount to a full-price retailer (think Briscoe's, but predominantly for apparel). TJX can sell inventory cheaper than other retailers as it sources stock from store closures, order cancellations and manufacturer overruns. The company has a longstanding management team with a strong track record, and have grown earnings per share consistently (in 19 of the last 20 years) at an average rate of 16% per annum over the last 20 years.

We bought TJX as we believe the company still has a good growth runway for new store openings and in our opinion can also continue to consistently grow sales at existing stores. If we are correct, TJX should grow its earnings at close to 10% per annum, while paying a steady and increasing dividend. Despite having solid growth prospects, TJX's valuation has been depressed given market concerns about the broader retail sector, combined with a couple of company specific headwinds that we believe are transitory.

Ashley Gardyne
Senior Portfolio Manager,
Marlin

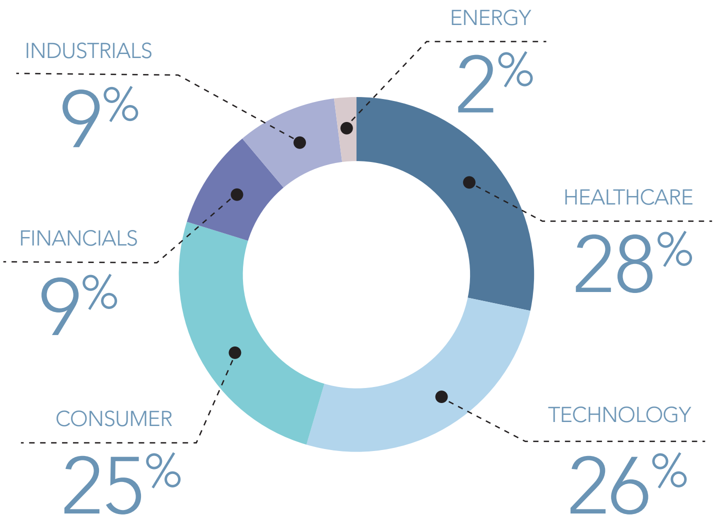
Key Details

as at 28 February 2018

FUND TYPE	Listed Investment Company
INVESTS IN	Growing international companies
LISTING DATE	1 November 2007
FINANCIAL YEAR END	30 June
TYPICAL PORTFOLIO SIZE	25-35 stocks
INVESTMENT CRITERIA	Long-term growth
PERFORMANCE OBJECTIVE	Long-term growth of capital and dividends
TAX STATUS	Portfolio Investment Entity (PIE)
MANAGER	Fisher Funds Management Limited
MANAGEMENT FEE RATE	1.25% of gross asset value (reduced by 0.10% for every 1% of underperformance relative to the change in the NZ 90 Day Bank Bill Index with a floor of 0.75%)
PERFORMANCE FEE HURDLE	Changes in the NZ 90 Day Bank Bill Index + 5%
PERFORMANCE FEE	15% of returns in excess of benchmark and high water mark
HIGH WATER MARK	$0.85
SHARES ON ISSUE	117m
MARKET CAPITALISATION	$101m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

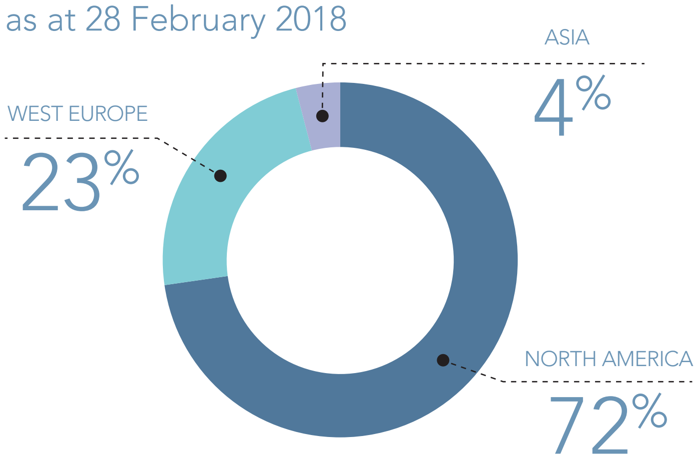
as at 28 February 2018



The Marlin portfolio also holds cash.

Geographical Split

as at 28 February 2018



February's Biggest Movers in local currency terms

Typically the Marlin portfolio will be invested 90% or more in equities.

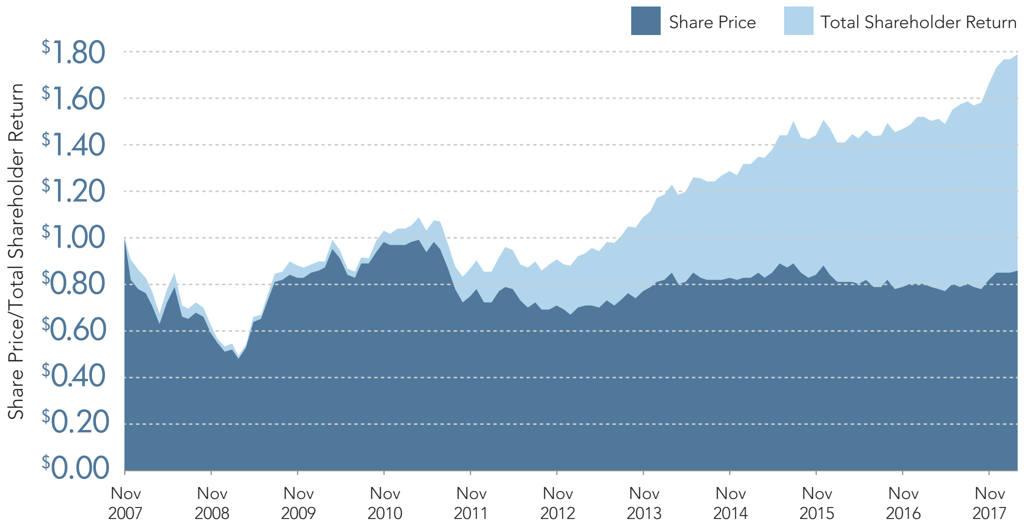
WILLIAM DEMANT	PANDORA	ALIBABA	UNITED PARCEL SERVICE	EXPEDIA
+16%	+13%	-9%	-17%	-18%

5 Largest Portfolio Positions as at 28 February 2018

ALPHABET	PAYPAL	MASTERCARD	ESSILOR	EDWARDS LIFESCIENCES
7%	5%	5%	4%	4%

The remaining portfolio is made up of another 21 stocks and cash.

Total Shareholder Return to 28 February 2018



Performance to 28 February 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
Corporate Performance					
Total Shareholder Return	+1.2%	+3.5%	+19.2%	+9.9%	+5.8%
Adjusted NAV Return	(1.0%)	+2.0%	+26.0%	+10.0%	+6.5%
Manager Performance					
Gross Performance Return	(1.2%)	+3.3%	+32.3%	+14.4%	+10.3%
Benchmark Index^	(2.6%)	(1.0%)	+17.1%	+13.5%	+7.7%

^Benchmark index: World Small Cap Gross Index until 30 September 2015 & S&P Large Mid Cap/S&P Small Cap Index (50% hedged to NZD) from 1 October 2015

Non-GAAP Financial Information

Marlin uses non-GAAP measures, including adjusted net asset value, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

» adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions,
» gross performance return – the Manager's portfolio performance in terms of stock selection and hedging of currency movements, and
» total shareholder return – the return to an investor who reinvests their dividends, and if in the money, exercises their warrants at warrant maturity date for additional shares.

All references to adjusted net asset value, gross performance return and total shareholder return in this monthly update are to such non-GAAP measures. The calculations applied to non-GAAP measures are described in the Marlin Non-GAAP Financial Information Policy. A copy of the policy is available at http://marlin.co.nz/about-marlin/marlin-policies/

About Marlin Global

Marlin is an investment company listed on the New Zealand Stock Exchange. The company gives shareholders an opportunity to invest in a diversified portfolio of between 25 and 35 quality growing international companies (excluding New Zealand and Australia) through a single, professionally managed investment. The aim of Marlin is to offer investors competitive returns through capital growth and dividends.

Management

Marlin's portfolio is managed by Fisher Funds Management Limited. Ashley Gardyne (Senior Portfolio Manager), Chris Waters and Harry Smith (Senior Investment Analysts) have prime responsibility for managing the Marlin portfolio. Together they have significant combined experience and are very capable of researching and investing in the quality global companies that Marlin targets. Fisher Funds is based in Takapuna, Auckland.

Board

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. The Board of Marlin comprises independent directors Alistair Ryan (Chair), Carol Campbell and Andy Coupe; and non-independent director Carmel Fisher.

Capital Management Strategies

Regular Dividends

» Quarterly distribution policy introduced in August 2010

» Under this policy, 2% of average NAV is targeted to be paid to shareholders quarterly

» Dividends paid by Marlin may include dividends received, interest income, investment gains and/or return of capital

» Shareholders who prefer to have increased capital rather than a regular income stream have the opportunity to participate in the company's dividend reinvestment plan (DRP)

» Shares issued to DRP participants are at a 3% discount to market price

» Marlin became a portfolio investment entity on 1 October 2007. As a result, dividends paid to New Zealand tax resident shareholders have not been subject to further tax

Share Buyback Programme

» Marlin has a buyback programme in place allowing it (if it elects to do so) to acquire up to 5.9m of its shares on market in the year to 31 October 2018

» Shares bought back by the company are held as treasury stock

» Shares held as treasury stock are available to be re-issued for the dividend reinvestment plan

Warrants

» Warrants put Marlin in a better position to grow further, improve liquidity, operate efficiently and pursue other capital structure initiatives as appropriate

» A warrant is the right, not the obligation, to purchase an ordinary share in Marlin at a fixed price on a fixed date

» There are currently no warrants on issue

marlin
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