marlin
growing globally

Monthly Update

April 2018

MLN NAV	SHARE PRICE	DISCOUNT
$0.98	$0.84	14.1%

as at 31 March 2018

A word from the Manager

March was another volatile month for equity markets, with President Trump's tariff proposals sparking fears of a trade war and doubts surfacing regarding the sustainability of the technology sector rally. During March the US S&P 500 Index and European Stoxx 600 Index fell 2.7% and 2.3% respectively.

We are watching US tariff developments closely, and while Trump's proposed tariffs on steel, aluminium and a $50bn list of Chinese imports is still relatively small scale, any material escalation would be concerning. No one will benefit from a global trade war and an escalation would be destabilising for equity markets. We hope that Trump's tariff agenda is simply posturing by a businessman seeking to achieve better terms with trading partners, rather than a longer term ideological shift.

The Marlin portfolio was flat in March, outperforming our global benchmark which fell 1.1%. While our exposure to technology companies like Alphabet dragged on performance during the month, some strong financial results and developments elsewhere in the portfolio (e.g. Adidas, Descartes and William Demant) helped offset the impact of our technology holdings. Our more defensive healthcare holdings also provided support.

For the three months to 31 March 2018, the Marlin portfolio was up 5.2%, 7.0% ahead of our global benchmark which was down 1.8% over the period.

Portfolio Company Developments

Adidas gained 8% in March after reporting financial results for 2017 that showed strong growth in China, the US and its ecommerce channel. On top of strong revenue growth, less discounting and good cost control drove significant margin expansion during the year. For the 2017 fiscal year revenue grew 15% and operating profit jumped 31%. We believe Adidas is well positioned to benefit from ongoing structural trends including healthier lifestyles, the casualisation of the workplace, and a growing middle class in emerging markets. We also believe Adidas has the potential to continue taking market share in the US, where its market share is still below 15%. CEO, Kasper Rorsted, has a reputation for cost discipline and we believe Adidas will further reduce operating costs by streamlining support services, automation and leveraging marketing expense.

Healthcare IT provider, **Cerner**, was down 10% in March due to concerns surrounding the signing of an estimated $10bn contract with the US Department of Veterans Affairs. While there had been some challenges finalising the contract prior to March, this was compounded as President Trump announced the departure of the Veterans Affairs secretary David Shulkin (via Twitter of course). Our expectation is that this contract will still go ahead, but that signing will be further delayed until the new secretary is in place. Longer term we see technology playing a critical role in the modernisation of the US healthcare system and management of escalating healthcare costs. As the leading healthcare IT company, we believe Cerner has a key role to play in this shift and should continue to take a larger share in the $100bn global healthcare IT market.

GST Update

Fisher Funds has historically charged Marlin GST at the standard GST rate on the provision of investment services. Last year the IRD confirmed that the lower GST fund manager rate could be charged to Marlin (and this rate has been applied since 1 August 2017). On 28 March 2018, Fisher Funds received confirmation from the IRD that they would receive a refund for overcharged GST of $1.7m plus use of money interest of $0.1m on the provision of investment services to Marlin for the eight year period from 1 August 2009 to 31 July 2017. On receipt in early April, Fisher Funds passed the refund and use of money interest to Marlin. The refund and use of money interest receivable from Fisher Funds has been recognised in the Marlin NAV from 28 March 2018 onwards.

Other noteworthy news included eyewear and optical lens manufacturer **Essilor** receiving approval from US and European regulatory authorities for its proposed merger with Luxottica, which will create the world's largest eyewear company. Subject to approval from Chinese authorities, we expect the merger to close later this year and believe there are significant synergies to be extracted from the combined business.

The threat of regulation weighed over the technology sector in March, on the back of news stories regarding a Facebook data breach and President Trump's tweets accusing Amazon of not paying its share of taxes and hurting small businesses. While we don't currently own Facebook in the portfolio, any regulation that impacts the use of user data by technology companies could have implications for our portfolio company **Alphabet** (Google's parent company). Alphabet fell 6% in March and was the biggest detractor from portfolio returns.

Portfolio Changes

The only material change to the portfolio in March was the exit of hearing aid manufacturer **William Demant**. The company has delivered strong results since we initiated the position in March last year, with its new Oticon Opn range of hearing aids driving market share gains and better than expected organic growth (10% organic revenue growth and a 20% net income growth in 2017). With its share price up 55% since we added it to the portfolio, William Demant is now trading at an elevated valuation and we decided to exit our position and reinvest the proceeds in other opportunities.

We used the market weakness in March to add to our holdings in **LKQ Corp** and **Cerner**.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd

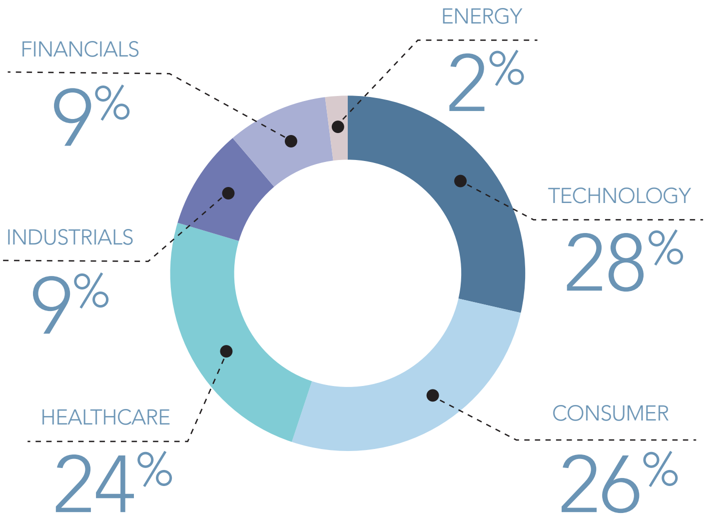
Key Details

as at 31 March 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	$0.83
SHARES ON ISSUE	119m
MARKET CAPITALISATION	$100m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

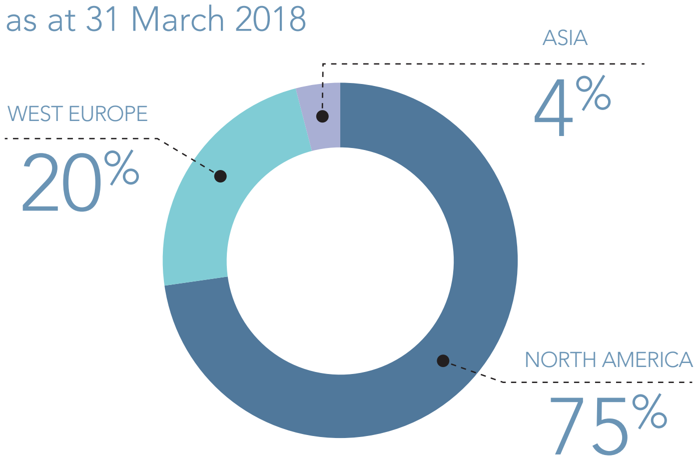
as at 31 March 2018



The Marlin portfolio also holds cash.

Geographical Split

as at 31 March 2018



March's Biggest Movers in local currency terms

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

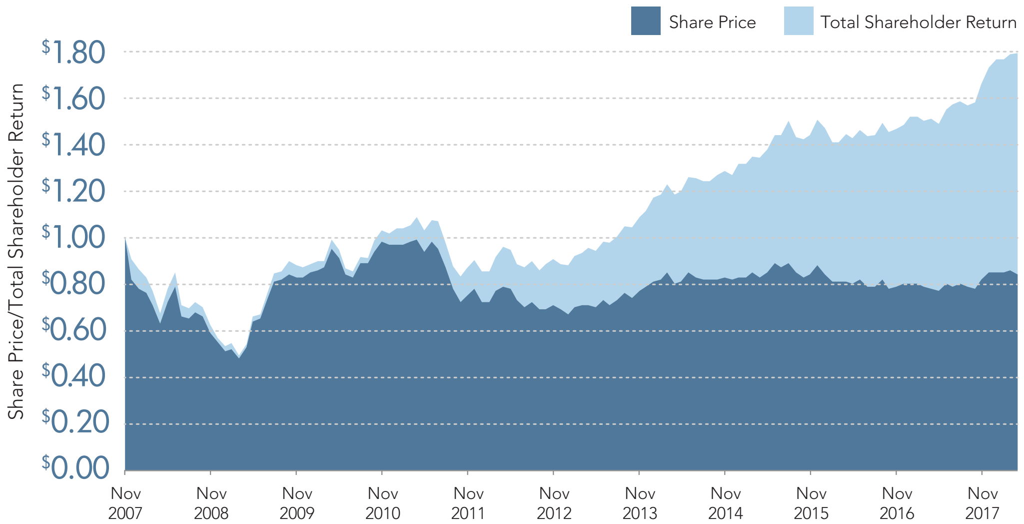
DESCARTES SYSTEMS	ADIDAS	WILLIAM DEMANT	EBAY	CERNER CORPORATION
+8%	+8%	+7%	-6%	-10%

5 Largest Portfolio Positions as at 31 March 2018

ALPHABET	PAYPAL	MASTERCARD	LKQ	ESSILOR
7%	5%	5%	5%	5%

The remaining portfolio is made up of another 20 stocks and cash.

Total Shareholder Return to 31 March 2018



Performance to 31 March 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
Corporate Performance					
Total Shareholder Return	(0.0%)	+1.2%	+18.1%	+9.9%	+5.7%
Adjusted NAV Return	+0.9%	+5.1%	+22.1%	+10.3%	+6.5%
Manager Performance					
Gross Performance Return	(0.0%)	+5.2%	+26.4%	+14.3%	+10.2%
Benchmark Index^	(1.1%)	(1.8%)	+12.6%	+12.5%	+7.5%

^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

» On 16 April 2018, a new issue of warrants (MLNWC) was announced

» Marlin shareholders will be allotted one warrant for every four shares held at record date (1 May 2018)

» Each warrant gives shareholders the right, but not the obligation, to subscribe for one ordinary share in Marlin on the exercise date (12 April 2019)

» The exercise price will be $0.83 less any dividends declared during the period up to the exercise date

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