Quarter Update Newsletter

31 December 2017 — 31 March 2018

marlin
growing globally

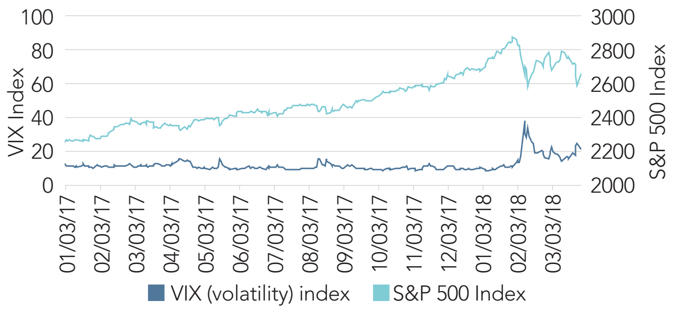
MLN NAV	SHARE PRICE	DISCOUNT
$0.98	$0.84	14.1%

as at 31 March 2018

The Marlin portfolio gained 5.2% in the three months to 31 March 2018, 7% ahead of the benchmark index[1] which was down 1.8% over the period. It was a volatile quarter for equity markets, and these headline results mask the market stresses seen during the quarter.

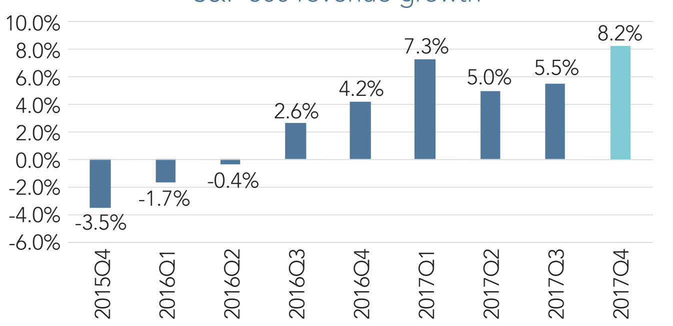
We have talked previously about 2017 being a highly unusual year for equity markets, with the US S&P 500 Index advancing in every single month and the variability of returns at record lows (as measured by the VIX index). We saw an abrupt reversal of this theme in the first few weeks of February, when most global markets fell dramatically and the S&P 500 Index declined by 10% at one point during the month. After a brief recovery volatility picked up again in March, with President Trump's tariff proposals sparking concerns of a potential trade war. The first quarter was a good reminder that low volatility does not persist forever and is continually punctuated with periods of stress.

VIX index and S&P 500 index



In the short-term markets often move more on sentiment than fundamentals and the volatility in February came despite an underlying environment of economic and corporate earnings growth. The average US company in the S&P 500 Index grew revenue 8% and earnings per share (EPS) at 15% in the final quarter of 2017. This strength in growth surprised many, with 77% of companies in the S&P 500 reporting revenue above analysts' expectations.

S&P 500 revenue growth



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

Notable Returns for the Quarter in local currency

WILLIAM DEMANT	BLACKHAWK NETWORK	EDWARDS LIFESCIENCES	AMAZON	ADIDAS
+35%	+25%	+24%	+24%	+18%

The performance of the Marlin portfolio in the quarter was helped by a relatively strong earnings season for our portfolio companies, including **William Demant** and **Edwards Lifesciences**.

Hearing aid manufacturer **William Demant** was a standout performer this quarter, returning 35%. The strong performance of the company's share price was underpinned by stronger than expected organic growth. Organic growth came in the form of hearing aid sales over the quarter which grew 10% on the back of market share gains from its new Oticon Opn range of hearing aids.

Artificial heart valve manufacturer **Edwards Lifesciences** was up 24% this quarter. Not only did growth in its core trans-catheter heart valves bounce back following reduced guidance last quarter, but all segments saw acceleration in growth and 2018 guidance was increased.

The biggest detractor this quarter was the online travel agent **Expedia**, down 8% for the quarter following fourth-quarter results that were weaker than expected and growth guidance for 2018 that disappointed the market. While room nights and revenue continued to grow strongly, earnings were depressed by investments that Expedia's new CEO is making in sales staff and IT related capex. While we certainly don't want to gloss over Expedia's poor recent 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 in February to discuss these investments and we continue to monitor progress closely.

Other noteworthy news this quarter included eyewear manufacturer **Essilor** receiving unconditional approval from US and European regulatory authorities for its proposed merger with Luxottica to 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.

We have made a number of changes to the portfolio this quarter, exiting three positions and adding two. We exited the US based digital gift card distributor **Blackhawk Networks**, following a takeover by US private equity firm Silver Lake at a 27% premium to where Blackhawk traded at 31 December. While we are sad to see Blackhawk leave the portfolio, we believe the premium paid is fair.

We exited **William Demant** following its strong performance, with the company up 55% since we initiated the position in March last year. William Demant is now trading at an elevated valuation and we believe the market is overly optimistic about the momentum of the company's recent product launches and future market share gains. We also exited **Sarine**, a supplier of equipment and software to diamond manufacturers, due to concerns regarding its longer term growth and the exposure to a volatile sector.

Our two additions this quarter were both in the retail space. With the market focusing on the death of traditional retail due to disruption from ecommerce, we saw an opportunity to invest in two high quality retailers, **Pandora** and **TJX Companies**, both of which contributed positively to returns during the quarter.

Danish company **Pandora**, renowned for its signature charm bracelets, has transformed itself into one of the leading jewellery brands globally, both in terms of brand recognition and sales. Growth for Pandora is underpinned by continued store expansion, new product lines, its online strategy, and an increasing preference by consumers for branded jewellery – where Pandora is a market leader.

TJX Companies is an off-price retailer with presence in the US, Canada, Europe and Australia. TJX's business revolves around the company selling branded clothing, such as Nike and Ralph Lauren, as well as some homeware at a 20% - 60% discount to a full-price retailer. TJX can sell inventory cheaper than other retailers as it sources stock from store closures, order cancellations and manufacturer overruns. In store, a wide assortment of inventory turns over quickly, creating a 'treasure hunt' experience, encouraging customers to visit stores regularly as new and different brands arrive almost daily. TJX has a good growth runway for new stores openings and growing sales at existing stores.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
23 April 2018

Performance
as at 31 March 2018

	3 Months	3 Years (annualised)	5 Years (annualised)
Corporate Performance			
Total Shareholder Return	+1.2%	+9.9%	+13.3%
Adjusted NAV Return	+5.1%	+10.3%	+11.5%
Manager Performance			
Gross Performance Return	+5.2%	+14.3%	+15.5%
Benchmark Index[1]	(1.8%)	+12.5%	+15.3%

[1] Benchmark 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

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

Company News
Dividend paid 29 March 2018

A dividend of 1.93 cents per share was paid to Marlin shareholders on 29 March 2018, 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.

Portfolio Holdings Summary
as at 31 March 2018

Headquarters	Company	% Holding
Canada	Descartes Systems	3.1%
China	Alibaba Group	4.2%
Denmark	Pandora	3.6%
France	Essilor International	4.5%
Germany	Adidas	3.9%
	Fresenius Medical Care	4.0%
Ireland	Icon	3.8%
United States	Abbott Laboratories	3.5%
	Alphabet	7.0%
	Amazon.com	2.4%
	Cerner Corporation	4.1%
	Cognizant Technology Solutions	4.3%
	Core Laboratories	2.5%
	eBay	3.8%
	Ecolab	2.9%
	Edwards Lifesciences	3.2%
	Expedia	4.0%
	Hexcel Corporation	3.5%
	LKQ	4.5%
	Mastercard	5.0%
	PayPal	5.3%
	Signature Bank	3.9%
	TJX Companies	4.0%
	United Parcel Service	3.0%
	Zoetis	4.5%
	Equity Total	**98.5%**
	New Zealand dollar cash	0.8%
	Total foreign cash	1.2%
	Cash Total	**2.0%**
	Forward foreign exchange contracts	-0.5%
	TOTAL	**100.0%**

marlin
growing globally

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