marlin
growing globally

Monthly Update

June 2018

MLN NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$1.01	$0.87	$0.05	13.0%

as at 31 May 2018

A word from the Manager

Global equity markets were mixed in May. The US S&P500 Index was up 2.2% boosted by the tech sector, while the European Stoxx 600 Index fell due to political turbulence, and emerging markets continued to retreat as the US dollar strengthened. The Marlin portfolio lifted 2.9% on a gross performance basis.

Marlin's performance was driven by a number of Marlin's large technology holdings, but also from solid first quarter financial results from **Icon Plc**, **MasterCard** and **TJX Companies** – which helped offset a poor result from **Pandora**.

Payments technology company **PayPal** was up 10% during May, with its investor day shedding more light on its long term strategy (which we discuss in more detail below). **Alibaba** was up 11%, driven by financial results that showed core commerce revenue growth of 62% on the prior year. Recent portfolio addition **Facebook** was up 12% during the month as it continued to rebound from recent privacy and regulatory concerns.

PayPal's widening moat

PayPal is worth discussing in more detail this month given they recently held their annual investor day, which shed further light on its evolving business model and future growth aspirations.

We have always believed that PayPal has a strong competitive advantage, which has helped it fend off new entrants to the payment space like ApplePay. PayPal has a 15 year lead over many potential competitors, over 18 million loyal online merchants that accept PayPal, and over 200 million users that rely on PayPal for online payment. This hard to replicate network, user trust and first mover advantage helps provide PayPal with a protective moat.

Our interest in PayPal's investor day was to look for clues on how PayPal is trying to protect this moat. Our takeaway was that PayPal's recent partnerships with a number of banks and large technology companies like Google and Facebook are strengthening its competitive advantage.

Large US banks like the Bank of America, Wells Fargo and Chase are seeing an increasing volume of customer transaction volume move online. To ensure they are still participating and earning fees on these online transactions, they are partnering with PayPal to ensure it is their credit cards linked into the PayPal wallet. The rush by banks to get their cards at the top of users' PayPal wallets has led to banks providing incentives (like a $150 credit by Wells Fargo or 5% cash back on Chase cards) to customers that set up a PayPal account and link it to their credit card. This has resulted in a significant jump in user growth for PayPal.

The partnerships with Facebook and other technology companies are also important as they signal that these companies do not want the complexity of building their own payments business. They would rather leverage PayPal's infrastructure to move more quickly and allow for digital payments in products like Facebook Messenger and Instagram. These partners are increasingly seeing PayPal as platform to leverage, rather than a competitor.

Networks like PayPal often get stronger with scale. The more users PayPal has, the more that online merchants will want to adopt it as a payment option for customers to use. And the more merchants that accept PayPal, the more users will see benefit in having a PayPal wallet. Overall we see these recent partnerships as extending PayPal's competitive advantage, and supporting strong growth as they gain new users and benefit from ecommerce growth. PayPal is targeting revenue growth of 17-18% and earnings per share growth in excess of 20% per annum over the medium term, which we believe may prove to be conservative.

Pandora's mystery box

The biggest detractor from performance this month was branded jewellery retailer, **Pandora**, with its share price falling 27% in May. Pandora's results were dragged down by a slow-down in some of its mature markets and increasing 'grey channel' activity into China - where a number of Pandora's wholesale clients began selling

[1] Share Price Discount to NAV (including warrant price on a pro-rated basis)
[2] S&P Large Mid Cap/S&P Small Cap Index (50% hedged to NZD)

product directly into China, undercutting Pandora's own stores. The China news spooked the market, given China has been one of Pandora's highest growth regions in recent years. The company has a number of tools at its disposal to clamp down on the grey channel and minimise this headwind, however these initiatives may take a number of quarters to take effect.

When we added Pandora to the portfolio, we saw a strong brand with a renewed focus on innovative product launches and a direct to consumer strategy to accelerate growth. Our recent discussions with Pandora franchisees in the US indicate that the new product launches are gaining traction, and they are looking forward to further product launches in the coming months to drive a pickup in sales.

While Pandora's recent results are disappointing, we anticipate that these new product launches and a clamp down on the China grey channel will drive an acceleration in growth as the year progresses.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Limited

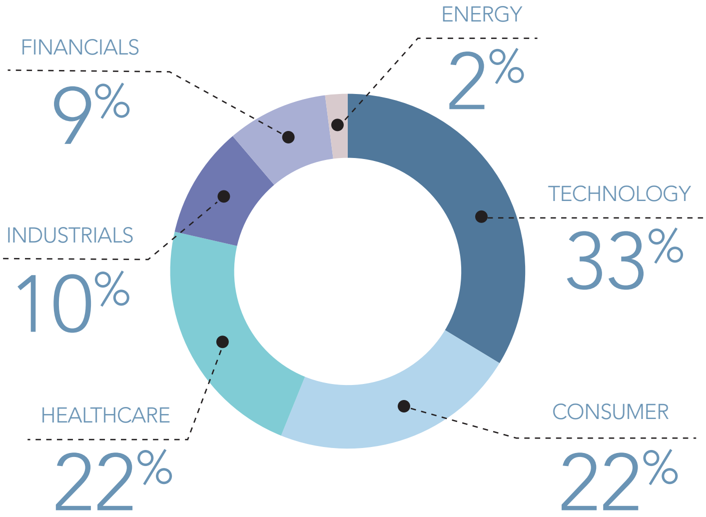
Key Details

as at 31 May 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	118m
MARKET CAPITALISATION	$103m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

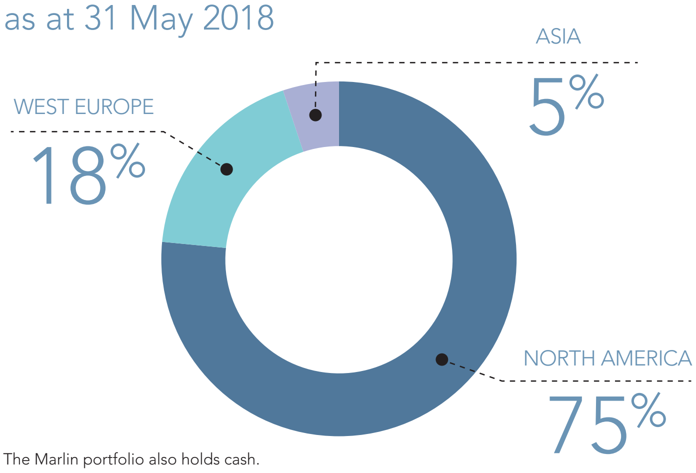
as at 31 May 2018



The Marlin portfolio also holds cash.

Geographical Split

as at 31 May 2018



The Marlin portfolio also holds cash.

May's Biggest Movers in local currency terms

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

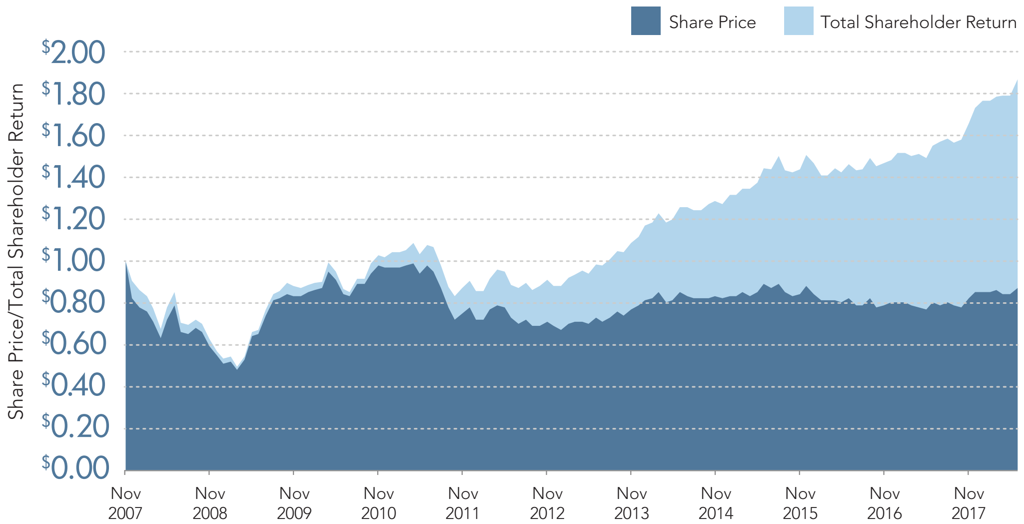
FACEBOOK	ALIBABA	PAYPAL	ICON	PANDORA
+12%	+11%	+10%	+10%	-27%

5 Largest Portfolio Positions as at 31 May 2018

ALPHABET	PAYPAL	MASTERCARD	TJX COMPANIES	ALIBABA
7%	6%	5%	5%	5%

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

Total Shareholder Return to 31 May 2018



Performance to 31 May 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
Corporate Performance					
Total Shareholder Return	+5.0%	+4.9%	+20.9%	+9.2%	+6.1%
Adjusted NAV Return	+2.4%	+4.7%	+18.6%	+10.4%	+6.8%
Manager Performance					
Gross Performance Return	+2.9%	+4.4%	+21.7%	+14.3%	+10.5%
Benchmark Index^	+1.7%	+3.0%	+14.9%	+11.3%	+7.8%

^Benchmark index: World Small Cap Gross Index until 30 October2015 & 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, adjusted NAV return, 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 after fees and tax,
» adjusted NAV return – the net return to an investor after fees and tax,
» 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, adjusted NAV return, 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
- The warrants were issued at no cost to eligible shareholders and in the ratio of one warrant for every four Marlin shares held
- Exercise Price = $0.83 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- Exercise Date = 12 April **2019**
- The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in March **2019**

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