marlin
growing globally

Monthly Update

February 2019

MLN NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$0.93	$0.85	$0.04	7.5%

as at 31 January 2019

A word from the Manager

Market Environment and Portfolio Performance

Global equity markets rebounded strongly in January after a very difficult end to 2018. The US S&P 500 Index rallied 7.9% in January, making it the best start to a year in more than 30 years. A change of tack by the US Federal Reserve helped push markets higher, with the Fed's 'wait and see' approach to further interest rate increases helping alleviate concerns that rate hikes would damage the economy.

January is a busy month in the market, with many listed companies reporting 2018 financial results. Reporting season is getting extra scrutiny this quarter as investors and commentators attempt to assess the extent that recent economic weakness and the trade war are impacting corporate profits. Results across the market have so far been slightly better than expected, with an average earnings growth rate of 13% for companies that have reported. That said, there have been a number of weak results from cyclical companies like Caterpillar, that reinforce question marks around the strength of certain parts of the economy.

Earnings season got off to a positive start for the Marlin portfolio, with strong results from Alibaba, Facebook and Signature Bank helping drive outperformance. Marlin delivered gross performance of 9.5% in January, 3.0% ahead of our global benchmark which gained 6.5% for the month.

Over the last two years the Marlin portfolio has delivered gross performance of 17.5% per annum compared with our global benchmark which has gained 9.1% per annum.

China Research Trip

China was the worst performing major share market in 2018 and I travelled to China in January to get a better sense of the state of the economy and to research potential investment ideas.

Attempts by the Chinese government to rebalance its economic model away from debt-fuelled infrastructure spending and towards consumption and the private sector has seen a gradual slowdown in growth. This transition was never going to be smooth, however the economic slowdown it is causing and the China-US trade war is causing significant concern. As a result, it appears that the Chinese government is going to roll back some of the recent reforms and try to stimulate the economy. As an example, the central government is pushing local governments to restart previously halted infrastructure projects and is encouraging banks to expand lending to businesses. On top of this, the central bank is also loosening monetary policy. While this is likely to slow down the reform process, these measures are important if the government wants to maintain a growth rate above 6%.

While economic growth has slowed and China's longer term economic transition is unlikely to be plain sailing, the weakness in China's share market has presented some attractive investment opportunities in China. My recent trip to China provided further evidence of the strength of **Alibaba** and **Tencent's** business models and the long-term growth opportunities they have in e-commerce, digital payments, online advertising and cloud computing. As mentioned in our last quarterly update, we used the market weakness in China to add Tencent to our portfolio. We also added to our existing holding in Alibaba late last year. We believe both of these businesses are positioned to deliver solid growth - even in a subdued economic environment. We manage our China risk by being highly selective about our investments and by constraining China to a relatively small part of the portfolio. Tencent and Alibaba currently account for approximately 10% of the Marlin portfolio.

Portfolio Company Results

With all of the scrutiny of **Facebook** at the moment, its financial results get a lot of coverage. Our Facebook investment thesis assumes that despite recent privacy issues, users will continue to use Facebook and Instagram regularly and advertisers will increasingly move advertising dollars to these platforms. Facebook's fourth quarter results supported this view, with advertising revenues jumping 30% and the company adding new users in every major region, including its more mature markets in the US and Europe. We still believe Facebook has years of growth ahead as they increasingly monetise Instagram and as its new 'stories' format gains traction with advertisers. The market responded favourably to Facebook's results and the stock was up 27% during the month.

[1] Share Price Discount to NAV (including warrant price on a pro-rated basis)

Signature Bank gained 24% in January following strong results and a change in the Federal Reserve's stance on interest rates. In 2018 Signature Bank grew its loan and deposit books significantly, maintained high credit quality, and added eight new banking teams to position the bank for continued growth. We believe management have done a good job running the business in a challenging interest rate environment over the last two years. The potential for expansion in Signature Bank's net interest margin is finally in sight, with it looking unlikely that the Fed will hike interest rates materially in 2019.

Alibaba posted strong results for the December quarter, with its core ecommerce revenues growing 27%. The solid results came despite signs of a slowing economy and weaker consumer spending in China. The core business also saw it profit margins increase from already high levels. The company continues to reinvest a portion of these profits into new growth areas including food delivery, cloud computing, logistics, online video streaming, and in new regions including Indonesia and India. We like companies that are able to continually reinvest capital back into the business at high rates of return and believe that Alibaba sits in this category. Despite the potential for these investments to drag on overall profit margins in the near-term, the market appears to be warming to Alibaba's growth strategy and the stock was up 23% during the month.

PayPal announced fourth quarter results that came in marginally below market expectations and detracted from Marlin's performance in January. While we were pleased with PayPal's operational results, with 25% growth in payment volumes and 17% growth in active customer accounts, revenues for the quarter came in slightly below expectations and PayPal's share price fell on the results. PayPal continues to take market share in online payments and its peer-to-peer payment app, Venmo, continues to grow rapidly and provide long term optionality. Despite underperforming the market, PayPal's share price still gained 6% in January.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Limited

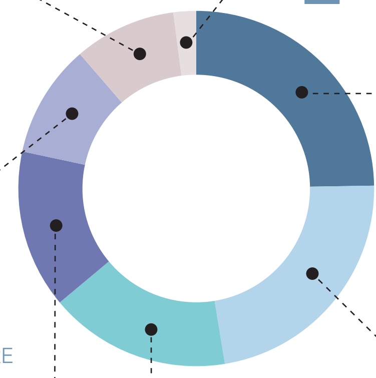
Key Details

as at 31 January 2019

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	$0.97
SHARES ON ISSUE	121m
MARKET CAPITALISATION	$103m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

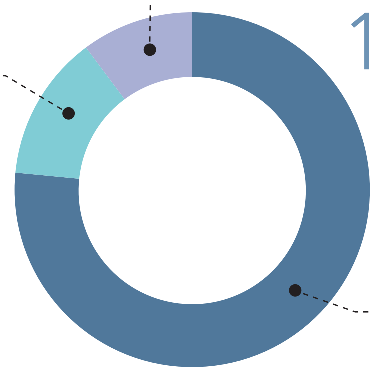
as at 31 January 2019



The Marlin portfolio also holds cash.

Geographical Split

as at 31 January 2019



January's Biggest Movers in local currency terms

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

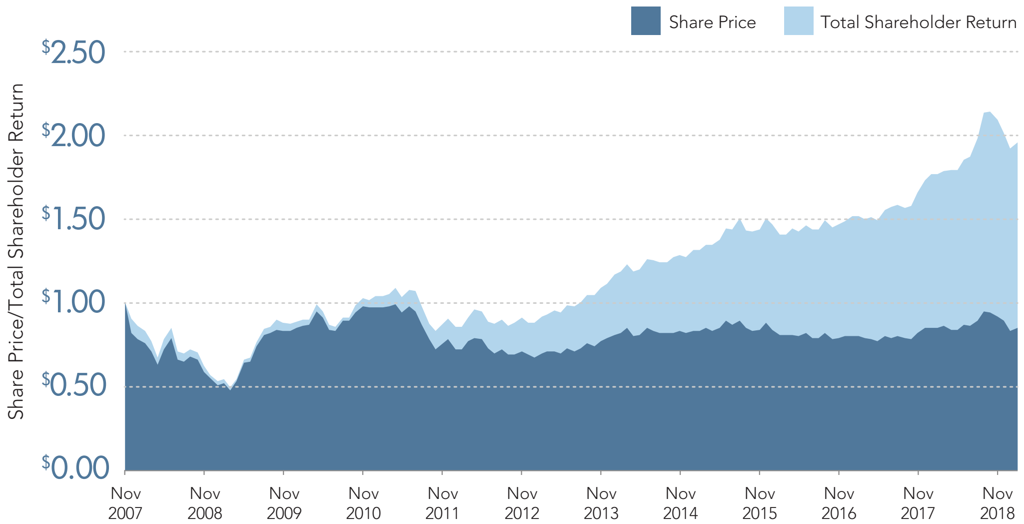
FACEBOOK	SIGNATURE BANK	ALIBABA GROUP	EBAY INC	HEXCEL CORP
+27%	+24%	+23%	+20%	+18%

5 Largest Portfolio Positions as at 31 January 2019

ALPHABET	ALIBABA	PAYPAL	MASTERCARD	TJX COMPANIES INC
8%	6%	6%	5%	5%

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

Total Shareholder Return to 31 January 2019



Performance to 31 January 2019

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
Company Performance					
Total Shareholder Return	+2.4%	(6.1%)	+11.1%	+11.7%	+6.2%
Adjusted NAV Return	+8.7%	(0.4%)	+1.4%	+10.0%	+6.2%
Portfolio Performance					
Gross Performance Return	+9.5%	+1.0%	+3.2%	+14.0%	+9.8%
Benchmark Index^	+6.5%	(2.0%)	(4.3%)	+10.7%	+6.9%

^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, 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 currency hedging before fees and tax, 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 2019
- 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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