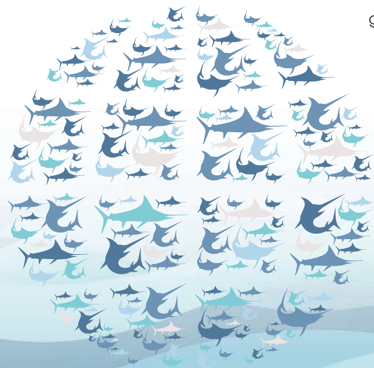
Quarter Update Newsletter

30 June 2019 – 30 September 2019



MLN NAV	SHARE PRICE	DISCOUNT[1]
$1.01	$0.93	7.5%

as at 30 September 2019

Market Overview

Global markets continued to track higher during the quarter, despite a short sell-off in August driven by an escalation in the US-China trade war and lingering economic growth concerns. The US market has now notched up gains every quarter this year, bringing the year-to-date gain to 18.7% and making it the strongest start to a year since 1997.

The end result masked a lot of turbulence during the quarter. In addition to the trade war induced market volatility in August, economic data continued to weaken - most notably in Europe, but also in the manufacturing sector across most of the globe. This economic weakness has seen interest rates fall globally and created a lot of talk about what investors should do in a lower growth and lower return environment. We provide some thoughts on this topic below.

Marlin had an Adjusted NAV return of 7.0% for the quarter, compared with our global benchmark which gained 3.1%.

Portfolio developments

Despite the weaker economic backdrop during the quarter the companies in our portfolio continued to report solid financial results and the majority of our holdings contributed positively to portfolio performance in the quarter.

Our largest portfolio holding **Alphabet (+13% during the quarter)** was one of our top performers after announcing results that showed continued strong growth in its digital advertising business. The company delivered 22% revenue growth in the second calendar quarter, driven by rapid growth in mobile advertising and YouTube. Our research on Alphabet continues to highlight good returns for advertisers shifting their advertising budgets to Google and YouTube and away for traditional media. Alphabet's only major competitor is another of our portfolio holdings, Facebook, which is benefiting from the same trend and seeing strong advertising growth on both the Facebook and Instagram platforms. We still see many years of growth ahead for both companies.

New portfolio holding **Dollar General (+18%)** rallied sharply following strong second calendar quarter earnings. Dollar General's scale (16,000 stores) and huge footprint allows them to offer both convenience and prices that are materially better than local grocery stores. The recent results demonstrate that the company continues to capture greater share of low and middle-income consumers' budgets, while its internal initiatives including DG Fresh and Fast Track are showing promise. DG Fresh is helping lift gross margins. It brings the distribution of fresh and frozen products in-house, lowering procurement costs and fees paid to distributors. Fast Track involves using shelf-ready containers to reduce the time required to stock shelves and reduce out-of-stock occurrences.

Notable Returns for the Quarter in local currency

TYLER TECHNOLOGIES	EDWARDS LIFESCIENCES	LKQ CORPORATION	DOLLAR GENERAL	UNITED PARCEL SERVICE
+22%	+19%	+18%	+18%	+17%

Early results have shown a 20% increase in item availability. We continue to be impressed with management's execution and believe Dollar General still has a long growth runway ahead.

Tyler Technologies (+22%) reported 39% growth in software subscription revenue in the second calendar quarter, having recently booked the two largest subscription orders in the company's history. Tyler is a new portfolio holding that we discussed last quarter and it provides software applications to US local authorities. These applications help local government manage a range of functions including finance, property appraisal and taxes, payroll, court and prison management, and emergency response. This is an underserved end-market, with the majority of local authorities well behind the curve on technology adoption.

Investing in a low growth environment

Many developed markets are witnessing lower levels of productivity and population growth. Ageing populations and high debt levels (consumer and government debt) also create headwinds for consumption and economic growth. This sub-par economic environment and low interest rates mean that investors should expect more moderate returns going forward.

However, the economic picture I have just painted does create opportunities for active investors. While many businesses will struggle in this environment, others may be immune and even thrive. Overlaying technological change makes the picture even more interesting. Department store chains are in decline, while ecommerce companies like Amazon and Alibaba are thriving. Global banks are struggling in a low interest rate environment, but digital payments companies like MasterCard and PayPal are growing rapidly. Cable and satellite TV providers are losing subscribers, while Netflix is adding millions of new subscribers a quarter. While market returns may well be lower going forward, a dynamic business environment (albeit a lower growth one) creates opportunities for active investors.

To illustrate this point, consider the period since 2007 in the US. Economic growth has been muted since 2007 (less than 2% per annum) and share market returns have averaged just 5.5% a year. Many businesses have performed poorly in this environment, while a handful have done exceptionally well.

[1] Share price discount/(premium) to NAV (using NAV to four decimal places)

In fact, since 2007 half of the uplift in the value of the US S&P 500 Index has come from just 20 companies. The bottom half of the companies in the index created no value in aggregate over the same period. For investors, picking the right businesses has been critical.

The best performers over this period were generally companies with structural growth drivers supporting their businesses. They were often founder-led and had wide moats that helped keep competition at bay. Many also had pricing power or some form of competitive edge that allowed them to take market share and grow steadily despite the lacklustre environment.

If bought well, we believe businesses with these characteristics will continue to deliver good returns for investors over the long-term - even in a low growth world. Our process is designed to try to identify these businesses and hold them for the long-term. While finding them at reasonable valuations is an ongoing challenge, we believe it is possible to identify a handful of these investments a year by turning over lots of rocks. A few new investments a year allows us to create a portfolio of 20-30 investments that we think will deliver good long-term results for investors.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
18 October 2019

Performance

as at 30 September 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+5.5%	+17.1%	+12.8%
Adjusted NAV Return	+7.0%	+16.0%	+11.4%
Portfolio Performance			
Gross Performance Return	+6.9%	+19.7%	+15.1%
Benchmark Index[1]	+3.1%	+11.8%	+12.1%

[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, 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 expenses, fees and tax,*
- *adjusted NAV return – the net return to an investor after expenses, fees and tax,*
- *gross performance return – the Manager's portfolio performance in terms of stock selection and currency hedging before expenses, 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 newsletter 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/

Company News

Dividend paid 26 September 2019

A dividend of 1.93 cents per share was paid to Marlin shareholders on 26 September 2019, 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 30 September 2019

Headquarters	Company	% Holding
Canada	Descartes Systems	2.2%
China	Alibaba Group	5.6%
	Tencent Holdings	3.8%
France	EssilorLuxottica	3.5%
Germany	Adidas	4.9%
	Fresenius Medical Care	3.9%
Ireland	Icon	3.6%
United States	Abbott Laboratories	4.7%
	Alphabet	8.1%
	Amazon.Com	2.0%
	Cognizant Technology Solutions	2.9%
	Dollar General	4.5%
	Dollar Tree	3.4%
	Ecolab	2.0%
	Edwards Lifesciences	2.6%
	Electronic Arts	3.2%
	Facebook	5.5%
	Hexcel Corporation	3.1%
	LKQ	2.5%
	Mastercard	4.9%
	PayPal	4.9%
	Signature Bank	3.8%
	TJX Companies	5.2%
	Tyler Technologies	2.4%
	United Parcel Service	3.2%
	Zoetis	2.5%
	Equity Total	**98.9%**
	New Zealand dollar cash	0.5%
	Total foreign cash	1.5%
	Cash Total	**2.0%**
	Forward Foreign Exchange	(0.9%)
	TOTAL	**100.0%**

marlin
growing globally

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