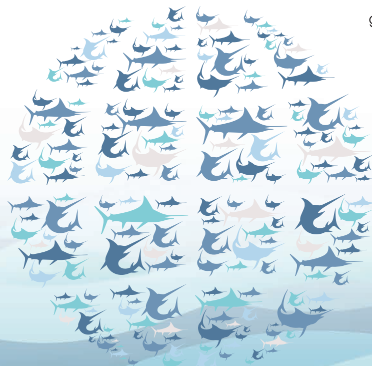
Quarter Update Newsletter

30 September 2019 – 31 December 2019



MLN NAV	SHARE PRICE	WARRANT PRICE	PREMIUM[1]
$1.00	$1.02	$0.08	(3.8%)

as at 31 December 2019

Marlin Global had a strong year in 2019, with an adjusted net asset value (Adjusted NAV) return of 32.2% for the calendar year, 7.6% ahead of our global market benchmark, which gained 24.6%.

For the December 2019 quarter Marlin's Adjusted NAV was up 1.8%, 2.8% behind our benchmark which was up 4.6%.

Few would have expected 2019 to be a bumper year for equities, following a rocky end to 2018 when the US market plunged nearly 20% from its highs. Weak economic data, trade headwinds, the threat of rising interest rates and worries over Brexit pointed to an uncertain year in markets.

These threats were sidelined when the US Federal Reserve halted interest rate hikes and changed tack. This Fed pivot and interest rate cuts propelled markets higher, which were further supported by a stabilisation in economic data and the unwinding of trade and Brexit related uncertainties late in the year.

Against this supportive backdrop the US S&P 500 Index soared +29% for the calendar year, its biggest gain since 2013. Major global markets followed suit, including Europe (+22%), Japan (+18%), and emerging markets (+15%).

Winners and losers for 2019

Despite the strong outperformance of the US share market, and technology stocks in particular, our top performing investment in the 2019 calendar year was German sportswear giant **Adidas**.

Adidas (+61% for the year) continues to take market share in its strategic growth markets in the US and China. Its shifting sales mix towards the direct-to-consumer channel, including its own ecommerce initiatives, helped push gross margins to record highs and led to structurally higher profitability. The company's product innovation and success collaborating with influencers outside of sport, such as Kanye West and Beyoncé, has also helped broaden the brand's appeal and is resonating with customers. One weak spot in 2018 had been Europe where they saw strong competition from a resurgent Nike, although recent results have shown accelerating growth in this home market, further supporting Adidas share price.

While we don't often invest in turnaround situations, Adidas is a company we first invested in late in 2014 when it was suffering from challenging trading conditions in emerging markets. This emerging market backdrop, combined with weakness in its TaylorMade Golf business (since sold), was dragging on its growth and supressing profit margins.

Adidas is a good example of how investors can exploit market mispricing if they are willing to invest despite short-term noise and market volatility. We believed Adidas had a strong brand and that the althleisure trend and shift to ecommerce would ultimately be positive for brand owners like Adidas.

Notable Returns for the Quarter in local currency

ALIBABA GROUP	LKQ CORP	ECOLAB INC	HEXCEL CORP	DOLLAR TREE
+18%	+11%	-9%	-17%	-23%

Looking through the noise in this case proved rewarding, with Adidas share price climbing from EUR56 to EUR292 per share since we first invested (+420%).

Facebook (+57% for the year) was another top performer for the portfolio in the 2019 calendar year. Many advertisers prefer and find digital advertising more effective, and during 2019 US digital advertising penetration marched steadily higher and finally passed through 50%. Digital advertising is now a bigger part of corporate ad budgets than TV, newspaper and radio combined.

While we are positive on the outlook for the company, we are not blind to the challenges that it has. We believe Facebook must continue to address the issues associated with running a social network (privacy concerns, security, election interference etc). We have spent a lot of time with the company over the past twelve months discussing these issues and believe Facebook takes them seriously and is investing in smart solutions.

There were a number of companies that dragged on performance this year. As investors, we will get things wrong – mistakes are unavoidable in this business. The key to success is to get more decisions right than wrong (a good 'hit rate') and to continually learn from our mistakes. This has been a real focus for us in recent years and is something we continue to work on.

In particular, we have been trying to get better at exiting stocks from the portfolio proactively - when we see first signs that a company's moat is narrowing, or when the dynamics that attracted us to the company or industry start to deteriorate. This is often a delicate balance and requires a lot of analysis and judgement - because selling a great business too hastily if the problems end up being transitory can result in significant foregone gains.

While there were no outright calamities in the portfolio this calendar year, **Cognizant (+0%)**, **Core Labs (-17%)** and **Expedia (+5%)** underperformed the market and dragged on our results. While there are specific lessons from each of these investments (which we have now exited), in hindsight we gave these businesses the benefit of the doubt longer than we should have. Exiting earlier, when question marks first developed around our investment thesis, would have improved our performance.

While there will be detractors from performance every year, we were pleased that there weren't any major blow-ups in the

[1] Share price (premium)/discount to NAV (including the warrant price on a pro-rated basis & using NAV to four decimal places)

portfolio. We believe that the move to high quality companies in the portfolio, that we have undertaken over the last few years, has helped in this regard.

We were also pleased with our hit rate during the 2019 calendar year, with two-thirds of our portfolio companies outperforming the market.

Outlook and positioning

Central bank interest rate cuts provided a shot in the arm to global equity markets in 2019, but also pushed valuations significantly higher. In the US, the S&P 500 price-to-earnings ratio increased from 14x to 18x during the year, driving over 90% of the gain in the US share market, with corporate earnings growing only a few percent and contributing less than 10% of the gain.

After a 10-year bull market and valuations near 20-year highs in the US, market returns will need to increasingly come from earnings growth. Given these elevated valuations and a subdued economic backdrop, we expect more moderate market returns in the years ahead.

Our investment style is well suited to this environment. We believe businesses with strong secular growth drivers like Alphabet, PayPal and Alibaba are well positioned in this world of lower economic growth, inflation and interest rates. Regardless of whether global economic growth is 1%, 2% or 3%, many leading businesses in ecommerce, digital payments, software and online advertising still have many years of double-digit earnings growth ahead. While high starting valuations for many of these companies muddy the picture, we think investors can still achieve good returns with a carefully constructed portfolio. But investors will need to be picky.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
20 January 2020

Performance

as at 31 December 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+14.2%	+20.4%	+15.0%
Adjusted NAV Return	+1.8%	+17.3%	+11.9%
Portfolio Performance			
Gross Performance Return	+3.4%	+21.4%	+15.8%
Benchmark Index[1]	+4.6%	+11.5%	+12.5%

[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 19 December 2019

A dividend of 1.99 cents per share was paid to Marlin shareholders on 19 December 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 31 December 2019

Headquarters	Company	% Holding
Canada	Descartes Systems	2.1%
China	Alibaba Group	6.5%
	Tencent Holdings	4.8%
France	EssilorLuxottica	3.4%
Germany	Adidas	4.7%
	Fresenius Medical Care	3.9%
Ireland	Icon	3.9%
United States	Abbott Laboratories	4.4%
	Alphabet	8.1%
	Amazon.Com	3.0%
	Dollar General	4.1%
	Dollar Tree	4.0%
	Ecolab	1.8%
	Edwards Lifesciences	2.5%
	Electronic Arts	3.2%
	Facebook	6.1%
	Hexcel Corporation	2.5%
	Mastercard	4.9%
	PayPal	5.4%
	Signature Bank	4.9%
	TJX Companies	5.2%
	Tyler Technologies	2.5%
	United Parcel Service	2.9%
	Zoetis	3.1%
	Equity Total	**97.9%**
	New Zealand dollar cash	0.5%
	Total foreign cash	0.4%
	Cash Total	**0.9%**
	Forward Foreign Exchange	1.2%
	TOTAL	**100.0%**

marlin
growing globally

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