marlin

growing globally

Monthly Update

February 2020

MLN NAV	SHARE PRICE	WARRANT PRICE	(PREMIUM)/ DISCOUNT[1]
$1.04	$1.07	$0.12	(6.0%)

as at 31 January 2020

A word from the Manager

Marlin's gross performance return was +3.4% for the month, and the adjusted NAV return was also +3.4%[2]. This compared with our global benchmark which gained 0.4%.

The new year started as the prior year finished, with markets continuing their upwards march for the first half of the month, despite the escalating US-Iran conflict (hard to believe that was only a few weeks ago). However, the coronavirus outbreak knocked global markets in the second half with the MSCI China Index dropping 9% to end the month down 5%. This negatively affected the performance of our two Chinese holdings Alibaba and Tencent.

The S&P Index was flat for the month after being up 3% at one point. European markets were down 1.0% with UK down 3.2%. The USD rallied 4% versus the NZD, which provided an offsetting tailwind to our portfolio.

On the economic front, the Fed came out and held rates during the month. Economic data was broadly positive and supportive of an improvement in economic activity, although the coronavirus will obviously create a headwind here.

Earnings season is now in full swing with eight of our companies reporting in January. Results have generally been positive, although names such as Facebook or Edwards Lifesciences sold off post earnings despite good results, as market expectations had gotten ahead of themselves.

Portfolio Company Developments

Amazon (+9%) finished the month well. The company rallied 8% after reporting earnings on the 31st January with revenue growth strong across the cloud computing business, e-commerce and advertising. Profitability exceeded market expectations. Amazon Web Services (AWS), the company's cloud business grew 34% in the most recent quarter. It is now a US$35 billion revenue business in its own right. The company's recent shift to one day shipping continues to pay dividends with healthy growth in e-commerce and the company adding more Prime subscribers than any previous quarter, taking total members past 150 million.

Signature Bank (+4%) is a small cap US bank we have invested in for a number of years. The bank reported its full year 2019 results in January, which showed strong deposit and loan growth as a result of significant new team hiring last year. Signature Bank's growth model is based on its ability to hire experienced banking teams from larger banks (like Wells Fargo who are currently struggling to retain staff), who then bring their clients' deposit and loan books with them. By targeting experienced bankers with large commercial customers, they are able to bring across large client books with a small number of staff, leading to an industry leading efficiency ratio. This model has allowed it to grow rapidly, with Signature Bank recently hitting $50bn in assets - having grown organically from just $50m in assets 19 years ago. We are optimistic about the near-term outlook for Signature Bank, with recent Fed interest rate cuts helping reduce its funding costs, which should drive an acceleration in the bank's earnings growth over the next two years.

Dollar Tree (-7%) share price drifted lower throughout the month following its earnings release in December. The company is attempting to turnaround the performance of their Family Dollar banner. Management has made good progress growing sales by revamping stores, but profit margins have been under pressure as the company shifts away from discretionary items to selling more everyday items such as food. Despite the disappointing share price performance, we remain positive on the steps Dollar Tree management are taking to realign the Family Dollar banner for sustained growth.

Hexel, a leading manufacturer of carbon-fibre components for aircraft, announced a merger with another aerospace supplier, Woodward Inc – creating one of the worlds' biggest aerospace and defence suppliers. The transaction was billed as a merger of equals, with Hexcel shareholders owning 45% of the new entity. The deal is awaiting regulatory and shareholder approvals. We are currently updating our investment thesis to reflect the combined business.

[1] Share Price (Premium) / Discount to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places).
[2] During the month of January a tax benefit was booked which offset the operating expenses for the month.

Portfolio changes

We exited logistics company UPS during the month. We have owned UPS since 2014 as we saw a wide moat business (only 1-2 major US competitors and significant scale benefits), with some pricing power and above GDP growth. At the time we invested, we presumed package growth from e-commerce to be a tailwind for UPS. By 2017 e-commerce had actually turned into an earnings headwind as the company had to ramp investment to keep pace with the package growth, pressuring profitability. US domestic margins have recently picked up and the share price has followed over the last six months. No doubt operational improvements have contributed, but more importantly, we think UPS is benefitting from Amazon's shift to one day shipping, causing a short-term increase in higher margin next day air revenue. UPS faces a number of structural headwinds and we believe its growth outlook is challenged; we have therefore taken this opportunity to exit the stock.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Limited

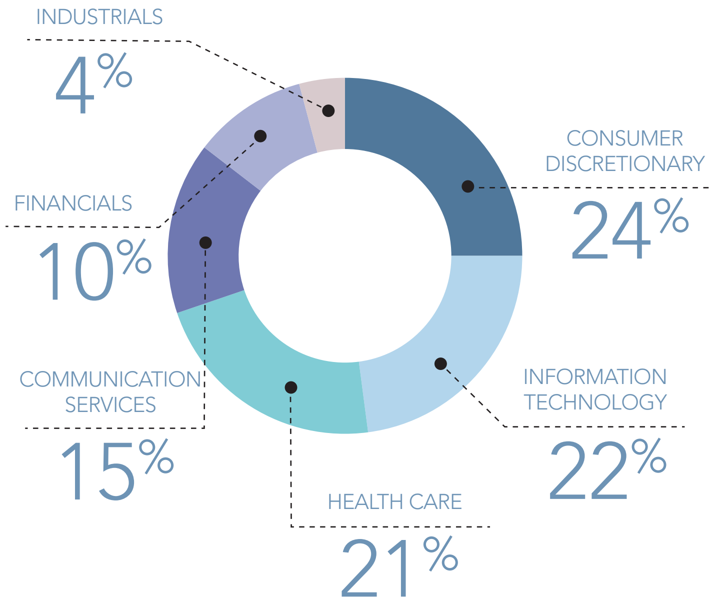
Key Details

as at 31 January 2020

FUND TYPE	Listed Investment Company
INVESTS IN	Growing international companies
LISTING DATE	1 October 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	10% of returns in excess of benchmark and high water mark
HIGH WATER MARK	$0.92
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	149m
MARKET CAPITALISATION	$160m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

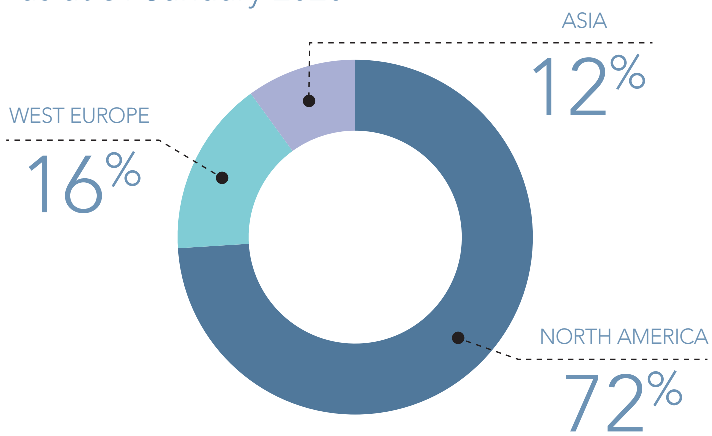
as at 31 January 2020



The Marlin portfolio also holds cash.

Geographical Split

as at 31 January 2020



January's Biggest Movers in local currency terms

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

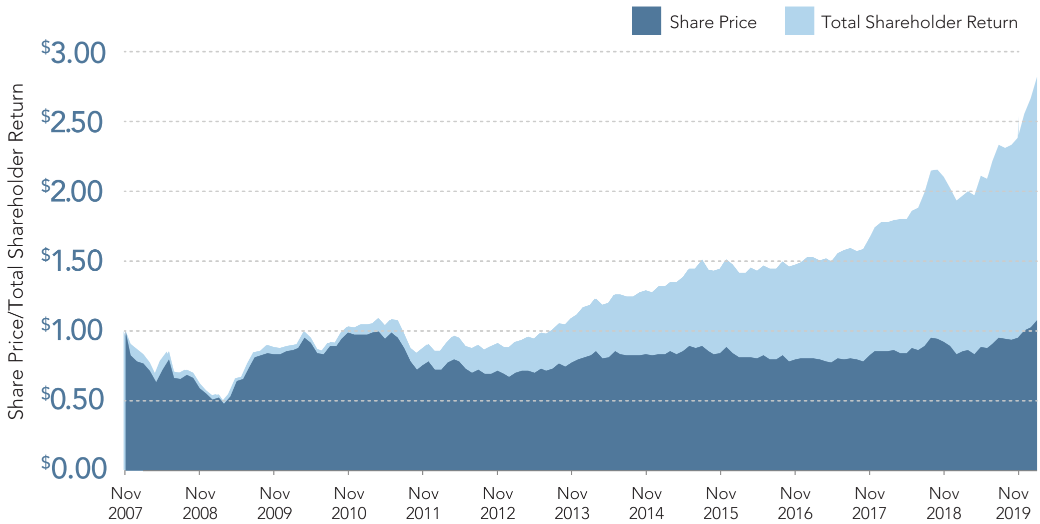
AMAZON	TYLER TECHNOLOGIES	ALPHABET	DESCARTES SYSTEMS	DOLLAR TREE
+9%	+8%	+7%	+7%	-7%

5 Largest Portfolio Positions as at 31 January 2020

ALPHABET	ALIBABA GROUP	FACEBOOK	PAYPAL HOLDINGS	MASTERCARD
9%	6%	6%	6%	5%

The remaining portfolio is made up of another 18 stocks and cash.

Total Shareholder Return to 31 January 2020



Performance to 31 January 2020

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+5.5%	+18.0%	+42.5%	+22.6%	+16.3%
Adjusted NAV Return	+3.4%	+5.4%	+25.8%	+18.7%	+11.6%
Portfolio Performance					
Gross Performance Return	+3.4%	+6.6%	+29.2%	+22.6%	+15.5%
Benchmark Index^	+0.4%	+3.8%	+17.4%	+11.8%	+11.4%

^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 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 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 its shares on market

» 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 17 October 2019, a new issue of warrants (MLNWD) 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 = $0.94 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date

» Exercise Date = 6 November 2020

» The final Exercise Price will be announced and an Exercise Form will be sent to warrant holders in September 2020

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