Quarter Update Newsletter

1 January 2020 – 31 March 2020

marlin
growing globally

MLN NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$0.89	$0.81	$0.04	7.5%

as at 31 March 2020

Dear shareholders,

It has been an extremely eventful quarter in financial markets. Coronavirus has had extreme ramifications for millions of businesses around the globe, who are having to deal with the implications of government sanctioned lockdowns. The Marlin team is fully functional and currently working from our respective home offices. We had detailed and well-practiced business continuity plans in place and have access to all required research and trading systems.

Market update

With coronavirus bringing much of the global economy to a sudden halt, the pandemic has quickly escalated from a health crisis to one of the most dramatic economic and market events in decades. Healthcare workers, governments and central banks have sprung to work to tackle both the pandemic and the economic ramifications, however uncertainty reigns in markets as investors grapple with the ultimate path to resolution.

Global markets plunged in the first quarter, with the US S&P 500 Index falling 20% - its worst quarterly performance since 2008. Major global markets followed suit, including Europe (-23%), Japan (-20%), and emerging markets (-24%). While falling markets have pulled most stock prices lower, the impact has not been uniform across all businesses - with those in the travel & hospitality, banking and energy sectors hit hardest.

Marlin's gross performance was down -10.7% during the quarter, compared with of our global market benchmark which was down -20.2%. Marlin's adjusted NAV return for the quarter was down -9.5%.

Safety first, with an eye on new opportunities

Our primary focus at the moment is on safety and capital preservation. This means updating our work on the financial strength and liquidity position of each of our companies, and assessing how they will weather a protracted economic downturn. After spending the last month on this exercise we are as confident as ever in the financial strength of our portfolio companies. A large number of our portfolio companies have significant cash holdings (like Alphabet, Facebook and PayPal), and all of them are highly profitable. Those with some debt have relatively low gearing and limited repayment requirements in the next few years.

Our secondary focus, which will become a higher priority in the weeks ahead, is to use the market declines to identify the most compelling new investments to add to the portfolio. We have a watch list of companies we have long admired, and the recent market sell-off now means many of these are trading at significantly more attractive valuations.

Performance and the impact of coronavirus

The biggest contributors and detractors to portfolio performance this quarter were companies that were impacted (both positively and negatively) by coronavirus or its impact on the economy.

Starting with the negative side of the ledger, the two worst performers in the portfolio this quarter were aerospace supplier **Hexcel** and **Signature Bank**. We have spoken with both of these companies in recent weeks. While they are in industries feeling the brunt of the coronavirus impact, we feel confident in their ability to weather the storm and outgrow their respective industries longer-term.

Hexcel is one of only three providers of carbon fibre composites to aircraft manufacturers like Boeing and Airbus. While aircraft production will be reduced significantly in the near-term, Hexcel managed well through prior periods of weakness in the aviation sector (9/11, SARs and the global financial crisis) and a lot of the company's cost base is variable and can be reduced quickly in response to falling demand. With no debt

Significant returns impacting the portfolio during the quarter in local currency

HEXCEL CORP	SIGNATURE BANK	ADIDAS AG	ESSILOR LUXOTTICA	DOLLAR TREE INC
-49%	-41%	-29%	-28%	-22%

repayments due until 2024, and undrawn credit facilities available, we believe the company has ample liquidity. Longer-term Hexcel's growth story remains compelling - aircraft manufacturers will continue to add more carbon fibre to new aircraft to reduce weight, fuel costs and carbon emissions.

Signature Bank fell with the broader banking sector on concerns that lower interest rates will reduce bank net interest margins. While Signature Bank is not immune to this interest rate environment, we like the business because of its conservative lending standards and strong growth profile compared to peers. A large portion of its lending is backed by real estate (at conservative loan-to-value ratios of circa 60%) and during the financial crisis the company reported loan loss rates that were a fraction of large US banks like Wells Fargo and Bank of America. Signature Bank was viewed as a relative safe haven in the global financial crisis and it saw deposit growth jump significantly in 2008 and 2009. We see Signature Bank weathering the storm well and ultimately benefiting from strong deposit and loan growth as they continue to hire new commercial banking teams.

On the positive side of the ledger, **Dollar General** and **Amazon** contributed significantly to our performance.

We added **Dollar General** to the portfolio last year due to its defensive nature and the fact that its sales hold up well in weak economic environments. They have been an unexpected beneficiary of coronavirus, with high consumer demand for basic food and household items ahead of lockdown driving a jump in sales. While this is just a short-term spike, we would expect Dollar General to benefit from the broader economic fallout and higher unemployment – with many consumers trading down and shopping at lower priced discount retailers.

Amazon's ecommerce business has also been a significant beneficiary of high demand for household necessities and a preference for delivery. Demand has been so high that Amazon are trying to hire an additional 100,000 workers in fulfilment and delivery. Longer-term we see the potential for these recent changes in consumer behaviour to accelerate the trend towards online shopping. Particularly for categories like groceries, which until recently have gained limited traction online. Amazon's cloud business is also likely to be a long-term winner as coronavirus has highlighted the benefits of companies having their IT infrastructure and software hosted in the cloud.

Strategy and recent portfolio changes

The current environment is presenting more compelling investment opportunities than we have seen in quite some time. To capitalise on this environment we are methodically reviewing our existing holdings and working our way through our watch list of investment ideas - to ensure we are invested in the companies we think will deliver the best returns for clients over the next five to ten years. While in many cases these will be the companies we already hold – like PayPal and Alphabet – we are likely to add fresh companies to the portfolio in the coming months.

We added to a number of our high conviction holdings during the quarter, including Amazon, Edwards Lifesciences, Facebook and PayPal, and we also added two new companies to the portfolio – **Gartner** and

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

Starbucks. We funded these new investments by exiting our holdings in Ecolab, Fresenius Medical Care and Electronic Arts.

Gartner is a leading research, consulting and advisory company. Its information technology research service is seen as a must-have at most large corporates and is used by 75% of Fortune 1,000 companies. Gartner provides IT industry research to help businesses make critical decisions (such as the selection of new software vendors), or to simply better understand current best practice in areas like cyber-security or cloud deployment. The company has a strong track record of growth, with its earnings per share growing by 13% per annum over the last decade. We see this growth continuing, with over 100,000 businesses globally that could use Gartner's services, of which just over 13,000 are current customers.

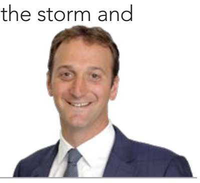
Starbucks is the undisputed global leader in specialty coffee. It has over 30,000 coffee stores globally, to which it is adding another 2,000 stores each year. Starbucks has a strong brand, as well as high customer loyalty and repeat purchase behaviour. Despite being a 50 year old chain, they continue to rollout new stores globally and have extremely good store economics - with high profit margins and returns on new store openings. Starbucks also has a compelling growth story in China, where they currently have 4000 stores but believe they can ultimately have as many stores as they do in the US (15,000).

We invested in Starbucks in the midst of the market falls in March. The company's operations have been temporarily impacted by coronavirus, with Starbucks recently closing its US stores, having previously closed most of its Chinese stores for a number of weeks. The company's share price had been hit hard by the closures, and when we added it to the portfolio in March it had fallen almost 40% from its highs. We believe the market is overreacting to these short-term developments. They have ample liquidity to cover store closures for a significant period of time, and they have already managed through coronavirus in China, with 95% of stores already back in operation. While it may take the US longer to get back on its feet than China, most of us will still have our coffee addictions when this is all over.

Final thoughts

Coronavirus is a frightening pandemic that also has serious economic and market ramifications. But society has faced other serious challenges before. Pandemics, world wars, oil and inflationary shocks and financial crises. Every time we are in the midst of these events the path to normality is highly uncertain. During the global financial crisis no one knew what the path to recovery looked like, or what actions would be needed by governments and central banks. But eventually we got there - through trial and error - until the right solutions were found. It will be the same with coronavirus. The path from here is uncertain, but we will get through this crisis like the ones before it.

We remain confident in the prospects of our portfolio companies. The portfolio contains a hand-picked collection of the world's best businesses, which we believe will ultimately weather the storm and continue to grow strongly in the years ahead.



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

Performance

as at 31 March 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(19.3%)	+12.2%	+9.7%
Adjusted NAV Return	(9.5%)	+10.9%	+8.5%
Portfolio Performance			
Gross Performance Return	(10.7%)	+13.8%	+11.7%
Benchmark Index[1]	(20.2%)	+1.5%	+5.7%

[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 27 March 2020

A dividend of 2.04 cents per share was paid to Marlin shareholders on 27 March 2020, 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 March 2020

Headquarters	Company	% Holding
Canada	Descartes Systems	3.2%
China	Alibaba Group	5.8%
	Tencent Holdings	5.3%
France	EssilorLuxottica	3.3%
Germany	Adidas	4.6%
Ireland	Icon	4.2%
United States	Abbott Laboratories	5.0%
	Alphabet	8.3%
	Amazon.Com	4.9%
	Dollar General	4.8%
	Dollar Tree	4.0%
	Edwards Lifesciences	4.4%
	Facebook	7.2%
	Gartner Inc	1.1%
	Hexcel Corporation	2.7%
	Mastercard	5.4%
	PayPal	6.2%
	Signature Bank	4.9%
	Starbucks	1.1%
	TJX Companies	4.8%
	Tyler Technologies	2.6%
	Zoetis	2.1%
	Equity Total	**95.9%**
	New Zealand dollar cash	4.8%
	Total foreign cash	0.1%
	Cash Total	**4.9%**
	Forward Foreign Exchange	(0.8%)
	TOTAL	**100.0%**

marlin
growing globally

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