marlin
growing globally

MONTHLY UPDATE

May 2020

Share Price	MLN NAV	Warrant Price	DISCOUNT[1]
$0.90	$0.99	$0.07	6.9%

as at 30 April 2020

A WORD FROM THE MANAGER

Marlin's gross performance for April was +12.6%, while the Adjusted NAV return for the month was 11.3%. These returns were ahead of our global benchmark which gained 9.3%. Equity markets bounced back strongly following the declines in February and March. The US markets led the bounce with the S&P up 12.8% - its best month since 1987 and a recovery of nearly 60% of the prior decline. Global markets were also up, but slightly more subdued with both MSCI Europe and MSCI China up 6.3%.

While COVID-19 continues to spread globally, there was some positive news flow during the month. Most countries seem to be successfully bending the curve on daily new infection rates, with many planning to begin gradually reopening their economies. A clinical study for anti-viral drug remdesivir showed some promising results in fighting the virus. Lastly, there was unprecedented fiscal and monetary stimulus. The US government passed a further $425 billion spending bill on top of the $2 trillion bill passed at the end of March. This new bill provides further support for employees, small businesses, and investment in the healthcare system. Central banks are also playing their part. The Federal Reserve recently announced a $600b business-lending program, the latest in a range of initiatives to support the economy and financial markets.

Despite the strong market returns and positive news, economic data such as GDP growth, unemployment, and consumer spending continue to trend down due to the global economic shutdown. For now, the markets seem to be largely looking beyond these lagging indicators, however, there is still significant uncertainty as to what the path to recovery looks like as the world emerges from the economic shutdown and what that means for equity markets. We continue to closely monitor global events.

This was another busy month for the team as we focus on finding new investment ideas and as another reporting season gets underway.

Portfolio Company Developments

Earnings season resumed this month, with 11 of our companies reporting.

Our top performer was **Signature Bank (+33%)**, having been a drag on our performance in recent months, falling with most banks on concerns that plunging interest rates would crimp bank profits. Signature Bank's first quarter results showed that it is weathering the storm better than most and it was the top performer in the portfolio for the month. Their results showed three key positives: (1) that the bank's credit quality and safe-haven status resulted in record deposit inflows, (2) that its exposure to coronavirus impacted businesses was low (resulting in limited loan loss provisions), and (3) that due to the nature of its deposit base its net interest margins actually expanded during the quarter, while most banks are seeing margin contraction.

Our two largest portfolio holdings, **Alphabet (+16%)** and **Facebook (+23%)** both reported strong financial results in April and contributed strongly to our performance. YouTube, Google, Facebook, and Instagram have all seen a material jump in engagement in recent months as many had expected, but their advertising businesses also proved more resilient than many had expected. Users across Facebook's various platforms (Facebook, Instagram, Messenger and WhatsApp) jumped 11% and now total almost 3 billion. While advertising budgets are being cut globally, advertisers get more bang for buck with direct response advertisements on Facebook, Google and YouTube – which is helping these digital advertising businesses take market share from traditional media. Despite the weak economic backdrop, both Facebook and Google are likely to report moderate revenue growth this year and strong profitability. More importantly, rather than laying off staff and taking a defensive stance in this downturn, both businesses continue to hire more staff and rapidly develop new products for users. Alphabet also made use of its weaker share price in March by ramping up its share buyback activity, at a time when many businesses are cancelling their buybacks and dividends.

Hexcel (-7%) was again our worst performer given the ongoing concerns around the health of the airline industry. Hexcel is the leading supplier of composite parts for aerospace manufacturers. With air-travel grinding to a halt and airlines struggling financially – orders for new planes are being deferred or even cancelled. In response – Airbus and Boeing have cut aircraft production rates by up to half resulting in lower demand for Hexcel products. We still see long-term drivers for both increased air travel and higher composite content, but recognise it will take a few years for travel, and

[1] Share Price Discount to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places).

therefore new plane demand to get back to prior levels. In the meantime, Hexcel is carefully managing its cost base to reflect lower demand and still expects growth in its defence and wind businesses. We think the company will be in a strong position when growth does eventually return to the aerospace industry.

Portfolio changes

We have used the recent weakness to find quality companies that we think are being undervalued, and added three new names to the portfolio in April - **Hilton** the global hotel franchise, **HEICO** a leading manufacturer of replacement parts for aerospace and defence, and **Floor and Décor** a fast-growing flooring retailer. We have been following all three companies for some time. These are quality businesses with long-term structural growth drivers and gaining share in their respective industries. We felt the market was focussing too much on the near-term challenges from lower travel and discretionary spending, which allowed us to acquire these quality names at what we consider attractive valuations.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Limited

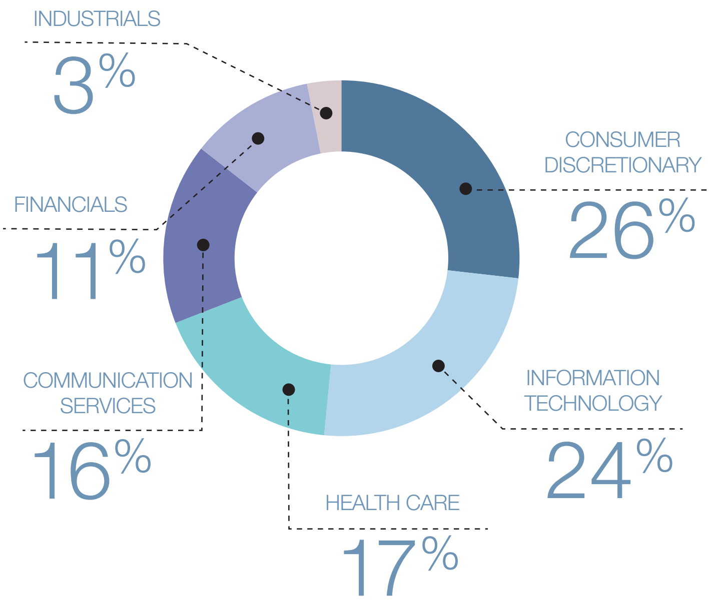
KEY DETAILS

as at 30 April 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	$0.89
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	151m
MARKET CAPITALISATION	$136m
GEARING	None (maximum permitted 20% of gross asset value)

SECTOR SPLIT

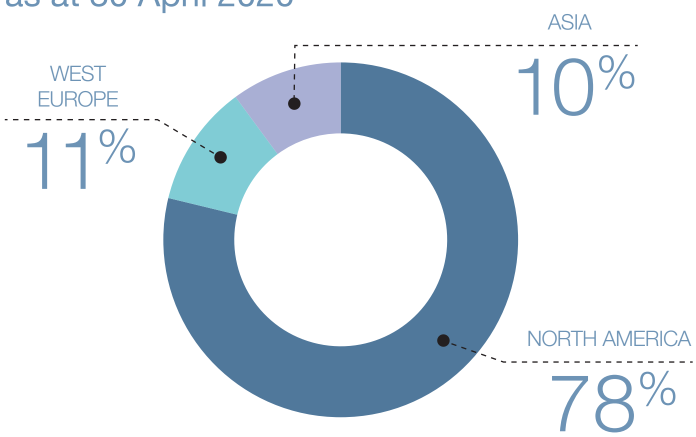
as at 30 April 2020



The Marlin portfolio also holds cash.

GEOGRAPHICAL SPLIT

as at 30 April 2020



APRIL'S BIGGEST MOVERS in local currency terms

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

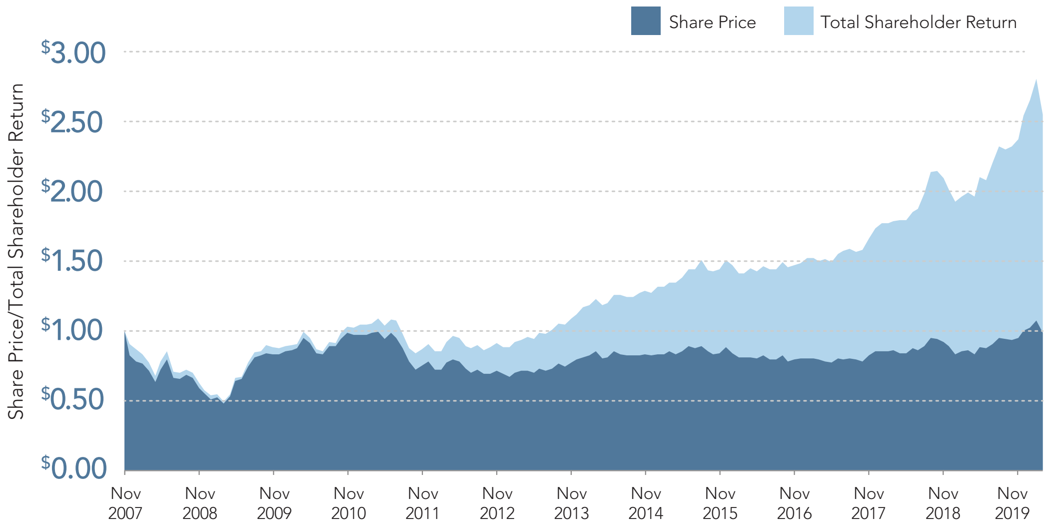
SIGNATURE BANK	PAYPAL HOLDINGS	AMAZON	FACEBOOK	DESCARTES SYSTEMS
+33%	+28%	+27%	+23%	+21%

5 LARGEST PORTFOLIO POSITIONS as at 30 April 2020

ALPHABET	FACEBOOK	PAYPAL HOLDINGS	SIGNATURE BANK	MASTERCARD
8%	8%	6%	6%	5%

The remaining portfolio is made up of another 20 stocks and cash.

TOTAL SHAREHOLDER RETURN to 30 April 2020



PERFORMANCE to 30 April 2020

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+12.0%	(14.4%)	+13.9%	+17.0%	+11.7%
Adjusted NAV Return	+11.3%	(2.6%)	+8.9%	+13.0%	+11.2%
Portfolio Performance					
Gross Performance Return	+12.6%	(2.7%)	+10.9%	+16.1%	+14.8%
Benchmark Index^	+9.3%	(13.1%)	(6.8%)	+3.6%	+7.8%

^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 combines the share price performance, the warrant price performance, the net value of converting any warrants into shares, and the dividends paid to shareholders. It assumes all dividends are reinvested in the company's dividend reinvestment plan, and that shareholders exercise their warrants, (if they were in the money) at warrant expiry date.

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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