QUARTERLY NEWSLETTER

1 April 2020 – 30 June 2020

Share Price	MLN NAV	Warrant Price	DISCOUNT[1]
$0.98	$1.03	$0.10	2.3%

as at 30 June 2020

The surge in global share markets in the second quarter provided a stark contrast to the steep coronavirus driven declines in the first quarter. The US markets led the bounce and posted its best quarter since 1998. The flagship US S&P 500 Index climbed 20.0% for the quarter – but 39% from its lowest point on 23 March. Most global markets followed the US higher, with MSCI Europe up 11.1% and MSCI China up 14.4%. The sharp rebound was driven by record monetary and fiscal stimulus, which coincided with economic reopening in most markets.

Marlin gained 21.3% (gross performance) for the quarter, and the Adjusted NAV was up 18.3% for the quarter. The global benchmark gained 16.2% for the same period. Over the last 12 months Marlin's gross performance is up 19.8%, compared with our market benchmark which was up 0.04%.

The strong get stronger, the weak get weaker

Unprecedented economic shutdowns have impacted some businesses far more than others. In many instances this has led to strong companies getting stronger, and weak businesses getting weaker. Some have failed altogether, like rental car company Hertz and US retailer J.Crew.

In our last quarterly update we gave the example of how coronavirus would hasten the demise of many traditional retailers, while strengthen ecommerce and online payments companies including our portfolio holdings **PayPal** and **Amazon**. However, when markets are falling and investors are panicking, stocks often get sold off indiscriminately and drag down the prices of even the most resilient businesses. We saw this in March, which gave us a good opportunity to add to our positions in companies like PayPal, Amazon and Facebook.

We are now beginning to see real data on how lockdown has impacted a wide range of industries, and this concept of the strong getting stronger has played out even more abruptly than we anticipated.

The percentage of commerce conducted online took 10 years to go from 6% to 16%, but jumped to 27% in April. 10 years worth of change in just eight weeks. This has provided rapid growth for **Amazon**, who had to hire over 175,000 new employees just to keep up.

All of this ecommerce growth is also driving demand for digital payments, as consumers look for a secure and simple way to pay. This saw **PayPal** add a record 10 million new users in the first quarter. The surge in ecommerce has led to an acceleration in digital payments adoption, driving new users and increased engagement. Despite the slump in global consumption in recent months, PayPal had its best day ever for payments volume in May and the business continues to grow rapidly.

While some volumes may move back to brick and mortar retailers once coronavirus fears subside, ecommerce and digital payment trends have remained remarkably strong despite the end of lockdown. It appears that the new online shoppers have found ecommerce to provide both value and convenience, and have continued to shop online.

The theme of the strong getting stronger has undoubtedly helped our portfolio this year and we think it will play an important role in the years ahead. Economic growth is likely to be anaemic over the next few years. Unemployment caused by coronavirus and the build-up of debt in the economy will take a number of years to work through. In this environment we believe businesses with their own secular growth drivers are well positioned to thrive, which should favour many of the companies in our portfolio.

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

PAYPAL HOLDINGS INC	FLOOR & DECOR HOLDINGS	STONECO LTD	DESCARTES SYSTEMS	AMAZON.COM INC
+82%	+56%	+50%	+48%	+42%

Never let a good crisis go to waste

The last few months has seen us make more changes to the portfolio than usual. We generally subscribe to the theory that you should simply invest in a portfolio of great businesses, sit back, and let compounding do the work. That said, every 5 to 10 years there is a market event that presents compelling investment opportunities – which investors shouldn't let go to waste.

We added a handful of new companies to the portfolio this quarter. They include a combination of smaller growth companies that we have followed for a number of years (Floor and Décor and Stone Co) and more cyclically exposed businesses (HEICO and Hilton) that sold off significantly in February and March.

HEICO (+21% since addition) is a leading manufacturer of niche parts to the aerospace and defence sectors. Its main focus is on the aftermarket where it has 50% market share in third-party regulator-approved parts (or 'PMA parts' using industry terminology). These parts can be used in place of expensive Original Equipment Manufacturer components, but are often 30% to 50% cheaper. This is an attractive proposition for airlines, particularly in the current environment, and it has allowed HEICO to outgrow the wider aerospace aftermarket for many years. We believe HEICO will continue to outgrow the aerospace market longer-term as penetration of PMA parts increases. The company has been led by the founding Mendelson family for almost thirty years, who have created an enviable track-record of consistent growth over this period.

Floor and Décor (+56% since addition) is a fast-growing US retailer, with large format warehouses (roughly the size of a Bunnings) and an exclusive focus on hard surface flooring. The company's scale relative to independent retailers and its direct procurement organisation allows it to offer the industry's broadest in-stock assortment at low prices. We believe the company has the potential to dominate the niche hard flooring category and we see a significant runway for future growth. They have 123 stores currently, but the potential for more than 400 stores in 10 years. Mom and pop retailers (50% of the market) cannot compete on price or service and are likely to continue losing market share.

Hilton (+9% since addition) is one of the largest hotel brand owners globally. There are 6,000 hotel properties associated with one of company's fifteen hotel banners, which includes Garden Inn, Hampton

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

and Doubletree. As an asset-light franchisor Hilton typically takes a percentage of the revenue from hotels that use their brands, as opposed to owning the hotel properties themselves. This model helps insulate Hilton in the current environment. Longer-term we see a long growth runway as independent hotels increasingly look to join branded chains like Hilton. Being part of a chain allows the hotel owner to charge higher room rates and helps boost occupancy (via loyalty programmes and more marketing clout). Hilton has 5% market share of global hotel rooms, but 20% share of new hotel openings, highlighting that Hilton should continue to outgrow the market as small independent operators lose share.

These are all high quality businesses. They have long-term structural growth drivers and are gaining share in their respective industries. When we added these companies to the portfolio we felt that the market was focussing too much on the near-term challenges posed by lockdown, which allowed us to acquire these businesses at what we consider attractive valuations.

Navigating in a lower growth world

We are always cautious making market predictions. After all, no one was picking that global markets would recover nearly all of the coronavirus driven losses and rebound over 39% from March lows.

Caveats aside, we believe the combination of a weak economic backdrop and elevated market valuations are likely to weigh on future market returns. While equities are still likely to provide a material premium to the returns from cash and bonds over the long term, investors should expect lower than historical returns in the years ahead. In this environment, active management and selecting the right companies will play an even more important role than it has in the past.

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

PERFORMANCE

AS AT 30 JUNE 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+24.9%	+19.5%	+13.1%
Adjusted NAV Return	+18.3%	+15.3%	+10.8%
Portfolio Performance			
Gross Performance Return	+21.3%	+18.6%	+14.5%
Benchmark Index[1]	+16.2%	+6.1%	+6.5%

[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 26 JUNE 2020

A dividend of 1.94 cents per share was paid to Marlin shareholders on 26 June 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 30 June 2020

Headquarters	Company	% Holding
Canada	Descartes Systems	0.5%
China	Alibaba Group	6.3%
	Tencent Holdings	5.3%
France	EssilorLuxottica	3.0%
Germany	Adidas	3.9%
Ireland	Icon	3.6%
United States	Abbott Laboratories	3.9%
	Alphabet	7.0%
	Amazon.Com	4.4%
	Dollar General	3.6%
	Dollar Tree	3.9%
	Edwards Lifesciences	3.8%
	Facebook	7.1%
	Floor & Décor Holdings	1.5%
	Gartner Inc	3.6%
	HEICO Corporation	2.3%
	Hexcel Corporation	3.6%
	Hilton Worldwide Holdings	3.5%
	Mastercard	5.0%
	PayPal Holdings	5.0%
	Signature Bank	6.1%
	Starbucks	1.7%
	StoneCo	3.2%
	TJX Companies	3.5%
	Tyler Technologies	1.4%
	Zoetis	1.9%
	Equity Total	**98.6%**
	New Zealand dollar cash	0.6%
	Total foreign cash	1.1%
	Cash Total	**1.7%**
	Forward Foreign Exchange	(0.3%)
	TOTAL	**100.0%**

marlin
growing globally

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