marlin
growing globally

QUARTERLY NEWSLETTER

1 July 2020 – 30 September 2020

Share Price	MLN NAV	Warrant Price	PREMIUM[1]
$1.10	$1.08	$0.19	5.8%

as at 30 September 2020

Marlin gained 8.6% (gross performance) for the quarter and the Adjusted NAV was up 7.4% for the period, while the global benchmark gained 5.7% for the same period.

Global share markets continued to show strong momentum in the third quarter, with a number of markets hitting new all-time highs during the period. The flagship US S&P 500 Index climbed 8.5% for the quarter, the MSCI China Index gained 11.7%, while the MSCI Europe Index was flat – held back by a spike in Covid-19 cases in certain countries.

The quarter started strongly on the back of continued monetary stimulus and improving economic data as economies continued to reopen. However, markets pulled back in September, driven by uncertainty surrounding further US fiscal stimulus and the US election outcome, combined with rising Covid-19 case numbers as summer ends in the Northern hemisphere.

Portfolio performance was helped by the new portfolio additions we talked about in our last quarterly Newsletter, Starbucks, Floor and Décor, Stoneco, Gartner, Hilton and Heico. We added these businesses to the portfolio in the depths of the market sell-off and they accounted for over half of the portfolio outperformance this quarter.

Adapting to a post-covid world

Covid-19 has impacted all businesses. Some have been hit hard, while others have benefited from lockdowns and work from home trends. For us it was a chance to see how the management teams of our portfolio companies operated under pressure, how they adapted and made the most of a difficult situation.

In our last quarterly update we talked about our technology holdings **Amazon** and **PayPal** - who both benefited from the lockdown driven surge in ecommerce activity. But we have been equally impressed by the way that some of our more traditional companies, like **Adidas**, have adapted to what have been significant headwinds in its industry.

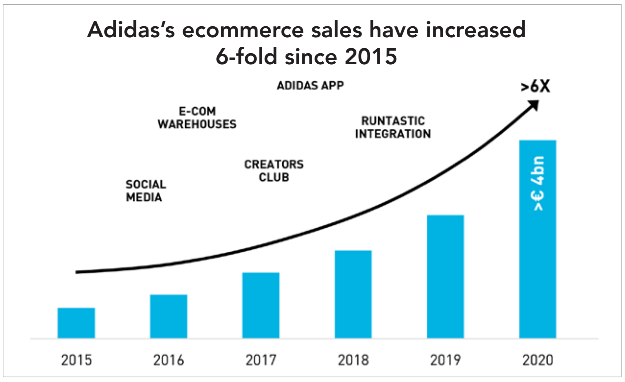
Adidas is a company that could have suffered a really protracted impact from Covid-19. With sporting goods stores closed around much of the globe, sales slumped and inventory built up. In retail this typically results in heavy discounts to clear excess stock – and given the global scale and economic impact of the lockdowns – this had the potential to drag on pricing for well over a year. Excessive discounting by brands also poses the risk of long-term brand damage. Adidas have dealt with these difficulties admirably and used the turbulence to further pivot their model towards high margin online sales.

By adding flexibility into their supply chain in recent years they were able to quickly scale down inventory purchases. Adidas's outlet stores also provided a very effective way of clearing excess stock without impacting the brand and discounting excessively in their flagship stores. The company was also able to hold onto its most popular products (like its Ultra Boost running shoes) and sell these at full price on its own website – allowing them to keep more of the profit margin on these highly sought after products.

Adidas's pivot to direct-to-consumer sales has also been helped by Covid-19. Adidas has progressively been moving sales away from wholesalers, such as Foot Locker, towards their direct-to-consumer offering, of which ecommerce is a significant contributor. Covid-19 has accelerated this shift with wholesalers having to shut their doors. Direct-to-consumer sales are more profitable for Adidas compared to selling shoes in bulk to the wholesale channel. The shift also allows Adidas to own the consumer relationship and thereby drive deeper customer connection and loyalty.

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

STONECO	ALIBABA GROUP	FLOOR & DÉCOR HOLDINGS	SIGNATURE BANK	HEXCEL CORP
+36%	+36%	+30%	-22%	-26%



Overall we are impressed by the actions management have taken in response to the difficult environment. We believe the company is well position for the future.

We have seen similar decisive actions at many of our other portfolio companies. Starbucks pivoted to digital ordering, pick-up only stores and drive thrus. Heico has used the disruption in the aerospace industry to acquire smaller competitors. And Abbott Labs rapidly developed a $5, 15 minute, Covid-19 test – and will very shortly be shipping 50 million units a month.

Stock performance and news

There were no major surprises during reporting season that materially impacted our portfolio companies in the quarter. **Alibaba (+36%), Stoneco (+36%)** and **Adidas (+18%)** were some of the biggest positive contributors to performance, while **Signature Bank (-22%)** and **Hexcel (-26%)** were the biggest detractors.

Alibaba gained during the quarter following strong financial results that showed its ecommerce business has returned to pre-covid growth rates. Excitement around the upcoming IPO of Ant Group (which it owns 33% of) also supported the stock. Ant Group is the largest digital payments and financial technology company in China and is rumoured to be listing at a valuation north of US$200 billion. Alibaba was also buoyed by its annual investor day – which highlighted the significant growth opportunity remaining for its ecommerce and cloud businesses.

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

Stoneco benefited from solid financial results during the quarter, emerging markets strength, and the announcement of its intention to acquire Brazilian software company Linx. The payment services provider reported strong growth in payment volumes in the second quarter, despite covid-related store closures in Brazil and a weak retail environment. Stoneco's ecommerce capabilities and market share gains from the bank-owned incumbents helped offset the market weakness. Linx is the leading retail ERP and PoS software provider in Brazil and the acquisition will allow Stoneco to cross-sell its payments and banking solutions to Linx's clients.

Signature Bank fell with the broader regional banking sector in the US, with the KBW Regional Banking Index down 11% during the quarter. The reasons for the underperformance of banking stocks include Covid-19 related credit losses and a difficult operating environment due to the recent drop in interest rates. Signature Bank's concentration in the New York region also weighed on the company, with the New York economy reopening more slowly than most states. We expect Signature Bank can continue to grow despite the tough operating environment as the bank captures market share by hiring banking teams away from other banks and expands on the West Coast of the US.

Hexcel makes carbon fibre composites for aircraft and has unsurprisingly been a poor performer of late. With air-travel grinding to a halt and airlines struggling financially, orders for new aircraft are being deferred or cancelled. In response, Airbus and Boeing have cut aircraft production rates by up to half, resulting in lower demand for Hexcel's products. We still see long-term drivers for both increased air travel and higher carbon fibre content, but recognise it will take a number of years for travel and new plane demand to get back to prior levels. In the meantime, Hexcel is carefully managing its cost base to reflect this lower demand. We believe the company is attractively priced following the sharp decline in its share price and the company will be in a strong position when growth eventually returns to the aerospace industry.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
16 October 2020

PERFORMANCE

as at 30 September 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+16.1%	+25.1%	+16.8%
Adjusted NAV Return	+7.4%	+15.7%	+12.7%
Portfolio Performance			
Gross Performance Return	+8.6%	+19.2%	+16.7%
Benchmark Index[1]	+5.7%	+6.0%	+8.7%

[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 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 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 25 September 2020

A dividend of 2.06 cents per share was paid to Marlin shareholders on 25 September 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 September 2020

Headquarters	Company	% Holding
Canada	Descartes Systems	0.5%
China	Alibaba Group	7.9%
	Tencent Holdings	5.0%
France	EssilorLuxottica	3.0%
Germany	Adidas	4.4%
Ireland	Icon	3.8%
United States	Abbott Laboratories	4.3%
	Alphabet	6.7%
	Amazon.Com	4.6%
	Dollar General	3.7%
	Dollar Tree	3.6%
	Edwards Lifesciences Corp.	4.0%
	Facebook	7.4%
	Floor & Décor Holdings	1.7%
	Gartner Inc	3.4%
	HEICO Corporation	2.2%
	Hexcel Corporation	2.4%
	Hilton Worldwide Holdings	3.8%
	Mastercard	5.3%
	PayPal Holdings	5.3%
	Signature Bank	4.3%
	Starbucks Corp	1.8%
	StoneCo	4.1%
	TJX Companies Inc	3.6%
	Tyler Technologies Inc	1.2%
	Equity Total	**98.0%**
	New Zealand dollar cash	1.2%
	Total foreign cash	1.4%
	Cash Total	**2.6%**
	Forward Foreign Exchange	(0.6%)
	TOTAL	**100.0%**

marlin
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