marlin
growing globally

QUARTERLY NEWSLETTER

1 July 2023 – 30 September 2023

Share Price	Warrant Price	MLN NAV	PREMIUM[1]
$0.93	$0.00	$0.87	6.4%

as at 30 September 2023

Markets impacted by the reacceleration in medium and long-term interest rates

Marlin ended the quarter down -4.0% (gross performance) and the adjusted net asset value (NAV) return was down -4.3%. This compared with our global benchmark which was down -2.6%.

Global market backdrop

After a strong start to the year and the September quarter, global equity markets sold off around 10% towards quarter end as medium and long-term interest rates reaccelerated. US bond yields as a proxy for global interest rates are making fresh 16-year highs. This was concerning for investors because US inflation peaked way back in October 2022 and has since fallen by two thirds from 9% to 3%. However, remember, medium and longer dated interest rates are not just a function of inflation, they are also a function of growth.

US economic data in particular has been surprising on the upside for a couple of months now. The recession everyone feared didn't materialise and the US printed 2.5% GDP growth for the 2nd quarter, a long way from recession. On the face of it, that is good news and should generally drive higher corporate earnings. Forecasted US corporate earnings, which had been cut sharply earlier in the year, are now being upgraded sharply (+5-10% from the lows) as demand has held firm and the consensus forecast is for a "soft landing". Year ahead earnings expectations remain unusually volatile as COVID aftershocks continue.

However, this reacceleration in growth and interest rates may prove to be reflexive - the combination of the lagged impact of the sharp central bank rate hike cycle over the last 12 months, plus the added stress of the recent move higher in medium-term borrowing rates for corporates and consumers, will likely blunt the growth recovery the market has become excited about.

This caused a reversal of the trends we have seen in the last few months – the biggest outperformers became the biggest underperformers and vice versa. The US, Nasdaq and global growth stocks underperformed. Europe, the UK, China, and global value stocks outperformed. We saw that in sector performance too as the energy sector was the top performer for the quarter, on the back of an almost 30% rise in oil prices. This was partly due to better-than-expected demand (positive) but primarily due to lower than expected supply as OPEC+ sharply cut output (negative). Banks also sharply outperformed as yield curves re-steepened.

Portfolio update

Alphabet (+9%) reported better-than-expected earnings. The highlights were digital advertising market growth and incremental monetisation benefits from artificial intelligence software (AI). AI was the key theme at the company's annual Google Cloud Next conference. The conference showcased Google's new AI technology and partnerships, a new version of its custom-build AI chips, as well as AI updates to its enterprise cloud service and software suite. Google has begun selling its AI-powered tools for corporate Gmail accounts and other workplace software at US$30 per month, on par with the price Microsoft is charging for its AI-powered Copilot within Office 365.

All three of our new additions (Danaher, UnitedHealth Group, MSCI) performed well during the quarter.

MSCI (+10% for the quarter) reported Q2 earnings. MSCI beat expectations on revenue and earnings, showing continued resilience in its core index business. Management came out with very positive commentary and conviction on their important growth segments, ESG and Climate, which grew better than expected and were the source of stock weakness in the previous quarter. Impressively, MSCI's climate products grew at 70% in the quarter. Given the share price weakness post Q1, management showed good capital allocation discipline and bought back $468m worth of shares opportunistically. The positive stock market environment in 2023 to date has seen MSCI's asset-based-fee in-flows turn positive this year, and the segment grew revenue 13% year-on-year (y/y) in the quarter.

Amazon (-3%) reported better than expected Q2 earnings at the beginning of August. Amazon's important cloud computing platform, AWS, showed positive signs of growth stabilising after multiple quarters of pressure from customers optimising their cloud spend, which has been a headwind to AWS's growth. Amazon's advertising business continues to grow strongly (+22% y/y) and gain market share. Impressively, Amazon outperformed margin expectations, with operating income growing 132% y/y as the company gains efficiency in its expanded fulfilment and logistics network and expanded margins. Guidance for the next quarters operating income was well above expectations, resulting in estimates being upgraded quickly by the market.

Edwards Lifesciences (-27%) sold-off on a weaker than expected earnings update alongside a wider decline in the medical device sector driven by GLP-1 (obesity drug) concerns (the iShares Medical Device ETF was down -7% for the month and -14% for the quarter), with one analyst describing sentiment on medical devices as the worst it's been since the global financial crisis of 2008. While Edwards increased its full-year guidance during the quarter, the market was expecting a larger increase as surgical procedure growth recovered post-COVID. Management believes this is simply a timing issue due to the complex diagnosis and referral pathways for structural heart disease, and that underlying demand is still strong.

But the bigger story for medical device companies this quarter was around obesity drugs (also known as "GLP-1's") and the release of the SELECT clinical trial data which showed that the Wegovy GLP-1 obesity drug reduced major adverse cardiovascular events by 20% in obese people. So, not only do these drugs cause significant weight loss (up to 15-20% in clinical trials), but also lowers the risk of heart disease associated with obesity. Given obesity costs the US healthcare system an estimated US$173 billion a year, a reduction in obesity levels could impact the healthcare companies that are treating the downstream impacts of obesity, in particular medical device companies.

Quantifying the potential impact on individual medical device companies is challenging, especially as any potential impacts are likely to be years away. And it is still not even clear as to how widespread the uptake of these obesity drugs will be given the high cost and potential side effects. That said, it is hard to believe this will not be a headwind for healthcare companies. The market has already marked GLP-1s as a material headwind for diabetes related companies, which are amongst the worst-performing medical device names this quarter. By comparison, Edward's replacement heart valves are used to treat aortic stenosis, which is primarily a progressive disease, with prevalence and severity of the disease increasing substantially as people grow older (it is estimated that one-in-eight people older than 75 show moderate to severe aortic stenosis). Clinical evidence linking diet or obesity to aortic stenosis is less clear, however.

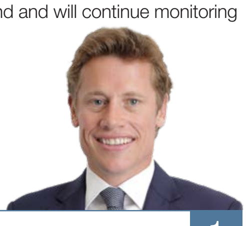
We are watching this situation closely for any impact on our existing healthcare stocks (in particular our medical device names Edwards and Boston Scientific), while also looking for potential opportunities given the level of negative sentiment surrounding the sector.

Portfolio activity

We exited **Dollar General** (DG) during the quarter due to lack of clarity over its steady state earnings and lower confidence in management. The company's operations had been optimised to run on a very lean labour force. COVID over-earning masked the fact that there was insufficient labour to handle greater volumes of inventory throughput and greater inventory complexity as the company added more discretionary and fresh produce items. Competitors are taking market share from DG as insufficient labour in the stores has weakened the customer experience. DG's high operating and financial leverage also puts the pace of its store rollout story at risk. We continue monitoring US discount retail dynamics and await clarity on these issues. Meanwhile we redeploy capital into better risk-reward opportunities elsewhere.

We exited homebuilder **NVR** during the quarter because we see better value elsewhere. We bought NVR in May 2021. The company has since delivered a 15% p.a. return vs. +4% return from the S&P 500. Our rationale to exit is around new orders and profit margins which drive NVR's fundamentals. NVR's runway for new orders in the company's active development communities has shrunk in recent years. NVR gross margins are at all-time highs given recent appreciation in house prices, and we see downside risk to market consensus expectations for margins to remain at elevated levels for the next 3 years. We put NVR back into the fishing pond and will continue monitoring these dynamics closely.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
13 October 2023



[1] *Share price premium to NAV (including warrant price on a pro-rated basis and using the net asset value per share, after expenses, fees and tax, to four decimal places).*

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

FLOOR & DÉCOR	NETFLIX	DOLLAR TREE	EDWARDS LIFESCIENCES	DOLLAR GENERAL
-13%	-14%	-26%	-27%	-38%

PERFORMANCE

as at 30 September 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+3.0%	+2.5%	+9.3%
Adjusted NAV Return	(4.3%)	+2.0%	+6.2%
Portfolio Performance			
Gross Performance Return	(4.0%)	+4.3%	+9.0%
Benchmark Index[1]	(2.6%)	+8.5%	+5.8%

[1] Benchmark index : S&P Large Mid Cap/S&P Small Cap Index (hedged 50% to NZD)

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 percentage change in the adjusted NAV value,*
- *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 marlin.co.nz/about-marlin/marlin-policies.

COMPANY NEWS

Dividend Paid 22 September 2023

A dividend of 1.82 cents per share was paid to Marlin shareholders on 22 September 2023, under the quarterly distribution policy. Interest in Marlin's dividend reinvestment plan (DRP) remains high with 39% 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 2023

Headquarters	Company	% Holding
China	Alibaba Group	3.2%
	Tencent Holdings	3.6%
Ireland	Icon	6.2%
United Kingdom	Greggs Plc	4.1%
United States	Alphabet	7.4%
	Amazon.Com	8.5%
	Boston Scientific	5.2%
	Danaher Corporation	4.4%
	Dollar Tree	2.2%
	Edwards Lifesciences Corp.	5.3%
	Floor & Décor Holdings	4.0%
	Gartner Inc	6.4%
	Mastercard	5.5%
	Meta Platforms Inc	6.7%
	Microsoft	6.1%
	MSCI Inc	2.3%
	Netflix	2.5%
	PayPal Holdings	2.0%
	salesforce.com	5.7%
	UnitedHealth Group Inc	3.2%
	Equity Total	**94.5%**
	New Zealand dollar cash	0.9%
	Total foreign cash	1.8%
	Cash Total	**2.7%**
	Forward Foreign Exchange	2.8%
	TOTAL	**100.0%**

FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders' jurisdiction of tax residence. If shareholders have not previously self-certified, they will receive a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting or contact Computershare if you are unsure of whether you have completed your form.

marlin
growing globally

Marlin Global Limited
Private Bag 93502, Takapuna, Auckland 0740, New Zealand
Phone: +64 9 484 0365
Email: enquire@marlin.co.nz | www.marlin.co.nz

If you would like to receive future newsletters electronically please email us at enquire@marlin.co.nz