Quarter Update Newsletter

31 December 2018 – 31 March 2019

marlin
growing globally

MLN NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT
$0.98	$0.83	$0.05	13.6%[1]

as at 31 March 2019

When I was writing the last quarterly newsletter, we had just witnessed the biggest quarterly drop in global markets in seven years. Market sentiment was very negative and we talked about how we were trying to capitalise on some of the opportunities this was creating. Without much change in the fundamental economic backdrop the first quarter of 2019 was the polar opposite, with US stocks registering their best quarterly gains in almost a decade. Against this backdrop, Marlin's gross performance was 17.7% in the first quarter, compared with our global benchmark which gained 11.6%. The Adjusted NAV for the quarter was up 16.3%.

Markets have responded to an accommodative Federal Reserve, which signalled an end to rate hikes, and apparent progress in the US-China trade negotiations. Sentiment has shifted quickly as evidenced by the market for Initial Public Offerings also springing back to life, with the recent $24 billion IPO of ride sharing company Lyft, and talk of potential IPOs by Uber, Airbnb and Pinterest.

While the bipolar nature of markets can cause concern among investors, it also creates attractive investment opportunities from time-to-time. Some of the changes we made to the portfolio and discussed following the drop in markets last quarter have contributed significantly to performance this quarter. These include the acquisition of Chinese technology giant, Tencent Holdings, and the increase in our holdings in MasterCard, TJX Companies, Alibaba and PayPal.

This market strength has come despite global economic growth slowing in recent quarters, and valuations are again looking elevated relative to growth prospects. As valuations climb and we move further through the economic cycle, we have been looking to add to our holdings of more defensive businesses. As an example, we recently added to our position in healthcare company **Fresenius Medical Care** and added **Dollar General** to the portfolio.

New Portfolio Addition: Dollar General

Dollar General is the largest dollar store chain in the US and it sells a range of everyday household items like food and cleaning products, as well as toys, stationary, and basic apparel. **Dollar General** has been a real success story in US retail, stringing together 29 years of same-store-sales growth. The company's low price points and value proposition support its business in difficult economic environments, with sales growth actually accelerating in the last two recessions as consumers traded down.

Dollar General has a talented management team, strong track record, and a scale advantage over its competitors. It offers both value and convenience – near Wal-Mart prices, but without having to drive halfway across town to get them. Its stores offer

Notable Returns for the Quarter in local currency

DESCARTES SYSTEMS	ALIBABA	EBAY INC	ELECTRONIC ARTS	FACEBOOK
+36%	+31%	+28%	+27%	+25%

an attractive proposition to a growing cohort of US households that are financially stretched and are not well served by traditional retailers. Even though unemployment is near record lows in the US, inequality is a significant social issue and 80% of households are living paycheck-to-paycheck. This is because stagnant wages in many occupations over the last forty years, combined with rising healthcare and living costs, have squeezed household budgets. Dollar General has provided a great service for these lower socioeconomic households, and as a result it has created a loyal customer base.

There are currently 15,000 Dollar General stores across the US and it is rolling out approximately 1,000 new stores every year. We believe the company should continue to deliver low double-digit earnings growth as the company expands its store base at attractive returns, takes market share, and repurchases shares.

The addition of Dollar General to the portfolio has been funded by trimming some of our more cyclical holdings, including Hexcel, Descartes and Alibaba. While we have started to make some changes to improve the defensiveness of the portfolio, these changes are at the margin and we typically avoid making decisions due to macroeconomic views. Our strategy for outperforming the market over the long run simply involves finding the right businesses and holding them for the long-term.

Portfolio developments

Edwards Lifesciences

A good example of a business that has delivered significant value over the long-term is **Edwards Lifesciences**, which recently delivered some significant news and saw its share price gain 25% during the quarter. Edwards is the leading manufacturer of replacement heart valves for patients with aortic stenosis, a potentially fatal condition affecting millions of people globally. Edwards pioneered a new type of valve that is implanted with a catheter (without open-heart surgery) and often allows patients to leave hospital the next day. This is obviously preferable from the patient's perspective, but it can also save hospitals money due to shorter patient visits and fewer complications. While initially restricted to the most ill patients, Edwards had a vision of this

[1] Share price discount/(premium) to NAV (including warrant price on a pro-rated basis)

becoming the standard of care for all patients. This vision came closer to reality last month following the conclusion of a clinical trial that demonstrates this minimally invasive technique is superior to surgery for all patients, and opens up a new patient group and avenue for growth.

Edwards is a great example of the type of company we are looking for. It is market leader in a sector with many years of growth ahead, and by investing more in research & development than its competitors is continually extending its growth runway and strengthening its competitive position. Beyond its products for the aortic valve, Edwards continues to develop new devices to repair the tricuspid and mitral heart valves, which are still largely treated through open-heart surgery. We also like that management is heavily invested in the company's long-term vision, with CEO Michael Mussallem holding over US$170 million worth of Edwards shares.

The first quarter of 2019 was a good one for Marlin, however with slowing global growth and the recent rebound in equity market valuations, it is again becoming challenging to find attractive new investment ideas. We continue to turn over plenty of rocks as we look for new investments, and remain comfortable with the businesses we do have in the portfolio and their long-term prospects.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
18 April 2019

Performance

as at 31 March 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+2.4%	+10.8%	+10.7%
Adjusted NAV Return	+16.3%	+13.4%	+9.7%
Portfolio Performance			
Gross Performance Return	+17.7%	+17.5%	+13.5%
Benchmark Index[1]	+11.6%	+11.3%	+12.2%

[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 fees and tax,*
- *adjusted NAV return – the net return to an investor after fees and tax,*
- *gross performance return – the Manager's portfolio performance in terms of stock selection and currency hedging before 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 28 March 2019

A dividend of 1.80 cents per share was paid to Marlin shareholders on 28 March 2019, 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 2019

Headquarters	Company	% Holding
Canada	Descartes Systems	2.0%
China	Alibaba Group	5.5%
	Tencent Holdings	3.6%
France	Essilor International	2.6%
Germany	Adidas	3.2%
	Fresenius Medical Care	4.5%
Ireland	Icon	2.8%
United States	Abbott Laboratories	3.2%
	Alphabet	7.8%
	Cerner Corporation	3.4%
	Cognizant Technology Solutions	4.0%
	Core Laboratories	1.8%
	Dollar General	4.1%
	Ecolab	3.9%
	Edwards Lifesciences	2.6%
	Electronic Arts	3.8%
	Expedia	2.6%
	Facebook	4.5%
	Hexcel Corporation	2.9%
	LKQ	3.5%
	Mastercard	5.5%
	PayPal	6.9%
	Signature Bank	4.0%
	TJX Companies	5.2%
	United Parcel Service	2.5%
	Zoetis	2.5%
	Equity Total	**98.9%**
	New Zealand dollar cash	0.7%
	Total foreign cash	0.4%
	Cash Total	**1.1%**
	TOTAL	**100.0%**

marlin
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