

# Monthly Update

July 2018

MLN NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT <sup>1</sup>
\$1.02	\$0.86	\$0.06	14.1%

as at 30 June 2018



## A word from the Manager

After a strong start to June, global equity markets retreated late in the month and closed broadly flat as trade fears re-emerged. The sell-off in late June was driven by an escalation in the US/China trade conflict, with Trump asking his administration to identify a list of a further \$200 billion of Chinese goods to target with tariffs. Coupled with Trump's tariff news, car manufacturer Daimler released a profit warning citing the expectation of higher tariffs on the Mercedes-Benz SUVs it exports from the US to China. Harley-Davidson also announced plans to shift more production overseas to avoid European Union tariffs on its iconic motorcycles. While the Marlin portfolio has limited exposure to areas that would be the most vulnerable in a trade war, such as autos and industrial capital goods, these developments highlight the disruption a full-blown trade war could cause.

In addition to escalating trade war tensions, China's share market entered bear market territory in June, and by the end of the month was down over 20% from the highs of January. The weakness in the Chinese market has been driven by trade concerns, but also evidence that tighter credit conditions are starting to slow growth. In this choppy environment defensive sectors including utilities and consumer staples outperformed, while industrial and technology companies underperformed. The Marlin portfolio rose 2.7% on a gross performance basis.

### Research trip to the United States

One of the benefits of managing global equities from New Zealand is that we are a step removed from day-to-day market noise. US and European markets are closed during New Zealand office hours so we aren't glued to our Bloomberg screens. We also get fewer interruptions and visits from share brokers, which means we can spend more time focusing on the fundamentals of the businesses Marlin holds and those which Marlin may hold in the future. We think this environment is conducive to clearer thinking and more rational decision making, less influenced by market chatter and sentiment.

That said, because the quality of management is a critical factor in our decision making, we do travel overseas regularly to meet the management teams of the companies we invest

in and to research new investment leads. Our Senior Investment Analysts Harry and Chris recently returned from two weeks in the US doing just this. On their travels through Boston, New York, Los Angeles and Washington they met with management of around 40 companies including five of the existing portfolio companies and a number of companies on our watch list. We came away from these meetings feeling positive about the prospects of the portfolio companies, and were able to get further insights into management plans and share our views on their strategy.

These meetings and the conferences we attended also gave us further insight into what is happening on the ground in various segments of the US economy. The sentiment of the companies we met was generally upbeat. Companies continue to invest heavily in IT and digital strategies which is positive for portfolio companies such as **Cognizant**, **Descartes** and **Alphabet**. Retailers are more upbeat than a year ago, with low unemployment, tax cuts and increasing wages for many Americans pushing consumer confidence to near record highs. Portfolio holding, **TJX Companies**, the off-price retailer, is seeing this in its stores and its share price continued to climb during June (+5%) following its strong results last month.

During our trip we also sat down with Doug Baker, CEO of hygiene solutions company **Ecolab**, to discuss the growth opportunities ahead and the actions the company is taking to stay ahead of competitors. Doug is a particularly impressive CEO, has been with the company for almost 30 years and in our opinion, it is hard to find a better operator. Doug is a significant shareholder himself and during his time as CEO has delivered 12% annual growth in earnings per share, an increasing dividend and significant value for shareholders. The company partners with global restaurant chains, hospitals and manufacturers, providing them with cleaning systems at a low price, but then earning healthy margins on the highly recurring revenue generated from selling the detergent and chemicals needed to operate the machines. Despite its products often appearing more expensive than competitors, the company's innovative

systems often clean with less water, energy and human labour – making the overall process cheaper for customers. This innovation combined with a large direct sales force has allowed them to continually take share from smaller competitors.

We also met with the CEO of **LKQ Corp**, Dominick Zarcone, to discuss the company's growth aspirations in Europe. LKQ is the largest provider of recycled and aftermarket car parts for collision repairs in the US and mechanical repairs in Europe. LKQ had significant success in the US over the last 15 years consolidating the market for collision repair parts, and is now looking to replicate this success in Europe (albeit largely in parts used for mechanical repairs). Both markets are highly fragmented with LKQ's scale providing procurement and

distribution advantages, and significantly higher fulfilment rates, which attracts customers and drives further market share gains. We expect the company to continue to grow organically and through acquisitions, while also investing in productivity solutions (like their new automated distribution facility in the UK) which should increase profit margins.



Ashley Gardyne  
Senior Portfolio Manager  
Fisher Funds Management Limited



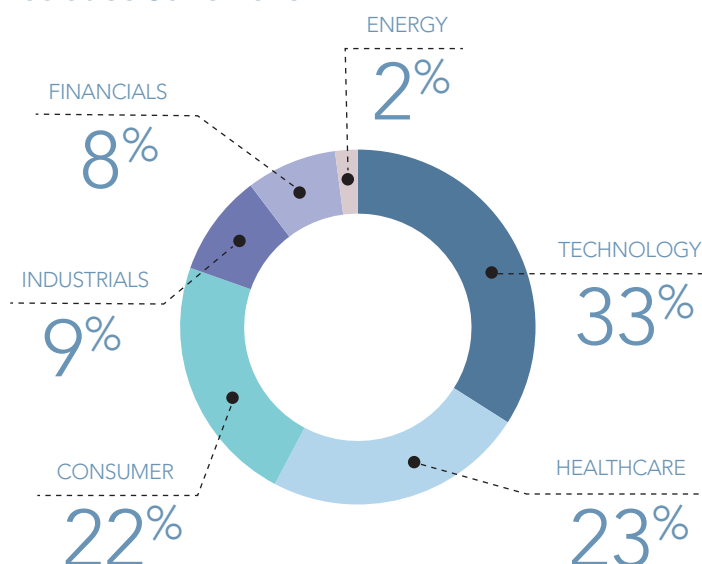
## Key Details

as at 30 June 2018

FUND TYPE	Listed Investment Company
INVESTS IN	Growing international companies
LISTING DATE	1 November 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	15% of returns in excess of benchmark and high water mark
HIGH WATER MARK	\$0.83
SHARES ON ISSUE	119m
MARKET CAPITALISATION	\$103m
GEARING	None (maximum permitted 20% of gross asset value)

## Sector Split

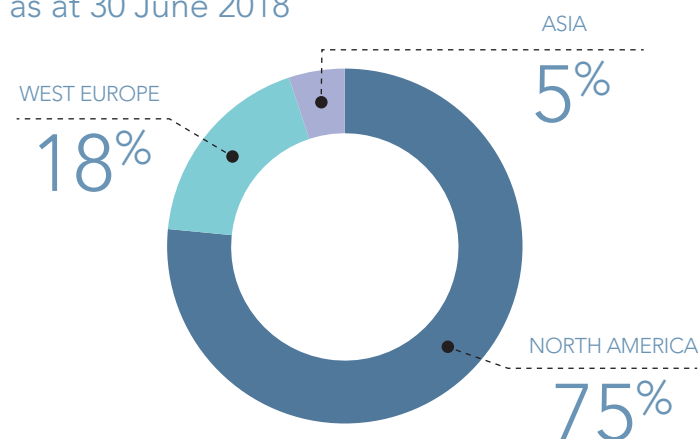
as at 30 June 2018



The Marlin portfolio also holds cash.

## Geographical Split

as at 30 June 2018



The Marlin portfolio also holds cash.

# June's Biggest Movers in local currency terms

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

DESCARTES

+11%

HEXCEL

-6%

ALIBABA

-6%

UNITED PARCEL  
SERVICES

-9%

PANDORA

-11%

## 5 Largest Portfolio Positions as at 30 June 2018

ALPHABET

7%

PAYPAL

6%

TJX COMPANIES

5%

ALIBABA

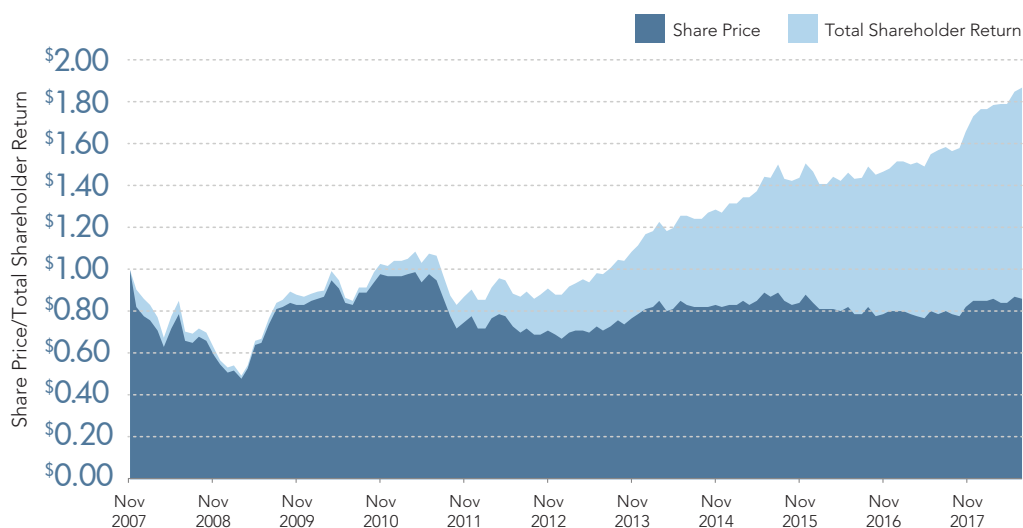
5%

ESSILOR

5%

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

## Total Shareholder Return to 30 June 2018



## Performance to 30 June 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
<b>Corporate Performance</b>					
Total Shareholder Return	+1.5%	+6.6%	+21.5%	+9.7%	+6.2%
Adjusted NAV Return	+2.5%	+6.3%	+23.3%	+10.3%	+7.0%
<b>Manager Performance</b>					
Gross Performance Return	+2.7%	+7.3%	+26.6%	+14.2%	+10.7%
Benchmark Index <sup>^</sup>	+1.3%	+5.5%	+17.1%	+10.3%	+7.9%

<sup>^</sup>Benchmark index: World Small Cap Gross Index until 30 October 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 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 hedging of currency movements, 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 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 up to 5.9m of its shares on market in the year to 31 October 2018
- » 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 16 April 2018, a new issue of warrants (MLNWC) 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 = \$0.83 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- » Exercise Date = 12 April **2019**
- » The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in March **2019**

Disclaimer: The information in this update has been prepared as at the date noted on the front page. The information has been prepared as a general summary of the matters covered only, and it is by necessity brief. The information and opinions are based upon sources which are believed to be reliable, but Marlin Global Limited and its officers and directors make no representation as to its accuracy or completeness. The update is not intended to constitute professional or investment advice and should not be relied upon in making any investment decisions. Professional financial advice from an authorised financial adviser should be taken before making an investment. To the extent that the update contains data relating to the historical performance of Marlin Global Limited or its portfolio companies, please note that fund performance can and will vary and that future results may have no correlation with results historically achieved.