

Quarter Update Newsletter

30 June 2018 – 30 September 2018



MLN NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT ¹
\$1.05	\$0.94	\$0.10	7.8%
as at 30 September 2018			

The Marlin portfolio delivered a gross performance return of 5.4% in the three months to 30 September 2018, supported by a strong US equity market and the weak New Zealand dollar.

This time last year there was a lot of press coverage of the 'retail apocalypse' theme. Shopping malls were suffering from weak customer traffic, retailers were being boarded up at record pace, and Amazon was seen to be sounding the death knell for retailers. However, it seems that someone forgot to tell the retailers about this impending doom - and their shareholders haven't seemed to take much notice either. The chart below shows that many large US retailers have significantly outperformed the broader US share market over the last twelve months.



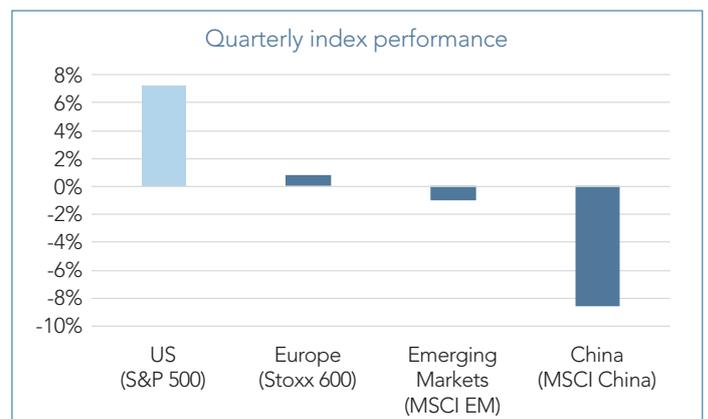
It hasn't just been the share market fortunes of these businesses that have improved, in the recent US reporting season many of these retailers saw sales growth accelerate. Shoppers are out and about and spending more than last year. US retailer Walmart recently reported same store sales growth of 4.5%, significantly above market expectations. Home Depot (the equivalent of Bunnings) did even better with 8% same store sales growth. The strong US consumer has been driven by low unemployment (now at 3.9%), increasing wages, and tax cuts that gave many US families more spending money.

The pick-up in the US economy has driven two major themes that impacted the global investment landscape over the quarter. Firstly, it has seen the US share market outperform the rest of world quite considerably (see chart below), and secondly, it has resulted in outperformance of cyclical sectors like Industrials and Consumer Discretionary, placing less reliance on the Tech sector for market gains.

In the third quarter the US market surged 7%, while European markets gained 1% and emerging markets retreated, with China down 9%. This dispersion reflects diverging economic fundamentals, with recent data showing that Eurozone growth

Notable Returns for the Quarter in local currency

ABBOTT LABORATORIES	EDWARDS LIFESCIENCES CORP	TJX COMPANIES	ICON PLC	FACEBOOK
+21%	+20%	+18%	+16%	-15%



slowed in the June quarter. Emerging markets have been impacted by increasing interest rates, which has weighed on markets like Turkey and Indonesia with high external debt levels. Rising trade tensions also weighed considerably on the Chinese market.

Marlin has benefitted from this US economic strength, given that more than 70% of the Marlin portfolio is invested in US companies. That said, after the significant underperformance of emerging markets, Europe and the UK in recent years, we are starting to see pockets of opportunity appear and are actively researching a handful of investment ideas in these markets.

Portfolio update

Given the strong retail backdrop, it is fitting that the biggest contributor to our performance in the quarter was US off-price retailer **TJX Companies** (+18% over the quarter). TJX is the home of the TJMaxx, Marshalls and HomeGoods retail formats and it reported a great set of quarterly results in August, with sales growing 12% on the prior year. Customer traffic was strong in store, customer basket sizes ticked higher on strong apparel demand, and TJX continued to open new stores. TJX grew underlying earnings per share by 16% in the quarter.

Alibaba reported second quarter results that showed 33% revenue growth in its core e-commerce business and 93% growth in its cloud computing business. Alibaba also held its annual investor day during the quarter, with the presentations

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

highlighting strong growth in Tmall and Taobao users, and the ongoing popularity of Tmall for foreign brands looking to sell to Chinese consumers. Alibaba also shed more light on a number of its rapidly growing adjacent businesses, including its digital payments business, AliPay, video streaming business, Youku Tudou, and its rapidly growing food delivery unit, Ele.me. In Alibaba we continue to see a dominant and growing ecommerce business, with significant adjacent growth opportunities that should support earnings growth for many years to come.

The only addition to the portfolio during the quarter was **Electronic Arts (EA)**. EA is one of the world's leading video game publishers, with hit franchises including FIFA, Madden and Battlefield. The company operates in an industry that we believe is positioned for sustainable revenue growth and margin expansion. The gaming industry is transitioning from a hit driven revenue model, based on game units sold, to more of a recurring revenue model, where customers not only pay the up-front cost of a game, but also spend money on in-game items,

which may be cosmetic or improve game play. The result of this transition should be growth that is more stable and higher profit margins.

We exited branded jewellery company **Pandora** during the quarter. When we first invested in Pandora we thought the recent slowdown in its growth would prove transitory, and an increased flow of new product launches would support sales. However, recent results have been dragged down by slowing growth in China and weak same store sales elsewhere in the globe. It is becoming increasingly apparent that despite management's best efforts, Pandora's profitability is unlikely to return to previous levels.



Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
11 October 2018



Performance

as at 30 September 2018

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+12.7%	+14.6%	+15.5%
Adjusted NAV Return	+5.0%	+12.7%	+11.9%
Portfolio Performance			
Gross Performance Return	+5.4%	+16.7%	+15.9%
Benchmark Index ¹	+4.3%	+13.6%	+14.7%

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 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 September 2018

A dividend of 2.05 cents per share was paid to Marlin shareholders on 28 September 2018, 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 2018

Headquarters	Company	% Holding
Canada	Descartes Systems	3.0%
China	Alibaba Group	4.7%
France	Essilor International	4.7%
Germany	Adidas	4.1%
	Fresenius Medical Care	4.7%
Ireland	Icon	3.1%
United States	Abbott Laboratories	3.7%
	Alphabet	7.5%
	Cerner Corporation	4.0%
	Cognizant Technology Solutions	4.1%
	Core Laboratories	2.0%
	eBay	3.9%
	Ecolab	3.7%
	Edwards Lifesciences	3.0%
	Electronic Arts	2.6%
	Expedia	3.5%
	Facebook	3.8%
	Hexcel Corporation	3.7%
	LKQ	3.8%
	Mastercard	4.5%
	PayPal	5.8%
	Signature Bank	3.9%
TJX Companies	5.0%	
United Parcel Service	2.9%	
Zoetis	2.6%	
Equity Total	98.3%	
New Zealand dollar cash	0.8%	
Total foreign cash	0.7%	
Cash Total	1.5%	
Forward foreign exchange contracts	0.2%	
TOTAL	100.0%	

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