

# Quarter Update Newsletter

30 June 2017 – 30 September 2017



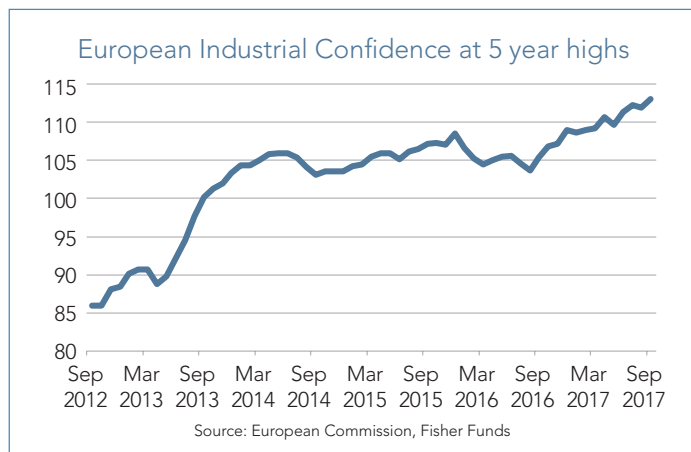
MLN NAV	SHARE PRICE	DISCOUNT
\$0.93	\$0.78	16.2%
as at 30 September 2017		



Marlin gross performance was 7.0% during the quarter ended 30 September 2017, bringing the total gain so far in 2017 to 24.3%<sup>1</sup>. Coordinated global growth and a supportive corporate earnings environment resulted in gains in most global share markets during the quarter.

We recently travelled to Europe to meet portfolio companies and look for new investments. Our conversations with management teams across a range of industries support the theme of improving global growth. Hotel chains are witnessing strong room night growth as tourism picks up, transportation operators are seeing increased freight volumes, and we are seeing auto manufacturers and their suppliers talk about new investments to prepare for the growth in electric vehicles.

The tone from corporates has shifted from repairing balance sheets and restructuring to going after growth. Companies we spoke to are generally looking to hire new recruits, and with an abundance of staff available they are seeing limited wage pressure. While it is difficult to assess if this environment will be sustained, with European corporate earnings growth running at 15% in the most recent quarter, it is not hard to see why corporates are optimistic.



The top contributors to our performance during the quarter were **Worldpay**, **PayPal** and **Alibaba**. Payments processor **Worldpay** rose 29% during the quarter following a takeover offer from US based Vantiv Inc. **Alibaba** was a standout performer, gaining 23% over the period on the back of 56% revenue growth in the June quarter. **PayPal** was up 19%, with second quarter payment volumes increasing 26% on the prior year, driving earnings per share growth of 27%. The biggest detractor from performance was US heart valve manufacturer, **Edwards Lifesciences**. While Edwards was down 8% during the quarter, it is still up 17% for the year.

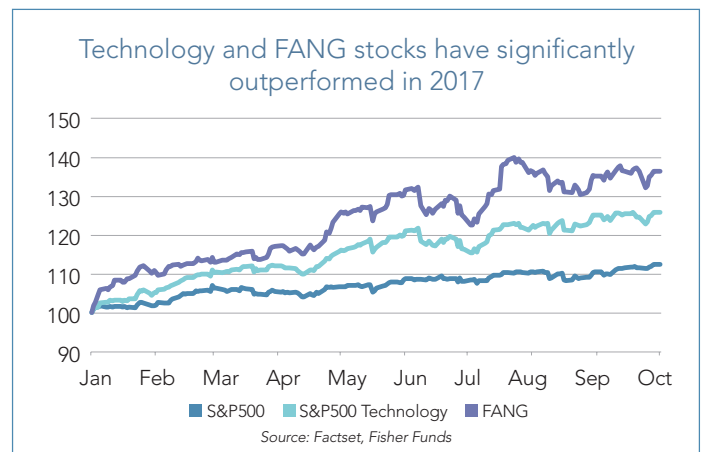
<sup>1</sup> 9 months from 31 December 2016 to 30 September 2017

<sup>2</sup> FANG is an acronym representing some of the popular tech stocks – Facebook, Amazon, Netflix and Google

## Notable Returns for the Quarter in local currency

WORLDPAY GROUP	ALIBABA	PAYPAL	MASTERCARD	SARINE TECHNOLOGIES
+29%	+23%	+19%	+16%	-23%

It is not lost on us that the best performers in the portfolio have been technology stocks. There has been much talk of the outperformance of the tech sector and FANG<sup>2</sup> stocks this year (the US tech sector is up 26%, compared with 13% for the S&P500). Some commentators are suggesting technology stocks are in a bubble, but we believe it is important to consider each company individually. While some technology stocks are certainly expensive, others still offer good value. Nevertheless, we are watching this trend closely and believe it is important to maintain sector diversity in this environment. Our two most recent portfolio additions are in the financial and industrial sectors, helping achieve more balance in this regard.



During the quarter we added two new positions (**Hexcel** and **Signature Bank**) and increased our weightings in **Essilor**, **Fresenius** and **PayPal**.

**Hexcel** is a leading supplier of carbon fibre composites to the aerospace industry. Carbon fibre significantly reduces aircraft weight and fuel usage and is increasingly being used in new aircraft like the Airbus A350.

**Ashley Gardyne**  
Senior Portfolio Manager



**Signature Bank** is a specialist regional bank, lending primarily to wealthy families and private businesses. They are still a small bank and we believe their model will allow them to deliver double-digit earnings growth over the medium term.

During the quarter, we exited four positions to streamline the portfolio and make way for the new holdings. We exited Japanese car park operator **Park24** after its growth became increasingly reliant on its car sharing business and its international operations. We exited our position in **Graco** (pumps and industrial painting equipment) after strong share price performance resulted in an elevated valuation. We sold out of **Nike** due to the headwinds in its core US market. Declining sales at retailers like Foot Locker, a highly promotional environment and design/style misses by Nike provide headwinds that we believe are stronger than the market appreciates. We also took the opportunity to sell **WorldPay** after it received a takeover offer from Vantiv and its share price spiked.

Attractive investment opportunities are harder to find than they were a few years ago. With Europe earlier in its economic cycle than the US, we are spending an increasing amount of time looking for new investments in that market. Following our recent trip to the UK, France and Germany we are doing in-depth work on several new ideas - watch this space.



**Ashley Gardyne**  
Senior Portfolio Manager, Fisher Funds Management Ltd  
25 October 2017

## Performance as at 30 September 2017

	3 Months	3 Years (accumulated)	Since Inception November 2007 (accumulated)
<b>Corporate Performance</b>			
Total Shareholder Return	+1.1%	+24.6%	+58.3%
Adjusted NAV Return	+6.2%	+29.6%	+76.9%
<b>Manager Performance</b>			
Gross Performance Return	+7.0%	+45.3%	+149.5%
Benchmark Index <sup>1</sup>	+6.1%	+52.7%	+103.6%

<sup>1</sup> 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, 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,
- » 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, 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 Global Non-GAAP Financial Information Policy. A copy of the policy is available at <http://marlin.co.nz/about-marlin/marlin-policies>

## Portfolio Holdings Summary as at 30 September 2017

Headquarters	Company	% Holding
<b>Canada</b>	Descartes Systems	3.4%
<b>China</b>	Alibaba Group	4.4%
<b>Denmark</b>	William Demant	3.2%
<b>France</b>	Essilor International	3.9%
<b>Germany</b>	Adidas	2.7%
	Fresenius Medical Care	4.0%
<b>Ireland</b>	Icon	3.2%
<b>Israel</b>	Sarine Technologies	1.4%
<b>Italy</b>	Brembo	2.8%
<b>United States</b>	Abbott Laboratories	3.4%
	Alphabet	6.2%
	Amazon.com	2.8%
	Blackhawk	3.0%
	Cerner Corporation	3.2%
	Cognizant Technology Solutions	4.3%
	Core Laboratories	2.5%
	eBay	3.8%
	Ecolab	2.9%
	Edwards Lifesciences	3.8%
	Expedia	3.7%
	Hexcel Corporation	3.3%
	LKQ	4.5%
	Mastercard	5.3%
	PayPal	6.6%
	Signature Bank	2.9%
	United Parcel Service	2.1%
	Zoetis	3.1%
	<b>Equity Total</b>	<b>96.4%</b>
	New Zealand dollar cash	1.6%
	Total foreign cash	2.2%
	<b>Cash Total</b>	<b>3.8%</b>
	Forward foreign exchange contracts	-0.2%
	<b>TOTAL</b>	<b>100.0%</b>

## Company News

### Dividend paid 29 September 2017

A dividend of 1.83 cents per share was paid to Marlin shareholders on 29 September 2017, 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.

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The Marlin quarter update newsletter is produced for the March and September quarters only. The annual and interim reports cover the June and December periods. If you would like to receive future newsletters electronically please email us at [enquire@marlin.co.nz](mailto:enquire@marlin.co.nz)