Quarter Update Newsletter

31 March 2018 – 30 June 2018

marlin
growing globally

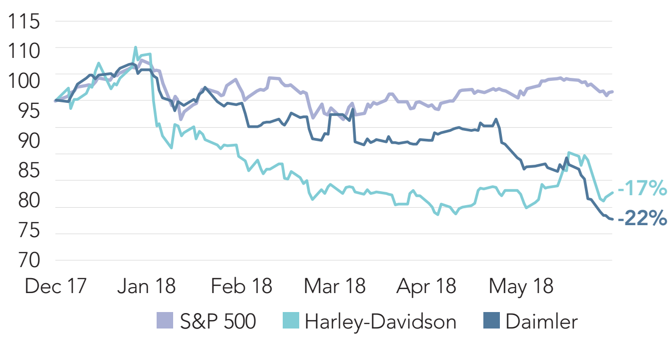
MLN NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$1.02	$0.86	$0.06	14.1%

as at 30 June 2018

- **International markets gained ground during the quarter, however escalating trade tensions between the US and China caused slight sell offs late in June.**
- **The Marlin portfolio lifted 7.3% on a gross performance basis for the three months to 30 June 2018.**
- **We spent some time abroad recently, meeting with a number of Marlin's core holdings and gaining first hand insights from management.**

Stock markets in the US, UK and Europe gained ground in the second quarter, pushing past concerns of rising inflation and interest rates that cause market volatility in the first quarter. While most markets gained ground, they closed below their highest levels as fears of an escalation in the US trade conflict with China resurfaced in the second half of June. Increased tensions between the US and China coincided with a profit warning from car manufacturer Daimler, 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, the impact on the Harley-Davidson and Daimler share prices highlight the disruption a full-blown trade war could cause.

Companies in trade firing line underperforming market in 2018



Portfolio changes

We made two stock changes to the portfolio during the quarter, adding **Facebook** and exiting **Amazon**.

We added **Facebook** to the portfolio in April. Facebook owns four of the most dominant social networking and messaging platforms in the world (Facebook, Instagram, Messenger and WhatsApp) and has an unparalleled ability to deliver an audience of over 2 billion users to advertisers. The average US user spends over an hour a day on Facebook and Instagram combined, and in a world where we are spending less time watching TV and more time on mobile devices, advertisers are having to target potential customers through these digital platforms. We believe Facebook's huge reach combined with the ability to offer highly targeted advertising will ensure Facebook captures a significant share of advertising budgets as they move to digital formats. The heightened investor scrutiny of Facebook following the Cambridge Analytica data breach created an opportunity to buy Facebook at an attractive valuation. While we don't take the regulatory risks facing Facebook lightly, we believe management will do what is necessary to restore user trust.

The addition of Facebook was funded through our exit of **Amazon**. The decision to exit Amazon was a difficult one as we admire Amazon, its founder Jeff Bezos, and the wide moats the company is building around its retail and cloud businesses. However, the share price has more than doubled since we invested nearly two years ago and we believe the market is getting ahead of itself. Specifically, investors may be overly optimistic about the margin levels Amazon can ultimately achieve in its retail business, particularly given future retail growth will become increasingly dependent on loss-making international markets and on less profitable categories (like grocery). Amazon appears priced to perfection, with little room for hiccups.

Notable Returns for the Quarter in local currency

TJX COMPANIES	CORE LABORATORIES	DESCARTES SYSTEMS	LKQ CORPORATION	PANDORA
+17%	+17%	+16%	-16%	-31%

Research trip to the United States

Our Senior Investment Analysts Harry and Chris recently returned from two weeks in the US, to meet with management of around 40 companies, including five of Marlin's existing portfolio companies and a number of companies on our watchlist.

We came away from the meetings feeling positive about the prospects of Marlin's portfolio companies. These meetings combined with the conferences we attended also gave us a better sense of what is happening on the ground in various segments of the US economy. The sentiment of the companies we met was generally upbeat and 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 company **TJX**, the off-price retailer, is seeing this in its stores. The stores we visited were very busy and recent financial results show that TJ Maxx customers are spending more during each trip. The company continues to attract more traffic to existing stores and is successfully rolling out new stores (including for the new HomeSense concept).

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

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 its competitors. Doug is a particularly impressive CEO, he 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 the company 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 Ltd
18 July 2018

Performance

as at 30 June 2018

	3 Months	3 Years (annualised)	5 Years (annualised)
Corporate Performance			
Total Shareholder Return	+6.6%	+9.7%	+14.2%
Adjusted NAV Return	+6.3%	+10.3%	+11.7%
Manager Performance			
Gross Performance Return	+7.3%	+14.2%	+15.7%
Benchmark Index[1]	+5.5%	+10.3%	+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 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 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 29 June 2018

A dividend of 1.96 cents per share was paid to Marlin shareholders on 29 June 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 June 2018

Headquarters	Company	% Holding
Canada	Descartes Systems	3.2%
China	Alibaba Group	4.8%
Denmark	Pandora	2.4%
France	Essilor International	4.7%
Germany	Adidas	3.0%
	Fresenius Medical Care	4.6%
Ireland	Icon	3.5%
United States	Abbott Laboratories	3.6%
	Alphabet	6.9%
	Cerner Corporation	4.2%
	Cognizant Technology Solutions	4.2%
	Core Laboratories	2.0%
	eBay	3.4%
	Ecolab	3.0%
	Edwards Lifesciences	2.5%
	Expedia	4.4%
	Facebook	4.3%
	Hexcel Corporation	3.6%
	LKQ	3.8%
	Mastercard	4.6%
	PayPal	5.8%
	Signature Bank	3.5%
	TJX Companies	5.4%
	United Parcel Service	2.9%
	Zoetis	3.7%
	Equity Total	**98.0%**
	New Zealand dollar cash	1.2%
	Total foreign cash	2.3%
	Cash Total	**3.5%**
	Forward foreign exchange contracts	-1.5%
	TOTAL	**100.0%**

marlin
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