

# Monthly Update

December 2019



MLN NAV

\$1.03

SHARE PRICE

\$1.00

WARRANT PRICE

\$0.07

DISCOUNT<sup>1</sup>

1.6%

as at 30 November 2019

## A word from the Manager

Marlin's gross return for the month was +3.5%, compared with our global benchmark which gained 2.8%.

November was another good month for global equity markets. The US-China trade negotiations continue to drag on. Despite little progress during the month, the absence of a further deterioration in negotiations seems to have given markets hope that a deal can be reached. This trade optimism, coupled with a slight pickup in business sentiment saw the S&P index up 3.6%, reaching all-time highs. Europe also saw signs of improved manufacturing and consumer activity with markets rise 2.5%. The UK saw 3rd quarter GDP and wage growth below expectations; however focus remains on the upcoming elections in December. Despite the weaker data, the UK market rose 2.2%.

### Portfolio Company Developments

**Alibaba (+13%)** was the top performer in the portfolio. Early in the month, Alibaba reported strong results with continued strength in top-line growth on the back of a resilient Chinese consumer, and flat margins despite ongoing investment into growth segments such as cloud and video. Despite these strong results, the share price reaction was muted. Most of the outperformance in November followed the IPO and secondary listing on the Hong Kong stock exchange towards the end of the month, with shares up 10% post listing. Not only does the new listing increase demand for Alibaba stock, but also helps de-risk concerns that Chinese ADRs<sup>2</sup> could be blacklisted by US pension funds or even delisted from US exchanges in the event of an escalating trade war.

**TJX (+6%)** is benefitting as full-price retail struggles. The company looks to buy closeout inventory from other retailers and manufacturers and sell the heavily discounted items to consumers through a 'treasure-hunt' experience. Management are seeing a buyer's market for off-price inventory with a plethora of good inventory available – including from some e-commerce retailers that have over-ordered stock. This favourable environment is transitioning into strong TJX same store sales growth in both the US and Europe.

**Tencent (+3%)** also reported in November with mixed results. Mobile gaming grew 25% as it moves past

the regulatory freeze on new game approvals. Social advertising growth accelerated to 32% as it continues to increase ad load on the WeChat app and fend off increased competition for advertising dollars from short-video players such as ByteDance. Cloud grew at an above-market rate of 80%. However, this was offset by 7% decline in PC gaming and a 28% decline in media advertising. In addition to ongoing macro concerns, delays in approvals for new video content, particularly costume drama, saw sponsorship advertising revenue fall. Despite these challenges total revenue grew 21% with operating profit up 27% - highlighting the strength of Tencent's diversified business model and exposure to key secular trends such as mobile gaming, digital payments and cloud.

**Paypal (+4%)** announced the US\$4 billion acquisition of Honey Science Corporation, the maker of a deal-finding browser add-on and mobile application. Honey's tools help consumers find discounts during the online checkout process and help merchants reduce shopping cart abandonment and increase sales. When integrated with PayPal and Venmo's existing payment products it has the potential to save PayPal users money by checking for discount codes seamlessly while users are going through the online checkout. We see the deal as a sensible step to increase PayPal's value proposition to both shoppers and merchants. While we see the strategic merits of the deal, the \$4 billion price tag was steep and we will be watching closely to see how management integrate and extract value from the acquisition.

**Dollar Tree (-17%)** shares fell following their quarterly earnings report. The company is attempting to turn around performance at discount retailer Family Dollar. There were positive signs with same store sales growing more than 2% on the back of more customers visiting the store. Unfortunately, this progress was outweighed by higher than expected costs at both Dollar Tree and Family Dollar stores. This is being driven by higher wage and freight costs and caused the company to lower its earnings outlook for the year. Despite the disappointing result, we believe the company is on track to deliver sustained growth in both its Dollar Tree and Family Dollar operations.

<sup>1</sup> Share Price Discount to NAV (using NAV to four decimal places and including warrant price on a pro-rated basis).

<sup>2</sup> There are approximately 300 Chinese companies that are traded in the US, either on exchanges or over the counter, either as American Depositary Receipts (ADRs) or as shares.

## Portfolio changes

We exited autoparts distributor, **LKQ**, during the quarter. LKQ has been in our portfolio since 2014. Given high 'alternative part' penetration in the US and LKQ's high market share, organic growth was getting harder to come by. The growth outlook was also impacted by a mix shift towards the lower growth European market. We were less comfortable with the European business model and the company's ability to improve margins in that market. Given the recent spike in LKQ's share price we saw the company as fully valued and took the opportunity to exit the stock.



Ashley Gardyne  
Senior Portfolio Manager  
Fisher Funds Management Limited



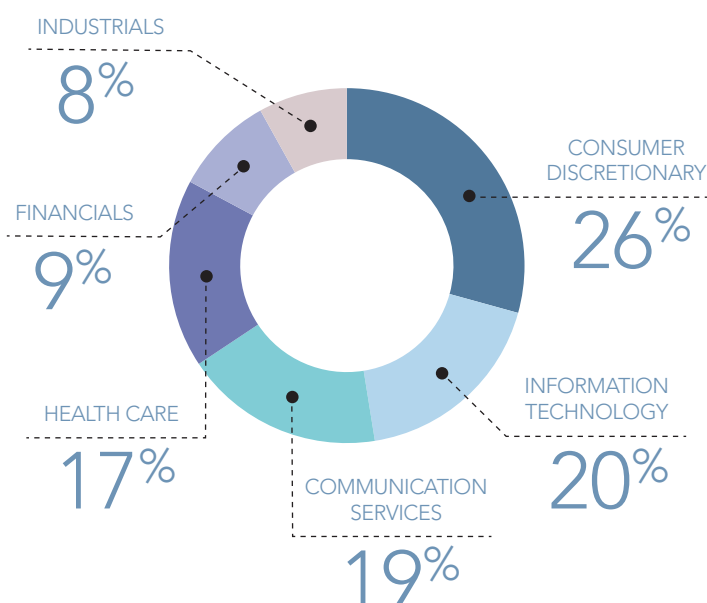
## Key Details

as at 30 November 2019

FUND TYPE	Listed Investment Company
INVESTS IN	Growing international companies
LISTING DATE	1 October 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	10% of returns in excess of benchmark and high water mark
HIGH WATER MARK	\$0.94
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	148m
MARKET CAPITALISATION	\$148m
GEARING	None (maximum permitted 20% of gross asset value)

## Sector Split

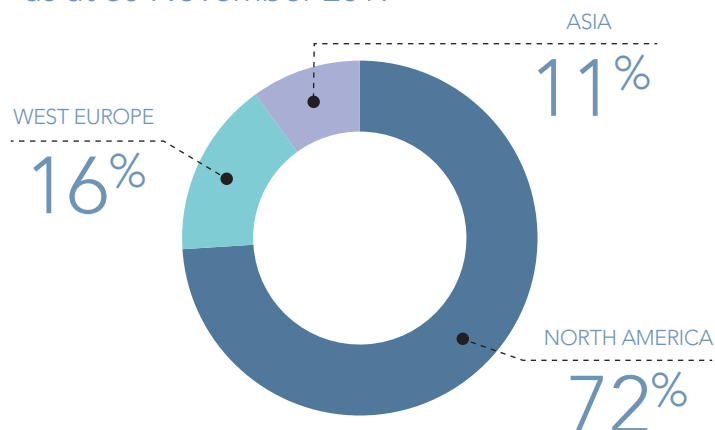
as at 30 November 2019



The Marlin portfolio also holds cash.

## Geographical Split

as at 30 November 2019



# November's Biggest Movers in local currency terms

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

ALIBABA GROUP

+13%

DESCARTES SYSTEMS

+11%

ICON PLC

+11%

TYLER TECHNOLOGIES

+8%

DOLLAR TREE

-17%

## 5 Largest Portfolio Positions as at 30 November 2019

ALPHABET

8%

ALIBABA GROUP

6%

FACEBOOK

6%

PAYPAL

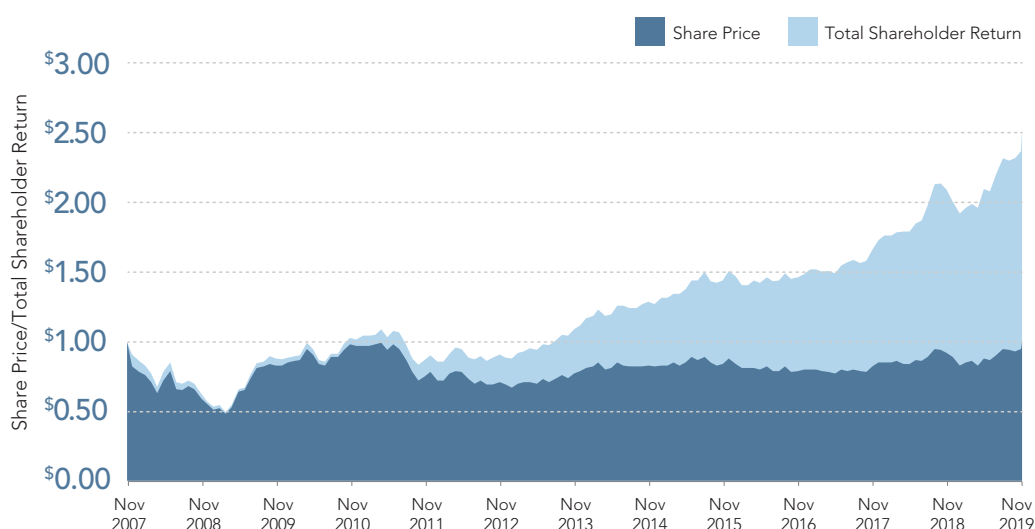
6%

TJX COMPANIES

5%

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

## Total Shareholder Return to 30 November 2019



## Performance to 30 November 2019

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>					
Total Shareholder Return	+7.1%	+10.5%	+26.5%	+19.6%	+14.9%
Adjusted NAV Return	+3.0%	+3.5%	+24.2%	+18.4%	+11.9%
<b>Portfolio Performance</b>					
Gross Performance Return	+3.5%	+4.7%	+27.5%	+22.4%	+15.7%
Benchmark Index <sup>^</sup>	+2.8%	+6.3%	+15.3%	+12.5%	+12.6%

<sup>^</sup>Benchmark index: World Small Cap Gross Index until 30 September 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 expenses, fees and tax,
- » adjusted NAV return – the net return to an investor after expenses, fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection and currency hedging before expenses, 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 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 7.3m of its shares on market in the year to 31 October 2020
- » 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 17 October 2019, a new issue of warrants (MLNWD) 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, (at record date 6 November 2019)
- » Exercise Price = \$0.94 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- » Exercise Date = 6 November 2020
- » The final Exercise Price will be announced and an Exercise Form will be sent to warrant holders in September 2020

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.