

# MONTHLY UPDATE

September 2020

Share Price

\$1.19

MLN NAV

\$1.13

Warrant Price

\$0.21

PREMIUM<sup>1</sup>

10%

as at 31 August 2020

## A WORD FROM THE MANAGER

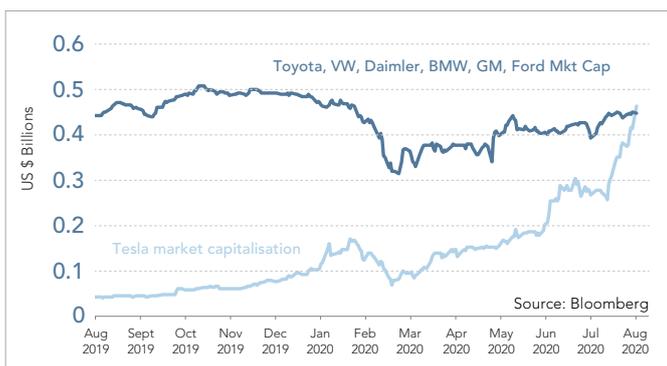
Marlin's gross performance for August was +6.7%, while the Adjusted NAV return for the month was +5.9%. These returns were ahead of our global benchmark which gained +4.7%.

The MSCI All-Country World index was up 6% in August (the sharpest gain in August since 1988) and Wall Street's S&P 500 index gained 7% for the month, wiping out the last of its pandemic losses and reaching an all-time high.

In the US, August marked the end of the second-quarter earnings season, which surprised on the upside relative to market expectations. Even though corporate earnings were down 33% compared to the prior year, 84% of companies beat expectations and a large number revised their earnings guidance higher. Unsurprisingly, the healthcare and information technology sectors were particularly strong.

While we are still identifying areas of value in the market, the recent rally has resulted in pockets of the market that appear increasingly irrational. For example, Apple added the value of Walmart (the 13th largest company in the world) in August, after adding the value of Johnston & Johnston (the 12th largest company in the world) in July. Tesla, which produces around 400,000 cars a year has reached the combined market capitalisation of Toyota, VW, Daimler, BMW, GM and Ford, who together produce roughly 40 million vehicles a year. There has also been a huge jump in the number of share trading account openings on retail platforms like Robinhood this year, which has led to some irrational trading in parts of the market.

### Market valuation of Tesla overtakes combined market valuation of its largest peers



## Portfolio Company Developments

**Facebook (+16%)** was the top contributor to fund performance in August, benefiting from market enthusiasm for Facebook Shop and a proposed TikTok ban in the US. Facebook Shop allows retailers to build a storefront, sell merchandise and receive payments directly on Facebook. On top of this Facebook has also extended its Instagram Checkout pilot from a select group of brands to all US businesses. The push into ecommerce will allow small businesses to reach new customers and provides another avenue for Facebook to monetise its social media properties. President Trump's Executive Order to ban Chinese short video platform TikTok, as well as Facebook launching its own short video product (called Reels) also provided a boost to the stock. Reels has been built into Instagram and has seen good engagement from users since its launch in August.

**Hilton (+20%)** played a little catch-up in August. It should be no surprise that the hotelier has lagged other quality companies given the direct impact coronavirus has had of Hilton hotel franchisees. The company reported earnings during the month, which showed a recovery in hotel occupancy is underway from very low levels. China occupancy is currently leading the US, providing a good indication of the roadmap to recovery ahead. Management were also positive on the sustainability of cost reductions they have taken and their ability to capture market share from independent operators as travellers look for brands they can trust.

**Alibaba (+14%)** had a strong month following a good earnings report and the announcement of the upcoming listing of its Ant Group subsidiary. Sales rose 34% last quarter, with core marketplace growth fully recovering to pre-COVID levels. However, the bigger news this month was the upcoming IPO of Ant Group. Ant Group operates the leading digital payments app Alipay which has over 1 billion users with around 50% share in China's digital payments market. Ant Group also offers a financial service marketplace, where users can access a range of third-party financial services such as loans, wealth management and insurance. This is the fastest growing segment of the business. Alibaba owns 33% of Ant Group which is expected to list with a valuation of between \$200b to \$300b, well above previous estimates.

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

Towards the end of the month **Abbott Labs (+9%)** announced a new coronavirus test. The company plans to sell the test for \$5 and it can produce results in 15 minutes. The test is portable and suitable for settings such as doctor's offices or schools. Abbott shares rose +8% on the news.

**Signature Bank (-5%)** fell with the broader banking sector. The KBW US Bank Index is down 31% year-to-date, compared to the S&P 500 which is up 8%. The reasons for the underperformance of banking stocks include COVID-19 related credit losses and a difficult operating environment due to the recent drop in interest rates. We expect Signature Bank can continue to grow despite the tough operating environment as the bank captures market share by hiring banking teams away from other banks and expands on the West Coast of the US.

## Exits

During the month we exited our position in **Zoetis**, the global leader in animal health medicines and vaccines. We added

Zoetis to the portfolio in 2016 and since then the company has successfully launched a number of blockbuster pharmaceutical products, grown sales rapidly and streamlined its operations. This has resulted in a near doubling of Zoetis's earnings and a materially higher share price. Our investment thesis has played out, Zoetis's valuation now looks stretched, and we would rather reinvest the proceeds elsewhere in the portfolio.



Ashley Gardyne  
Senior Portfolio Manager  
Fisher Funds Management Limited



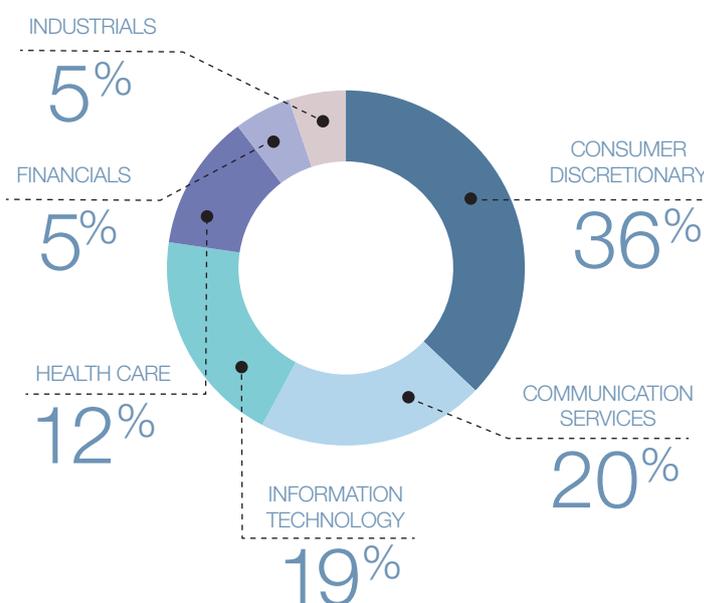
## KEY DETAILS

as at 31 August 2020

FUND TYPE	Listed Investment Company
INVESTS IN	Growing international companies
LISTING DATE	1 October 2007
FINANCIAL YEAR END	30 June
TYPICAL PORTFOLIO SIZE	20-35 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	\$1.03
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	152m
MARKET CAPITALISATION	\$181m
GEARING	None (maximum permitted 20% of gross asset value)

## SECTOR SPLIT

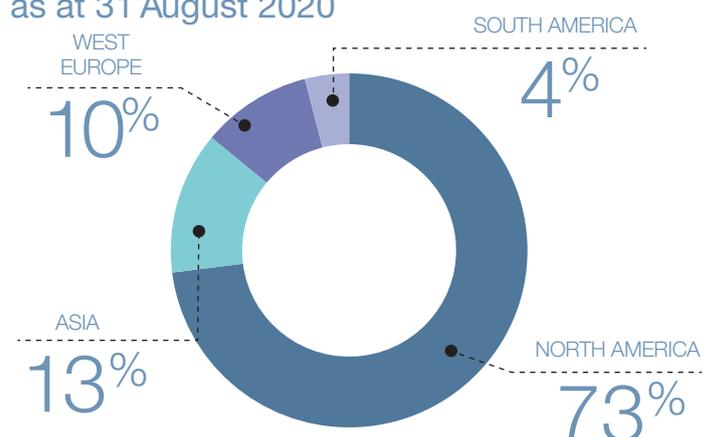
as at 31 August 2020



The Marlin portfolio also holds cash.

## GEOGRAPHICAL SPLIT

as at 31 August 2020



# AUGUST'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO during the month

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

HILTON WORLDWIDE HOLDINGS

+20%

MASTERCARD

+16%

FACEBOOK

+16%

HEICO CORP

+14%

ALIBABA GROUP

+14%

## 5 LARGEST PORTFOLIO POSITIONS as at 31 August 2020

FACEBOOK

8%

ALIBABA

7%

ALPHABET

7%

MASTERCARD

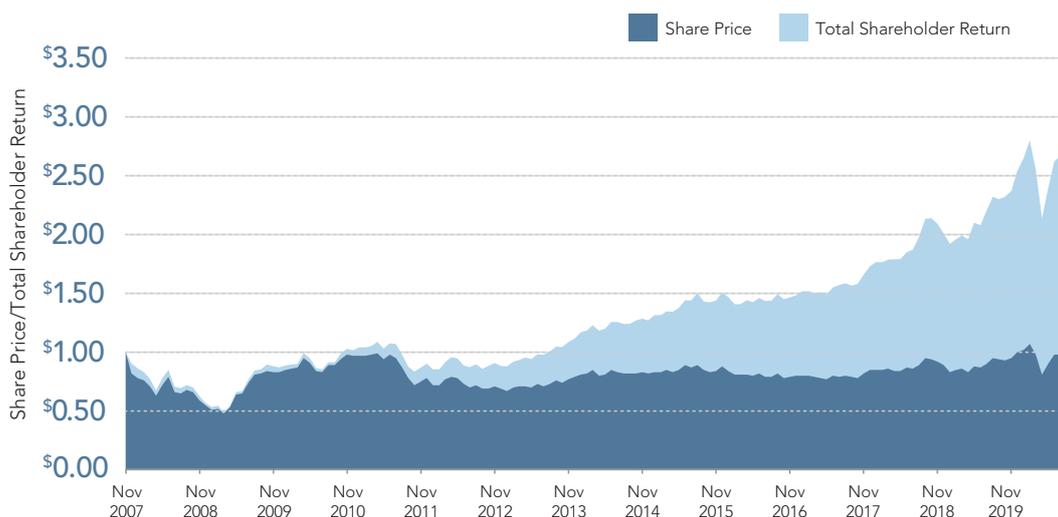
5%

PAYPAL

5%

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

## TOTAL SHAREHOLDER RETURN to 31 August 2020



## PERFORMANCE to 31 August 2020

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>					
Total Shareholder Return	+11.4%	+26.1%	+43.7%	+28.2%	+18.2%
Adjusted NAV Return	+5.9%	+9.7%	+20.5%	+16.9%	+12.6%
<b>Portfolio Performance</b>					
Gross Performance Return	+6.7%	+11.8%	+25.9%	+20.7%	+16.7%
Benchmark Index <sup>^</sup>	+4.7%	+8.4%	+6.5%	+7.4%	+7.9%

<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 combines the share price performance, the warrant price performance, the net value of converting any warrants into shares, and the dividends paid to shareholders. It assumes all dividends are reinvested in the company's dividend reinvestment plan, and that shareholders exercise their warrants, (if they were in the money) at warrant expiry date.

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 20 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, Andy Coupe; and 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 its shares on market
- » 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
- » 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 have no correlation with results historically achieved.



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