marlin
growing globally

QUARTERLY NEWSLETTER

1 October 2020 – 31 December 2020

Share Price	MLN NAV	PREMIUM[1]
$1.30	$1.10	18.3%

as at 31 December 2020

Despite what was an unusually difficult year for society, it was an upbeat year in the stock market. 2020 saw the fastest 30% market decline in history, as well as one of the most whiplash inducing rallies as the market started to see the economy would avoid a prolonged recession despite the global pandemic.

Global shares finished 2020 with a gain of 14%[2], pushed higher by a technology sector rally and hitting new record highs in defiance of the pandemic. The tech-heavy US Nasdaq gained 44% for the year to record its best performance since 2009, as work and commerce moved online due to lockdowns.

Global markets also gained materially in the December quarter, rising 14% as positive COVID-19 vaccine developments resulted in greater certainty that we will soon be on the path to recovery.

Strong performance in a volatile environment

Marlin had a very good year in 2020, delivering a 29.8% gross performance return compared with our global benchmark which gained 10.2% for the twelve months. For the December quarter Marlin gained 10.2% (gross performance) compared with the global benchmark which gained 12.5%. The Adjusted NAV return for the quarter was 7.9%.

Fisher Funds' long established investment style helped us considerably in 2020. Investing in market leading growth companies with strong balance sheets was a winning formula – particularly early in the year when markets were plunging and lower quality, highly indebted and cyclical businesses came under significant selling pressure. As a result, the portfolio fell 11% (gross performance) in the first quarter of the year when COVID-19 hit, materially better than our benchmark which fell 20%. As a result we had more capital to deploy in March and our watchlist of investment candidates allowed us to capitalise on a number of once-in-a-decade investment opportunities. For the last three-quarters of the calendar year the portfolio gained 45% (gross performance), ahead of the benchmark's 38% gain. A significant portion of this outperformance came from the new companies we added to the portfolio during the pandemic-driven sell-off (like **Stoneco** and **Floor and Décor**).

It comes as no surprise that the big winners for the year were companies that benefited from trends that COVID-19 accelerated like ecommerce and digital payments. **PayPal** was the biggest contributor to our performance after surging 117% during the year, while **Amazon** surged 76%. New portfolio addition **Stoneco**, a digital payments company based in Brazil, also contributed materially and has gained 224% since we first added it to the portfolio in May. The biggest drag on fund performance was aircraft composites manufacturer, **Hexcel**, which fell 34% in response to the pandemic driven drop in travel and demand for new aircraft.

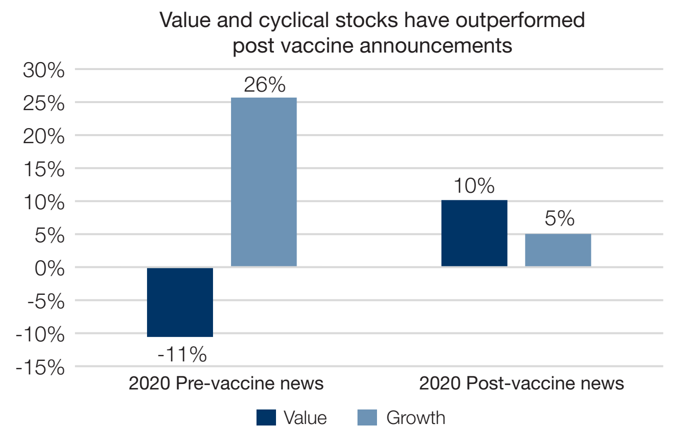
Market dynamics shift on vaccine approvals

There was a shift in market dynamics in the December quarter driven by positive vaccine clinical trials. This drove a risk-on mood in global equity markets, eclipsed worries about the near-term economic outlook and, as shown in the chart below, led to a strong rotation out of growth companies and those that have benefitted from COVID-19 (like ecommerce players) and into cyclical value stocks (like banks and energy stocks). We saw this abrupt change in market dynamics in our portfolio during the quarter, with cyclical companies that underperformed earlier

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

SIGNATURE BANK	STONECO	HEXCEL CORP	HILTON WORLDWIDE HOLDINGS	GARTNER INC
+64%	+59%	+45%	+30%	+28%

in the year like **Signature Bank** and **Hexcel** jumping 64% and 45% respectively.



We have previously talked about how we try to construct a portfolio that isn't too exposed to any one sector or theme and can do well in a range of different market environments. We have been extremely conscious of this in 2020 as many technology stocks benefited from COVID-19 while cyclical companies slumped. While the outperformance of growth companies has helped our performance for most of the year, we have added more cyclical companies to the portfolio throughout the year as this is where we have seen the most value. This saw us add companies like **Hilton**, **Heico**, **Stoneco** and **Floor and Décor** to the portfolio. These new additions and the tilt towards more cyclical companies helped the portfolio keep up with the market benchmark in the December quarter - a period where cyclical and value stocks materially outperformed. That said, while at the margin the portfolio now has more cyclical exposure we haven't changed what we look for in companies. These are all still competitively advantaged growth companies, just like our long-standing investments in **Alphabet**, **PayPal** and **Alibaba**.

Thoughts for 2021: Being careful while others get greedy

We are seeing extremely bubbly behaviour in some parts of the market, which we will continue to avoid. Bitcoin seems to be flavour of the month with new retail investors at the moment. You can understand why when its price (US$40,000 as I write) is up over 700% since its lows during the COVID sell-off. New investors feel like they have been missing out on the fun and have been piling in. Bitcoin doesn't produce any cash flow, it doesn't have any physical uses like precious metals, and is therefore only worth what the next person will pay for it. Buying bitcoin is not investing, it is pure speculation.

[1] *Share price premium to NAV (using NAV to four decimal places)*
[2] *Measured by the MSCI World Index*

Electric vehicle (EV) stocks are a similar story. On the back of the share market success of Tesla (which recently joined the S&P 500 and saw its share price gain 743% in 2020) there has been a bull market in all things EV related. We have seen electric truck manufacturer Nikola (that doesn't even have a working vehicle) list on the stock market and skyrocket to a market valuation of nearly US$30bn, before falling rapidly back to earth. While we don't think investors necessarily need to be fearful after the recent market rally – there are certainly reasons to be very careful in 2021 given bubbles that are appearing in parts of the market.

Sticking to the middle of the fairway

In investing it is always important to be disciplined and not get caught up in all the excitement around the latest themes and trends. We believe this is even more relevant at this point in the investment cycle given how stretched valuations are.

If you look carefully you can still find high quality growth companies to invest in at reasonable prices. Sometimes these are in parts of the market that simply don't grow as rapidly and hence aren't attracting stratospheric valuations (eg. our **Dollar General** and **Dollar Tree** discount store investments, or medical device company **Boston Scientific**). Sometimes these companies may be temporarily out of favour (eg. the UK food-to-go and coffee chain **Greggs**, or **Signature Bank** - both of which have been temporarily impacted by COVID-19). Sometimes these businesses are simply less glamourous than the latest crop of tech market darlings (eg. our investments in **Facebook**, **Alphabet** and **Alibaba** provide exposure to rapidly growing and dominant tech businesses – at a fraction of the valuations of Tesla, Snowflake or Zoom).

We believe sticking to the middle of the fairway in times like these will pay off over the long-term. There is a chance that this discipline could hurt in the short-term if the market darlings like Tesla continue to surge higher, but over the longer-term we have no doubt this is the right approach to help our clients build and preserve their wealth.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
15 January 2021

PERFORMANCE
as at 31 December 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+22.7%	+29.1%	+20.9%
Adjusted NAV Return	+7.9%	+17.2%	+14.1%
Portfolio Performance			
Gross Performance Return	+10.2%	+21.3%	+18.2%
Benchmark Index[1]	+12.5%	+7.9%	+10.9%

[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 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 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 18 December 2020

A dividend of 2.20 cents per share was paid to Marlin shareholders on 18 December 2020, 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 31 December 2020

Headquarters	Company	% Holding
China	Alibaba Group	6.6%
	Tencent Holdings	4.0%
France	EssilorLuxottica	2.9%
Germany	Adidas	4.4%
Ireland	Icon	3.0%
United Kingdom	Greggs Plc	1.3%
United States	Alphabet	7.0%
	Amazon.Com	3.6%
	Boston Scientific Co	3.0%
	Dollar General	3.0%
	Dollar Tree	4.7%
	Edwards Lifesciences Corp.	4.1%
	Facebook	7.9%
	First Republic Bank San Francisco	3.2%
	Floor & Décor Holdings	2.4%
	Gartner Inc	3.4%
	HEICO Corporation	2.0%
	Hexcel Corporation	3.2%
	Hilton Worldwide Holdings	3.2%
	Mastercard	5.4%
	PayPal Holdings	4.5%
	Signature Bank	6.8%
	StoneCo	2.1%
	TJX Companies Inc	4.1%
	Equity Total	**95.8%**
	New Zealand dollar cash	1.3%
	Total foreign cash	2.2%
	Cash Total	**3.5%**
	Forward Foreign Exchange	0.7%
	TOTAL	**100.0%**

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