marlin
growing globally

QUARTERLY NEWSLETTER

1 October 2023 – 31 December 2023

Share Price	MLN NAV	DISCOUNT[1]
$0.94	$0.94	0.4%

as at 31 December 2023

Strong finish to a strong year for markets and for Marlin

Marlin ended the quarter with gross performance up 11.0% and an adjusted NAV return of +10.1%, compared with our global benchmark which was up 8.3%. This brought the 2023 calendar year gross performance to +31.3%, compared with our global benchmark which was up +19.1%.

The market entered 2023 concerned about a hard economic landing. Worse than that, it was concerned about a slowdown in growth amidst a high and sticky inflation environment and therefore ongoing higher interest rates. The market has ended 2023, excited about a soft economic landing, declaring victory on inflation and anticipating a much lower interest rate environment.

Global market backdrop

The interplay between growth, inflation and interest rates dictated equity market performance this year. The first two quarters of the year showed a brighter than expected economic growth outlook, fairly sharp disinflation and stable interest rates. The September quarter was almost a complete reversal – concerns that the robust growth was causing inflation to be a little bit stickier than the market had expected. And the market's interpretation of the economic backdrop was much rosier in the final quarter.

We have continued to upgrade the quality of the portfolio. The average quality and growth characteristics, as captured via our STEEPP framework, has improved over the year. This helped Marlin to outperform its benchmark amidst the regularly changing macro backdrop and sector leadership throughout the calendar year.

Portfolio update

Gartner, the leading IT research business, was up +31% for the quarter, as it reported a reacceleration in new business wins following several quarters of cautious spending by technology vendor customers. Margins were again the standout contributor, well-ahead of expectations as the company continues to reduce its cost base post the pandemic. We had increased the target weighting of Gartner by circa 50% (from 4% to 6%) throughout 2023 as the market was too concerned on what we saw as a temporary slow-down.

Salesforce (+30%) had a strong quarter and reported solid earnings at the end of November. Salesforce met revenue expectations, but the operating profit margin was the standout in the quarter. Salesforce continues to expand margins rapidly as the company is undergoing a period of expense rationalisation, like other companies in the technology space. Operating profit margins have expanded to 17.2% from 5.9% a year ago, demonstrating very high incremental margins for the business and the ability to protect profits when sales growth slows.

Floor & Decor (+23%) benefitted from the expectation of lower interest rates coupled with improving real estate metrics in Q4. Floor & Decor's stock underperformance during Q3 gave us the opportunity to increase our weighting in the company. We believed the market was too short term focussed on the macro environment and missing the large growth runway ahead of the company.

Alibaba (-18%) and **Tencent** (-4%) were two of our worst performers as the Chinese stock market continued to struggle against a tough economic backdrop. We exited Alibaba during the quarter on concerns around increased competition. We also exited PayPal (-5%), one of our other laggards for the quarter. These exits are discussed further below.

Portfolio activity

During the quarter we added two high quality medical equipment companies to the portfolio, **Intuitive Surgical** and **Dexcom**. Both companies have revolutionised the treatment and management of disease. Intuitive Surgical is the leading manufacturer of soft-tissue surgical robotics, used to assist surgeons to perform minimally invasive surgical procedures. Dexcom develops, manufactures, and distributes continuous glucose monitoring (CGM) devices for people with diabetes.

They are both leaders in their respective markets, have large addressable markets with long runways for growth, and benefit from wide economic moats. We took the opportunity to add them to the portfolio as both companies sold off through the second half of this year on GLP-1 weight loss drug concerns.

We exited **Dollar General** (DG) in September due to the lack of clarity over its steady state earnings and lower confidence in management. In early October, DG announced that former CEO Todd Vasos was returning as CEO, after retiring a year earlier. Vasos successfully led DG for seven years as CEO before retiring and was in senior roles at the company for several years before becoming CEO. Quickly after his reappointment as CEO, Vasos spoke with analysts and investors giving strong confidence around containment of the current investment cycle, longer-term margins, and earnings power. As a result, our two main reasons for exiting have changed for the better and we have therefore added DG back to the portfolio at a 2% weighting.

We exited **Alibaba** during the quarter. Alibaba has faced several years of increased competition from both live-streaming companies like Douyin and Kuaishou; and low-cost ecommerce companies like Pinduoduo. Against a tough economic backdrop, competition in the China ecommerce sector has stepped up further recently – with Alibaba having to increase investment to improve user engagement and 'price competitiveness'. This not only impacts revenue growth, but also necessitates further investment, creating uncertainty around the company's ability to improve margins.

We exited **PayPal** during the quarter due to concerns around competition and share loss. PayPal had an early lead in ecommerce payments due to its trusted brand, security, and being the most frictionless checkout option. This was important in the early days of ecommerce as consumers and merchants had less trust of one another and PayPal could bridge this gap. But these advantages have eroded, and PayPal is facing stiff competition from multiple players such as Apple Pay, Shop Pay, and Amazon's Buy with Prime.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
19 January 2024

[1] Share price discount to NAV (using the net asset value per share, after expenses, fees and tax, to four decimal places).

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

DOLLAR TREE	GARTNER	SALESFORCE	NETFLIX	FLOOR & DÉCOR
+33%	+31%	+30%	+29%	+23%

PERFORMANCE

as at 31 December 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+3.1%	(3.3%)	+12.4%
Adjusted NAV Return	+10.1%	+2.6%	+12.2%
Portfolio Performance			
Gross Performance Return	+11.0%	+4.5%	+15.2%
Benchmark Index[1]	+8.3%	+7.2%	+11.1%

[1] Benchmark index : S&P Large Mid Cap/S&P Small Cap Index (hedged 50% to NZD)

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 percentage change in the adjusted NAV value,*
- *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 marlin.co.nz/about-marlin/marlin-policies.

COMPANY NEWS

Dividend Paid 15 December 2023

A dividend of 1.83 cents per share was paid to Marlin shareholders on 15 December 2023, under the quarterly distribution policy. Interest in Marlin's dividend reinvestment plan (DRP) remains high with 39% 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 2023

Headquarters	Company	% Holding
China	Tencent Holdings	4.0%
Ireland	Icon	5.6%
United Kingdom	Greggs Plc	4.4%
United States	Alphabet	6.5%
	Amazon.Com	8.3%
	Boston Scientific	4.4%
	Danaher Corporation	4.5%
	Dollar General	2.1%
	Dollar Tree	2.3%
	Dexcom Inc	2.1%
	Edwards Lifesciences Corp.	6.4%
	Floor & Décor Holdings	5.4%
	Gartner Inc	5.3%
	Intuitive Surgical Inc	2.0%
	Mastercard	5.4%
	Meta Platforms Inc	6.0%
	Microsoft	6.4%
	MSCI Inc	3.0%
	Netflix	3.0%
	salesforce.com	5.5%
	UnitedHealth Group Inc	3.6%
	Equity Total	**96.2%**
	New Zealand dollar cash	1.2%
	Total foreign cash	0.5%
	Cash Total	**1.7%**
	Forward Foreign Exchange	2.1%
	TOTAL	**100.0%**

FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders' jurisdiction of tax residence. If shareholders have not previously self-certified, they will receive a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting or contact Computershare if you are unsure of whether you have completed your form.

marlin growing globally

Marlin Global Limited
Private Bag 93502, Takapuna, Auckland 0740, New Zealand
Phone: +64 9 484 0365
Email: enquire@marlin.co.nz | www.marlin.co.nz

If you would like to receive future newsletters electronically please email us at enquire@marlin.co.nz