marlin
growing globally

# QUARTERLY NEWSLETTER

1 April 2021 – 30 June 2021

| Share Price | Warrant Price | MLN NAV | PREMIUM[1] |
|---|---|---|---|
| $1.60 | $0.26 | $1.28 | 29.6% |

as at 30 June 2021

## Boring proves beautiful in global markets, with large technology companies driving performance in Q2

*Global markets outperformed our domestic market in the second quarter, with travel snapping back and a strong economic recovery taking hold in the US and Europe. This cyclical upswing and strong corporate earnings growth propelled global markets to new highs. Marlin had another strong quarter, with gross performance of +11.1% and an Adjusted NAV return of +10.5%, which outperforming our global benchmark, which gained 6.7%.*

The second quarter was a busy one for Marlin. We exited three small portfolio holdings to make way for a new company, NVR Inc, which we discuss below. Earnings season also delivered good news for our technology holdings, which helped drive our market outperformance.

The economic recovery in the US and UK (and increasingly Europe) has been helped by their world-leading vaccine rollout programmes. In the US, 93% of those aged 65+ have received at least one vaccine dose, as have 60% of 18–64 year-olds. Success with vaccines, combined with government stimulus measures, have spurred consumers into action – driving strong consumption growth. Consumer spending has returned to pre-COVID levels and even domestic travel is closing in on previous highs.

The US stock market led global markets higher and returned 8.2% for the quarter. European markets gained 5.4%, while emerging markets climbed 4.6%.

## Performance aided by strong earnings growth from our large cap technology holdings

Performance was helped in part by our large holdings in Alphabet and Facebook, which both reported good earnings results and saw their share prices surge in the quarter.

This contrasts to the prior two quarters, when large cap technology stocks generally performed poorly, lagging cyclical companies that soared due to enthusiasm around the economic reopening.

**Alphabet** (+18%) saw its profits soar in the first quarter. Its core search and advertising products continued to benefit from pandemic-related shifts in consumer behaviour, which saw more people seek goods and services online. Revenue rose 34% to $55.3 billion, boosted in part by YouTube, which saw its revenue grow nearly 50% from a year ago. Google's Cloud unit grew revenue 56% year-on-year, faster than its two larger competitors, Amazon Web Services and Microsoft Azure. Its Cloud division also materially reduced its losses as its recent investments started to bear fruit, and its Cloud business gains scale.

**Facebook** (+18%) reported even better earnings, smashing revenue estimates by more than 10% and earnings per share estimates by more than 40%. Its advertising sales grew a remarkable 46% to $25.4 billion, and by limiting expense growth to 25% this led to operating income nearly doubling to $11.4 billion. We still see a lot of growth ahead for Facebook as it expands its commerce and payments initiatives in Instagram, Facebook and WhatsApp.

## Other portfolio holdings also supported portfolio gains

**Gartner** (+33%), a company we added in the depths of the COVID sell-off last year, reported strong earnings across all three segments (research, consulting and events). The company's corporate IT research is proving increasingly valuable in a world where digitisation trends are accelerating. These trends and Gartner's strong execution led it to raise its full year earnings guidance by over 20%, which still excludes the upside from the resumption of in-person conferences later this year. Our conviction continues to build in the company and we have recently increased our holding. We ultimately believe Gartner can continue to grow rapidly in IT research, while expanding into other business verticals like marketing, finance and HR.

**Edwards Lifesciences** (+24%), the heart valve manufacturer, was another standout performer in the quarter. As with other medical device players, the strong vaccination roll-out in developed markets has driven optimism for a second half recovery in surgical procedures. Edwards Lifesciences reported better than expected first quarter revenues and we expect momentum to continue to build throughout the year as patients get comfortable returning to hospital for treatment.

**Dollar Tree** (-13%), the US discount retailer, was the biggest detractor from performance in the quarter. The company reported earnings that came in below market expectations as freight costs were a greater headwind than expected. We view freight as a transitory issue and remain optimistic around the company's future. Its Dollar Tree banner, which until recently only sold items for $1, has introduced $3 and $5 items. This should increase sales per store and could materially improve profit margins. The turnaround at its Family Dollar banner also continues to progress well with store renovations and the introduction of combo Dollar Tree and Family Dollar stores providing a meaningful sales uplift.

## A leading US homebuilder added to the portfolio

NVR Inc is the 4th largest homebuilder in the US and they have an exemplarily track record of profitable growth. NVR has a unique business model that we believe provides it with a material advantage over less efficient competitors.

Unlike most homebuilders, which are also land developers, NVR focuses solely on homebuilding, using options to control land, which gives them the right but not the obligation to buy lots on a just-in-time basis. NVR also differentiates itself from peers by pre-fabricating frames, roofs and staircases in one of its eight manufacturing facilities in an effort to save time and cost. Most of NVR competitors still do most building on site. NVR's asset-light model, central pre-fabrication and local economies of scale allow NVR to generate higher returns on invested capital than peers, and therefore grow steadily without having to reinvest as much money.

With only circa 2% market share in a highly fragmented industry, we see the potential for years of market share gains and growth for NVR.

NVR's CEO, Paul Saville, has been with the company for over 20 years and steered the ship through the GFC. He has plenty of skin in the game, with over US$500m worth of shares the company.

**Ashley Gardyne**
Senior Portfolio Manager
Fisher Funds Management Ltd
15 July 2021

[1] *Share price premium to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places)*

## SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

| GARTNER INC | EDWARDS LIFESCIENCES CORP | PAYPAL HOLDINGS | ADIDAS | ALPHABET INC |
|---|---|---|---|---|
| +33% | +24% | +20% | +19% | +18% |

# PERFORMANCE

as at 30 June 2021

| | 3 Months | 3 Years (annualised) | 5 Years (annualised) |
|---|---|---|---|
| Company Performance | | | |
| Total Shareholder Return | +30.1% | +38.3% | +28.5% |
| Adjusted NAV Return | +10.5% | +20.4% | +20.2% |
| Portfolio Performance | | | |
| Gross Performance Return | +11.1% | +24.6% | +24.6% |
| Benchmark Index[1] | +6.7% | +12.1% | +14.5% |

[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 25 June 2021

A dividend of 2.37 cents per share was paid to Marlin shareholders on 25 June 2021, 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 2021

| Headquarters | Company | % Holding |
|---|---|---|
| China | Alibaba Group | 7.3% |
| | Tencent Holdings | 5.4% |
| Germany | Adidas | 3.9% |
| Ireland | Icon | 4.3% |
| United Kingdom | Greggs Plc | 3.0% |
| United States | Alphabet | 6.9% |
| | Amazon.Com | 4.2% |
| | Boston Scientific Co | 3.4% |
| | Dollar General | 4.9% |
| | Dollar Tree | 4.3% |
| | Edwards Lifesciences Corp. | 4.0% |
| | Facebook | 10.6% |
| | First Republic Bank San Francisco | 3.1% |
| | Floor & Décor Holdings | 4.0% |
| | Gartner Inc | 5.1% |
| | Hexcel Corporation | 3.0% |
| | Hilton Worldwide Holdings | 1.4% |
| | Mastercard | 4.8% |
| | NVR Inc | 3.2% |
| | PayPal Holdings | 4.8% |
| | Signature Bank | 5.8% |
| | StoneCo | 1.4% |
| | **Equity Total** | **98.8%** |
| | New Zealand dollar cash | 1.8% |
| | Total foreign cash | 0.3% |
| | **Cash Total** | **2.1%** |
| | Forward Foreign Exchange | (0.9%) |
| | **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. All shareholders will have received 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: https://www.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.



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