marlin
growing globally

QUARTERLY NEWSLETTER

1 January 2022 – 31 March 2022

Share Price	Warrant Price	MLN NAV	PREMIUM[1]
$1.22	$0.05	$1.05	17.7%

as at 31 March 2022

It was a turbulent quarter for global markets as Russia's invasion of Ukraine, increasing inflation and the start of an interest rate hiking cycle saw declines in most global markets. Growth sectors such as tech and consumer discretionary have borne the brunt of this sell-off, whereas sectors such as financials and resources were positive for the quarter. Against this challenging backdrop, Marlin's gross performance declined (14.1%), behind our global benchmark which fell (6.5%).

What a difference a quarter makes. After a strong end to 2021, the start of this year has been dominated by market declines and increased volatility as investors grapple with a more uncertain outlook. Russia's invasion of Ukraine (both major commodity producers) has exacerbated existing inflationary pressures and increased expectations for a more aggressive hike in interest rates.

The combination of commodity inflation and rising interest rate expectations has also driven a rotation out of growth stocks, with more cyclical sectors such as banks and resources leading performance after years of sluggishness. The MSCI World Growth Index declined 10% this quarter, compared with a 1% decline in the more cyclical MSCI World Value Index. High growth and unprofitable tech names were hit particularly hard – as seen in the ARK Innovation ETF that invests in secular growth companies and was down 30% for the quarter.

While economic data is holding up, there is some deterioration on the margins. Consumer sentiment has declined as higher prices and interest rates start to hurt what was an otherwise healthy consumer, with US unemployment back to pre-pandemic levels and wage growth at historic highs. Corporates are cautiously optimistic despite the headwinds from input cost inflation and ongoing supply chain concerns, and earnings estimates for the major indices continue to rise.

The indiscriminate swings in the market are creating pockets of investment opportunity, as high-quality companies get sold-off alongside their more speculative counterparts. As we discuss later, we have taken advantage of this dynamic to add three new names to the portfolio.

Portfolio performance

While Marlin has materially outperformed its benchmark over the medium and long-term, we do expect that there will be periods of underperformance from time to time. That said, we are disappointed at the level of underperformance this quarter. In addition to the wider rotation out of growth stocks, our underperformance was driven by disappointing results from **Meta Platforms** and **PayPal**.

Despite these challenges we still believe in the fundamentals of our businesses, and while sentiment moves markets in the near-term, long-term performance is driven by these fundamentals. We have revisited our investment thesis for each of our holdings and are confident in the long-term prospects for our portfolio companies. The portfolio should grow earnings at a significantly faster rate than the market yet is trading at historically low levels relative to the wider index.

PayPal (-39%) and **Meta (-34%)** both fell following weaker than expected guidance. In both cases, we believe the market has overreacted to what we see as temporary headwinds.

PayPal fell following their earnings announcement, where the company removed their aspiration long-term target of having 750m users. As rapidly acquiring new users is costly, the company would rather focus on driving revenue growth by deepening engagement with their existing users. While they are still targeting close to 10% annual user growth, this is less than investors were looking for. The stock is now back at pre-COVID levels despite the business generating over 40% more revenue today. We believe the company has an organic growth profile that is still largely intact, it owns very attractive payments assets, and is exposed to strong secular e-commerce tailwinds.

Meta (formerly Facebook) reported 20% revenue growth for Q4 (ahead of market expectations), but their commentary on growth for this year disappointed the market. They are seeing some headwinds in advertising demand after changes from Apple that impact ad tracking. Users are also spending more time on Meta's new Reels short video product (rather than scrolling down the timeline / using Stories) and Meta haven't put much ad load on this new product yet. All considered this means revenue in 2022 is likely to grow at c.11%, compared to the 17% growth previously expected. While the result was disappointing, they are still the dominant social media platform with close to 3bn users globally and will continue to benefit from the structural growth of digital advertising. We expect revenue growth to improve throughout the second half of 2022 as some of these headwinds subside.

On the positive side of the ledger, **Dollar Tree (+12%)** shares were up during the quarter as the firm reported it has completed the 25% price increase to $1.25 in their fixed price banner, Dollar Tree, ahead of schedule and with a positive impact on store sales. More important was the appointment of ex-Dollar General CEO Richard Dreiling as the new Executive Chairman. Details around any potential shift in strategy are still limited, but given Dreiling's phenomenal record at Dollar General, we are not surprised this is being viewed positively by the market.

Hexcel (+13%) shares rose in the quarter as unparalleled demand for air travel post COVID and increasing fuel prices have increased expectations for airlines to resume their purchase of new, more fuel-efficient aircraft. As one of the leading suppliers of carbon-fibre components for new aircraft, Hexcel is a key beneficiary of ramping aircraft production levels.

Portfolio activity

We added three new companies to our portfolio this quarter: **Netflix**, **Salesforce**, and **Microsoft**. We exited our positions in **Adidas** and **Hilton** to fund these additions. One of the benefits of active management is the ability to take advantage of any short-term irrationality in markets to invest in high quality businesses that are oversold. Hilton was added to the portfolio during the 2020 COVID selloff, and its share price has since doubled as global travel has resumed.

As we have talked about in recent months, these new additions are competitively advantaged market leaders operating in industries with long-growth runways. **Netflix** dominates the online video market. The company's scale in content creation and ability to spread this cost over its huge global audience base gives it a significant cost advantage versus peers. **Salesforce** and **Microsoft** provide essential software to enterprises and are both well-positioned to grow their share of increasing corporate technology spend as businesses perform digital transformations and move to the cloud.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
19 April 2022

[1] *Share price premium to NAV (including warrant price on a pro-rated basis and 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

PAYPAL	FLOOR AND DECOR	META PLATFORMS	STONECO	GREGGS
-39%	-38%	-34%	-31%	-25%

PERFORMANCE
as at 31 March 2022

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(17.6%)	+26.1%	+21.1%
Adjusted NAV Return	(14.7%)	+13.9%	+14.4%
Portfolio Performance			
Gross Performance Return	(14.1%)	+17.7%	+18.3%
Benchmark Index[1]	(6.5%)	+13.6%	+10.2%

[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 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 March 2022

A dividend of 2.49 cents per share was paid to Marlin shareholders on 25 March 2022, 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 March 2022

Headquarters	Company	% Holding
China	Alibaba Group	5.8%
	Tencent Holdings	5.6%
Ireland	Icon	5.1%
United Kingdom	Greggs Plc	2.9%
United States	Alphabet	7.1%
	Amazon.Com	5.8%
	Boston Scientific	4.4%
	Dollar General	3.9%
	Dollar Tree	4.1%
	Edwards Lifesciences Corp.	2.2%
	First Republic Bank San Francisco	2.9%
	Floor & Décor Holdings	4.6%
	Gartner Inc	4.1%
	Hexcel Corporation	3.1%
	Mastercard	3.8%
	Meta Platforms Inc	8.9%
	Microsoft	3.2%
	Netflix	2.5%
	NVR Inc	2.7%
	PayPal Holdings	7.2%
	salesforce.com	3.2%
	Signature Bank	4.3%
	StoneCo	0.9%
	Equity Total	**98.3%**
	New Zealand dollar cash	0.3%
	Total foreign cash	0.3%
	Cash Total	**0.6%**
	Forward Foreign Exchange	1.1%
	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. 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.

Marlin Global Limited
Private Bag 93502, Takapuna, Auckland 0740, New Zealand
Phone: +64 9 484 0365 | Fax: +64 9 489 7139
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