growing globally

QUARTERLY NEWSLETTER

1 July 2024 – 30 September 2024

Share Price	Warrant Price	MLN NAV	DISCOUNT[1]
$0.92	$0.02	$0.99	6.3%

as at 30 September 2024

Stock market rally continues but lots going on under the hood

Marlin ended the quarter with gross performance down (1.4%) and the adjusted NAV was down (2.0%), compared with our global benchmark which was up +5.5%.

In July and August, softening US labour data and sharply falling inflation spurred expectations of imminent rate cuts by the US Federal Reserve. This drove a sharp change in market leadership – small companies and value stocks started outperforming growth stocks as investors piled into companies that were more in need of interest rate relief. That resulted in growth stocks underperforming value stocks by 7% for the quarter.

In September, the Chinese Government delivered a multi-pronged stimulus package (monetary, fiscal, macro-prudential), at a time when sentiment was at a very low ebb, and the China market had its strongest rally in years.

Against this fast-moving backdrop, the portfolio had four stock specific issues rear their head in a short space of time (the July month was tough). While we expect our investment theses to change from time to time, it is rare to have four things happen at once (discussed below).

Portfolio update

Floor and Décor (+30% for the quarter in local currency) was buoyed by falling mortgage rates, fuelling expectations that the key lead indicator of flooring demand, existing home sales, will rebound from near 50-year lows. Key competitor LL Flooring filed for bankruptcy in August, serving as a reminder of how well Floor & Décor is doing vs competitors in a tough macro environment.

Mastercard (+13%) faced pressure earlier in the quarter due to a combination of a potentially weakening U.S. consumer and lingering concerns after the US District Court dismissed a settlement offering by US Banks/Mastercard/Visa to a group of retailers. Regulation is something Mastercard has dealt with for years and the company has continued to gain market share in every major market around the world, despite most of those markets having heavier regulation than the US.

Tencent (+19%) reported a solid result earlier in the quarter and again demonstrated its ability to outgrow peers against a tough China macro backdrop. More recently, the share price was strong, in line with the Chinese stock market, which was buoyed by a multipronged stimulus package from the Government.

Edwards Lifesciences (-27%) fell sharply during the quarter, as expected growth in its core TAVR medical device fell below expectations. The company revised its full-year guidance from 8-10% to 5-7% growth, citing capacity constraints in the operating rooms used to perform the TAVR procedures. While we think there is still a long growth runway ahead for Edwards, we have reduced our position as we await more clarity on the pace of the turnaround.

Dexcom (-40%) fell sharply during the quarter as it unexpectedly lowered its growth expectations for the year. Unlike Edwards, these headwinds were somewhat self-inflicted. This is a company that has executed well, growing sales of its continuous glucose monitors (CGMs) nearly 30% p.a. over the last five years to around $4 billion globally. Amidst a major salesforce restructure, the launch of new consumer-facing CGM, and the ramp up of two manufacturing facilities, the company has run into some execution challenges. While we think there is still a long growth runway ahead for Dexcom, We have scaled back our position while we wait for greater clarity on the speed of the turnaround.

Portfolio activity

We added Hermès and Nvidia to the portfolio during the quarter.

Hermès is a French luxury design brand that sells leather goods, clothes, silk scarves, homeware and jewellery. The company is known for its iconic Birkin and Kelly bags where resale values often exceed retail. Ultra-high-quality products, exclusivity (key leather products are hard to acquire and have waiting lists) and a vertically integrated supply chain (quality control) give Hermès a strong brand moat. And it is run by a very long-term oriented management team. The luxury sector has been under pressure as Hermes' competitors "over-earned" coming out of Covid-19 by raising prices too aggressively. Hermes got caught up in that poor sentiment (despite the fact the company did not raise prices aggressively) and that gave us an opportunity to add it to the portfolio.

Nvidia is a semiconductor chip designer specialising in GPUs (graphics processing units), of which it is the world's largest supplier (circa 85% market share). Its GPUs are used in data centres (circa 90% of its earnings), robotics, gaming, and autonomous driving. Nvidia's ten-year head start developing its ecosystem of chip hardware, software and networking creates a lock-in effect for customers and underpins the moat. Demand for accelerated compute will remain structurally high for some time. The company's co-founder continues to run the company along with a highly talented management team.

While we still have concerns about there being too much AI hype in the market, coupled with the higher-than-normal uncertainty that comes with a brand-new revenue stream (GPUs being swapped for legacy chips/CPUs in the datacentre), the recent PE valuation de-rating vs the S&P500 by circa 25% gave us an opportunity to initiate a small position.

We exited Dollar Tree and Dollar General during the quarter.

During the GFC, the dollar stores saw sales growth accelerate as consumers "traded down". This defensive characteristic has not been repeated in the current environment. The low-income consumer

[1] Share price discount 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).

(which makes up the majority of the customer base) continues to reduce spending in the face of the higher cost of living. While higher-income consumers are also tightening the belt, the companies are facing increased competition from large discount stores like Walmart and ecommerce retailers trying to win these customers back. This is a change in thesis and hence we exited the small positions.

Reporting on the effects of climate change on Marlin

Marlin will soon be publishing climate-related disclosures, helping investors understand the current and future potential impact of climate change on their investment. The first Marlin Climate Statement for the 30 June 2024 financial year will be published on the Marlin website (marlin.co.nz) around the end of October.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
11 October 2024

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

FLOOR & DÉCOR	EDWARD LIFESCIENCES	DOLLAR TREE	DOLLAR GENERAL	DEXCOM
+30%	-27%	-34%	-36%	-40%

PERFORMANCE

as at 30 September 2024

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(2.3%)	(8.8%)	+9.2%
Adjusted NAV Return	(2.0%)	+0.4%	+8.7%
Portfolio Performance			
Gross Performance Return	(1.4%)	+2.5%	+11.7%
Benchmark Index[1]	+5.5%	+7.1%	+10.3%

[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 27 September 2024

A dividend of 2.07 cents per share was paid to Marlin shareholders on 27 September 2024, 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 30 September 2024

Headquarters	Company	% Holding
China	Tencent Holdings	4.1%
France	Hermes International	2.2%
Ireland	Icon	4.8%
United Kingdom	Greggs Plc	4.0%
United States	Alphabet	6.0%
	Amazon.Com	8.3%
	ASML Holding NV	5.6%
	Boston Scientific	4.3%
	Danaher Corporation	5.0%
	Dexcom Inc	3.7%
	Edwards Lifesciences Corp.	4.0%
	Floor & Décor Holdings	5.2%
	Gartner Inc	4.2%
	Intuitive Surgical Inc	3.6%
	Mastercard	6.2%
	Meta Platforms Inc	4.1%
	Microsoft	7.1%
	MSCI Inc	4.1%
	Netflix	3.0%
	Nvidia Corp	1.0%
	salesforce.com	3.7%
	UnitedHealth Group Inc	3.9%
	Equity Total	**98.1%**
	New Zealand dollar cash	0.1%
	Total foreign cash	0.3%
	Cash Total	**0.4%**
	Forward Foreign Exchange	1.5%
	TOTAL	**100.0%**

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

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