

# MONTHLY UPDATE

August 2020

Share Price

\$1.08

MLN NAV

\$1.07

Warrant Price

\$0.14

PREMIUM<sup>1</sup>

4.5%

as at 31 July 2020

## A WORD FROM THE MANAGER

Marlin's gross performance for July was +4.4%, while the Adjusted NAV return for the month was +3.7%. These returns were ahead of our global benchmark which gained +2.6%.

July saw the fourth consecutive month of positive returns for the MSCI World index. China was one of the top performing markets up 8.9% as emerging economies benefited from the weaker US dollar, which declined around 4% against most major currencies. The US was again a strong performer with the S&P 500 index up 5.6% and the NASDAQ up 6.8%.

Markets continue to be supported by expansive monetary and fiscal policy, combined with economic data showing a continued rebound in the global economy. As an example, data in the US shows that consumer spending has rebounded strongly and is almost back to pre-pandemic levels. Offsetting this however is the risk that a resurgence in COVID cases and renewed restrictions could dampen the recovery.

While we do not believe we are out of the woods economically, we are pleased with how our portfolio companies have been navigating the pandemic. We are now halfway through the second quarter earnings season and the results from most of our companies have demonstrated surprising resilience.

### Portfolio Company Developments

**Alibaba (+16%)** was our top contributor, (per our attribution analysis), buoyed by both the strong performance of emerging markets but also the announcement of the long-awaited IPO of subsidiary Ant Financial. Known primarily for Alipay, one of the leading Chinese mobile payments apps with over 900m users, Ant Financial has expanded into many areas of digital financial services including wealth management, lending and insurance. With a rumoured valuation of US\$200b, this listing would make Ant Financial the most valuable fintech in the world. Alibaba has a 33% share in the business.

**StoneCo (+23%)** also benefited from emerging markets strength in addition to strong earnings results in the previous month. We added StoneCo to the portfolio in May. It is a rapidly growing payment service provider in Brazil that allows small merchants to accept digital payments in-store and online. Digital payment penetration is still low in Brazil but is increasing rapidly due to the shift away from cash and growth in ecommerce - two

trends that have accelerated due to coronavirus. Our research underpins our belief that StoneCo is an attractive founder-led business with many years of growth ahead.

**Amazon (+15%)** continues to benefit from wider adoption of online shopping and people working from home. This was highlighted in Amazon's quarterly earnings report with North American e-commerce revenue growing 51% year-on-year, the highest since 2011, off a much larger base. While Amazon's cloud computing division, AWS, grew 29% the company's backlog grew 65%, suggesting healthy demand ahead. Perhaps the key takeaway for investors, for a firm that continually reinvests earnings back into the business, was a glimpse towards greater than 10% operating profit margins.

**Facebook (+12%)** showed 11% revenue growth despite a depressed global advertising market. While global advertising spend was hit by COVID during the quarter, high user engagement on Facebook and Instagram during lockdown and its attractive direct response ad formats allowed Facebook to take significant market share. Importantly Facebook's results showed that growth continued to accelerate in May and June from depressed levels in April. Facebook's reach has proved popular with small businesses seeking to ramp up their ecommerce strategies and connect with customers during lockdown. Facebook also disclosed that its largest 100 advertisers account for just 16% of its revenue. This shows the importance of small businesses to Facebook, but also highlights the likely limited impact of recent advertising boycotts by large brands.

**Signature Bank (-4%)** was dragged down with the broader banking sector due to falling long-term interest rates - despite the company reporting a strong set of financial results in July (which showed strong deposit and asset growth).

The other detractors from performance were largely concentrated in the industries most exposed to a resurgence of COVID-19 including aerospace, retail and hotels. The challenges to these sectors are best highlighted by the recent quarterly results from **EssilorLuxottica (-2%)** and **Hexcel (-18%)**. Essilor revenue was down 46% for Q2, falling by as much as 70% during April due to widespread lockdown and

<sup>1</sup> Share Price Premium to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places).

retail closures. Hexcel's revenue in its core commercial aerospace segment fell 50% as aerospace manufacturers cut production in the face of reduced air-travel. These businesses are among the most severely impacted by COVID in our portfolio. While they are currently under pressure, they are high quality businesses and we expect their operations to rebound strongly as the global economy reopens and travel eventually resumes.



Ashley Gardyne  
Senior Portfolio Manager  
Fisher Funds Management Limited



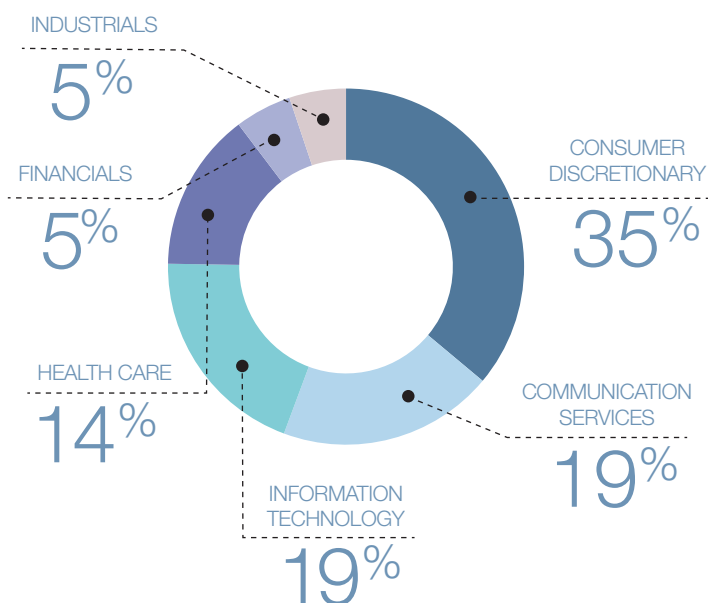
## KEY DETAILS

as at 31 July 2020

FUND TYPE	Listed Investment Company
INVESTS IN	Growing international companies
LISTING DATE	1 October 2007
FINANCIAL YEAR END	30 June
TYPICAL PORTFOLIO SIZE	20-35 stocks
INVESTMENT CRITERIA	Long-term growth
PERFORMANCE OBJECTIVE	Long-term growth of capital and dividends
TAX STATUS	Portfolio Investment Entity (PIE)
MANAGER	Fisher Funds Management Limited
MANAGEMENT FEE RATE	1.25% of gross asset value (reduced by 0.10% for every 1% of underperformance relative to the change in the NZ 90 Day Bank Bill Index with a floor of 0.75%)
PERFORMANCE FEE HURDLE	Changes in the NZ 90 Day Bank Bill Index + 5%
PERFORMANCE FEE	10% of returns in excess of benchmark and high water mark
HIGH WATER MARK	\$1.03
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	152m
MARKET CAPITALISATION	\$164m
GEARING	None (maximum permitted 20% of gross asset value)

## SECTOR SPLIT

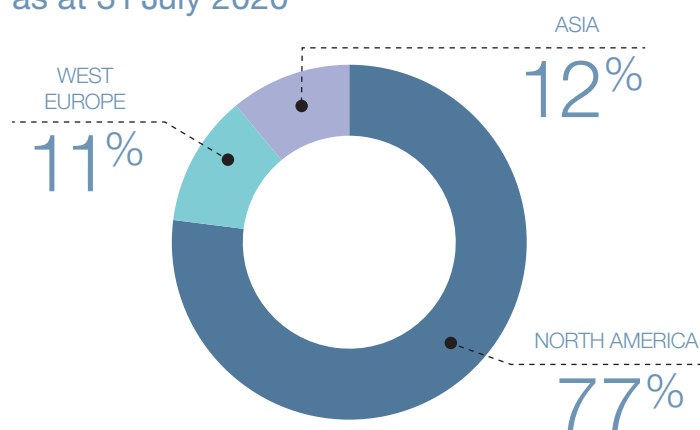
as at 31 July 2020



The Marlin portfolio also holds cash.

## GEOGRAPHICAL SPLIT

as at 31 July 2020



# JULY'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO during the month

Typically the Marlin portfolio will be invested 90% or more in equities.

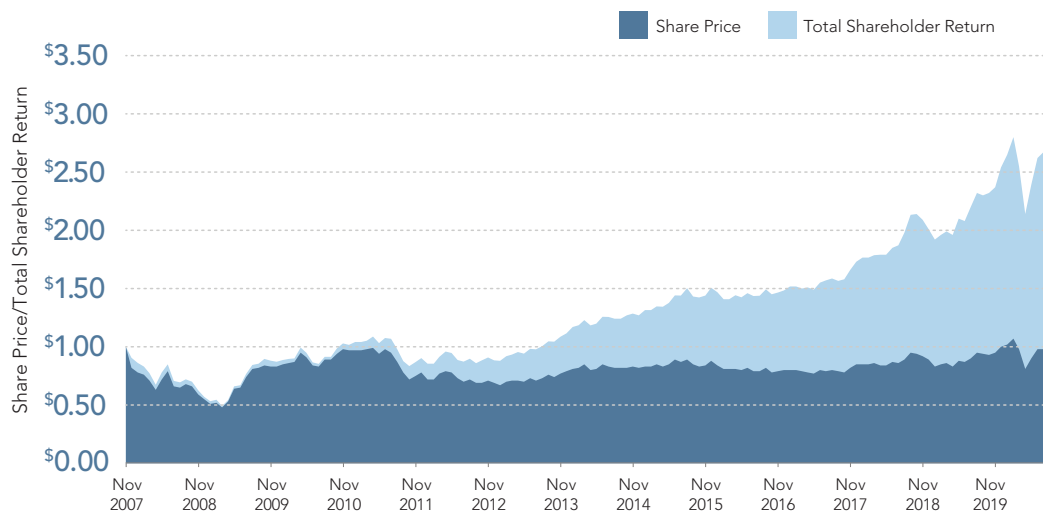
STONECO	ALIBABA GROUP	AMAZON.COM	FLOOR AND DÉCOR HOLDINGS	HEXCEL CORP
+23%	+16%	+15%	+14%	-18%

## 5 LARGEST PORTFOLIO POSITIONS as at 31 July 2020

FACEBOOK	ALPHABET	ALIBABA	SIGNATURE BANK	TENCENT
7%	7%	7%	5%	5%

The remaining portfolio is made up of another 21 stocks and cash.

## TOTAL SHAREHOLDER RETURN to 31 July 2020



## PERFORMANCE to 31 July 2020

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>					
Total Shareholder Return	+11.0%	+23.8%	+27.7%	+23.2%	+14.5%
Adjusted NAV Return	+3.7%	+10.3%	+16.6%	+16.3%	+10.5%
<b>Portfolio Performance</b>					
Gross Performance Return	+4.4%	+12.5%	+20.7%	+19.7%	+14.3%
Benchmark Index <sup>^</sup>	+2.6%	+9.0%	+1.2%	+6.7%	+6.6%

<sup>^</sup>Benchmark index: World Small Cap Gross Index until 30 September 2015 & S&P Large Mid Cap/S&P Small Cap Index (50% hedged 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 monthly update 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/>

## ABOUT MARLIN GLOBAL

Marlin is an investment company listed on the New Zealand Stock Exchange. The company gives shareholders an opportunity to invest in a diversified portfolio of between 20 and 35 quality growing international companies (excluding New Zealand and Australia) through a single, professionally managed investment. The aim of Marlin is to offer investors competitive returns through capital growth and dividends.

## MANAGEMENT

Marlin's portfolio is managed by Fisher Funds Management Limited. Ashley Gardyne (Senior Portfolio Manager), Chris Waters and Harry Smith (Senior Investment Analysts) have prime responsibility for managing the Marlin portfolio. Together they have significant combined experience and are very capable of researching and investing in the quality global companies that Marlin targets. Fisher Funds is based in Takapuna, Auckland.

## BOARD

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. The Board of Marlin comprises independent directors Alistair Ryan (Chair), Carol Campbell, Andy Coupe; and Carmel Fisher.

## CAPITAL MANAGEMENT STRATEGIES

### Regular Dividends

- » Quarterly distribution policy introduced in August 2010
- » Under this policy, 2% of average NAV is targeted to be paid to shareholders quarterly
- » Dividends paid by Marlin may include dividends received, interest income, investment gains and/or return of capital
- » Shareholders who prefer to have increased capital rather than a regular income stream have the opportunity to participate in the company's dividend reinvestment plan (DRP)
- » Shares issued to DRP participants are at a 3% discount to market price
- » Marlin became a portfolio investment entity on 1 October 2007. As a result, dividends paid to New Zealand tax resident shareholders have not been subject to further tax

### Share Buyback Programme

- » Marlin has a buyback programme in place allowing it (if it elects to do so) to acquire its shares on market
- » Shares bought back by the company are held as treasury stock
- » Shares held as treasury stock are available to be re-issued for the dividend reinvestment plan

### Warrants

- » On 17 October 2019, a new issue of warrants (MLNWD) was announced
- » The warrants were issued at no cost to eligible shareholders and in the ratio of one warrant for every four Marlin shares held
- » Exercise Price = \$0.94 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- » Exercise Date = **6 November 2020**
- » The final Exercise Price will be announced and an Exercise Form will be sent to warrant holders in **September 2020**

Disclaimer: The information in this update has been prepared as at the date noted on the front page. The information has been prepared as a general summary of the matters covered only, and it is by necessity brief. The information and opinions are based upon sources which are believed to be reliable, but Marlin Global Limited and its officers and directors make no representation as to its accuracy or completeness. The update is not intended to constitute professional or investment advice and should not be relied upon in making any investment decisions. Professional financial advice from an authorised financial adviser should be taken before making an investment. To the extent that the update contains data relating to the historical performance of Marlin Global Limited or its portfolio companies, please note that fund performance can and will vary and that future results have no correlation with results historically achieved.



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