growing globally

QUARTERLY NEWSLETTER

1 July 2021 – 30 September 2021

Share Price	Warrant Price	MLN NAV	PREMIUM[1]
$1.49	$0.22	$1.24	25.0%

as at 30 September 2021

Global markets pause after a strong first half

Global markets were broadly flat in Q3, due to volatility in emerging markets, concern around the delta variant and a slight slowing in economic momentum. Markets have also started to focus on the potential for the US Federal Reserve to start tapering its quantitative easing – which has supported markets over the last 18 months. The gross performance of Marlin dipped (1.5%), slightly behind our global benchmark which was down (0.5%).

After a very strong first half to the year when global markets (MSCI World Index) gained 12.2%, performance in the third quarter was far more muted. The MSCI World Index was down 0.4%, emerging markets fell 8.8%, European markets were flat, and the US market only edged out a 0.2% gain. The weakness in emerging market equities was largely due to a regulatory crackdown in China, which dragged the Chinese market 18.4% lower for the quarter.

The slight pickup in market volatility in the quarter was driven in part by questions about the economic outlook. While the global economy has rebounded strongly, government stimulus is starting to roll off, the delta variant has impacted consumer sentiment, and when combined with elevated market valuations this has all given investors pause for thought.

All eyes will be on the US Federal Reserve in the coming months. In recent weeks the Fed has indicated that its quantitative easing programme will start to be wound down later this year, paving the way for interest rate hikes at some point in 2022. While the Fed has announced its plans to remove the punch bowl, its monetary policy settings are still very accommodative, and the market has so far taken this greater clarity on tapering in its stride.

Portfolio performance

Marlin's gross performance ended the quarter down (1.5%), compared with our global benchmark which was down (0.5%). This underperformance was largely driven by regulatory pressures impacting our two Chinese technology companies, **Alibaba** and **Tencent**, which we talk about below. Offsetting the significant decline in our Chinese holdings, we had strong results from some of our smaller capitalisation holdings – including **Floor and Décor**, **Gartner** and **Icon Plc**.

Icon (+27% in local currency) delivered another excellent quarterly result, with revenue and bookings both growing above expectations. Icon is a contract research organisation (CRO), which helps pharmaceutical companies design and run clinical drug trials. It continues to benefit from growing spend on drug research and the increased outsourcing of clinical research to trusted service providers like Icon. Outsourcing clinical trials allows biotech and pharmaceutical companies to get drugs to market faster and allows them to focus on higher value areas like research and new drug development. Earlier this year, Icon announced a merger with competitor PRA Health Sciences to create the world's third largest CRO. While the market was initially sceptical of the merger, positive early commentary from management about the integration, combined with solid quarterly results has contributed to Icon's strong recent performance.

China's regulatory crackdown

Our two Chinese stocks **Alibaba** (-35%) and **Tencent** (-21%) were both caught up in the China tech sector sell-off. Having benefited from years of light-touch regulation, the Chinese tech industry is now experiencing a period of increasing regulatory focus.

This heightened regulatory intervention began last year when regulators forced Ant Group to scrap its planned initial public offering (IPO) - after Jack Ma (Alibaba's founder) publicly criticized the management of financial sector State Owned Enterprises. The crackdown has since extended to other companies, including ride-hailing firm Didi (which has since fallen over 40% below its IPO price after a cybersecurity probe).

Looking at the specifics of the regulations being targeted at Alibaba and Tencent helps get a sense for how far the government may want to take this. New antitrust regulations effectively update China's antitrust laws for the internet-era. As an example, they are banning anti-competitive practices such as large tech companies abusing their monopoly positions by prohibiting merchants selling on competitors' marketplaces. This would not be acceptable in developed markets, but China had turned a blind eye until recently.

The government has recently limited under-18s from playing online video games for more than an hour a day. While this will impact Tencent's gaming business, under-18s only account for approximately 6% of their gaming revenue. Regulators want to reduce the impact of addictive games on students, but the financial impact for the private sector will be limited.

Regulations have also been created to strengthen data security rules (for example limitations around moving data between countries/jurisdictions or for foreign companies operating in China). This should have little impact on the more domestic focussed Alibaba and Tencent. These regulations also give consumers more control over how their data is used. This is not dissimilar to the GDPR regulations implemented in Europe in 2018. Despite concerns at the time, not only did GDPR not hurt Google and Facebook, but it helped them as smaller advertisers struggled to adapt their business models.

We accept there are probably more regulations to come, but what we have seen to date suggests these regulations are relatively measured - as opposed to a draconian appropriation by the government.

While these developments will have an impact on Alibaba and Tencent, we believe the market is overreacting as it has done in the past. We suspect the ultimate impact on these businesses will be nowhere near the declines seen in their share prices. Investors in China have been here before. The year after Alibaba's IPO, its stock plummeted 49% due to a range of concerns including regulatory action regarding counterfeit products being sold on its marketplaces. The stock has gone on to gain 150% since then. In 2018 Tencent's share price fell over 45% following a temporary government suspension of video game approvals. Its share price went on to increase over 190% to its recent peak (and is still up 75% despite the recent selloff).

Despite the recent regulatory crackdown, we still believe both Tencent and Alibaba are great businesses and have years of growth ahead in sectors with secular tail winds - like ecommerce, online advertising, digital payments and cloud computing.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
15 October 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

ICON PLC	GARTNER INC	TENCENT HOLDINGS	ALIBABA GROUP	STONECO
+27%	+25%	-21%	-35%	-48%

PERFORMANCE

as at 30 September 2021

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(5.7%)	+30.3%	+26.8%
Adjusted NAV Return	(2.0%)	+17.7%	+18.5%
Portfolio Performance			
Gross Performance Return	(1.5%)	+21.8%	+22.6%
Benchmark Index[1]	(0.5%)	+10.3%	+13.2%

[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 24 September 2021

A dividend of 2.52 cents per share was paid to Marlin shareholders on 24 September 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 September 2021

Headquarters	Company	% Holding
China	Alibaba Group	6.5%
	Tencent Holdings	6.8%
Germany	Adidas	1.9%
Ireland	Icon	5.1%
United Kingdom	Greggs Plc	3.0%
United States	Alphabet	7.1%
	Amazon.Com	4.6%
	Boston Scientific Co	4.8%
	Dollar General	4.9%
	Dollar Tree	5.0%
	Edwards Lifesciences Corp.	3.0%
	Facebook	9.9%
	First Republic Bank San Francisco	2.6%
	Floor & Décor Holdings	4.4%
	Gartner Inc	5.2%
	Hexcel Corporation	3.0%
	Hilton Worldwide Holdings	1.6%
	Mastercard	4.5%
	NVR Inc	3.3%
	PayPal Holdings	4.1%
	Signature Bank	6.9%
	StoneCo	1.3%
	Equity Total	**99.5%**
	New Zealand dollar cash	1.1%
	Total foreign cash	0.7%
	Cash Total	**1.8%**
	Forward Foreign Exchange	(1.3%)
	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
growing globally

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