growing globally

QUARTERLY NEWSLETTER

1 January 2021 – 31 March 2021

Share Price	MLN NAV	PREMIUM[1]
$1.30	$1.18	9.9%

as at 31 March 2021

Economic recovery and markets in full flight — what's next?

Global share markets have started 2021 with the same economic optimism we witnessed following the Pfizer vaccine announcement in November. Economic activity has surged in the US, driven by a rapid vaccine roll-out that has already reached a third of the population. Travel bookings have spiked, restaurants are serving more meals, and offices may reopen in September. The CEOs of Hilton and TripAdvisor predict much stronger travel volumes than initially expected. Vaccine optimism drove global markets 4.5% higher in the first quarter (according to the MSCI World Index), while the US S&P 500 Index is up 6.5%.

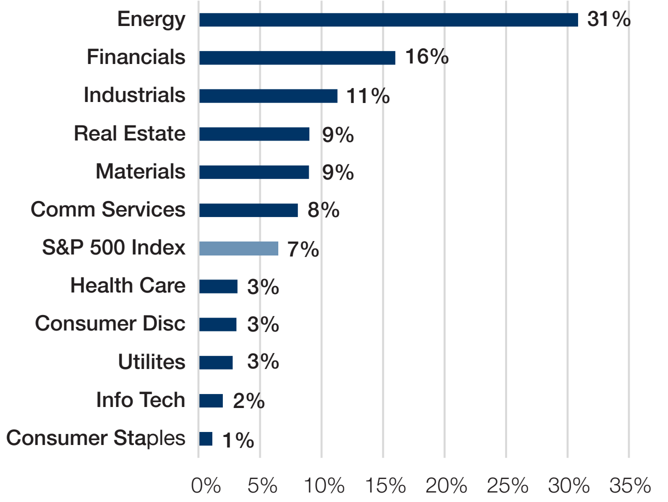
Strong portfolio performance despite lagging technology stocks

The Marlin Portfolio enjoyed a strong quarter despite the headwinds facing many growth companies. It delivered a 10.2% gross performance return, beating our global benchmark, which gained 8.6%. The Adjusted NAV return for the quarter was +9.6%.

So far, 2021 contrasts starkly with last year, when the technology sector drove markets higher despite weak cyclical stocks. The first-quarter has instead been characterised by underperforming technology, healthcare, and consumer companies (which we tend to favour), and outperforming energy companies, banks, and industrials. Investors are essentially betting an economic recovery will benefit the sectors that struggled in 2020, at the expense of stay-at-home winners like Amazon and PayPal.

Cyclical outperformance a stark contrast to 2020

(S&P 500 sector performance in Q1 2021)



High quality growth companies have struggled so far in 2021. While the underperforming technology sector weighed on our portfolio, strong performances from a handful of companies — including Signature Bank — helped us outperform the market in the first quarter.

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

SIGNATURE BANK	GREGGS PLC	ALPHABET INC	ADIDAS	STONECO
+68%	+25%	+18%	-11%	-27%

Three companies contributed significantly to portfolio performance

Signature Bank (+68% in the quarter) continues to perform well, even compared to the broader US banking index, which was up +23% in the quarter. Underpinning this rise was an increase in the US 10-year government bond yield, which ended the quarter at 1.74%, up from 0.91% at the start of the year. Signature Bank is also benefiting from an influx of cheap deposits. This has come on the back of recent team hires in areas including fund banking (services to private equity firms), mortgage servicing, and cash management for cryptocurrency exchanges.

During the quarter, we reduced our Signature Bank position slightly after rapid share price growth took the holding up to a 12% weight in the portfolio. But the company remains one of our largest positions — we are still confident it can grow earnings at 10 to 20%. It was also pleasing to see our other bank investment, First Republic (+13%), contribute positively to performance.

Alphabet (+18%) was the second largest contributor to the quarter's performance, driven by a strong digital advertising market and reports that advertisers are starting to return to pre-COVID advertising patterns.

Greggs (+25%), an 'on-the-go' UK food retailer that we added to our portfolio in December, was the third biggest contributor to performance. Our recent meeting with CEO Roger Whiteside made us much more positive about the ongoing effect of COVID and Gregg's long-term strategy.

Same-store sales are recovering quickly as the UK economy reopens. The company has resumed opening 100 new stores a year and lifted its long-term target from 2,500 to 3,000 stores (they currently have 2,100), which still appears conservative. We are encouraged by the company's progress in digital channels (delivery, and click and collect), a revamped loyalty program, and other initiatives to increase sales.

Look ahead — avoid COVID 'tunnel vision'

The last year in markets has been defined by COVID. But it is easy to focus too much on COVID and get 'tunnel vision'. What COVID-driven behaviours will become permanent? How quickly will the vaccine roll-out progress? When will international travel resume? The questions are endless. While it is important to reflect on the lessons from the last year, investors also need to think ahead. You don't want to invest while looking in the rear-view mirror.

COVID tunnel vision has created several risks. At first there was a stampede to invest in companies that benefitted from lockdowns. These so-called 'COVID-beneficiaries' like Zoom (video calling), Shopify (ecommerce) and Teladoc (remote medicine) attracted very high investor

[1] *Share price premium to NAV (using NAV to four decimal places)*

interest and pushed valuations to stratospheric levels. We have also seen this behaviour in other high-growth companies like electric vehicle manufacturers, software, and biotech stocks. Many prices are now extreme.

More recently, investors have focused on companies that will benefit from economies reopening. Companies like Expedia, Southwest Airlines, and AMC (a cinema chain) are all trading above pre-pandemic levels though they are not fully out of the woods.

Are investors focussing too much on such stocks and overlooking other parts of the market? We think so.

Investors bidding up many high-growth tech stocks have neglected big 'boring' technology companies like our portfolio companies **Facebook**, **Alibaba** and **Amazon**. These companies have underperformed the market over the last six months. Facebook, for example, is benefitting from the ongoing move to online advertising. Its revenue is growing at over 20% a year — triple the market rate — while trading on a valuation multiple in line with the broader US share market. Investors are overlooking value in plain sight as they rush for the latest high-growth stocks.

Similarly, quality businesses that may not benefit as much in an economic upturn, but should still grow strongly through the cycle, are currently being ignored. Examples of these in our portfolio are our discount store investments (**Dollar General** and **Dollar Tree**), medical device company **Boston Scientific**, and UK food retailer **Greggs**.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
15 April 2021

PERFORMANCE

as at 31 March 2021

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+1.8%	+29.4%	+21.8%
Adjusted NAV Return	+9.6%	+18.8%	+17.6%
Portfolio Performance			
Gross Performance Return	+10.2%	+23.2%	+21.9%
Benchmark Index[1]	+8.6%	+11.7%	+13.0%

[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 26 March 2021

A dividend of 2.21 cents per share was paid to Marlin shareholders on 26 March 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 31 March 2021

Headquarters	Company	% Holding
China	Alibaba Group	6.3%
	Tencent Holdings	4.1%
France	EssilorLuxottica	3.0%
Germany	Adidas	3.6%
Ireland	Icon	4.5%
United Kingdom	Greggs Plc	3.4%
United States	Alphabet	7.0%
	Amazon.Com	3.2%
	Boston Scientific Co	3.1%
	Dollar General	5.0%
	Dollar Tree	4.8%
	Edwards Lifesciences Corp.	3.6%
	Facebook	10.8%
	First Republic Bank San Francisco	3.4%
	Floor & Décor Holdings	3.9%
	Gartner Inc	4.7%
	HEICO Corporation	1.5%
	Hexcel Corporation	2.9%
	Hilton Worldwide Holdings	1.5%
	Mastercard	5.1%
	PayPal Holdings	4.4%
	Signature Bank	6.6%
	StoneCo	1.4%
	TJX Companies Inc	1.5%
	Equity Total	**99.3%**
	New Zealand dollar cash	1.7%
	Total foreign cash	0.2%
	Cash Total	**1.9%**
	Forward Foreign Exchange	(1.2%)
	TOTAL	100.0%

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