marlin
growing globally

# QUARTERLY NEWSLETTER

1 April 2024 – 30 June 2024

| Share Price | Warrant Price | MLN NAV | DISCOUNT[1] |
|---|---|---|---|
| $0.96 | $0.03 | $1.03 | 6.0% |

as at 30 June 2024

## Decelerating economic growth narrows the global stock market rally

Marlin ended the quarter with gross performance down -1.4% and an Adjusted NAV return of -2.0%, compared with our global benchmark which was down -0.5%.

We have become used to bond yield gyrations being the primary driver of equities in the last few years. However, this quarter it was a shift in economic growth expectations that pushed equities around.

After a much broader rally in the first quarter of 2024, driven by accelerating global economic growth expectations, the second quarter rally was much narrower. Key economic growth drivers shifted from surprising positivity in April to surprising negativity today. As a result, 2024 US GDP forecasts that had been getting lifted all year are now being trimmed slightly. This drove underperformance of cyclical sectors like transport and housing which are typically quite sensitive to shifts in economic expectations. The S&P500 equal weighted index (removing the disproportionate influence of large tech) was down 2%.

While last year we remember the Magnificent 7 (META, AMZN, GOOGL, MSFT, NVDA, AAPL, TSLA) driving most of the stock market gains, this quarter it has narrowed further to The Famous Four (GOOGL, NVDA, AAPL, and TSLA). The ongoing rally in a narrow subset of AI related stocks drove companies like NVDA, AAPL, and perceived AI power winners like Constellation Energy. We have exposure to the AI thematic via our "picks and shovels to the AI boom" - the cloud providers like MSFT, GOOGL and AMZN. We also have exposure via the biggest users of AI technology (e.g. META). And we have exposure via ASML, which has a near monopoly on the manufacturing equipment that makes the AI chips. But these stocks didn't keep pace with NVDA and AAPL in the quarter.

## Portfolio update

**Tencent** (+24%) benefited from the improved sentiment in China. Tencent is one of the highest quality companies in China, with its Weixin mobile app used daily by over 1 billion people – for communicating with friends, watching videos, or paying for dinner. Tencent is in the early stages of monetising this large user base through highly profitable revenue streams like advertising and financial services.

**Alphabet** (+21%) delivered a strong earnings result. An unexpected acceleration in Search revenue growth helped put AI disruption concerns to bed for the time being. Its new AI product, Search Generative Experience (SGE), has had positive initial results - consumers are increasing the number of searches, which potentially increases the revenue pie. Google Cloud, YouTube and operating income margins all outperformed expectations. We took some profits during the sharp outperformance.

Two of our medical device companies, **Boston Scientific** (+13%) and **Intuitive Surgical** (+11%) are both launched new technologies that will drive material revenues over the next few years. Boston Scientific's market-leading FARAPULSE device helps correct an irregular heartbeat while minimizing the damage to nearby healthy tissues, with an addressable market in the billions of dollars. Intuitive Surgical announced its next-generation surgical robot, the DV5, with significant improvements over its decade-old predecessor.

**Amazon** (+7%) also delivered a solid earnings report. AWS, Amazon's cloud computing unit, continues to reaccelerate growth as optimisation headwinds recede, growing 17% (vs. 15% expected). And AWS' operating margin at 38% was well ahead of consensus at 30%; and management is confident there is more upside to overall company operating margin. At the end of the quarter, it was reported that Amazon plans to introduce an ultra-low-cost section on their eCommerce platform which helped address concerns around low-cost competition from the likes of Temu and Shein

**Mastercard** (-8%) was a laggard on the back of a mixed earnings result, a softening US consumer and more recently US District Court Judge Brodie dismissed a settlement offering by US Banks/Mastercard/Visa to a group of retailers. This case dates to 2005 and is related to an alleged over-charge on card swipe fees. We continue to monitor this case.

**Salesforce** (-15%) reported weaker than expected earnings. While software subscription revenue was largely as expected, the guidance for expected key growth metrics was below expectations. Additionally, management couldn't calm nerves about potential large-scale M&A it might do soon. After the stock price fall in May, it rebounded as investors saw the move as over-done. We reduced our weighting given the on-going headwind to sales cycles and customers slightly shifting spend away from digital transformation and towards AI initiatives.

**Dexcom** (-18%) struggled during the quarter despite reporting a solid earnings result. The fact the company barely lifted full year revenue and earnings guidance, coupled with some rekindled concerns about GLP1s on the business impacted the price. We have added to our position into this weakness.

**Dollar General** (-15%) and Dollar Tree (-20%) underperformed as a tough backdrop for low-income consumers overshadowed the tailwinds from higher-income consumers trading down and specific store improvement initiatives. While customer traffic grew at both stores, customers reduced their spend per visit; reduced spend on more profitable discretionary items; and shoplifting continues to be a headwind not just for the Dollar Stores but retailers globally. We reduced our target weights given these ongoing headwinds are causing the two companies to underperform versus our expectations.

**Floor & Décor** (-23%) was impacted by soft earnings, weakening existing home sales (a key driver of flooring sales) and ongoing high mortgage rates. While same-store sales growth was down -11% for the first quarter, the market expects this was the trough. With US

[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).*

30-year mortgage rates still hovering around 7%, homeowners don't want to move house and trigger a refinance to the higher mortgage rate. This has meant existing home sales continue to remain near GFC lows.

### Portfolio activity

In May we added **ASML** to our portfolio. ASML is the leading manufacturer of lithography machines used to produce semiconductor chips. ASML has 100% market share in the cutting-edge lithography machines that are used to manufacture the most advanced semiconductor chips such as those used in smartphones and laptops. Advances in areas such as AI and autonomous driving will require increasing amounts of these advanced semiconductor chips, which will drive ongoing demand for ASML's advanced lithography machines. While the AI spotlight is currently on companies like Nvidia or AMD that are generating AI revenues today, ASML's AI revenue is currently minimal, but this long-term structural demand for increased computing power will underpin ASML's revenue growth over the medium-to-longer term.

**Sam Dickie**
Senior Portfolio Manager
Fisher Funds Management Ltd
12 July 2024

## SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

| TENCENT | ALPHABET | DEXCOM | DOLLAR TREE | FLOOR & DÉCOR |
|---|---|---|---|---|
| +24% | +21% | -18% | -20% | -23% |

## PERFORMANCE

as at 30 June 2024

| | 3 Months | 3 Years (annualised) | 5 Years (annualised) |
|---|---|---|---|
| **Company Performance** | | | |
| Total Shareholder Return | (1.2%) | (9.8%) | +10.9% |
| Adjusted NAV Return | (2.0%) | +0.4% | +10.6% |
| **Portfolio Performance** | | | |
| Gross Performance Return | (1.4%) | +2.4% | +13.6% |
| Benchmark Index[1] | (0.5%) | +5.0% | +9.8% |

[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 June 2024

A dividend of 2.08 cents per share was paid to Marlin shareholders on 27 June 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 June 2024

| Headquarters | Company | % Holding |
|---|---|---|
| China | Tencent Holdings | 4.0% |
| Ireland | Icon | 4.5% |
| United Kingdom | Greggs Plc | 4.1% |
| United States | Alphabet | 5.9% |
| | Amazon.Com | 9.3% |
| | ASML Holding | 2.5% |
| | Boston Scientific | 3.9% |
| | Danaher Corporation | 4.1% |
| | Dexcom Inc | 4.9% |
| | Dollar General | 2.1% |
| | Dollar Tree | 2.0% |
| | Edwards Lifesciences Corp. | 4.5% |
| | Floor & Décor Holdings | 5.6% |
| | Gartner Inc | 4.4% |
| | Intuitive Surgical Inc | 4.0% |
| | Mastercard | 5.2% |
| | Meta Platforms Inc | 5.4% |
| | Microsoft | 7.1% |
| | MSCI Inc | 2.4% |
| | Netflix | 2.5% |
| | salesforce.com | 4.2% |
| | UnitedHealth Group Inc | 4.0% |
| | **Equity Total** | **96.6%** |
| | New Zealand dollar cash | 0.5% |
| | Total foreign cash | 2.7% |
| | **Cash Total** | **3.2%** |
| | Forward Foreign Exchange | 0.2% |
| | **TOTAL** | **100.0%** |



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