marlin
growing globally

QUARTERLY NEWSLETTER

1 October 2021 – 31 December 2021

Share Price	Warrant Price	MLN NAV	PREMIUM[1]
$1.48	$0.20	$1.26	21.8%

as at 31 December 2021

Global markets end the year on a high, despite uncertainty caused by inflation and Omicron

A final surge in the December quarter saw global markets end a strong year at all-time highs. The gains came despite temporary volatility caused by the Omicron variant and global central banks starting to unwind their accommodative monetary policy settings. Marlin's December quarter gross performance was +4.2% and the Adjusted NAV was +3.5%, compared to our global benchmark which was up 4.7%.

A strong year for global equities

It has been another strong year in global share markets, with the US S&P 500 Index up 27% and the MSCI World Index up 20%, resulting in solid gains for many investors. While global markets have rallied, a lot has gone on behind the scenes economically. Covid aftershocks, including supply chain disruptions and elevated consumer spending featured strongly, and the resulting inflation and interest rate increases have created uncertainty for investors. Despite the uncertainty, global markets have continued to climb given a strong economic impulse caused by reopening, policy stimulus and a resilient consumer. This has fuelled strong corporate earnings growth, particularly in the US, where over 80% of companies reported earnings growth ahead of market expectations in the most recent quarter. US corporate earnings are now more than 30% ahead of 2019 levels, despite the business disruption caused by Covid.

It isn't only the US market that has had a strong run. Markets in Europe, the UK, Japan and Australia were also up double digits. The only black mark was China and emerging markets more generally, with the MSCI China Index and the MSCI Emerging Markets Index falling 22% and 5% respectively.

Fourth quarter portfolio developments

Strong performance from some of our smaller cap holdings including Dollar Tree, NVR and Signature Bank wasn't enough to offset the performance drag caused by our emerging market stocks (Alibaba and StoneCo) and PayPal in the December quarter.

Dollar Tree (+47%), a US discount retailer, was the top performer in the portfolio in the quarter. Shares rallied on news that the company was moving away from its fixed $1 price point. The announcement that they are 'breaking the buck' and rolling out a new US$1.25 price point in all 8,000 Dollar Tree stores is a positive step given the inflationary pressure the company has been facing. Freight costs have been a significant headwind for the company recently and the 25c price increase should help offset cost inflation and lift profit margins back to prior levels. Even with this price increase, we still believe Dollar Tree retains a very strong customer value proposition compared to peers. The rollout of $3 and $5 price points will also allow the company to add new categories for customers and offer the prospect of higher sales growth and margins in the years ahead.

Signature Bank (+19%) continues to perform well. An update during November was further evidence that the bank is outpacing its peers in loan and deposit growth. While 2021 has been a standout year with assets up 70% year-over-year, we continue to think the company can produce robust growth going forward. The bank has a unique operating model of hiring high-performing banking teams from competitors, incentivising them well, and providing a high-touch service for clients. This has allowed Signature Bank to continually grow organically and enter new regions and markets. With best-in-class profitability and excess cash on the balance sheet to deploy, we believe earnings can grow ahead of deposit and revenue growth in the coming years.

On the negative side of the ledger, **PayPal** (-28%) sold off during the quarter after the company lowered its 2021 revenue guidance and provided 2022 growth expectations that were slightly below market expectations. The weaker guidance was due to eBay transitioning away from PayPal (a temporary headwind which should abate later in 2022), but also due to more consumers shopping in-store this holiday season (to reduce the risk of supply chain disruptions stopping ecommerce parcels arriving in time for Christmas). On a positive note, PayPal announced a partnership that will allow Amazon customers to pay with PayPal's Venmo app, which should drive incremental payment growth over time. PayPal are also gaining traction in the buy now pay later space. Overall, we believe PayPal is executing effectively on its long-term strategy, while growing its payment volumes at over 30% per annum and its revenue and earnings at close to 20% per annum.

Alibaba (-20%) continued to slide this quarter after reporting earnings that showed slowing ecommerce growth due to Chinese economic headwinds and intense competition. Over time there are three variables that will drive Alibaba's share price: its e-commerce market share, profit margins and the level of investment required to keep driving growth. We think the market is being too negative on the eventual outcome of these drivers and we remain confident that growth in Alibaba's core e-commerce business will eventually accelerate. We also remain positive on the company's international retail and cloud computing segments which both continue to grow strongly.

StoneCo (-51%), a Brazilian payment service provider, was the worst performer in the portfolio during the quarter. While StoneCo's third quarter earnings showed that it continues to grow its customer base and payment volumes rapidly, profitability missed expectations and weighed heavily on the company's share price. The main concern from the earnings release was the company's rising financial expenses (and compressed margins) due to increasing interest rates, which it has not yet been able to pass on to customers. The positive news in the quarter was that the company continues to sign on new customers at a rapid rate, more than doubling the client base in the past year to 1.3 million active clients. We were disappointed by StoneCo's results and are doing more research to understand the company's ability to pass higher interest rates through to customers. We believe that the long-term tailwinds behind the company are still intact, and the company's strategy and products are still being well received by customers.

While the recent performance of Alibaba, PayPal and StoneCo has created a disappointing drag on performance, we believe these are quality businesses that are well positioned to deliver continued growth and strong shareholder returns in the years ahead.

Ashley Gardyne
Senior Portfolio Manager
Fisher Funds Management Ltd
17 January 2022

[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

DOLLAR TREE	NVR INC	ALIBABA GROUP	PAYPAL	STONECO
+47%	+23%	-20%	-28%	-51%

PERFORMANCE

as at 31 December 2021

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+0.7%	+35.6%	+25.8%
Adjusted NAV Return	+3.5%	+26.3%	+19.7%
Portfolio Performance			
Gross Performance Return	+4.2%	+30.7%	+23.9%
Benchmark Index[1]	+4.7%	+18.4%	+13.0%

[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 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 17 December 2021

A dividend of 2.54 cents per share was paid to Marlin shareholders on 17 December 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 December 2021

Headquarters	Company	% Holding
China	Alibaba Group	5.1%
	Tencent Holdings	6.5%
Germany	Adidas	1.7%
Ireland	Icon	5.0%
United Kingdom	Greggs Plc	3.4%
United States	Alphabet	6.8%
	Amazon.Com	4.2%
	Boston Scientific Co	4.6%
	Dollar General	5.0%
	Dollar Tree	4.9%
	Edwards Lifesciences Corp.	3.3%
	First Republic Bank San Francisco	2.5%
	Floor & Décor Holdings	4.4%
	Gartner Inc	5.2%
	Hexcel Corporation	2.6%
	Hilton Worldwide Holdings	1.5%
	Mastercard	5.2%
	Meta Platforms	10.1%
	NVR Inc	3.0%
	PayPal Holdings	5.4%
	Signature Bank	6.0%
	StoneCo	1.1%
	Equity Total	**97.5%**
	New Zealand dollar cash	1.4%
	Total foreign cash	0.4%
	Cash Total	**1.8%**
	Forward Foreign Exchange	0.7%
	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.

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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