marlin
growing globally

QUARTERLY NEWSLETTER

1 July 2022 – 30 September 2022

Share Price	MLN NAV	PREMIUM[1]
$1.03	$0.87	18.3%

as at 30 September 2022

Central bank clouds hang over the market, but quality will shine through.

It was another volatile quarter for international equity markets, as all eyes were on central bank interest rate hikes and the risk that there will be a recession. While global markets fell, the strong US dollar helped our international fund mitigate these losses in the quarter. Marlin ended the quarter with the gross performance return down 0.5%, compared with our global benchmark which was down 1.8%.

Global market backdrop

With inflation remaining persistently high, central banks are driving markets. The US Federal Reserve has indicated that it will do whatever it takes to bring inflation down, even if that means increasing unemployment and tipping the economy into a recession. The Federal Reserve is hiking interest rates faster than any time in recent history. With unemployment still near historic lows and no evidence of a material slow-down in inflation, expectations are for the aggressive rate hikes to continue. And with it an increased probability of recession. A survey of economists now predicts a 50% chance of recession in the US, double the level back in April.

Financial markets are at least partially pricing this increased risk. The MSCI World Index fell 6% in the quarter in USD, after being up 12% at one point. Defensive stocks outperformed the wider index as investors rushed to safe havens, with more economically sensitive stocks underperforming. This flight to safety was also seen in currency markets, with the US dollar dramatically increasing in value over the quarter (the USD gained almost 12% versus the NZD over the quarter).

Certainly, economic conditions could deteriorate further and put pressure on both consumers and corporates. While we are cognisant of these macro risks, we also recognise the inherent difficulty in making macro forecasts and instead focus our efforts on picking great companies to invest in. Against this backdrop of increasing risks, our investment philosophy of owning durable, well-capitalised, high-quality growth companies should help us weather further market volatility.

While not immune to the economic cycle, many of our companies have levers to maintain profitability even as the economy slows. Companies like Meta, Google, Alibaba and Netflix have all announced plans to cut costs and increase efficiency. In the good times, these companies reinvested the profits from their core businesses into new growth opportunities. As the economic backdrop becomes more uncertain, these companies can scale back spending in these non-core areas, without impacting investment into their core businesses.

Most of our portfolio companies are at historically low valuation levels. Google, for example, is one of the highest quality businesses globally and is currently trading at a valuation multiple below the wider market - and nearing levels last seen in the global financial crisis.

At current valuation levels, companies like Google, PayPal, Amazon and Salesforce are now reaching levels Warren Buffett would describe as a ‘fat pitch’. While these stocks have underperformed year-to-date amidst increasing macroeconomic uncertainty, we are as optimistic as we have been on their five-year prospects.

PayPal (+23% in local currency terms) gained significantly as activist fund Elliott Management took a sizable position in the company and pushed for increased business discipline. Activist investors are frequently drawn to companies with good business models and strong financial positions with the flexibility to deploy additional capital to increase shareholder value. All of which we believe to be true for PayPal. The company has since announced a renewed focus on its core business, a large cost savings program and US$15bn of share repurchases (15% of market capitalisation). These initiatives put PayPal on solid footing for growing margins and earnings going forward.

Floor and Décor (+12%) posted quarterly results ahead of expectations with strong same-store-sales growth of 9% and expectations of a high-single-digit growth rate for the remainder of the year. This helped counter some of the bearish narrative on the home renovation market that has plagued performance in the stock during the first half of this year. Saying that, with the spike in mortgage rates impacting housing transactions and squeezing home-owner wallets, we have recently trimmed our position slightly.

Netflix (+35%) rallied as the market saw a clearer path to renewed growth following the companies Q2 earnings result. Netflix expects to return to subscriber growth in Q3. Subscriber retention in the US and Canada region is almost back to historical levels, following a period of elevated churn when Netflix increased prices earlier this year. The company announced that content spend would remain at current levels for the next few years - allowing the company to leverage content costs after a year of continued investment. Further detail around the proposed ad-supported tier suggests a sizeable revenue opportunity. These initiatives, as well as the company’s focus on right-sizing its operations and content spend, will contribute to robust free cash flow growth.

Alibaba (-20%) and **Tencent** (-25%) fell alongside the wider Chinese market, reversing strong performance in the prior quarter. As has been the case this year, performance is largely sentiment driven, with the same confluence of factors front of mind for investors, including the ongoing COVID lockdowns, property slowdown and rising geopolitical tensions. Over time we expect the strong fundamentals to shine through this noise, but we do recognise these risks and currently hold these at relatively lower weights than our large-cap US tech holdings to reflect this.

Portfolio activity

Following elevated portfolio activity earlier in the year (with three new names and one exit), there were no new additions or exits to the portfolio this quarter.

Within the portfolio we have reduced the weight in some of our cyclical and defensive names to add to some of the attractive high-quality growth names like Amazon, Gartner and Microsoft. We continue to look for opportunities in other quality names that have been caught up in the wider market sell-off.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
14 October 2022

[1] *Share price premium to NAV (using the net asset value per share, after expenses, fees and tax, to four decimal places).*

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

NETFLIX	STONECO	PAYPAL HOLDINGS	ALIBABA	TENCENT
+35%	+24%	+23%	-20%	-25%

PERFORMANCE

as at 30 September 2022

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(6.4%)	+13.7%	+16.6%
Adjusted NAV Return	+0.1%	+4.4%	+8.6%
Portfolio Performance			
Gross Performance Return	(0.5%)	+7.1%	+11.3%
Benchmark Index[1]	(1.8%)	+4.6%	+5.9%

[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 http://marlin.co.nz/about-marlin/marlin-policies/

COMPANY NEWS

Dividend Paid 23 September 2022

A dividend of 1.85 cents per share was paid to Marlin shareholders on 23 September 2022, 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 2022

Headquarters	Company	% Holding
China	Alibaba Group	5.2%
	Tencent Holdings	4.7%
Ireland	Icon	5.0%
United Kingdom	Greggs Plc	3.4%
United States	Alphabet	7.3%
	Amazon.Com	7.8%
	Boston Scientific	5.0%
	Dollar General	3.3%
	Dollar Tree	2.5%
	Edwards Lifesciences Corp.	2.0%
	First Republic Bank San Francisco	3.5%
	Floor & Décor Holdings	5.5%
	Gartner Inc	3.8%
	Mastercard	3.1%
	Meta Platforms Inc	7.2%
	Microsoft	3.6%
	Netflix	3.2%
	NVR Inc	3.1%
	PayPal Holdings	7.3%
	salesforce.com	4.8%
	Signature Bank	4.8%
	StoneCo	2.6%
	Equity Total	**98.7%**
	New Zealand dollar cash	5.6%
	Total foreign cash	0.3%
	Cash Total	**5.9%**
	Forward Foreign Exchange	(4.6%)
	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. If shareholders have not previously self-certified, they will receive 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