marlin
growing globally

QUARTERLY NEWSLETTER

1 January 2023 – 31 March 2023

Share Price	Warrant Price	MLN NAV	DISCOUNT[1]
$0.85	$0.02	$0.87	1.4%

as at 31 March 2023

A strong rebound in quarter one

Marlin's gross performance for the quarter was up 11.7% and the adjusted NAV was up 11.0%, while our global benchmark which was up 6.4%.

Global market backdrop
There was a lot going on in global markets in the first quarter. A key indicator of market volatility and fear, the VIX index, spiked to six-month highs in early March and ended the month near 12-month lows. The concerns around the US banking sector was a major contributor to this spike in investor concern in the month.

This elevated uncertainty and banking sector concern caused investors to lower their expectations for further interest rate hikes by the US Federal Reserve. At the start of the month, the market was expecting another four rate hikes, with the fed funds rate expected to peak at 5.5%. By the end of the month, the market was expecting a peak of less than 5%, with sharp rate cuts to begin in the second half of 2023.

Alongside these interest rate moves, companies with strong balance sheets (i.e., no or low levels of debt) began to outperform companies with low quality balance sheets by as much as 10% intra-month as investors became concerned about a possible credit crunch and resultant growth slowdown.

US big-tech companies were a major driver of market performance in the first quarter – partly due to their strong balance sheets, but also due to falling interest rates (which favour growth companies) and some positive corporate updates.

Portfolio update

The biggest contributors to the fund's outperformance for the quarter were our positions in Chinese technology holdings, Alibaba and Tencent, combined with some of our US technology names and Floor and Décor. Offsetting these performance drivers were losses from our banking holdings.

Alibaba (+16% for quarter) announced it would be restructuring its business into six separate business units and will explore listings or fundraisings for all of them apart from the core ecommerce platform. This was received positively by the market as the value of businesses such as Alibaba Cloud and Cainiao Logistics were not being reflected in the current share price. This should also allow these smaller businesses to be more focussed and nimble outside of the larger corporate structure. Meanwhile, our other Chinese holding Tencent (+22%) reported strong results as it benefited from a recovery in the Chinese economy following the end of lockdowns, coupled with continued execution in its strategic growth areas such as short video advertising and global gaming.

Alphabet (+18%)/**Microsoft** (+21%): While the gains in these companies share prices are largely attributable to gains in the broader tech sector, public interest in artificial intelligence (AI) has been supercharged recently by ChatGPT, an AI-powered chatbot, which has resulted in these companies getting a lot of press in the quarter.

Floor & Décor (+41%). A long growth runway, an overly negative consensus and the ability to prosper at the expense of competitors in a downturn gave us confidence to buy in the midst of a housing downturn. Floor & Décor (FND) is a leading specialty retailer in the hard surface flooring market, with a focus on offering high-quality products at affordable prices. FND operates in a fragmented and large market for hard surface flooring, estimated to be around $40-$50 billion. Compared to $4.3b of FND revenue the company's current market share is only about 10-11%, providing significant opportunities for the company to capture additional market share. To do this, FND is expanding its store base in the US, with a goal of opening around 30+ new stores per year. As of the end of 2022, Floor & Decor operated 191 stores in the US, and we think there is room for at least 400 stores in the long term. The company's expansion plans are supported by favourable store economics, strong store-level performance, and a long-term trend of consumers preferring hard flooring over carpet.

We exited **First Republic Bank** and **Signature Bank** during the quarter. Following the collapse of Silicon Valley Bank on the afternoon of Friday 10th March, fears of further bank failures saw depositors exit other regional banks, resulting in one of our portfolio holdings, Signature Bank, being closed by regulators on Sunday 12th March, and another portfolio holding, First Republic, left on the verge of failure.

The closure of Signature Bank was driven by a combination of the fastest Fed hiking cycle in history, the collapse of Silicon Valley Bank, and a subsequent loss of confidence in regional banks. The pace of the deposit outflows was also extreme, in this modern era of near-instant bank transfers.

This was very hard to predict in advance. Unlike many other bank failures – this wasn't primarily a lending or credit issue. It was instead a crisis of confidence underpinned by Silicon Valley Bank's customer base and a mismanagement of investment assets. As fears spread following the collapse of Silicon Valley Bank, people got scared and looked for other possible areas of risk in the banking system; especially banks with high levels of uninsured deposits including Signature Bank and First Republic.

Signature Bank and First Republic had the attributes of the high-quality businesses we look for. These were well-managed banks, with differentiated business models that allowed them to take market share over the last twenty years. On a fundamental basis, Signature Bank and First Republic were different businesses than Silicon Valley Bank. They did not have the same customer concentration, nor the mismanagement of the duration on investment securities.

In a banking crisis, fundamentals take a back seat to emotions and sentiment. While we can assess fundamentals; it is much more difficult to forecast sentiment.

We have no remaining bank positions.

Gartner (-3%) has lagged the market this quarter after strong outperformance last year. More recently the market has been concerned about a macro slow-down impacting Gartner's more cyclical businesses: being research for small start-up software companies, particularly given concerns around the wider start-up funding environment; and the IT consulting business. These two segments make up around 15% of revenues and following recent underperformance, a slow-down in these businesses is largely priced. The core research and conference segments continue to grow, so we took advantage of the weakness in March and added to the position.

We exited **StoneCo** (-6%) during the quarter. In-line with our investment thesis, the company has been successful in reaching double-digit market share in the Brazilian payments market. We believe the easy market share gains have been made with StoneCo's pricing advantage and distribution strategy now being matched by competitors. From here it will be increasingly difficult for the company to gain market share, likely resulting in more capital intensity and lower returns on capital as a result.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
14 April 2023

[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).*

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

META PLATFORMS	SALESFORCE	FLOOR & DÉCOR	FIRST REPUBLIC BANK	SIGNATURE BANK
+76%	+51%	+41%	-74%	-100%

PERFORMANCE

as at 31 March 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(3.9%)	+11.3%	+10.5%
Adjusted NAV Return	+11.0%	+8.6%	+7.5%
Portfolio Performance			
Gross Performance Return	+11.7%	+12.2%	+10.5%
Benchmark Index[1]	+6.4%	+15.0%	+7.1%

[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 24 March 2023

A dividend of 1.66 cents per share was paid to Marlin shareholders on 24 March 2023, 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 2023

Headquarters	Company	% Holding
China	Alibaba Group	3.6%
	Tencent Holdings	4.4%
Ireland	Icon	5.9%
United Kingdom	Greggs Plc	4.5%
United States	Alphabet	8.3%
	Amazon.Com	8.3%
	Boston Scientific	5.7%
	Dollar General	2.9%
	Dollar Tree	2.4%
	Edwards Lifesciences Corp.	4.4%
	Floor & Décor Holdings	7.0%
	Gartner Inc	4.5%
	Mastercard	4.2%
	Meta Platforms Inc	7.0%
	Microsoft	5.5%
	Netflix	3.8%
	NVR Inc	3.3%
	PayPal Holdings	5.0%
	salesforce.com	5.8%
	Equity Total	**96.5%**
	New Zealand dollar cash	0.8%
	Total foreign cash	2.9%
	Cash Total	**3.7%**
	Forward Foreign Exchange	(0.2%)
	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.

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