marlin
growing globally

QUARTERLY NEWSLETTER

1 October 2024 – 31 December 2024

Share Price	Warrant Price	MLN NAV	DISCOUNT[1]
$0.95	$0.02	$1.02	6.8%

as at 31 December 2024

Stock market returns concentrated in the US, again

Marlin ended the quarter with gross performance of +6.7% and an adjusted NAV return of +5.9%, compared with our global benchmark which was up +4.7%.

Global stock markets were largely flat for the quarter, with the US (+4%) significantly outperforming Europe (-3%) and global emerging markets (-7%). This caps off another strong year for global equities, having now rebounded approximately 55% from their late 2022 lows.

US markets reacted strongly to the re-election of Donald Trump as US President in November. This was due to potential stimulatory moves such as tax cuts, removing regulatory roadblocks to investment, and tariffs to be imposed on foreign goods. This sparked renewed retail investor exuberance - for example, profitless tech (think cryptocurrency, Coinbase, ARKK etc.) was up around 35% and Tesla was up around 55% due to Elon Musk's association with Trump.

Portfolio update

Amazon (+18%), our largest position, was one of the best performers for the quarter (and in fact one of the best performers for the past couple of years). Earlier in the year, the critical AWS business grew revenues faster than expected as customers reaccelerated their spend after a year of measured customer spend post pandemic. Later in the year, both the AWS business and the ecommerce business reported much higher than expected profit margins. AWS recorded its highest ever quarterly operating profit margin of 38%, the result of measured spending and revenue growth reaccelerating. Amazon's ecommerce margins continue to improve post the large investment made into its logistics infrastructure. While North American ecommerce margins were better than expected in the quarter, Amazon's international ecommerce margin was the star as more of its international markets mature.

Netflix (+26%) has been a top performer for several quarters. Competitors like Disney entered the global streaming market a few years back with lower prices to capture market share, but this strategy led to significant losses. Consequently, they have been raising prices faster than Netflix. This, plus Netflix's superior content, crackdown on account sharing, and introduction of a cheaper ad-supported tier have all contributed to its market share gains.

Alphabet (+14%) had a volatile year due to competitive and regulatory pressures but ended up as one of the top performers for both the quarter and the year. Initially seen as an "AI laggard" with underwhelming AI product launches, concerns arose about Generative AI search competition (e.g. ChatGPT) impacting its core model. However, Google Search growth reaccelerated throughout 2024, and Alphabet's scale and data access keep it well-positioned in AI. The US Department of Justice released proposed solutions for the anti-trust case against Alphabet, with final decisions expected in August 2025. Alphabet is appealing the initial judgment and will likely appeal the remedies as well. Despite being viewed primarily as a search business, Alphabet's YouTube, Cloud, and other similar businesses like Waymo[2] and Quantum Computing are all experiencing growth.

Dexcom (+16%) and **Edwards** (+12%) rebounded this quarter after previous setbacks. Dexcom made significant strides in correcting its execution errors, enhancing sales force performance, and reconnecting with key customers. Meanwhile, Edwards reported positive outcomes from several key clinical trials, which are expected to broaden its patient base.

Icon (-27%) and **Danaher** (-17%) are experiencing a slower than expected recovery in biotech R&D spending after several strong years post-COVID. Although biotech funding has improved this year, it has not yet translated into revenue as customers remain hesitant to start new drug development projects. Icon is also facing near-term pressure from large pharma customers like Pfizer, which have made larger-than-expected cuts to their clinical research programs to reduce costs. While Icon continues to gain market share within its large pharma customer base, this has not been enough to offset these headwinds, leading to reduced revenue growth expectations for 2024 and 2025. We believe these challenges are likely temporary, and industry growth will reaccelerate next year as biotech companies continue to invest in innovative new treatments. We added to our position in Danaher, but due to the dual headwinds for Icon (biotech and large pharma), we reduced our position before and after the Icon results, as the timing of the recovery remains uncertain.

Floor & Décor (-20%) had a weak quarter, capping off a volatile year. Existing home sales, the primary driver of flooring demand, remain near multi-decade lows, and mortgage rates rose sharply again this quarter, further dampening demand. Despite these challenges, Floor & Decor continues to gain market share from competitors and open new stores. We have continued to add to our position during periods of significant stock price weakness.

ASML (-17%) also had a weak quarter following an unexpected reduction in its 2025 guidance due to several near-term headwinds. ASML manufactures lithography machines used to produce semiconductor chips for various applications, including mobiles, PCs, cars, and AI chips. While demand for AI remained strong, other markets are recovering more slowly, causing chip makers to delay spending on semiconductor-making machinery. Two of ASML's largest customers, Samsung and Intel, have postponed the completion of large chip manufacturing facilities due to weak demand and competition from TSMC. We recognize that ASML is a cyclical business and expect these headwinds to be temporary, with long-term demand for ASML's advanced lithography tools remaining strong. Consequently, we added to our position during the weakness earlier in the quarter.

[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).*
[2] *Waymo is a US software company. It was formerly known as the Google self-driving car project.*

Portfolio activity

We added Zoetis to the portfolio during the quarter.

Zoetis, a leader in animal health, was previously part of our portfolio but was exited in August 2020 due to valuation concerns and our thesis playing out. The company owns many leading brands of drugs for cats, dogs, and livestock. Since its spin-off from Pfizer in 2013, Zoetis has consistently gained market share. With a strong pipeline of innovative new drugs, we expect this trend to continue.

Recently, Zoetis has underperformed other quality-growth stocks due to concerns about a slowdown in vet visits. We took this opportunity to add it back to the portfolio.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
15 January 2025

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

NETFLIX	SALESFORCE	AMAZON	FLOOR & DÉCOR	ICON
+26%	+22%	+18%	-20%	-27%

PERFORMANCE

as at 31 December 2024

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+5.5%	(7.3%)	+7.5%
Adjusted NAV Return	+5.9%	+1.1%	+9.5%
Portfolio Performance			
Gross Performance Return	+6.7%	+3.3%	+12.5%
Benchmark Index[1]	+4.7%	+7.1%	+10.3%

[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 20 December 2024

A dividend of 1.98 cents per share was paid to Marlin shareholders on 20 December 2024, under the quarterly distribution policy. Interest in Marlin's dividend reinvestment plan (DRP) remains high with 38% 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 2024

Headquarters	Company	% Holding
China	Tencent Holdings	3.2%
France	Hermes International	2.9%
Ireland	Icon	4.7%
United Kingdom	Greggs Plc	3.2%
United States	Alphabet	5.5%
	Amazon.Com	7.9%
	ASML Holding NV	5.9%
	Boston Scientific	4.0%
	Danaher Corporation	5.1%
	Dexcom Inc	4.1%
	Edwards Lifesciences Corp.	3.0%
	Floor & Décor Holdings	5.3%
	Gartner Inc	3.9%
	Intuitive Surgical Inc	3.7%
	Mastercard	6.3%
	Meta Platforms Inc	4.0%
	Microsoft	7.3%
	MSCI Inc	3.6%
	Netflix	3.5%
	Nvidia Corp	1.6%
	salesforce.com	2.5%
	UnitedHealth Group Inc	3.7%
	Zoetis Inc	2.9%
	Equity Total	**97.8%**
	New Zealand dollar cash	0.6%
	Total foreign cash	3.6%
	Cash Total	**4.2%**
	Forward Foreign Exchange	(2.0%)
	TOTAL	**100.0%**

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