marlin
growing globally

QUARTERLY NEWSLETTER

1 October 2022 – 31 December 2022

Share Price	Warrant Price	MLN NAV	PREMIUM[1]
$0.90	$0.02	$0.79	13.9%

as at 31 December 2022

COVID aftershocks will continue into 2023.

Marlin's gross performance was down 5.0% for the December quarter, while the adjusted NAV return was down 6.7%. The benchmark index, S&P Large Mid Cap/S&P Small Cap Index (hedged 50% to NZD) rose +8.3% in Q4.

Global market backdrop

The December month unfortunately finished out the year in the same fashion that was seen throughout 2022 – weak overall equity market performance (global equities -4% for the month, -18% for the year), tech weaker still (Nasdaq -9% for the month, -33% for the year) and value equities (global value equities -2% for the month, -6% for the year) outperforming growth equities (global growth equities -6% for the month, -29% for the year).

As had been the case all year, the Christmas grinch was the Federal Reserve Bank – the FOMC decision in December was more hawkish than hoped for. Bonds sold off, interest rates went up and equities fell. De ja vu.

As we think back on the quarter and year that was 2022, there are three key themes.

First, even three years on, COVID is still having big repercussions. But that is perhaps unsurprising when you think about the economic consequences - the global economy basically stopped, and then the US Federal Reserve Bank flushed in five - times more liquidity than it did during the Global Financial Crisis in 2008/2009. It seems clear that COVID aftershocks are going to be felt for a few years yet.

Second, there was a clear pull forward of demand during the pandemic for many industries e.g. online shopping - we all became online shopaholics. The market was aware this was going to unwind. However, the sting in the tail has been that a lot of companies that saw this abnormally strong demand loaded in costs to service the strong demand.

Meta was the poster child, hiring 28% more people in a year. As is often the case, demand can turn on a dime. However, any cost you have loaded into the business is stickier. So, just as the revenue from the COVID induced demand unwound, costs were increasing.

The good news is that companies that are further through this journey have performed strongly out the other side. **Netflix** for example saw demand for its service unwind much earlier last year and it quickly cut costs to right size its business. The stock is now up 100% from its lows. Meta seems to be finally making adjustment too. Mark Zuckerberg has announced he will cut 11,000 jobs and the stock has bounced over 40% as a result.

The message from the market is crystal – if you are tone deaf on costs, you will be punished. But, if you listen to the market and reign in spending, you will be rewarded.

Third, 2022 marked the end of a 40-year trend of consistently falling interest rates. Warren Buffett describes interest rates the best when he calls them gravity for the stock market - as interest rates fall, they act as a smaller and smaller gravitational drag on equity valuations, and vice versa. With near zero interest rates, investors had been lead to believe that we were in a gravity free environment, resulting in an everything bubble last year. Whether you were trading crypto or even second-hand boats, interest rates were near zero, money was almost free and everything an investor touched went up. Well, gravity returned in 2022 and most of these bubbles have now popped.

Portfolio update

Alibaba (+11%) and **Tencent** (+25%) had a roller coaster ride during the quarter. The stocks were down 20%+ in October. Although President Xi's reappointment at the 20th Party Congress was expected, other changes in party leadership came as a surprise and fuelled concerns that state objectives will be prioritised to the detriment of the private sector. Ongoing COVID restrictions, property slowdown and geopolitical tensions continued to depress market sentiment. However, the China re-opening thematic that began in earnest in November, continued into December with the confirmation that China has exited its zero-Covid policy. On 26 December, China released new guidelines to significantly relax its COVID control policy, effective 8th January 2023. This extends the policy loosening that started with 20 measures on 11 November and continued with 10 measures on 7 December. The economic impact should suppress growth in the near-term due to surging infections, a temporary labour shortage and increased supply chain disruptions, but is expected to increase full year 2023 economic growth meaningfully. Alibaba also released earnings during the quarter that provided a mixed message of slower growth, but better profitability. For both companies, a resumption in growth on a base of reigned in costs bodes well for stronger earnings this year.

Meta Platforms (-11%) had a roller coaster quarter. It fell 31% in October as 2023 guidance missed expectations. Despite slower revenue, primarily driven by the impact of a weaker macro environment on digital ad spend, the company guided to double digit cost growth and much higher than expected capital expenditure.

The volume of ads served grew strongly but most of this benefit was offset by lower ad prices due to Apple's ad-tracking changes and mix shift to lower priced markets and lower ad load products such as Instagram Reels.

The increase in spend reflects a combination of investments into Meta's core advertising business (Reels, AI infrastructure) as well as non-core Reality Labs metaverse spend. However, the company seemed to get the message from the market and reversed course on expense growth in November. In a memo to the firm, CEO and founder, Mark Zuckerberg detailed the layoff of 13% (11k) of Meta's staff.

The company's expense growth has been a large concern for the market, so investors welcomed the expense cuts and acknowledgement by the firm that they need to show greater cost discipline. The stock is now +47% from its lows in early November.

In general, this cost discipline is a trend we are witnessing across the tech sector and will see companies in better shape to weather the expected macro driven downturn in revenue in 2023.

Netflix (+25%) released a strong quarterly update, with revenue and subscriber numbers beating expectations and better-than-expected subscriber outlook for the next quarter. Netflix ended the quarter with 223mn paid subscribers.

On an FX-neutral basis, average revenue per subscriber grew strongly across three out of four regions – North America (+12% year-on-year), EMEA (+7%), and Latin America (+16%) – regions that together contribute 88% of group revenue.

Netflix continues to be a top streaming provider in the US and UK (where data is available), with 8% share of TV viewing time, which we see as supportive of the company's value proposition. Netflix launched a new ad-supported tier in early November and continues to roll out paid account sharing.

We expect these options to contribute robust free cash flow growth in the long-term, by monetising non-paying Netflix users (estimated at 100mn households globally), attracting new users for whom Netflix may previously have been too expensive, and reducing subscriber churn.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
16 January 2023

[1] Share price premium 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

GREGGS	TENCENT	NETFLIX	SIGNATURE BANK	AMAZON
+37%	+25%	+25%	-23%	-26%

PERFORMANCE

as at 31 December 2022

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(10.4%)	+4.9%	+11.6%
Adjusted NAV Return	(6.7%)	+1.5%	+6.3%
Portfolio Performance			
Gross Performance Return	(5.0%)	+4.1%	+9.2%
Benchmark Index[1]	+8.3%	+5.8%	+6.2%

[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 16 December 2022

A dividend of 1.85 cents per share was paid to Marlin shareholders on 16 December 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 31 December 2022

Headquarters	Company	% Holding
China	Alibaba Group	3.5%
	Tencent Holdings	4.2%
Ireland	Icon	5.1%
United Kingdom	Greggs Plc	4.4%
United States	Alphabet	7.4%
	Amazon.Com	7.4%
	Boston Scientific	5.0%
	Dollar General	3.0%
	Dollar Tree	2.5%
	Edwards Lifesciences Corp.	3.0%
	First Republic Bank San Francisco	3.1%
	Floor & Décor Holdings	5.9%
	Gartner Inc	3.9%
	Mastercard	3.5%
	Meta Platforms Inc	6.8%
	Microsoft	4.5%
	Netflix	3.6%
	NVR Inc	3.0%
	PayPal Holdings	6.2%
	salesforce.com	4.2%
	Signature Bank	4.0%
	StoneCo	2.0%
	Equity Total	**96.2%**
	New Zealand dollar cash	3.2%
	Total foreign cash	0.2%
	Cash Total	**3.4%**
	Forward Foreign Exchange	0.4%
	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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