

QUARTERLY NEWSLETTER

1 April 2023 – 30 June 2023

Share Price

\$0.92

Warrant Price

\$0.01

MLN NAV

\$0.93

DISCOUNT¹

1.4%

as at 30 June 2023

Ongoing rebound in markets driven by corporate earnings, easing inflation and the possibility of a soft landing

Marlin ended the quarter with gross performance up 10.2% and the adjusted NAV return up 9.7%. This compared with our global benchmark which was up 6.0%.

Global market backdrop

While macro gyrations come and go, it is corporate earnings that is the most important driver of stock price performance in the medium and long term. The US reporting season closed with 78% of companies beating earnings expectations. This is the best upside earnings surprise (off a subdued base) in several quarters. The European reporting season was a little more subdued, with 61% beating earnings expectations and helps explain the ongoing underperformance of European equities (+10% for calendar year to date) vs US equities (+17% calendar year to date).

Most importantly, year ahead earnings expectations are now getting upgraded, and in some cases sharply. The recession has been pushed out for now, corporates have been quicker to cut costs and demand remains stable. For example, the S&P500 ex-energy (because energy is too volatile to include sensibly) has been upgraded by 5% recently. Nasdaq year ahead earnings have been upgraded by 12%. European earnings on the other hand have been upgraded a more modest 4%.

Portfolio

Alphabet (+15%) rallied following its I/O developer conference held in early May. At the conference, Google demonstrated how it is incorporating Generative AI (GAI) into key products including Search, assuaging concerns that the company is falling behind Microsoft in terms of AI innovation. The shares modestly pulled back in June (-3%) as market sentiment soured on Google's ability to maintain advertising dominance and profitability in the era of GAI and conversational search. While it is early days, the ubiquity of Google Search, Google's trove of first party data, and its AI research and investment capabilities put the company in a good position to win in the GAI era.

Amazon (+26%) reported mixed earnings. AWS², Amazon's cloud computing platform, reported better than expected revenue and earnings. However, management guidance for the upcoming quarter was weaker than expected. AWS headwinds in recent quarters have been driven by tightening IT budgets and customers rationalising spend through optimisation. We think these headwinds are abating and AWS' growth should re-accelerate later in the year as the structural trend toward cloud computing continues. Over the past 2 years Amazon has made major investments into its logistics infrastructure. This will begin to pay off from now on as the company grows into the expanded footprint and profit margins go up. Amazon's advertising business was a star in the quarter, growing 23%. There is a long growth runway ahead for advertising as the business continues penetrating Amazon's merchant base.

US's largest discount retailer, **Dollar General** (-19%) declined on the back of a disappointing quarterly update where the company lowered full year earnings guidance. Concerns have centred around increased competition (from Walmart and Family Dollar) and potential underinvestment in labour. Dollar General disclosed US\$100mn of additional labour spend to add eight extra employee hours per store each week. Our view is that the US\$100m investment in increased labour hours may rise. However, we think there will be a payback on that investment, and we think the market had already priced in a more adverse outcome than US\$100m.

Icon (+17%), a leading clinical research outsourcing company, had a tumultuous quarter down 14% at one point before ending the quarter strongly. The pharmaceutical services industry has been facing slowing growth from small biotech customers over the last eighteen months. Many of these biotech

customers rely on external funding (either from the venture capital industry or via public listings) to run clinical trials for new drugs, and this funding has come back to more normal levels from the heady levels seen during 2020 and 2021. We think the impact and duration of the slow-down should be limited and that the secular growth drivers for pharmaceutical R&D spend are still intact. And we took advantage of the price weakness to add to our position. In the last couple of weeks, Icon's management have shifted to a more optimistic tone around biotech demand.

Meta (+35%) had a strong earnings report that saw its shares bounce 11% post-announcement in April. Strength continued through the rest of the quarter as digital advertising spend re-accelerates. Meta is well positioned to continue to take global advertising spend market share as AI improves advertiser return on investment. And Reels³ and click to message (messenger and Whatsapp) are also driving improving revenue.

New entrants into the portfolio

Danaher is a leading player in the Lifesciences and Diagnostics industries where it provides its customers with the cutting-edge tools to help them to diagnose disease; and discover and manufacture new drug therapies to treat those diseases. An aging population and growing healthcare spend are driving the need for increased innovation in the diagnosis and treatment of chronic disease. With a leading portfolio of tools and services in these customer healthcare markets, Danaher is well-positioned to benefit from this investment in healthcare innovation. Driven by a well-renowned culture of continuous improvement and investment, we expect Danaher to grow its market share as it becomes an increasingly essential partner to its customers.

MSCI is a leading provider of indices, benchmarks, index data and analytics tools for the financial industry, and is particularly known for its global and emerging market indices. Customers use the company's indices to define the investment universe for their products, benchmark their performance, and construct exchange traded funds (ETFs) that will track an existing index or thematic. MSCI's analytics software and tools give customers insights into their asset allocation, portfolio construction and risk management decisions. MSCI's ESG & Climate business is a global leader, providing customers with ESG & climate data, analysis and ratings on corporates and entities to help customers assess the risk of these various factors. The company serves over 6.6k clients in 95 countries and MSCI has \$13.7tn in assets-under-management benchmarked to its various indices. MSCI is the most innovative index provider, and its wide moat is driven by its strong brand, scale, switching costs and network effects which all result in high customer retention rates. The index industry structure is attractive and dominated by three companies, each known for a certain segment of the market, limiting competition between the firms.

UnitedHealth Group was originally a health insurance company, UnitedHealth Group has expanded into the leading healthcare services company in the United States, encompassing insurance, provision of healthcare and other related businesses including pharmacy services, and technology services. UnitedHealth Group is well positioned to benefit from three key trends in healthcare: an aging population and the increased outsourcing of this care to providers such as UnitedHealth; a shift towards value-based care; and the leveraging of data and analytics to drive efficiency. UnitedHealth Group has a wide moat driven by a combination of local scale, supported by large national infrastructure and a vertically integrated model – which should allow UnitedHealth to continue to gain market share across its business.

Sam Dickie

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Ltd
17 July 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).

² Amazon Web Services

³ Meta Platform Instagram Reels is a dedicated platform on which users can post short form videos

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN LOCAL CURRENCY

META PLATFORMS	NETFLIX	AMAZON	ALIBABA	DOLLAR GENERAL
+35%	+28%	+26%	-19%	-19%

PERFORMANCE

as at 30 June 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+10.2%	+6.7%	+11.2%
Adjusted NAV Return	+9.7%	+5.9%	+8.2%
Portfolio Performance			
Gross Performance Return	+10.2%	+8.7%	+11.1%
Benchmark Index ¹	+6.0%	+11.5%	+7.2%

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 23 June 2023

A dividend of 1.75 cents per share was paid to Marlin shareholders on 23 June 2023, under the quarterly distribution policy. Interest in Marlin's dividend reinvestment plan (DRP) remains high with 39% 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 June 2023

Headquarters	Company	% Holding
China	Alibaba Group	2.8%
	Tencent Holdings	3.6%
Ireland	Icon	7.0%
United Kingdom	Greggs Plc	4.1%
United States	Alphabet	7.0%
	Amazon.Com	8.5%
	Boston Scientific	4.9%
	Danaher Corporation	3.9%
	Dollar General	4.0%
	Dollar Tree	2.8%
	Edwards Lifesciences Corp.	5.1%
	Floor & Décor Holdings	5.0%
	Gartner Inc	5.4%
	Mastercard	5.0%
	Meta Platforms Inc	5.9%
	Microsoft	5.5%
	MSCI	0.2%
	Netflix	3.1%
	NVR Inc	1.0%
	PayPal Holdings	2.1%
salesforce.com	5.5%	
UnitedHealth Group	2.5%	
Equity Total	94.9%	
New Zealand dollar cash	3.8%	
Total foreign cash	4.6%	
Cash Total	8.4%	
Forward Foreign Exchange	(3.3%)	
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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