marlin
growing globally

MONTHLY UPDATE

November 2022

Share Price	MLN NAV	PREMIUM[1]
$1.00	$0.85	17.5%

as at 31 October 2022

A WORD FROM THE MANAGER

Marlin's gross performance return for October was down (1.8%), while the adjusted NAV return was down (2.3%). This compared with our global benchmark, S&P Large Mid Cap/S&P Small Cap Index (50% hedged to NZD), which was up 5.1%.

Global equities (MSCI World) were up +7.2%. US equities slightly outperformed (+8.1%), while European equities slightly underperformed (+6.4%) and global emerging market equities sharply underperformed (-3.1%). The global emerging markets weakness was entirely driven by Chinese market underperformance.

The strong market performance was in spite of a fairly lacklustre US reporting season. Around 65% of S&P 500 companies have reported by early November, and excluding the energy sector, reported sales growth is reasonably solid at +8%. However, earnings growth is weak at -6%. Generally, the materials, large tech and financial sectors have dragged down the reported growth. These results are however backward looking. Analysts have downgraded the year ahead earnings by 2% since the earnings season began and earnings have been downgraded by 3.5% for the tech heavy Nasdaq.

So, why was the US market so strong? As has been the case for most of the year, interest rates have driven the direction of equity markets. The FED remains hawkish[2] and has signalled that interest rate increases still have some way to go and that the ultimate rate level maybe higher than was previously expected.

Portfolio

Alphabet (-1%), Google's parent company, fell after its quarterly update on revenue and margins disappointed the market. The main drivers were softer online advertising (ad) spend, and double-digit percentage growth in headcount as Alphabet continues to invest in technical talent. Positively, core Search ad revenue was resilient, growing modestly in the quarter vs a strong prior period. **Alibaba** (-21%) and **Tencent** (-23%) declined again in the month, alongside the wider Chinese market. Sentiment further soured as 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 Chinese state objectives will be prioritised to the detriment of the private sector. Ongoing COVID restrictions, property slowdown and geopolitical tensions also continued to depress market sentiment.

Amazon (-9%) and **Microsoft** (flat) were also weaker on the back of worse than expected forward guidance. The key focus here was cloud growth. Amazon's cloud business (AWS) was expected to grow at +29% in the upcoming December quarter and the company guided to around +25%. Microsoft's cloud business (Azure) was expected to grow at +40% in the December quarter and the company guided to +37%. Microsoft cited customers "optimising" their cloud spend, while AWS said they had seen an increase in customers focused on controlling costs. We see the +25% and +37% growth forecast by the two companies as reasonable, especially given the wider macro slowdown that we're seeing.

Edwards Lifesciences (-12%) share price fell because the reported earnings growth in its core TAVR medical device business came in below expectations. While the company pointed to ongoing hospital staffing shortages in the US and a resurgence of COVID in markets like Japan, these results fed into concerns that the TAVR market is maturing, and growth will be lower going forward. While we agree that the very high growth of recent years is likely behind us, structural heart disease is still a largely under-treated disease, and as the market leader in this space Edwards's has a long runway of strong market growth ahead as it continues to drive innovation in the treatment of this disease.

First Republic (-8%) reported a fairly sharp shift in their deposit base from non-interest-bearing deposits to interest earning deposits. This was not surprising given how sharply interest rates have risen but the pace of the shift was quicker than expected. First Republic and other higher growth banks are choosing to continue their growth trajectory, but they are having to pay up to fund that growth.

Mastercard (+16%) isn't seeing weakness from its credit card customers. And the company are on stand-by to aggressively cut costs if the macro-outlook weakens. Both reported revenues and earnings per share beat the markets expectations.

Meta Platforms (-31%) share price fell as the 2023 guidance issued by management was less than what the market had expected. Despite slower revenue, primarily driven by weaker digital ad income, 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

[1] Share Price Premium to NAV (using net asset value per share, after expenses, fees and tax, to four decimal places).
[2] Central banks are described as "hawkish" when they support the raising of interest rates to fight inflation, even to the detriment of economic growth.

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.

Netflix (+24%) rose on its quarterly update, with revenue and subscriber numbers beating expectations and better-than-expected subscriber outlook for the next quarter. Netflix ended the quarter with 223m 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, with 8% share of TV viewing time, which we see as supportive of the company's value proposition. Netflix launches 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 100m 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 Limited

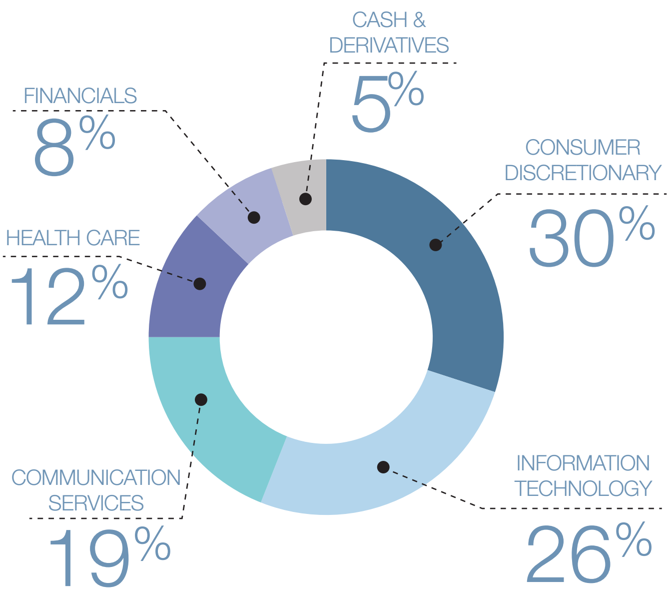
KEY DETAILS

as at 31 October 2022

FUND TYPE	Listed Investment Company
INVESTS IN	Growing international companies
LISTING DATE	1 October 2007
FINANCIAL YEAR END	30 June
TYPICAL PORTFOLIO SIZE	20-35 stocks
INVESTMENT CRITERIA	Long-term growth
PERFORMANCE OBJECTIVE	Long-term growth of capital and dividends
TAX STATUS	Portfolio Investment Entity (PIE)
MANAGER	Fisher Funds Management Limited
MANAGEMENT FEE RATE	1.25% of gross asset value (reduced by 0.10% for every 1% of underperformance relative to the change in the NZ 90 Day Bank Bill Index with a floor of 0.75%)
PERFORMANCE FEE HURDLE	Changes in the NZ 90 Day Bank Bill Index + 5%
PERFORMANCE FEE	10% of returns in excess of benchmark and high-water mark
HIGH WATER MARK	$1.15
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	202m
MARKET CAPITALISATION	$202m
GEARING	None (maximum permitted 20% of gross asset value)

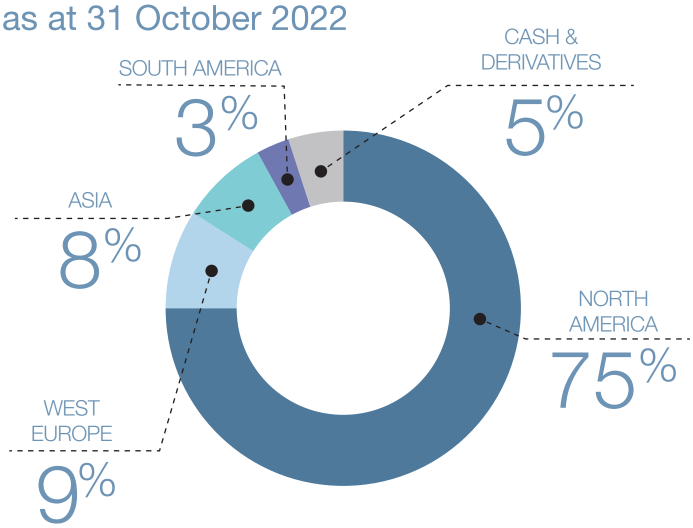
SECTOR SPLIT

as at 31 October 2022



GEOGRAPHICAL SPLIT

as at 31 October 2022



OCTOBER'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO during the month

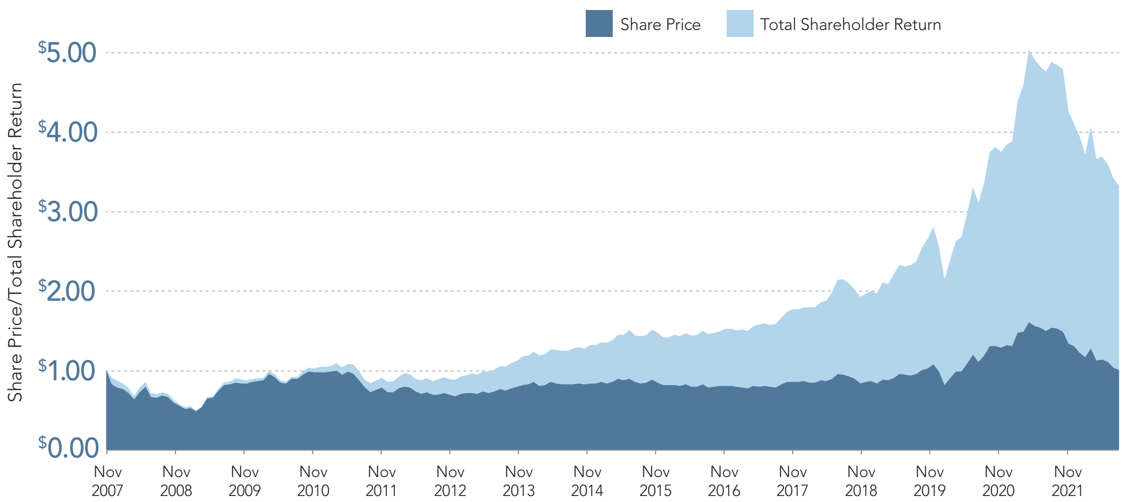
NETFLIX INC	GREGGS PLC	ALIBABA GROUP HOLDING	TENCENT HOLDINGS	META PLATFORMS
+24%	+18%	-21%	-23%	-31%

5 LARGEST PORTFOLIO POSITIONS as at 31 October 2022

ALPHABET	PAYPAL	AMAZON	FLOOR & DECOR	BOSTON SCIENTIFIC CO
7%	7%	7%	6%	5%

The remaining portfolio is made up of another 17 stocks and cash.

TOTAL SHAREHOLDER RETURN to 31 October 2022



PERFORMANCE to 31 October 2022

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	(2.9%)	(9.9%)	(31.9%)	+11.8%	+14.8%
Adjusted NAV Return	(2.3%)	(9.3%)	(26.9%)	+3.7%	+7.1%
Portfolio Performance					
Gross Performance Return	(1.8%)	(9.8%)	(27.1%)	+6.4%	+9.8%
Benchmark Index^	+5.1%	(3.7%)	(11.4%)	+5.9%	+5.9%

^Benchmark index: S&P Large Mid Cap/S&P Small Cap Index (50% hedged 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 dividends (and other capital management initiatives) and after expenses, fees, and tax,
» adjusted NAV return – the percentage change in the adjusted NAV,
» 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 monthly update 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/

ABOUT MARLIN GLOBAL

Marlin is an investment company listed on the New Zealand Stock Exchange. The company gives shareholders an opportunity to invest in a diversified portfolio of between 20 and 35 quality growing international companies (excluding New Zealand and Australia) through a single, professionally managed investment. The aim of Marlin is to offer investors competitive returns through capital growth and dividends.

MANAGEMENT

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. Marlin's portfolio is managed by Fisher Funds Management Limited. Sam Dickie (Senior Portfolio Manager), Chris Waters (Senior Investment Analyst), and Lily Zhuang and Daniel Moser (Investment Analysts) have prime responsibility for managing the Marlin portfolio. Together they have significant combined experience and are very capable of researching and investing in the quality global companies that Marlin targets. Fisher Funds is based in Takapuna, Auckland.

BOARD

The Board of Marlin comprises independent directors Andy Coupe (Chair), Carol Campbell, David McClatchy and Fiona Oliver.

CAPITAL MANAGEMENT STRATEGIES

Regular Dividends

- Quarterly distribution policy introduced in August 2010
- Under this policy, 2% of average NAV is targeted to be paid to shareholders quarterly
- Dividends paid by Marlin may include dividends received, interest income, investment gains and/or return of capital
- Shareholders who prefer to have increased capital rather than a regular income stream have the opportunity to participate in the company's dividend reinvestment plan (DRP)
- Shares issued to DRP participants are at a 3% discount to market price
- Marlin became a portfolio investment entity on 1 October 2007. As a result, dividends paid to New Zealand tax resident shareholders have not been subject to further tax

Share Buyback Programme

- Marlin has a buyback programme in place allowing it (if it elects to do so) to acquire its shares on market
- Shares bought back by the company are held as treasury stock
- Shares held as treasury stock are available to be re-issued for the dividend reinvestment plan

Warrants

- Marlin announced a new issue of warrants (MLNWF) on 18 October 2022
- Information pertaining to the warrants was mailed/emailed to all shareholders on 25 October 2022
- The warrants were issued at no cost to eligible shareholders in the ratio of one warrant for every four Marlin shares held based on the record date of 2 November 2022
- The warrants were allotted to shareholders on 3 November 2022 and listed on the NZX Main Board from 4 November 2022
- The Exercise Price of each warrant is $0.99, adjusted down for the aggregate amount per Share of any cash dividends declared on the shares with a record date during the period commencing on the date of allotment of the warrants and ending on the last Business Day before the final Exercise Price is announced by Marlin
- The Exercise Date for the new warrants is 10 November **2023**

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Marlin Global Limited
Private Bag 93502, Takapuna, Auckland 0740
Phone: +64 9 484 0365 | Fax: +64 9 489 7139
Email: enquire@marlin.co.nz | www.marlin.co.nz

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
Phone: +64 9 488 8777 | Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz | www.computershare.com/nz