



6 July 2009

Dear Marlin shareholders

### **Proposal by Marlin shareholder to delist Marlin Global and restructure into an unlisted managed fund**

You may be aware that recently a Marlin shareholder, Mr Gary Cross, placed a series of advertisements in national newspapers. Mr Cross asked shareholders to contact him so that he could call for a special meeting of shareholders (ESM) to vote for the delisting of Marlin Global (Marlin) and restructure Marlin into an unlisted managed fund. An ESM can be called by shareholders representing 5% of the issued shares of Marlin.

Mr Cross contacted the Manager of Marlin, Fisher Funds, after the advertisements had been placed, and explained the rationale for his proposal. Mr Cross believes that Marlin shareholders would benefit if Marlin ceased to be a listed company and became an open-ended fund (such as a unit trust) instead. A unit trust is valued at Net Asset Value (NAV) and investors in a unit trust can buy and sell units every day at NAV. This contrasts with the share price of a listed investment company which may not trade at a price reflecting NAV and which varies depending on the mood of the market, the number of buyers and sellers, and any number of other external factors.

Mr Cross highlighted that the Marlin share price has consistently traded at a discount to NAV since its October 2007 IPO, and recently the discount had been as high as 40%. Mr Cross noted that if Marlin had been a unit trust, its unit price would now be close to \$1.00 compared with the current Marlin share price of 75 cents. Any shareholder currently wanting to sell Marlin shares must accept 24% less than the underlying assets are worth, and 24% less than what they would receive were Marlin a unit trust.

Mr Cross has advised us that his disappointment is not with Fisher Funds or the investment performance of Marlin, but rather its structure.

Both the Marlin Board and Fisher Funds, share Mr Cross' frustration at the level and persistence of the share price discount to the NAV. However, we are conscious that Marlin is not unique – as a result of the global financial crisis, many listed investment companies, property companies and operating companies are trading below valuation and below historical averages. We have reminded Mr Cross that Marlin shareholders chose to invest in a listed investment company rather than an open-ended fund. Fisher Funds has had an open-ended fund (the Fisher Funds International Growth Fund) available for those investors who prefer unit trusts, since Marlin was launched.

We do not believe that Mr Cross' views are representative of the majority of shareholders, and we will wait to see if Mr Cross is able to gather support from sufficient shareholders to call an ESM where all shareholders will then have the opportunity to consider his proposal and vote accordingly. In the meantime, a number of Marlin shareholders have asked us to provide comment on this proposal:

A listed investment company such as Marlin can be thought of as a closed-ended fund, which contrasts with an open-ended fund such as a unit trust. Open and closed-ended funds are both pools of investor money and they are both managed by professional managers to maximise diversification and achieve investment objectives. The main difference between them is in how the fund is structured in terms of ownership.

An open-ended fund issues and redeems shares (units) on demand, whenever investors put money into the fund or take it out. This happens routinely every day and the total assets of the fund grow and shrink as money flows in and out. A listed investment company closed-ended fund issues a fixed number of shares in an initial public offering (IPO) and they trade on the stock exchange. If investors want to put money into the fund or take it out, they do so by buying or selling shares on the share market. The

assets within the company can be invested by the manager, and remain invested, irrespective of the buying and selling activity of individual investors.

This last point is an important one because an open-ended portfolio may be adversely affected if investors call for a significant number of units to be redeemed quickly and the manager needs to sell securities to meet these demands for cash. Forced selling of this nature might adversely impact share prices of portfolio companies and therefore impact the value of the fund's remaining assets. Costs associated with this trading activity are shared by all the investors in the fund, so the investors who remain in the fund share the financial burden created by those investors selling units. In addition, with a listed investment you can choose the price that you wish to sell at, providing certainty of the value you will receive for your shares. You can also complete that transaction immediately on market through your share broker. In a managed fund, a request to sell is sent to the Manager and your share broker is not involved. The price you receive from the managed fund will be the next available calculated price, after receipt of your request. You cannot designate a price at which you are prepared to sell at.

Mr Cross' proposal is to change Marlin from a listed investment company to an unlisted managed fund, and thereby increase the value of shareholders' investments (by removing the discount). This proposal sounds simple and appealing; however it is not entirely straightforward.

- This proposal could not succeed unless 75% of shareholders voting vote in favour of replacing their listed investment company shares with units in a unit trust.
- If Marlin were de-listed, investors will lose a level of protection which is provided for them under the NZX Listing Rules.
- If Marlin were restructured as an open-ended fund, there would be additional costs incurred – a unit trust is not a low-cost option to establish, and all of the upfront structural costs of Marlin (including the benefits of the PIE tax status for existing investors) have already been incurred.
- A restructuring would have complications around tax, and also with regard to the position of warrant holders. For some shareholders a conversion would be treated as a realisation and the restructured fund would need to obtain its own PIE status. Mr Cross' proposal essentially allows investors to realise the NAV of their shares, however the Marlin warrant holders have an interest in the NAV until the final warrant exercise date in October 2010. The position of warrant holders would need to be carefully considered, as equity must be preserved between the various interest groups of investors. The warrant holders would also need to vote in favour of this proposal, which seems unlikely given their loss of rights.

This letter is not designed to endorse or reject Mr Cross' proposal. Rather, we have sought to outline some of the issues that shareholders will need to consider.

It is timely to remind shareholders that Marlin is an investment company that aims to achieve long-term capital growth by investing in a portfolio of undervalued, international growth companies. Marlin is not two years old yet, and its early life has featured the most significant share market downturn of our lifetime. During this period, Marlin has significantly outperformed international share markets and other competing funds. It is long-term investment performance that leads to reduced discounts in listed investment companies. Marlin has played its part ... now we need to wait for the markets to recognise that.

If you would like to talk more about this correspondence, or indeed any other aspect of Marlin and its portfolio, please call the Marlin team on 09 484 0365 or email [enquire@marlin.co.nz](mailto:enquire@marlin.co.nz). If you would like to speak with Mr Cross, he can be contacted on telephone 03 312 6226 or 027 2992829 or email [garycross@slingshot.co.nz](mailto:garycross@slingshot.co.nz).

Yours sincerely



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