BLACK CREEK
INVESTMENT MANAGEMENT INC.

Black Creek International Equity Fund
Second-quarter 2019 Commentary

Market Overview

- Investors entered 2019 shouldering a host of concerns, including slowing economic growth, lower corporate profitability, geopolitical uncertainty and heightened global trade tensions. Nonetheless, global markets went on to achieve positive results during the first half of the year, so it appears that all is well and good. How did this happen? While uncertainties remain, investors have embraced the prospect of renewed monetary policy stimulus from global central banks, as well as on optimism for progress in U.S.-China trade negotiations.

- Interestingly, assets across the risk spectrum rallied during the first half of 2019. The outlook for interest-rate cuts and liquidity to support growth and a return to a “lower-for-longer” rate policy at central banks led to gains across most asset classes for the first half of the year. In U.S.-dollar terms, the MSCI All Country World Index gained 16.2% over this period, led by the more cyclical sectors. Investors continued to prefer the U.S. market, which outperformed equities elsewhere. Within fixed-income markets, U.S. high-yield issues performed well, as did U.S. Treasuries at the opposite end of the risk spectrum.

Performance Summary

- Over the second quarter of 2019, Class F of Black Creek International Equity Fund (the “Fund”) returned 0.5% compared with its benchmark, the MSCI EAFE Total Return Index, which was up 1.4% over the same period.

- The Fund’s underperformance was primarily driven by holdings within the communication services, consumer discretionary and consumer staples sectors.

Contributors to Performance

- Top contributors to Fund performance over the quarter included Altran Technologies SA, ASM International NV and HeidelbergCement AG.

- Altran Technologies of France is a global leader in outsourced engineering and research and development services. Its share price rose following the announcement that Capgemini SE, a

France-based global consulting and information technology services provider, made a takeover offer at a significant premium to its share price.

- Netherlands-based ASM International is a leading supplier of semiconductor equipment for wafer processing. The company made positive announcements regarding its first-quarter 2019 revenue and order intakes, both ahead of expectations. The high order intake was driven by ASM International's fabrication and logic semiconductor businesses, in which it has strong market positions. After a weak 2018, the company's share price has also improved due to more positive sentiment around a positive resolution to the U.S.-China trade negotiations.

- HeidelbergCement is one of the world's largest building-materials companies. The Germany-based company produces and distributes cement, aggregates, ready-mixed concrete and asphalt. HeidelbergCement began the year well with like-for-like revenue and earnings before interest, taxes, depreciation and amortization up 5% and 26% for the first quarter of 2019, respectively. Sales volume also increased across all materials, and the company confirmed its 2019 outlook.

Detractors from Performance

- Top detractors from Fund performance over the quarter included Sinopharm Group Co. Ltd., Kunlun Energy Co. Ltd. and ARYZTA AG.

- Sinopharm Group's main business is drug distribution in mainland China. It is well-positioned in this fast-growing and rapidly consolidating industry. Other notable business segments are medical-device distribution and retail pharmacies. However, Sinopharm Group faces near-term challenges due to recent government policy changes, which have created volatility in revenue, margins and financing costs.

- Kunlun Energy, based in Hong Kong, engages in urban and natural gas pipelines; receiving, processing, storage and transportation of liquefied natural gas; and generation and distribution of natural gas in China. Chinese gas distributors' share prices have declined on concerns that natural gas demand could decline if the country's economy slows. Another negative element is the possibility that natural-gas connection fees could be cut.

- ARYZTA has a leading position in the global bakery industry on a business-to-business level. Although the Switzerland-based company is making progress in its turnaround strategy, its share price fell after it cut its earnings outlook due to challenges in its North American operations.

Portfolio Activity

- In the second quarter of 2019, no new holdings were added to the Fund. There was one outright sale, Daikin Industries Ltd. The Japanese company is a global leader in heating, ventilating and air conditioning solutions for residential, commercial and industrial clients. We sold Daikin Industries from the Fund's portfolio after the company produced strong market performance, which reduced its future return potential.

Outlook

- While the truce in the trade war between the United States and China is a positive development, it does not solve the more immediate concerns over moderating global economic growth. Moreover, an immediate resolution to the trade tension is unlikely as the Americans' tougher stance with China includes addressing issues such as intellectual property rights and cybersecurity, which will take longer to negotiate.

- The global bond market is offering up its own warning signs on the global economy. Proposed extensions to quantitative-easing measures by central banks have delayed the reversion to the mean in interest rates and has resulted in a record-high US$13 trillion in negative-yielding global debt across Europe and in Japan. While U.S. interest rates are comparatively higher – and not in negative territory – they have declined, resulting in an inverted yield curve, which for many investors indicates a greater risk of a recession.

- While eased monetary policies around the world continue to bode well for equity markets over the short term, this situation will eventually lead to a reduction in operating margins and returns on capital for most companies. Almost free and ubiquitous capital has lowered barriers to entry for many businesses. Along with rapid technological change, it may be the case that companies' life cycles are now shorter than ever. New entrants have largely adopted policies to spend as much as possible to gain market share at any cost.

- Low interest rates and low inflation have supported higher equity market valuations, which will lead to below-average returns. There is also a notable valuation gap between the U.S. and international markets. The latter currently offer a more attractive valuation and potential returns. The U.S. market has also become dominated by growth-oriented companies, the share prices of which have been driven up by the strong stock market.

- Investors have been willing to chase high near-term growth, but corporate profitability is distant in this investment environment. This is particularly evident in the U.S. initial public offering market, where companies are being valued on multiples of sales, which makes them more marketable as many are significantly unprofitable. The S&P 500 Index trades at an average price-to-sales multiple of 1.9 times trailing 12-month sales, and the S&P 500 Index's information technology sector trades at an average price-to-sales of 3.7 times. By comparison, valuation levels are excessive for many companies that have recently gone public. (For example, Beyond Meat Inc.'s price-to-sales ratio was 83.7 times, CrowdStrike Holdings Inc.'s was 54.5 times and Slack Technologies Inc.'s was 41.6 times.) Even with an optimistic promise of above-average growth and potential profitability over the next decade, there is considerable downside risk.

- It is also notable that there is a record US$2.5-trillion stockpile of private equity capital on the sidelines, which has led to larger and more aggressive privatization deals, with rising valuation levels and increased use of leverage.

- If this scenario endures, our concern is that current monetary policies may result in a loss of investor confidence.

- As always, we will continue to look past the market noise and use volatility to our advantage as we invest the Fund in winning businesses at attractive valuations. For Black Creek Investment Management Inc., successful investing requires evaluating companies that are interesting on a fundamental basis, and having the patience to take a long-term view.

Class F returns (in %) as at June 30, 2019	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**	**Since inception (09/30/2008)**
Black Creek International Equity Fund	8.0	0.0	8.8	5.3	10.8	10.9

Sources: Bloomberg L.P., MSCI Inc., S&P Dow Jones Indices, Morningstar Research Inc., StatPro Group plc and Black Creek Investment Management Inc., as at June 30, 2019.

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