Black Creek Global Balanced 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 Global Balanced Fund (the "Fund") returned 0.1%. By comparison, the Fund's benchmark, which is a combination of 60% the MSCI World Total Return Index and 40% the J.P. Morgan Global Government Bond Total Return Index, was up 1.6% over the same period.

- During the quarter, global fixed-income markets were broadly higher, given declining government bond yields and relatively flat corporate credit spreads. The Fund's positive absolute performance was driven by the high-yield corporate bond portion of the Fund's portfolio. The Fund did not hold any European or Japanese government debt, issues that have suffered from negative yields and went even farther into the red during the quarter; however, this detracted from the Fund's relative performance.

- The Fund's U.S. Treasury holdings achieved a positive return in local-currency terms; however, the 1.9% appreciation in the Canadian dollar against its U.S. counterpart created modestly negative returns. This currency effect was mainly offset through a currency hedge between the Canadian and U.S. dollars.

Contributors to Performance

- Top contributors to performance for the quarter included Dialog Semiconductor PLC and HeidelbergCement AG.

- Dialog Semiconductor is a leader in power-management technology for mobile devices. The U.K.-based company is targeting new growth opportunities in areas such as home health care and gaming consoles following a US$600-million deal that reduced its exposure to Apple Inc. The transaction saw Apple bring its phone power-management designs in-house by acquiring patent licences, assets and employees from Dialog Semiconductor. After a weak 2018, the Apple deal buoyed Dialog Semiconductor's share price. Another positive factor was the prospect of 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 the Fund's performance for the quarter included Ontex Group N.V. and Grupo Televisa, S.A.B.

- Many investors look at a price decline as a reason to sell a holding, but for long-term investors such as those of us at Black Creek Investment Management Inc., it could also represent an opportunity to buy. When we have portfolio holdings that experience a notable drop in share price over a short period of time, such as Ontex Group and Grupo Televisa, we revisit our investment thesis to determine whether the reasons for which the initial investment was made remain valid. We do our due diligence and ask: Have the fundamentals changed? Has our thesis changed?

- Because of this process, many companies that have been notable detractors from Fund performance in the past have turned into notable contributors. An example of this is HeidelbergCement, which was a top detractor in 2018, but so far in 2019 has been a top contributor.

- In the case of Ontex Group and Grupo Televisa, in our view, the recent decline in each company's share price outweighs any changes in each company's underlying operating fundamentals.

- Grupo Televisa is the largest multimedia company in Mexico and the second-largest in Hispanic America. The company's stock price has been weak due to concerns about its satellite and content businesses slowing. Meantime, Grupo Televisa has largely transitioned to a cable business, which continues to grow. We believe the company's challenges are shorter-term in nature and that new management's turnaround plan should be positive for growth.

- Ontex Group is a leading global manufacturer of retailer private label and branded hygienic disposable products, including baby-care, feminine-care and adult-care products. The Belgium-based company's recent share-price weakness was a result of high-input-cost trends across the industry (which are reversing), as well as a cutback in business where price increases could not be passed on. Management also announced a 130-million-euro capital-expenditure plan to improve operational efficiencies and as a platform for future growth, which was not well received by investors.

Portfolio Activity

- During the quarter, we added three new equity holdings to the Fund: Autoliv Inc., Barrick Gold Corp. and Oracle Corp.

- Autoliv is a global leader in automotive-safety products (such as airbags, seat belts and steering wheels). The Sweden-based company should benefit from increased content of its products and safety technology on autonomous-driving vehicles.

- Toronto-based Barrick Gold Corp. is one of the world's largest gold producers, operating mines in North America, South America, Australia and Africa.

- Oracle is a leading provider of cloud and on-premise software, hardware and customer service. The U.S.-based company is undergoing a product-mix shift from on-premise licences to cloud-based subscriptions.

- There were three outright equity-holding sales from the Fund during the quarter: Carnival Corp., Lloyds Banking Group PLC and SES S.A.

- Carnival is the world's largest cruise-ship company, Lloyds Banking Group is a leading U.K.-focused retail and corporate bank and SES is the world's leading satellite operator and provider of high-quality video and bandwidth for connectivity. All three were sold from the Fund to reallocate funds toward holdings that have a higher future return potential.

- During the quarter, there were no new fixed-income holdings, while two high-yield corporate bond positions were sold. Bonds issued by Travelport Ltd. and AGT Food & Ingredients Inc. were sold due to corporate takeovers. A consortium led by Fairfax Financial Holdings Ltd. purchased AGT Food & Ingredients, while a group led by Elliott Management Corp. purchased Travelport. In both cases, the companies repurchased the bonds at a premium to par value.

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 (01/29/2007)
Black Creek Global Balanced Fund	7.1	3.2	6.4	5.5	9.3	6.2

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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