
# Black Creek Global Balanced Fund
## Third-quarter 2019 Commentary

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| Class F returns (in %) as at September 30, 2019 | Year-to-date | 1 year | 3 year | 5 year | 10 year | Since inception (01/29/2007) |
|---|---|---|---|---|---|---|
| Black Creek Global Balanced Fund | 8.6 | 3.7 | 4.2 | 6.4 | 8.2 | 6.2 |

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

**Market Overview**

- Following a strong performance in the first half of the year, global equity markets delivered a more muted return overall in the third quarter, with the MSCI ACWI (Net) Total Return Index essentially flat, in U.S.-dollar terms.

- Despite the flat returns, volatility was high as equities sold off in August amid escalating concerns over trade tensions, political uncertainty, and growth. Investors flocked to perceived safe-haven assets, including global government bonds.

- Risk assets, including equities rallied in September as news of further monetary easing from the U.S. Federal Reserve (the "Fed") and the European Central Bank (ECB) offset weak manufacturing data. Investors also became aware of value and valuation once again. There was a significant rotation out of crowded momentum and growth stocks.

- Overall, the U.S. market outperformed developed and developing international markets during the quarter. From a valuation perspective, non-U.S. markets are more attractive, with the differential between U.S. and non-U.S. markets at a 17-year high.

- Broadly, more defensive stocks look expensive on a valuation basis. However, out-of-favour cyclical stocks look more attractive, as many already have the uncertainty of trade wars or Brexit, for example, discounted in their valuation.

## Performance Summary

- Over the third quarter of 2019, Class F of Black Creek Global Balanced Fund (the “Fund”) returned 1.5%. By comparison, the Fund’s benchmark, which is a combination of 60% the MSCI World (Net) Total Return Index and 40% the J.P. Morgan Global Government Bond Total Return Index, was up 2.2% over the same period.

- The Fund’s equity holdings broadly performed in line with the MSCI World (Net) Total Return Index during the quarter. The Fund’s fixed income holdings outperformed its benchmark; however, the currency hedge detracted from performance.

- During the quarter, global fixed-income markets were broadly higher, given declining government bond yields and relatively flat corporate credit spreads. Positive absolute performance within the fixed-income holdings was driven by the Fund’s high-yield corporate bond and U.S. Treasury portions.

- The Fund did not hold any European or Japanese government debt. Bonds from these regions have suffered from negative yields that even fell into negative territory during the third quarter. There is now nearly US$15 trillion of government bonds that trade at negative yields, which guarantees a loss if held to maturity. We believe that bonds should pay their holders a return for lending capital. This is why we continue to focus on the higher yields available in higher-yielding corporate bonds by lending to issuers with resilient businesses. However, not holding such government bonds which did appreciate in price during the quarter detracted from the Fund’s relative performance.

- The flight to safety towards U.S. Treasuries (and to the U.S. dollar) during the quarter led to a 1.1% depreciation in the Canadian dollar against its U.S. counterpart. This currency effect was offset through a currency hedge between the Canadian and U.S. dollars, which detracted from overall returns.

## Contributors to Performance

- Top contributors to performance for the quarter included FTI Consulting Inc., BAE Systems PLC, and Ontex Group N.V.

- FTI Consulting, a global consulting and advisory firm, delivered better-than-expected second-quarter 2019 results. One area from which the company has benefitted is increased restructuring and advisory work in the brick-and-mortar retail sector, which has suffered elevated bankruptcies due to increased online shopping.

- BAE Systems, a British multinational defense, security and aerospace company, stated that operational improvements in the first half of the year led to a 9% increase in core earnings. The company's order backlog remains strong and it also reiterated its full-year guidance. In September the company announced several large contracts, one from the Pentagon and one from the U.S. Army.

- 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. After a weak second quarter, the company's attractive valuation and turnaround plan piqued investor interest.

**Detractors from Performance**

- Top detractors from the Fund's performance for the quarter included Now Inc., Telefonaktiebolaget LM Ericsson and HeidelbergCement AG.

- Ericsson is one of the leading providers of information and Ccmmunication technology (ICT) to the telecommunication industry and other sectors. The company announced second-quarter earnings that were in line with expectations but said it expected higher costs to impact profit margins in the second half of the year. It also announced a US$1.2 billion impact to its third-quarter results to settle a U.S. investigation into past corruption allegations.

- DistributionNow (NOW Inc.) is a global leader in sourcing energy industry products and providing total supply chain solutions to energy and industrial markets worldwide. Given its exposure to the energy sector, the company's share price declined along with a drop in the West Texas Intermediate crude oil price in the quarter. The company announced revenue and earnings for second-quarter 2019 that were relatively flat on a year-over-year basis, but many investors are concerned with declining demand if weak oil prices persist.

- HeidelbergCement is one of the world's largest building materials companies. It produces and distributes cement, aggregates, ready-mixed concrete, and asphalt. After a strong first-quarter of growth, the second quarter was slower. For the first half of 2019, the company experienced a like-for-like revenue increase of 7% year-over-year, and strong margin improvements in Asia and Europe, which offset some weather-related weakness in North

America, and weak demand in Egypt and Turkey. The company is on track to reduce costs by 80 million euro for 2019, reduce debt and optimize its portfolio through non-core disposals.

**Portfolio Activity**

- During the quarter, no new equity holdings were added to the Fund, while two equity holdings were eliminated: Daikin Industries Inc. and Koninklijke DSM N.V. Both holdings were sold after a period of strong market performance in favour of opportunities with greater future return potential.

- During the quarter, no new fixed-income holdings added to the Fund, while one high-yield corporate bond position, issued by MEDNAX Inc, was sold.

- MEDNAX Inc is an American company that focuses on neonatal, anesthesia, maternal-fetal and pediatric physician subspecialty services across the United States. We sold the bond issue as MEDNAX has been underperforming due to wage pressures, Medicaid reimbursement headwinds, lower birthrates and the increased risk of unfavourable healthcare legislation from the Trump administration.

**Outlook**

- From the market lows of 10 years ago, British, European and Japanese equity markets have approximately doubled, while the S&P 500 Index is up about three times and the NASDAQ Composite Index roughly five-fold (all measured in U.S. dollars).

- Most central banks are trying to keep the proverbial punch bowl filled to fuel economic growth, and there is a general lack of demand for money in the real economy. And so, we are in a situation of never-before-heard-of negative interest rates in many places, and near-record low rates in others. This condition has resulted in the aforesaid equity market performance and has driven up prices in most asset classes. There are pockets of “froth” in the equity markets, with some valuations at nonsensical levels. There are some parallels to the markets of 1987, 2000, and the late 1960s, but many investors today can’t recognize those. [A fun and useful read is “The Go-Go Years”[1] by John Brooks.]

- Because rates are so low, the volatility of prices increases with any small change in growth expectations and prices for perceived growth companies are elevated. We have seen a narrowing of the market, with momentum and growth stocks vastly outperforming value stocks. At the same time, we seem to be in a world of economic stagnation. The hope is for better growth, but demand is just not there.

In a sense, we are in uncharted investment territory. Will the rest of the world experience what Japan has gone through for the past few decades (little growth and episodic deflation)? Will rampant money creation give rise to even further asset bubbles? In this sense, investment experience does not matter because we don't know what the outlook and outcomes are. But in a very real sense, experience does matter, because value does matter. As investors, what we do is price discovery – we judge between companies of value and those which may destroy capital in time. Sometimes in the short run this distinction gets lost in the noise and fervor of markets, but usually and ultimately it pays off. While it makes a lot of sense currently for investors to diversify between asset classes and investment styles, we remain confident in the ability of the companies we chose for your portfolio to add value over time.

[1] Brooks, J. (1999). *The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s*. New York: Wiley.

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*The comparison presented is intended to illustrate the mutual fund's historical performance as compared with the historical performance of widely quoted market indexes or a weighted blend of widely quoted market indexes or another investment fund. There are various important differences that may exist between the mutual fund and the stated indexes or investment fund, that may affect the performance of each. The objectives and strategies of the mutual fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indexes or investment fund. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indexes.*



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