Black Creek Global Leaders Fund
Fourth-quarter 2019 Commentary

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Class F returns (in %) as at December 31, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (06/12/2006)
Black Creek Global Leaders Fund	18.7	18.7	10.7	12.5	12.2	9.8

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 December 31, 2019.

Market Overview

- As we finish an extraordinary decade of asset price appreciation, Stein's Law comes to mind (named for the late Herbert Stein, who was an American economist and advisor to former U.S. presidents Richard Nixon and Gerald Ford). It states that "If something cannot go on forever, it will stop" and was a response to those who think that if something cannot go on forever, steps must be taken to stop it. Stein believed in the self-correcting mechanisms of the economy and markets.

- We know that the current trends in interest rates and equity markets cannot go on forever. We know that negative nominal interest rates are an anomaly and cannot go on forever. We know that high-double-digit equity returns are unsustainable. We know that the ubiquitous rise in house prices and real estate will end at some point. We have faith in Stein's Law; we just don't know how these trends will come to an end. We also submit that nobody can forecast the future reliably; predictions of returns for 2020 and beyond are impossible.

- And so, 2019 was another year of attractive returns for equities and other asset classes, capping a decade of attractive returns driven by extraordinarily easy monetary policies around the world. In 2019, 10-year U.S. Treasuries produced a high-single-digit positive total return as yields declined from 2.69% to 1.92%, while the U.S. equity market, as measured by the S&P 500 Total Return Index, was up 31.5%, in U.S.-dollar terms. Since corporate earnings in the U.S. were roughly flat year-over-year, the price-earnings ratio (based on 12-months trailing earnings) of the S&P 500 Index increased from 16.5 times at the start of the year to 21.4 times at year-end.

- Once more the U.S. equity market outperformed the rest of the world. Excluding the U.S., equity markets (as measured by the MSCI ACWI ex USA Total Return Index) were up 21.5% (in U.S. dollars), also outpacing earnings growth for the year. At year-end, the trailing price-earnings ratio for markets outside of the U.S. stood at 15.9 times, a substantial discount to the U.S.

- Most commentators attribute recent market gains to hopes for a resolution of the U.S.-China trade war, a slightly more accommodative U.S. Federal Reserve and fewer fears of an imminent recession. We cannot argue with these views but maintain that monetary policy is still providing the lion’s share of the fuel for markets.

- Markets continue to narrow in the sense that fewer stocks are providing the bulk of returns for equity market indexes. The top 10 holdings of the MSCI All Country World Index (Apple Inc.; Microsoft Corp.; Amazon.com, Inc.; Facebook, Inc.; JPMorgan Chase & Co.; both classes of Google parent company Alphabet Inc.; Johnson & Johnson; Alibaba Group Holding Ltd.; and Visa Inc.) accounted for 12% of the index’s weight by market capitalization and contributed 18% of the total return for the past year. In U.S. dollars, the simple average price appreciation for these 10 stocks in 2019 was about 43%, with an obvious overweight allocation in U.S. and technology stocks. The market narrowing is more pronounced in the U.S., where the top 10 holdings of the S&P 500 Index accounted for 23% of the index by weight and contributed nearly 30% of the total return in 2019.

- U.S. President Donald Trump continues to “talk up” foreign currencies that he believes are too cheap, and he denigrates the policies behind them. In this respect, he may be right. On a purchasing power parity basis, the U.S. dollar is currently overvalued by 4%, 11%, 25% and 9%, respectively, relative to the Japanese yen, British pound, euro and Canadian dollar.

Performance Summary

- Over the quarter ended December 31, 2019, Class F of Black Creek Global Leaders Fund (the “Fund”) returned 7.9% compared with its benchmark, the MSCI World Total Return Index, which returned 6.4% over the same period.

- The Fund's outperformance was primarily driven by stock selection within the consumer discretionary, consumer staples and industrials sectors.

Contributors to Performance

- Top contributors to Fund performance over the quarter included Murata Manufacturing Co. Ltd., BorgWarner Inc. and DS Smith PLC.

- Murata Manufacturing is a leader in the manufacturing of ceramic-based passive components for electronic devices. The company's share price rose during the quarter due to earnings that came in better than expected on strong iPhone 11 shipments (for which it supplies components) and market share gains. The company also raised its full-year operating profit forecast, citing improved product mix (towards higher margin products) and cost-reduction initiatives.

- BorgWarner provides technology solutions for combustion, hybrid and electric vehicles. The company's share price rallied after beating third-quarter 2019 sales estimates due to solid performance from its engine and drivetrain businesses. Company management tightened full-year 2019 earnings guidance as light vehicle production volumes remain weak, but this should be partially offset by cost containment measures and new product launches for the full year.

- DS Smith is a leading provider of recycled corrugated packaging in Europe. The company's profits for the first half of 2019 were strong due to robust e-commerce demand and cost savings. The company maintained its full-year earnings guidance and expects higher prices, cost containment, efficiency improvements and new business wins in the U.S. and Europe to offset global macroeconomic uncertainty and weaker sales in Germany (and other export-led markets).

Detractors from Performance

- Top detractors from Fund performance over the quarter included Nielsen Holdings PLC, Glanbia PLC and Oracle Corp.

- Nielsen Holdings is a leading global independent performance measurement and data analytics company that provides companies with information about their customers. The company has faced uncertainty due to takeover rumours, a strategic review and management turnover. Post the recently completed strategic review, management announced Nielsen Holdings would split into two publicly traded companies in an effort to increase shareholder value.

- Ireland-based global nutrition company Glanbia underperformed due to weaker-than-expected quarterly results from its Performance Nutrition division, which produces protein and nutritional supplements. The company has faced currency- and tariff-related challenges in non-U.S. markets, including Brazil, the Middle East and India.

- Oracle provides cloud-computing and on-premise software, hardware and service to customers. The company delivered better-than-expected quarterly earnings results based on strong growth in its cloud services business. However, its revenue growth missed expectations due to weakness in its traditional on-premise licensing business.

Portfolio Activity

- In the fourth quarter of 2019, one new holding – Expedia Group Inc. – was added to the Fund's portfolio.

- Expedia Group is a travel technology company and the world's largest online travel agency by bookings. The company operates through well-known brands including Expedia, Travelocity, Hotels.com, Vrbo, HomeAway and trivago. Expedia Group is investing for future growth through a cloud migration and streamlining its operations to benefit from cost efficiencies and margin improvement. The company's shares trade at an attractive valuation compared to its peers and the overall market.

- After a period of strong market performance, Koninklijke DSM N.V., a global science-based company with solutions in health, nutrition and performance materials, was sold from the Fund's portfolio during the quarter in favour of opportunities with greater future return potential.

Outlook

- Our main focus and concern with respect to equity prices now are still the risks inherent with low and negative interest rates. Will we see bubbles in asset prices (do we have them now)? Can negative rates cause runs on banks? How badly must savers be treated before they revolt? Are we just starting to see the impact on pension funding, and who will bail them out?

At what point do lenders say "No, I'm not going to lend to you anymore," with trillion-dollar deficits in mind? Can and will U.S. interest rates go negative? What are the unintended consequences that we have not yet seen? Too many questions, so few answers.

With Stein's Law in mind, we take comfort in the fact that we own companies in portfolios that can and will adapt to changing circumstances. That is one of the advantages of owning businesses. We try to focus on what we call "winning" businesses; that is, those that offer real value propositions to their customers and ones that we think will win relative to their competitors over time. We also focus on economic earnings, not the accounting earnings that have been so easy to manipulate in a world of low interest rates. Most of the Fund's company holdings continue to invest for the long term. While "value investing" is currently out of favour relative to momentum, technology and growth investing, making it difficult for us to beat the market in the short term, we have faith that in the longer term, value and valuation matter.

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