Black Creek International Equity 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 (09/30/2008)
Black Creek International Equity Fund	18.5	18.5	7.2	8.8	9.6	11.3

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 International Equity Fund (the “Fund”) returned 10.8% compared with its benchmark, the MSCI EAFE Total Return Index, which was up 6.0% over the same period.

- The Fund’s outperformance was primarily driven by stock selection within the information technology, financials, consumer staples and industrials sectors.

Contributors to Performance

- Top contributors to Fund performance over the quarter included STMicroelectronics N.V., Lloyds Banking Group PLC and ICICI Bank Ltd.

- STMicroelectronics, a world-leader in semiconductor solutions, delivered strong third-quarter 2019 results and increased its outlook for the fourth quarter. The strong results were based on increased demand for advanced chips and sensors from automotive and smartphone manufacturers.

- Lloyds Banking Group is a leading U.K.-focused retail and commercial bank. The company’s share price increased on Boris Johnson’s Conservative Party election victory, which removed political uncertainty that had depressed the shares of many U.K. domestically focused companies and the British pound prior to the election.

- ICICI Bank, a leading private-sector bank in India, announced strong quarterly earnings for its fiscal-year 2020 second quarter. The bank’s core pre-provision operating profit increased 24% year-over-year, driven by healthy loan growth, strong deposit growth, higher margins and improved asset quality from lower gross non-performing assets and higher provision coverage. The bank’s year-over-year domestic loan growth was 16% at September 30, 2019, driven by year-over-year retail growth of 22%.

Detractors from Performance

- Top detractors from Fund performance over the quarter included Criteo S.A., Glanbia PLC and Hugo Boss AG.

- Criteo, a leading global advertising technology company, announced mixed results with better-than-expected results for the third quarter of 2019 but disappointing earnings guidance for the fourth quarter. While the company’s near-term results were disappointing, there are positive signs, with new product growth up 57% year-over-year. Cost control has also been strong, and restructuring efforts have led to further savings.

- 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.

- Hugo Boss, a Germany-based global menswear apparel company, issued a profit warning during the quarter related to macroeconomic uncertainties and the political unrest in Hong Kong, which have dampened sales.

Portfolio Activity

- In the fourth quarter of 2019, two new holdings, Alibaba Group Holding Ltd. and Hugo Boss, were added to the Fund's portfolio. Dentsu Group Inc. was sold outright.

- Alibaba Group Holding is a Chinese multinational holding company specializing in e-commerce, retail, internet and technology. Its three main sites — Taobao, Tmall and Alibaba.com — have hundreds of millions of users and host millions of merchants and businesses.

- Hugo Boss operates through its two brands, Boss and Hugo. The company generates the majority of sales through its own retail network, but it also has a growing online presence.

- Dentsu, a Japan-based global advertising company, was sold from the Fund's portfolio 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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