Market Commentary
Third Quarter 2018

BLACK CREEK
INVESTMENT MANAGEMENT INC.

Black Creek Global Leaders Fund

We are not having a good year relative to the markets, and a good friend and colleague reminds us that when you are underperforming there is a fine line between reasons and excuses from the client's point of view. In order to avoid semantics, we can point you to our commentaries from 2011 and 2014 and suggest that it's just "one of those times" in the market where we look very different from the indexes. We also find that people don't want to hear your views and opinions when you are underperforming but listen closely when you are doing well. At the risk of not having an audience now, here's our view.

What's doing well this year in equities? Information technology, consumer discretionary, health care (including pot stocks) and U.S. small-cap stocks (up until recently) are outperforming. By region, the U.S. market is doing well relative to the rest of the world. Investors are seeking both safety in the U.S. market and growth, multiples are expanding for stocks with growth potential, and current earnings don't matter much. Areas of the markets that are not doing so well this year are non-U.S. stocks, especially emerging market stocks (trade war concerns), and cyclical stocks in general. It's now late cycle for markets, and "sure growth" sells for a premium. The U.S. market valuation has a high premium to the rest of the world.

There are signs of a slowdown in global growth, the inflation rate is increasing in many countries, and the cyclical risks for China are becoming more evident. As we have discussed in previous commentaries, we are at an inflection point in monetary policies and long bond rates are moving up. The point at which equities will be impacted is unclear, but they will be impacted.

There continues to be more nationalization of privately owned groups by state-owned enterprises (SOEs) in China. These SOEs have good access to credit from state banks, whereas private companies increasingly do not. The SOEs are also guided by politics and national interests, investing heavily in sectors that are deemed to be vital to China's interests and without much regard for global capacity or returns on capital. This situation is at the heart of the trade war being waged by the U.S., but it is difficult to see how the situation will be resolved.

We would be remiss if we did not comment on a bubble taking place in our backyard. It's difficult to have a view of the Canadian market when you can't see through the thick cloud of pot stocks. Together, Canopy Growth, Aurora Cannabis, Aphria, Vivo Cannabis, Tilray, FSD Pharma and Namaste Technologies have a total market capitalization of US$36.9 billion and total sales of US$180 million. That's a ratio of 205 times. And of course, there's an ETF and equity index for pot stocks as well. It would be interesting to see how much marijuana a tulip bulb from Holland in the early 1600s would buy today. Buyer beware.

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Fund performance has lagged in 2018. There are several dynamics at work that have led to this performance. Global equity markets in general have narrowed, with a smaller number of stocks driving overall market gains. We also have certain holdings that are not achieving our view of the true value of their underlying businesses. While some of these holdings are underperforming due to low investor expectations, we continue to revisit our investment theses to confirm validity.

For the quarter, top contributors to performance included Oracle, Booz Allen Hamilton, Henry Schein, FTI Consulting and Banco Santander Mexico. Top detractors were Nielsen Holdings, Santen Pharmaceutical, HeidelbergCement, OC Oerlikon and Hain Celestial. For the year to date, top contributors included FTI Consulting, Booz Allen Hamilton, Henry Schein, GlaxoSmithKline and Daikin Industries. Notable detractors were Aryzta, Hain Celestial, HeidelbergCement, Nielsen Holdings and BTG.

New holdings in the quarter were Becle and DKSH Holding, while China Biologic Products and DIA were sold.

Becle is a global spirits company and the largest producer of tequila in the world, produced under its main brand, Jose Cuervo. Company sales are benefiting from the global trend toward premium spirits. It is reducing its exposure to underlying volatility in agave, the main input into tequila, by increasing its vertical integration (owned plants) and aims to have 90% sourced in-house by 2019.

DKSH Holding is a Swiss-based holding company that provides market expansion services (entering new markets and expanding in existing locations) in Thailand, Malaysia, Singapore, Greater China and internationally. It offers services including sourcing, research and analysis, marketing and sales, distribution and logistics, and after-sales services. The company operates in four business segments: health care, consumer goods, performance materials, and technology.

China Biologic Products, a leading plasma-based biopharmaceutical company in China, was sold after its price rose on news that CITIC Capital, a Chinese investment firm, offered to buy the company for a significant premium.

DIA, a Spanish based international hard-discount supermarket and personal care retailer, was sold given other opportunities which offered a better future return potential.

As always, we are focused on investing in winning businesses that are gaining market share and where our view of the business is different from other investors. Sometimes this means our portfolio will act very differently from the equity index, but we do believe that valuations matter in the long term. We strive to add value for our clients over the long term.

The key to successful, long-term investing is patience. We thank you for your patience and continued support.

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Class F Returns (in %) as at September 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Black Creek Global Leaders Fund	1.0	4.4	13.9	13.8	12.8

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