Market Commentary
Second Quarter 2018

BLACK CREEK
INVESTMENT MANAGEMENT INC.

Black Creek Global Balanced Fund

Poor Charles Dickens. If only he could still collect royalties for the use of "it was the best of times, it was the worst of times…" Of course, we use it again here to describe the current market environment.

As we mentioned in a previous commentary, we are getting close to the point where the 10-year equity performance numbers and five-year numbers will both be double-digit percentages. These types of returns are not sustainable, and we caution people to expect wild volatility in markets. Equity markets have "outperformed" the underlying businesses because of declining interest rates, and we are likely at an inflection point in rates. Our focus remains on the underlying businesses.

A momentum market continues whereby a narrowing group of stocks are performing well. These stocks continue to attract passive money, which entails no price discovery (valuations don't matter). There are shades of 1999 in the internet and technology areas. Companies that report disappointing results are punished severely by the market. In the long term, of course, valuations do matter and rising rates may not be friendly to momentum investors.

Consumer stocks, which are usually a safe haven in uncertain times, are faring poorly, but this is due to a secular change in consumer buying habits. Some of you may remember the old advertising line: "not your father's Oldsmobile." Today's younger consumers are not acting like their parents did, and technology has lowered the barriers to entry for new consumer product brands and companies. The markets are fragmenting, and as a result, scale in distribution and advertising no longer matters as much, as online promotion and buying are easy.

By far the biggest source of uncertainty and risk is global trade. Is Donald Trump just a powerful bully, or is he craftily bringing about the end of mercantilism? In the short term we can expect more rhetoric, more threats, more tariffs and trade barriers, more backlash against American companies, and more stock price volatility. We don't know how this will turn out.

We have been aware of the growing trade issues for the past few years, and we have been conscious of this when selecting companies. The old business model of producing in one region and exporting to the rest of the world is dying (the mercantilism referred to above) and, with a few exceptions, we have chosen companies that have deliberately globalized their businesses. We don't own a lot of exporters in our portfolios.

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Fund performance

During the quarter, the fund achieved a positive overall absolute return, supported by both the equity and fixed-income components. Through the first half of 2018, the fund has delivered a negative return given underperformance in the first quarter. Over the longer term, results remain attractive.

Equity

From a performance perspective, quarterly performance was positive. Top contributors included SES, DistributionNOW, FTI Consulting, Greencore Group, and Nutrien. Notable detractors included Dialog Semiconductor, Aryzta, Ontex Group, DIA, and HeidelbergCement.

During the quarter, there were no new names purchased or outright sales.

Fixed Income

In general, global fixed-income markets declined during the second quarter as interest rates rose and investment-grade spreads widened in the U.S., and volatility was experienced outside North America. The fixed-income portion of the fund delivered a positive absolute return for the quarter helped by the appreciation in the U.S. dollar versus the Canadian dollar.

Although we are likely nearer to the end of the current business cycle than the beginning, economic growth continues and inflationary pressure has not yet exceeded central bank target ranges. From an allocation perspective, we prefer corporate bonds, but do hold a portion of the portfolio in U.S. government bonds for diversification purposes. Within the corporate segment, we continue to prefer higher-yielding corporate credit.

In the quarter, bonds rated non-investment grade (high yield) outperformed those rated investment grade as economic activity has remained robust, driven in part by the earlier U.S. tax cuts. As noted above, U.S. investment-grade credit spreads (the difference between corporate bond yields and Treasury bond yields of the same maturity) widened, leading to weaker investment-grade bond prices during the quarter. This was a result of high bond issuance due to large mergers and acquisitions transactions, expectations of rising interest rates, and selling pressure from non-U.S. investors (previously a major buyer). We continue to view investment-grade corporate bond valuations as generally expensive, offering a less attractive return profile now. We prefer to earn higher yields by allocating to bonds issued by companies rated non-investment grade.

In June, the U.S. Federal Reserve Board (Fed) increased rates another 0.25 percentage points to 2% on the back of strong economic data. Expectations of higher inflation and a rising rate environment pushed bond yields in the U.S. higher across the yield curve during the quarter. However, short-term interest rates have risen faster than long-term rates. This has been due to rising policy rates, yet concerns of a possible trade war and rising U.S. deficits on top of already high debt levels have prevented long-term rates from matching the move in short-term rates. This has led to a flattening

of the yield curve, with the spread between two-year yields and 30-year yields at levels not seen since 2007. Equity and bond investors tend to be watchful of such moves as a flattening yield curve can indicate expectations of slowing growth or even a recession.

The fund does not hold any European or Japanese government debt given their near-zero yields provide little future return potential. We are also cautious on emerging market fixed income, which lagged during the quarter as the Fed continued to raise interest rates, the U.S. dollar strengthened and trade tensions escalated.

Our focus remains on purchasing fixed-income securities issued by winning businesses with resilient cash flows, access to liquidity, and strong management teams and balance sheets. We will continue to be selective as opportunities present themselves amid rising volatility in the markets.

Final thoughts

We continue our efforts to upgrade our portfolio by finding better alternatives for what we already own. This focus takes us to many areas of the globe and to many different industries to ensure sufficient diversification within a concentrated portfolio. While there is no obvious "happy hunting ground" for equities today, we remain true to our investment philosophy.

Thank you for investing alongside us and for your continued confidence and support.

Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Black Creek Global Balanced Fund	-2.2	-1.0	4.3	9.6	9.0