

# Market Commentary

## First Quarter 2018



### Black Creek Global Leaders Fund

The global equity market (as defined by the MSCI World Index) in the first quarter of 2018 was up 1.7% in Canadian dollar terms, with the U.S. market doing slightly better than other markets. Outside of North America (the MSCI EAFE Index), equity markets were up 1.4% in Canadian dollar terms.

A momentum-driven market persists, with the amount of money allocated to momentum ETF strategies growing rapidly, and indexes increasingly driven by the top-performing information technology stocks. Volatility among stock prices has picked up with quickly changing world views and rising interest rates.

The global economy expanded further, with additional signs of wage, transportation and other overhead cost pressures in many regions. It's too early to say that inflation is back, but inflation expectations seem to be rising and bond yields are also beginning to rise. Both the U.S. and Japanese economies are at full employment levels, and wage pressures are rising in both places. At the same time, it is more difficult for many companies to raise prices because of increased competition/disruption and because customers are now acclimatized to a low-inflation/deflationary environment; therefore, companies without pricing power and unique customer value propositions will face margin compression.

Political risk to the global economy is rising as the rhetoric from the Trump administration concerning trade becomes increasingly provocative, and as we begin to hear talk of specific tariffs accelerate between the U.S. and China. At this point the two countries are negotiating in public, but the market is showing disapproval. Separately, the recent row between Russia and NATO countries over the alleged poisoning of a former Russian spy in the U.K. by Russian agents has also elevated global tensions and has prompted talk of a new cold war era. Amid all of this, North Korea's leader Kim Jong-un appears to have been summoned to China, perhaps for a scolding, but he remains a wild card.

Despite daily headlines about which currencies are rising or falling against each other, we currently have the situation where the U.S. dollar is within 10% of the level of purchasing power parity against the Canadian dollar, sterling, the euro and the yen. On this basis, the main trading currencies are all relatively fairly valued against each other.

The fund's portfolio underperformed in the first quarter, but we expect results to be more positive over the longer-term. This first-quarter weakness was not unexpected in what has become a

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narrow, momentum-driven market. As discussed in past commentaries, the fund looks different to the market and can underperform over short intervals as we seek to outperform over a full cycle. Often, such environments lead to opportunities to find new names or add to/sell down existing holdings.

We believe the underlying fundamentals of the holdings in the fund's portfolio remain compelling; however, there were notable detractors in the quarter, including Hain Celestial Group, Aryzta, Inovalon Holdings, Nielsen Holdings and Grupo Televisa. Our investment thesis for each of these companies has not changed. Positive contributors include FTI Consulting, GlaxoSmithKline (GSK), Makita, Santen Pharmaceutical and OC Oerlikon.

We purchased Glanbia and GSK, and sold Akamai Technologies and Capgemini during the quarter.

Glanbia is an innovative global nutrition company with a leading market position in performance nutrition products with strong brands. It also has attractive positions in cheese products, dairy ingredients, specialty non-dairy ingredients and vitamin and mineral blends. Glanbia is expected to benefit from the growing consumer interest in health and wellbeing solutions as part of a healthier lifestyle. Glanbia's share price came under significant pressure in the first quarter due to short-term concerns (exposure to GNC Holdings and capital investment in joint ventures) that created what we view is a great long-term opportunity for our clients.

GSK is a global healthcare company based in the U.K. It has three leading global businesses that research, develop and manufacture innovative pharmaceutical medicines, vaccines and consumer healthcare products. The company has recently reshaped its culture and executive team under new CEO Emma Walmsley and has attracted top talent from some of the world's leading companies, including Google, Novartis and Pfizer. After many years of underinvestment, the company has also refocused its efforts in research and development to prepare for future growth. GSK's valuation on a cash flow basis is highly attractive.

We sold Akamai Technologies as the stock sharply appreciated in a short period of time after activist investor Elliott Management announced a significant stake. We sold our holding in Capgemini for diversification purposes as we increased our holding in sector peer Booz Allen Hamilton. Both companies have significant exposure to consulting in digital and cyber-related solutions; however, Booz Allen Hamilton is currently more attractive in terms of valuation.

Chasing a momentum-driven market can be tempting given the fear of missing out, but this is an increasingly crowded trade that works until it doesn't. At times like this we focus on sticking to our investment discipline of building a concentrated, but diversified portfolio of winning businesses at attractive valuations. Although equity valuations remain elevated, we continue to look for opportunities to upgrade the fund's portfolio by finding better ideas than those we already own, rather than trying to time or call the market. We believe this approach works better over time.

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We are invested alongside our clients, will continue to manage our strategies with a disciplined approach, and will seek to add value over the long-term. We thank you for your continued support.

<b>Class F Returns (in %) as at March 31, 2018</b>	<b>Year-to-date</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>10 year</b>
Black Creek Global Leaders Fund	-1.1	11.4	11.7	16.9	11.1

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