



Black Creek Global Leaders Fund First-quarter 2019 Commentary

Market Overview

Following a difficult quarter fourth quarter of 2018, equity markets reversed course sharply in the first quarter of 2019. In U.S.-dollar terms, global stocks (as measured by the MSCI All Country World Index (ACWI)) rose 12.2% over the quarter as investors embraced signs of progress on U.S.-China trade negotiations while central bankers affirmed a continued accommodative stance on monetary policy.

In U.S.-dollar terms, all major global equity markets delivered a positive return. The U.S. market (as measured by the S&P 500 Index) was up 13.6%, outperforming international developed (MSCI EAFE Index up 10.0%) and developing markets (MSCI Emerging Markets Index up 9.9%) in the quarter. On a geographic basis, stocks of companies based in China were the top performers, in aggregate, for the quarter as investors hoped progress would be made on trade talks between China and the U.S. and that China's pledges to further liberalize its domestic stock market to foreign investors would be seen through. While all sectors within the MSCI ACWI were positive, information technology sector stocks (up 18.8%) were the clear leaders as investors reconfirmed their preference for expensive growth stocks. High-profile initial public offerings (IPOs) helped increase interest in the tech sector with Lyft, Inc., the ride-hailing competitor to Uber Technologies Inc., coming to market with its IPO in late March.

While equity markets enjoyed a recovery, the global economy continued to show signs of slowing growth. China felt the impact of the trade war with the U.S. with its exports slowing, but trade wars are not fully to blame as exports slowed for Europe and Japan, as well as for the U.S. Many countries/regions have noted a slowing trend in global trade that has pressured growth, including Hong Kong, Japan, South Korea, France and Germany. Uncertainty over Brexit has not helped trade either as companies have delayed, diverted or halted investment within the U.K. and across the European Union. Recent data from the U.S. shows the U.S. economy is experiencing a slowdown as the economic boost from the 2017 tax cuts has faded. Consumer spending, which makes up approximately 70% of U.S. gross domestic product, and factory output have been more muted recently.

The bond market is signalling a slowdown in growth as well. Within the U.S., short-term yields have risen above long-term yields, resulting in an inverted yield curve, which for many investors



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indicates the risk of a recession is rising. Fixed-income investors pushed the yield on the 10-year U.S. Treasury down to levels not seen since 2017 amidst concerns over global growth.

In Europe, bond yields once again turned negative. For the first time since 2017, the German 10-year government bond yield fell below zero. The total amount of global government debt with a yield below zero has increased to over US\$10 trillion, up from a low of US\$5.7 trillion in early 2018.

From an earnings perspective, companies are facing a slowdown as a result of moderating global growth and tariff concerns. As growth slows, companies are also finding it harder to pass along the impacts of rising labour, transportation and raw materials costs to customers through price increases. In the U.S., earnings are also being dampened as some of the favourable effects of the 2017 tax cuts roll off. Broadly, corporate America is facing a year-over-year earnings contraction for the first time since 2015. Given the economic slowdown, it may be harder to justify elevated stock valuations as optimism around rising corporate earnings fades. However, offsetting this earnings concern is the continuation of low interest rates.

Stock buybacks have been a major contributor to rising equity markets over the past decade, particularly in the U.S. In 2018, U.S. companies spent a record US\$806 billion on stock buybacks, which eclipsed the prior record of US\$589 billion set in 2007. Corporate balance sheets have added leverage as the buybacks have been partially financed with low-cost debt. Recently though, buybacks have become politically contentious in the U.S. as politicians from both major parties have pushed the U.S. Securities Exchange Commission to restrict or eliminate them in an effort to encourage companies to invest more in their operations.

Performance Summary

Over the first quarter of 2019, Class F of Black Creek Global Leaders Fund (the “Fund”) returned 8.5% compared with its benchmark, the MSCI World Index, which was up 10.0% over the same period.

The Fund performed well on an absolute basis during the quarter, but it trailed the benchmark. Top contributors to performance included Fund holdings in Booz Allen Hamilton Inc., Koninklijke DSM N.V., The Hain Celestial Group Inc., HeidelbergCement AG and Woodward Inc. Notable detractors from performance included Fund holdings in DKSH Holding AG; Inovalon Holdings Inc.; The Interpublic Group of Companies, Inc.; Henry Schein, Inc.; and Covetrus, Inc.



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Portfolio Activity

During the quarter, ConvaTec Group PLC, DS Smith PLC, Interpublic Group and Makita Corp. were new purchases, while BTG PLC, Covetrus and Grupo Televisa S.A.B. de C.V. were outright sales.

ConvaTec Group is a U.K.-based international medical products and technologies company, with leading market positions in wound therapeutics, ostomy care, continence and critical care, and infusion devices. Its products provide a range of clinical and economic benefits, including infection prevention, protection of at-risk skin, improved patient outcomes and reduced total cost of care.

DS Smith is a leading provider of recycled corrugated packaging in Europe. The company has a strong track record of acquiring competitors and creating value in this fragmented market. DS Smith made its first move into the U.S. market in 2017 with the acquisition of Interstate Resources Inc.

Interpublic Group is a global leader in modern marketing solutions. The company has transitioned from traditional advertising into a complete solutions provider with digital and other services, such as public relations and consulting.

Makita is a Japan-based global leader in power tools for residential and commercial use. Makita also has longer-term growth opportunities to leverage its technologies into adjacent categories, such as the power lawn/gardening tool market.

BTG is a U.K.-based global specialist health care company that operates through three business segments: interventional medicine, specialty pharmaceuticals and licensing. BTG was sold from the Fund's portfolio after the company's share price rose on news that it agreed to be acquired by Boston Scientific Corp.

Covetrus resulted from the spinoff of Henry Schein's Animal Health business and the subsequent merger with Vets First Choice LLC. Covetrus was sold from the Fund's portfolio when the company's shares were received due to ownership in Henry Schein.

Grupo Televisa, the largest multimedia company in Mexico and the second-largest in Hispanic America, was sold from the portfolio in favour of companies with, in our view, greater future return potential.



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Outlook

There are a multitude of macro-related issues that one could be concerned with currently, and we are cognizant of them as this is the environment in which companies operate. However, our strength lies in our ability to identify profitable companies versus attempting to forecast macroeconomic movements or the magnitude or direction of interest rates or markets. We continue to believe owning a concentrated, high-conviction portfolio of differentiated and sustainable businesses that are acquired at reasonable valuations is the best way we can deliver attractive long-term returns for the Fund. We will look to take advantage of future mispricing, volatility and irrational behaviour given our long-term horizon and expectations of increased volatility.

Class F returns (in %) as at March 31, 2019	Year-to-date	1 year	3 year	5 year	10 year
Black Creek Global Leaders Fund	8.5	3.5	10.4	10.3	14.2

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