Market Commentary
Digital Roadshow

BLACK CREEK
INVESTMENT MANAGEMENT INC.

Summary of a presentation by
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A look back at 2015

- Global equities were down by 4.3% in U.S. dollar terms for the year, it was a rough ride with significant market volatility in the summer months. The main worries seemed to be the slowing economy in China, the pending interest rate decision by the U.S. Federal Reserve, and what might happen in emerging markets.
- 2015 returns in USD: US -1%, EU -5.3%, JPN +7.8%, Asian Pacific ex JPN -12%, EM -17%
- Canadian market: -26% in USD, -10% in CAD, CAD lost 20% to USD in 2015
- Oil prices were down by about one-third during the year, partly reflecting the strength of the U.S. dollar.
- Interest rates remain at or near historic lows in developed markets, inflation fears are nowhere to be seen in these markets.
- Not much change in the global economy over the past few months. The U.S. continues its recovery, unemployment is at very low levels, Europe continues to recover at a slow pace and China continues to slow.
- This slowing of the global economy has had a negative impact on emerging market growth, and even that of Canada, in large part because of commodities.
- We are seeing markets willing to pay high prices for perceived growth, so momentum and technology investors are popular again

Déjà vu – is it 1997-1998 all over again?

- There are many similarities between today's environment and that of 1997-1998. For example, at the end of 1997, the U.S. economy was strengthening and the Fed was tightening monetary policy.

- The European economy was also getting stronger (as it is today) and emerging markets and China weakened sharply after currency devaluation in Japan (as it did similarly about 18 months ago). Countries and industries that were heavily dependent on foreign capital and the export model began to struggle (we are seeing the same thing today).

- Commodities collapsed or fell to all-time lows (the price of oil got down to $12). Back then, when the Fed ultimately decided to stop tightening, there was a boom in technology, which ultimately became a bubble. We see hints of this again in today's markets.

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- Most of the returns in the U.S. market were focused on a few large cap growth companies (Facebook, Amazon, Netflix, Google, AKA FANG).

- In many cases these are great companies, but investors are paying higher and higher prices for them.

Black Creek is different from the market

- Our process and philosophy have not changed over time.
- We search the world for industry-leading companies that are substantially undervalued based on our proprietary view of long-term value that is different from the markets view.
- We act like business owners – we treat each investment as though we are buying the entire business.
- We build concentrated portfolio of 25-30 names.
- Our portfolios have high active share (high 90s), another sign that we are different than the market.

Positions added and sold in 2015

- New positions were added by investing in the following businesses:
    - **Cameco Corp**. – one of the world's largest uranium producers, as well as a leading provider of nuclear fuel processing services.
    - **Daikin** – a global leader in air conditioning systems for commercial and residential use based in Japan.
    - **ElringKlinger** – automotive supplier focused on green technologies headquartered in Germany.
    - **Haier** – Chinese manufacturer and the world's largest appliance maker.
    - **Inovalon** – a cloud-based data analytics and a data-driven intervention platform provider to the health care industry.
    - **Neilsen** – a leading global information and measurement company that enables other companies to understand consumer behaviour.
    - **Now**– one of the largest global distribution companies with a focus on the energy industry.
    - **Sinopharm** – largest distributor of pharmaceuticals in China.

- Holdings sold:

    - Due to buyouts/takeovers/partial takeovers, we exited our positions in **Mindray** (China-based maker of diagnostic equipment), **Micronas** (a Swiss automotive electronics provider), **Pfeiffer Vacuum** (German manufacturer of vacuum pumps).

    - We also sold holdings due to their growth potential being increasingly recognized by the market. For example, **Gerresheimer** (global partner to the pharma and health care industry), **Agrium** (global leader in agricultural product**), eBay/PayPal, SES** and **Publicis.**

- We have been all over the world and continue to look for opportunities that meet our criteria. We see opportunities in Japan, China and India. There are also some excellent world-class companies in Brazil. We are finding opportunities in Europe and are have been turning our eyes to the U.K., Sweden, Portugal, Spain, Switzerland and France.

Update on Black Creek Global Balanced Fund

- Throughout 2015, we had taken the equity weighting of the portfolio to significantly lower levels (at one point around 58%). The equity allocation did well in 2015 and also benefited from currency moves.
- On the fixed income side, performance was strong in domestic markets but the portfolio did suffer from a hedge that was in place. We expect that currency will start to come back in favour of having the portfolio hedged.
- Cash plus money market component in the portfolios was higher throughout the year than in the past as we expected significant volatility to continue. We see this continuing going forward and the cash component will continue to be flexible in our portfolios.
- Expected rates of return for fixed income will be significantly lower over the next five to 10 years compared to what they have been in the last three or four years. The risks required to be taken in order to get higher rates of return in this space are not acceptable in our view. We would rather adjust cash and equities weightings than take on significantly higher credit risk to get higher returns.

Currency

- We have been talking about the Canadian dollar being overvalued for years, over the span of 18 months it has corrected.
- We take a long-term view on currency, we look at purchasing power parity.
- We are at the point where the USD and GBP are overvalued relative to the CAD, and we are now considering hedging those currencies. Euro and JPY are still undervalued relative to CAD.
- We are currently unhedged but are prepared to do so when we deem it appropriate.
- When managing currency exposure we also carefully consider how our companies are affected by currency moves and make necessary adjustments to the portfolios based on that as well.

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