BLACK CREEK
INVESTMENT MANAGEMENT INC.

Black Creek Global Balanced Fund

The mountains of comment and analysis following the Brexit vote can be summed up by the title of the R.E.M. song "It's the end of the world as we know it (and I feel fine)."

Brexit, of course, is the term being given to the withdrawal of Britain from the European Union after some forty years of economic partnership. We can only summarize our thoughts here, as we don't know at this point what the possible outcomes and arrangements will be. But we do know that investors hate uncertainty, and that's what we have in the short term.

Faced with uncertainty, businesses may cut or delay investment spending while implementing hiring freezes. This may lead to an economic slowdown in the United Kingdom or possibly even a recession. But with the quick correction of the sterling, interest rates and asset prices, the economic impact may be muted. Just as the center of economic gravity shifted in Canada from Quebec to the other provinces over time because of the separatist threat, so too may London lose its place as a global financial center. Political uncertainty remains: who will lead the government and what course of action will he/she take? On what terms will the split occur? Will there be another vote? We don't know yet.

In the longer term, does this herald the start of de-globalization and generational conflict? Some look at the vote as a backlash against globalization and job losses to China and other emerging markets, while the older generation is voting to ensure entitlement programs such as pensions and health care are maintained, presumably at the expense of the younger generations. Will the domino effect have a negative effect on world trade and protectionism? If we put this vote in the context of low interest rates, immigration worries, demographics and even the uncertainty of U.S. politics, maybe something larger is going on. Voters are voicing their displeasure with the status quo and are seeking change, and not just in Britain or the European Union. Again, we don't have all of the answers just yet.

We do know that this vote and its repercussions will not change the nature of the businesses we own in our portfolios. We own market leaders which will continue to grow, and it is unlikely that the long-term demand for their products will change materially because of this situation. For some time now, we have been wary of companies that rely on export models for their success. The trend towards regional production and localization has been gaining traction and this has implications for outsourcing and supply chains. It should be clear that the majority of our investments in the United Kingdom and Europe (and elsewhere for that matter) are in global leading companies which have exposure to the global economy and not just to the 55 million inhabitants of the United Kingdom.

Market Commentary
Second Quarter 2016

We have described and commented on the slow global growth, negative interest rates, and volatility in asset prices in our previous reports. Nothing here has changed.

In terms of market performance, global equity markets are flat on both a quarterly and year-to-date basis in U.S. dollar terms. The U.S. again outperformed, up by 2.4%, reflecting its "safe-haven" nature. Equity valuations between the U.S. (relatively expensive) and elsewhere, particularly Europe, continue to diverge. Europe and Japan underperformed, with Europe down 7.3% and Japan down 6.5%. Emerging markets were up 5% and Canada, our own backyard, was up 13.7%.

Global fixed income markets continue to benefit from both political and economic uncertainty prevalent around the world. Government bond yields continued their year-to-date rally in the second quarter. After the Brexit vote, Germany's 10-year bond yield moved into negative territory for the first time, closing the quarter at -0.13%. Japan's 10-year bond yield was at -0.22%, while the Swiss 10-year yield led the pack at -0.61%. An astounding 36% of the $35 trillion global sovereign bond market is yielding less than 0%, and another 41% ($14.5 trillion) is yielding between 0% and 1%.

The British pound lost 10% relative to the U.S. dollar so far this year (and 10% after the Brexit vote), while the euro, yen and Canadian dollar strengthened by 2.5%, 15% and 6.6% respectively against the U.S. dollar. It should be noted that the U.S. dollar is within 10% of purchasing power parity levels against the Canadian dollar, yen and pound, meaning that in our view, these currencies are not dramatically under- or over-valued relative to each other.

On this same basis, the euro is undervalued by 11% versus the Canadian dollar, 16% versus the U.S. dollar, 18% versus the yen, and 9% versus the pound.

The portfolio's performance changed dramatically as result of the Brexit vote. Up to mid-June, performance was good on both a short and long term basis, but the market has penalized many of our companies for being in the wrong place at the wrong time. We think this is a temporary change, hence the "I feel fine" part of the song title. In fixed income, our corporate bond holdings outperformed while providing positive yields and shorter duration than government bonds, whose yields continued their speculative march south into low/negative territory.

During the second quarter we bought new positions in Aryzta and IPG Photonics. Aryzta is the global leader in partially baked technology for the global baking industry. IPG Photonics is the global leader in fiber lasers, with integrated products that are driving innovation and switching from traditional lasers to fiber lasers in various end markets.

We sold our positions in Prosafe and Svenska Cellulosa. Svenska Cellulosa performed well, however, it was no longer one of our best ideas based on its valuation relative to our other ideas. Prosafe had a significant degradation in its balance sheet due to continued investment in conjunction with one of the most significant slowdowns in the energy industry over the last 30 years.

In the second quarter, we had good relative performance from Carl Zeiss Meditec, Galp Energia, FTI Consulting, Synopsys and Nabtesco. Underperformers included Galaxy Entertainment, Dialog Semiconductor, Wienerberger, Cameco, and Lloyds Banking Group.