# Market Commentary
# Fourth Quarter 2016

BLACK CREEK
Investment Management Inc.

## Black Creek Global Balanced Fund

Last year was filled with many surprises – Britain's vote to leave the European Union, the failed Colombian peace referendum, and the election of Donald Trump as the next U.S. president. By the time we got to the recent Italian referendum, the unexpected outcome had become the expected one.

The U.S. market's reaction to Trump's election win brings to mind the book, *Thinking, Fast and Slow* by Daniel Kahneman. Markets are saying there will be more fiscal (infrastructure) spending, tax reform (lower taxes), deregulation (banks, pharmaceutical pricing), and the dismantling of trade agreements and health care plans. This is fast thinking, and the markets have acted accordingly. "Good" stocks now include infrastructure, materials, capital goods and banks, while "bad" stocks include yield-based stocks (mainly consumer), emerging markets (especially Mexico), gold, and hospitals. There has been a massive rotation away from non-cyclical consumer goods, utilities, and technology to industrials and financials. But we contend that the situation requires some slow thinking: what will Trump's policies actually entail? He does not have a blank cheque and Republicans are still by and large anti-debt and anti-deficit types. Who is going to pay for all this spending and tax reform? Will Americans (that is, Trump's voter base) really want less regulation of banks and lower corporate taxes? Are they really going back to the ways that got them into the 2008-09 crisis in the first place? We think it pays to wait and see what policies actually prevail.

Perhaps some of the political change we've seen reflects the coming generational conflict between seniors (we are including the baby boomers here because they are coming of age) and millennials. Seniors in the developed world have come to expect the entitlements that they have been promised for the past fifty or sixty years, but the millennials never had the chance to sign that contract and are now beginning to realize the cost of these promises. This story is not over by any stretch.

We have written and spoken at length about many of the headwinds that the global economy is facing: elevated asset valuations, less favourable demographics, high indebtedness, low productivity gains and unbalanced trade flows. We've had the tailwind of historically low interest rates around the world, but this situation might be over. Trump cannot repeal the laws of global economics, and we expect global growth to continue to be below average for some time.

In the short term, if oil prices, interest rates and the U.S. dollar continue to rise, we may see negative impacts ranging from a hit to American consumer income, to the demand and interest rate impact on emerging markets, to highly indebted companies and countries. With upcoming elections in 2017 in France and Germany, we may also see more surprises and changes to the political landscape in Europe. The short-term trade may be to continue to buy the U.S. dollar, but it is already overvalued in purchasing power terms. We expect 2017 to be a rocky year in markets.

While we are conscious of all these macroeconomic forces and concerns, we cannot always predict the outcomes. We stand by our process of building concentrated but diversified portfolios of attractively-priced globally leading companies. If we have chosen right, these ideas should do well for our investors over the next 7-10 years. As events unfold in 2017, we will look to take advantage of any market dislocations to continually upgrade our portfolio with better ideas, regardless of which way the winds blow.

In terms of market performance, global markets, both equity and fixed income were fairly tumultuous during the year. Generally speaking, the Brexit vote drove bond yields and stock prices down, while the election of Donald Trump in the United States resulted in government bond yields and equity markets rising dramatically as expectations of rising inflation and fiscal policy were reflected in asset prices. Corporate credit spreads compressed during the quarter, offsetting some of the pricing pressure brought on by rising government bond yields, benefitting both high-grade and high-yield bonds on a relative basis.

The fund performed well during the quarter. Contributors to performance were Galaxy Entertainment, IPG Photonics, Cameco, Christian Dior, GALP Energia, Agrium, and Dialog Semiconductor, while detractors included Inovalon, DIA, Grupo Televisa, Cap Gemini and Nielsen. For the year, contributors were Galaxy Entertainment, FTI Consulting, GALP Energia, Dialog Semiconductor, Christian Dior, Synopsys, Distribution Now, IPG Photonics and Nabtesco, while detractors included Prosafe, Inovalon, Grupo Televisa, Basilea Pharmaceutica, DIA, Lloyds and Accor.

During the quarter we bought new positions in Grifols, Hugo Boss, and Ontex. We also exited positions in Haemonetics and Nabtesco (both based on valuation relative to our best ideas).

Grifols is a leading global health care company in plasma fractionation and plasma collection centers. Hugo Boss is a leading global brand in the fashion industry for men's and women's clothing and accessories. Ontex is a leading European supplier of retailer-branded baby diapers, adult incontinence and feminine care products with increasing global exposure in own-brand products.

Overall fixed-income markets are down 7.1% in the quarter in U.S.-dollar terms. For 2016, global high yield (14.3%) outperformed both investment-grade (4.3%) and global government bonds (1.7%).

The fund's fixed-income performance was driven mainly by its bond holdings, primarily North American corporate bonds, which outperformed global government bonds due to significant weakness in Europe and Japan.

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Within the fixed-income segment, we deployed cash during the fourth quarter towards initiating positions in U.S. Treasury bonds. This improved income generation by moving cash to government bonds, while adding diversification to the fixed-income portfolio during the government bond market sell-off in the quarter. The majority of the fund's fixed-income exposure remains in corporate bonds.