

Market Commentary

Fourth Quarter 2017



Black Creek Global Leaders Fund

The past year proved to be a good one for equities as investors largely shrugged off geopolitical tension and focused on economic recovery in the U.S., Europe and emerging markets (the recovery trend is expected to continue in 2018). Business and consumer confidence also improved. The outlook for the global economy is generally positive, but the headwinds we spoke of in prior commentaries remain.

As we enter the new year, it is worth reflecting on where we stand given recent market strength. Equity market returns over the past five years are meaningfully above long-term averages and are not sustainable, but the path to normalization is unpredictable. As well-known management consultant Peter Drucker said, “Trying to predict the future is like trying to drive down a country road at night with no lights while looking out the back window”.

Equity markets are now well into an eight-year recovery, with valuations looking stretched in many areas of the market. The shift to passive investing has contributed to higher equity valuations as the flow of funds has indiscriminately buoyed all stocks, regardless of fundamentals. Share buybacks by companies have also been a significant contributor to higher equity valuations during this recovery.

For the fourth quarter, top contributors to performance include Daikin Industries, DSM, FTI Consulting, Akamai Technologies and ICICI Bank. Notable detractors for the quarter include Santander Mexico, Nielsen Holdings, Grupo Televisa, Inovalon Holdings and DIA.

For the calendar year, top contributors to performance include OC Oerlikon, DSM, Galaxy Entertainment Group, Anta Sports Products and Accor. Given the strong absolute returns for the year, there were few detractors, which were Nielsen Holdings, Grupo Televisa and FTI Consulting.

During the quarter we added China Biologic Products and Henry Schein, and sold Galaxy Entertainment Group and Haemonetics. China Biologic Products is one of the top three suppliers of human plasma-based biopharmaceutical products, including albumin and immunoglobulin. We believe the company is poised to benefit from an aging population in China as well as from the treatment of various infectious diseases and cosmetic applications.

Henry Schein is one of the world’s largest providers of health care products and services primarily to office-based dental, animal health and medical practitioners. The company provides value-added services (including equipment repair) and solutions to dentists, veterinarians and physicians to help successfully run their practices, a strategy intended to encourage them to do business with Henry Schein.

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Galaxy Entertainment Group, based in Macau, is one of the world's leading resort, hospitality and gaming companies. It has benefitted from increased traffic and spending from both tourist and leisure gamblers as well as high-stakes (VIP) gamblers. We continue to like Galaxy Entertainment as a business but, given its strong price performance, its valuation is currently less attractive vis-à-vis other opportunities.

Haemonetics is a global leader in blood management solutions, serving plasma centers, blood centers and hospitals. The holding was also sold due to strong price performance, which reduced its future upside potential versus other opportunities.

Outlook

Although we could be accused of “crying wolf” with our previous warnings of increased market volatility, we have yet to see this volatility despite experiencing a long market run without any meaningful correction. It is worth noting that our portfolios have low exposure to stocks in the market indexes. While this is no guarantee of future performance, we should not be in the direct eye of any coming storm caused by a reversal of passive buying to passive selling. Given where we are in the cycle, the judgement and discrimination that remain at the core of our discipline may be more valuable over the coming five years.

Even as global economic activity has picked up, central banks remain accommodative with their monetary policies and are keeping interest rates low. As we believe we are at an inflection point regarding these policies, we will continue to warn that small changes in policy can contribute to increased volatility in asset prices. When the status quo is disrupted, outcomes can be uncertain in timing and magnitude.

We are acutely aware of the forces at work on global markets; however, we take a bottom-up approach to investing by looking at the underlying fundamentals of a business. This has not changed over time and is not dependent on the market environment. We seek to build concentrated but diversified portfolios of attractively-priced winning global businesses.

Our investment horizon is long-term and if our investment theses are correct, these ideas should unfold for investors over the next 7–10 years. Because of our long-time horizon, we look to take advantage of any market volatility to upgrade our portfolios with better ideas.

Class F Returns (in %) as at December 31, 2017	Year-to- date	1 year	3 year	5 year	10 year
Black Creek Global Leaders Fund	21.0	21.0	17.1	19.0	10.9

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