Market Commentary
Second Quarter 2017

BLACK CREEK
INVESTMENT MANAGEMENT INC.

Black Creek International Equity Fund

Every quarter we write our commentary to you, our clients, and we feel compelled to give you our latest and most profound insights about the world economy. But sometimes, the world just doesn't change much in three months, as is the case this quarter. We refer you to our previous commentaries over the past two years for our thoughts on the global economy, interest rates, monetary policy and equity values.

Sometimes, it pays to take stock (pun intended) of where we are now in terms of equity markets. It's been eight years since the market lows of the last global recession and financial crisis. Ten-year performance numbers for the fund and for the markets generally do, in fact, reflect that crisis period. But performance numbers in the last five years have been stellar. In this time, the S&P 500 Index has nearly doubled, with NASDAQ stocks (more heavily technology-weighted) up by 124%. This is in spite of 10-year U.S. Treasury yields rising from 1.5% to 2.3% during the same period. The U.S. equity market has outperformed global equities in the last five years, with the MSCI World Index up 74% and the MSCI ACWI Index (ex U.S.) up 45%. Emerging markets have lagged, up only 23%. We need to be clear about one thing: the returns of the past five years are not sustainable and are well above normal long-term equity returns.

Perhaps some, or a good part, of equity returns have been caused by the move to passive investing – the use of exchange traded funds or index funds to invest in equities. Arguably, passive investing is self-reinforcing. Prices rise simply because of the demand for equities and no thought or judgment is given to individual stock prices. Perhaps this is why measures of stock price volatility are near all-time lows, which is opposite to what we thought would happen in a world of low interest rates. Judgment and selectivity remain core aspects of our discipline, and these traits may be more valuable over the next five years.

From this point, a normalization of equity returns may entail negative returns for the market for a period. Whether or not this is precipitated by an abrupt end to passive investing remains to be seen. It is worth noting that our portfolios have low exposure to stocks in the various indexes, and we have relatively high active share (a measure of how much the portfolio is different from an index). Of course, this is no guarantee for performance, but we will not be in the eye of any coming storm.

The "worry list" is long: central bank tightening, Russia's apparent cyber warfare, the actions of North Korea, Brexit terms, lack of progress in U.S. reforms and rising isolationism, and ISIS. But the "happy list" is also worth noting: the massive consumer benefit from internet price transparency and "free" internet content, the rapid dissemination of information and knowledge worldwide that enables the development of emerging markets, relative peace and health in the world today, and the rapid advance of many technologies that will give rise to the jobs of the future.

Contributors to performance this quarter included Accor, Anta Sports Products, Galaxy Entertainment, Haier Electronics and ICICI Bank. The detractors were Boskalis Westminster, Dialog Semiconductor and Dentsu. As always, we are reducing cyclical names that have had strong short-term performance due to sentiment shift and adding names with greater long-term potential.

We added SES and Santen Pharmaceutical to the portfolio during the quarter. SES is a familiar name that we have owned before. The share price of SES has suffered due to concerns of technological disruption to its core video business and an overbuild in data capacity. We believe its unique position of combining stationary and mid-orbit satellites is a competitive advantage which enables SES to provide comprehensive solutions to a wide range of clients. Santen Pharmaceutical is a leading Japanese ophthalmology pharmaceutical company with a strong presence in fast-growing Asian markets. Recent concerns over increasing investment for future growth provides a great opportunity to own the company with attractive long-term growth potential.

During the quarter, we sold our position in Christian Dior which has done well for the fund. This is a perfect example of the long-term nature of our investments. We first owned the company back in 2005 with the view that the current shareholding structure would change, which ultimately happened 12 years later, to crystalize the value for shareholders on top of strong earnings growth over the same period. We intend to continue identifying long-term investment ideas with conviction and patience.