Market Commentary
Fourth Quarter 2017

BLACK CREEK
INVESTMENT MANAGEMENT INC.

Black Creek International Equity 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 Aryzta, ICICI Bank, DSM, Daikin Industries and Kunlun Energy. Notable detractors for the quarter include Santander Mexico, SES, Dialog Semiconductor, DIA and Grupo Televisa.

For the calendar year, top contributors include Haier Electronics, Galaxy Entertainment, ICICI Bank, DSM and Capgemini. The main detractors for the calendar year are SES, Dialog Semiconductor, Santander Mexico and Bharti Infratel.

During the quarter we added Tate & Lyle to the portfolio and sold Galaxy Entertainment and Grupo Televisa. Tate & Lyle is a U.K.-based global provider of ingredients and solutions for the food, beverage and other industries. Galaxy Entertainment Group, based in Macau, is one of the world's leading resort, hospitality and gaming companies. The company 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.

Grupo Televisa, the largest multimedia company in Mexico and the second-largest in Hispanic America, was sold given opportunities elsewhere.

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	Since inception
Black Creek International Equity Fund	18.9	18.9	13.7	15.2	13.5

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