BLACK CREEK
INVESTMENT MANAGEMENT INC.
Unique Insights. Proprietary Ideas.™

STREAMS

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Black creek focus fund update

What a difference six months makes! From being in-line with the market for the first six months of 2011 and well ahead on a one-year basis at that point, the final results for 2011 are quite different. There's no sugar-coating the results for 2011 – we stunk. The last six months were terrible. We will get into the details below, but despite the lousy one-year performance, our relative performance for the three and five year periods just ended is still good. If we compare this year with 2008 (the year of the panic) the absolute performance was not quite as bad, but our relative performance was far worse; this year hurts more. Remember, we are right there beside you in the fund so we feel the pain as well.

So now we are in the awkward position of having to explain poor performance while suggesting that we stand to make a lot of money going forward with this portfolio if the world does not come to an end (economically speaking, like the 1930s). There has been a flight to "quality" or "defensive stocks", typically large global consumer staple companies with good yields. When we compare the valuations of our portfolio businesses with these "safe" stocks, there is little doubt in our minds that we will prevail; the premium for "safety" makes no sense to us. If you want to guard against a depression, stay in cash. Some of the valuations being put on our holdings are lower (i.e. more attractive) now than in the 2008-09 panic; the market is predicting a very severe recession, especially in Europe.

There is a tendency as a portfolio manager, when you have underperformed or done badly, to suddenly mirror what other investors are doing. Psychologically, there is comfort in crowds. For us to do that now and seek to protect ourselves by buying overvalued but "safe" stocks would go against everything we have learned over the past 25-30 years.

We should also point out that markets generally were not great in 2011. The U.S. market significantly outperformed the rest of the world, with markets outside of the U.S. (including Canada) being down significantly more.

So let's take a look at what went wrong. The big negative contributors to performance this year were Erste Bank, Wienerberger, Carnival, Estacio, Makita, Oracle and Galp Energia.

Carnival is the world's largest cruise ship owner and operator, and has about 40% of its capacity in European markets. The turmoil in the Middle East has had a negative effect on itineraries and bookings, but much of this negative impact has been offset by continuing good results in North America. The rise in the oil price also had a negative effect on Carnival in 2011. We bought Carnival in the summer of 2010 at around $32-33, and it finished 2010 at $46 only to decline significantly this year back to the $32 level where we bought it.

NAVPS:

pre/post distribution

C$93.3128/93.0213

US$91.6406/91.3544

Top ten holdings:

- *Adobe Systems Inc.*
- *Archer Daniels Midland Co.*
- *Carnival Corp.*
- *eBay Inc.*
- *Galp Energia SGPS SA*
- *Invensys plc*
- *Northrop Grumman Corp.*
- *Pronova Biopharma*
- *Publicis Groupe*
- *Wienerberger AG*

PERFORMANCE

	BCFF[1]	Index[2]
Q4:	-2.6	5.1
1 Year:	-16.3	-3.2
3 Years[3]:	6.0	4.2
5 Years[3]:	-2.4	-4.9
Incept[3,4]:	-0.5	-0.3

1 After fees and expenses

2 MSCI World Total Return (C$) net of withholding taxes

3 compound annual returns

4 inception May 1, 2005

It's obvious that we might have sold at $46, but even then (and now) we had the conviction that Carnival would earn substantially more money and generate substantial free cash flow over the next five to six years compared to this year. Even at $46 our valuation models told us to hold it. At the current price, the company sells near the replacement cost of its assets and at less than 10x normalized earnings.

Galp Energia is perplexing to us. We bought the shares a couple of years ago near the current price with the idea that their ownership interests in the offshore oil finds in Brazil were worth substantially more than what the market was willing to pay for them. We had the view, and still have it, that the value of the overall company is in excess of EUR20 per share. Galp sold a 30% interest in its Brazilian business to Sinopec (the major Chinese oil and gas business) in November at a price which fully substantiated the value we ascribe to Galp. Yet the market took the stock down from near EUR16 to EUR11-12 after the deal was done.

We continue to like and own both Carnival and Galp, and we have bought more of both.

Erste Bank is a holding company of banks in various Eastern European countries, where they are typically in the top three banks by market share in each market. They are primarily a retail bank; that is, they focus on the traditional banking business of taking deposits and lending to individuals and businesses, in markets where the penetration of banking services is still low but growing. While the bank has had some problem loans, its results and capital position remain quite good. Unfortunately, it is caught up in the whole European banking crisis, where confidence levels have plummeted. Owning Erste in this environment was a mistake. We chose to sell it near year end in order to realize losses to shield capital gains realized earlier in the year. We may re-visit Erste as the outlook becomes more clear.

The Wienerberger stock was down by about 50% in 2011 reflecting market concerns about building and renovation demand in Europe going forward. Wienerberger is the world's largest producer of bricks and clay roofing tiles, with leading market positions in most of its European markets, and a base of relatively new and low-cost plants. In the twelve months ending in September, the company operated at about 65% capacity utilization and generated EUR264 million in operating cash flow on sales of EUR 1957 million, for a margin of 13.5%. Our view is that when the markets in Europe recover (which may take a number of years), Wienerberger should generate significantly more cash flow as it gets nearer to full capacity utilization. In the near term however, demand could weaken and the market is focused on what happens if capacity utilization falls further. At the current price, Wienerberger sells significantly below the replacement cost of its plants, and its earnings power in the long term has not diminished. We believe the stock is truly undervalued here.

Estacio is the Brazilian post-secondary education business that has been undergoing a turnaround over the last few years with new ownership and management. They are showing progress in this turnaround, but at a rate that is slower than expected. The stock reflected high expectations going into 2011, and we probably should have lightened our weighting then. It was a mistake in the short term, but we still have confidence in management's ability to effect this turnaround over the next few years. On this basis the stock is attractive here.

Makita is a global producer of power tools, with operations diversified geographically around the world. Arguably it is one of the most global Japanese companies. It does however get 43% of its sales in Europe, and the Yen has been strong, so perhaps this is why the stock is down so much this year. Yet the company's overall results this year are good, and the stock sells for only ten times earnings. This is for a company that has grown at well-above average rates and taken market share consistently over the past six or seven years. Makita has announced a share repurchase as well, uncharacteristic of a Japanese company.

The poor performance in Oracle came in December as the company reported sales and earnings that were up year over year but were still short of expectations. The company expects still decent growth in the remainder of its fiscal year, but the market is not so sure. Oracle now sells at about 11x earnings and cash flow, or well below market levels, and the company is still likely to grow at above average rates over the next five to ten years.

Despite these stocks being down significantly in 2011, their current valuations are very attractive in our view and they remain as large holdings in the portfolio, save for Erste Bank.

On the brighter side, we had relatively good performance from adidas, Banco Bradesco (which we sold earlier), eBay, and Hamamatsu Photonics.

During the fourth quarter we sold the positions in Devry and Erste Bank and reduced the positions in adidas Group and Oracle. We added to the positions in Corning, Galp Energia, Invensys, Pronova and Wienerberger. Cash at year end was 3.5% of the portfolio compared to just under 2% at the end of September.

As we write this, we just might be seeing the light at the end of the tunnel concerning the European debt crisis. We are seeing changing governments in various countries where the people have decidedly resolved to stay within the Euro framework and abide by its fiscal rules. We have seen a European Central Bank that that is acting to keep liquidity in the banking system. These factors do not make for a speedy recovery and solution to the problem, but there seems to be a plan. It will still take many years for banks to repair their balance sheets, so the recovery will be slow.

Attention now will likely move to the U.S. and its ongoing fiscal issues, and to China where the real estate bubble has been popped and the banking system will need repair and restructuring. The U.S. economy continues to slowly recover, led by manufacturing and resilient consumer spending. Government spending will be a drag, as it will be in much of Europe, but we look for continued growth overall. China seems to be oriented to the rebalancing needed to help the global economy along. It will likely continue to gradually revalue its currency upwards relative to the USD, and more focus and incentives will be put in place to encourage domestic demand, shifting away from export-led growth.

There is still a massive deleveraging required globally, and for this reason we believe that global economic growth will be lower than average for many years to come. As always, our portfolio ideas are a combination of growth and value. We seek out companies that are leaders in their fields, with competitive advantages, and which should have much better earnings power five to ten years from now. For this earnings power we try to pay a price for the business which offers attractive returns relative to the market overall. For us, growth and value go hand-in-hand.

After a year like 2011, we feel a little beaten up, but optimistic about future returns from this portfolio. Over the past three decades we have gone from looking like heroes to goats and back again many times in our clients' eyes. We appreciate and thank you for your support and patience.

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