

# Buffalo International Fund

Quarterly Commentary as of 12/31/16



Average Annualized Performance (as of 12/31/16) Expense Ratio: 1.06%	1 year	3 years	5 years	Since Inception (9/28/07)
Buffalo International Fund	3.19%	0.21%	7.39%	2.19%
Russell Global ex-U.S. Index	4.39%	-1.27%	5.56%	-0.27%

**Data represented reflects past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Current performance may be lower or higher than the performance quoted. Performance current to the most recent month end may be obtained by visiting the Funds' website at [www.buffalofunds.com](http://www.buffalofunds.com).**

## Capital Market Review

International capital markets got off to a volatile start in 2016 with the Russell Global ex-U.S. Index dropping over 11% and West Texas Intermediate (WTI) Crude Oil down almost 30% by mid-February. Concerns about soft Chinese economic growth contributed to equity market weakness early in the year, and the energy complex was struggling to resolve its oversupplied condition. Meanwhile, perceived "safe-haven" assets performed strongly as U.S. 10-year Treasury notes advanced and gold appreciated over 15% during the same period. Economic concerns and a falling stock market led the Central Banks to continue to add support to asset prices. From mid-February, with help from the Central Banks and the Chinese government adding support, began a period of steadily rising prices and declining volatility that would continue through the end of the year with only brief interruptions from Britain's vote to leave the European Union (BREXIT) and malaise ahead of the U.S. elections. Interestingly, perceived "safe-haven" assets continued to perform strongly as gold and U.S. Treasuries rallied alongside equities into the summer and largely held those gains into the fall. The fourth quarter of 2016 began with this uneasy disequilibrium of fear and loathing still largely intact, but sentiment changed dramatically with Donald Trump's surprise election victory. The election outcome created expectations of pro-growth policies and deregulation that drove accelerating gains in stock prices around the world, higher interest rates and associated declines in the prices of both Treasury bonds and gold, all of which generally persisted through the end of 2016.

The value sector had a good year, as energy prices rebounded. The U.S. stock market outperformed international markets generally and was reflective of a shift toward perceived "safe-havens" and an aversion to international exposure as increasing optimism for the U.S. economy with the potential for lower U.S. corporate tax rates following the election drove investor sentiment. For the year and for the fourth quarter, Energy and Materials were the best performing sectors as expectations for infrastructure investment and increasing investor risk appetite following the election contributed to the reversal of prior-year underperformance that was already underway. Health Care and Staples were the worst performing sectors for the year, as concerns about political backlash against rising drug prices contributed to declines in Pharmaceutical & Biotech stocks and the general shift toward "risk on" investing moved allocations away from the perceived safety of Consumer Staples.

## Performance Commentary

In the fourth quarter of 2016, the Buffalo International Fund returned -3.93%, trailing the benchmark Russell Global ex-U.S. return of -1.63%. For the full year, the fund returned 3.19%, trailing the benchmark return of 4.39%. In the quarter, the cyclical rally after the U.S. election cost the fund performance relative to the benchmark as did our portfolio underweight to interna-

tional banks. The surprise in the election sparked many cyclical segments of the market, where the fund has an underweight position relative to the index. International banks performed extremely well as “risk-on” and the expectations of higher net-interest margins drove the sector outweighed concerns of capital adequacy and business models. The fund is positioned to hedge in downside markets rather than maximize potential upside leverage in a sluggish growth environment.

Among the top contributors during the quarter were LVMH, Kering and Criteo. Shares in both LVMH and Kering rallied on earnings expectations for luxury consumer discretionary stocks. Criteo shares sharply rebounded from the prior quarter as initial fears sparked by a short report and concerns around header-bidding faded.

Detractors in the period included Teva, Wirecard and Symrise. Teva’s shares declined as management delivered cautious commentary on 2017 growth and margin prospects as the acquisition of the Actavis generic business didn’t have the expected synergies. Drug pricing pressures continued in the political climate and also weighed on the company’s stock. Meanwhile Wirecard’s stock was pressured on renewed interest by short sellers, though we haven’t seen any changes to the company’s long-term prospects to warrant such action. Symrise’s performance in the quarter was driven primarily by a shift in sentiment that favored a move toward cyclicals and U.S. dollar exposure, and away from the perceived stability of companies operating in the Consumer Staples sector.

## Outlook

Having shrugged off the mid-year post-BREXIT hysteria, and gotten passed a Fed rate hike in December, the outlook for global growth remained sluggish, although with some signs of upside driven by improvement in U.S. sentiment and fiscal spending. In Asia, Japan has struggled to stimulate economic growth through numerous monetary policy measures, while China, has struggled to transition from an export driven economy to a local consumer driven economy with the help of extensive lending through an overextended banking channel. In Europe, political movements in multiple countries have gained momentum by questioning membership status to the European Union (EU). With more European elections on deck for this year, the initial political uncertainty in Europe is a potential headwind to growth, which we expect to ameliorate throughout the year.

While we remain unsure of the underlying economic benefit of further central bank (CB) intervention, they (the CBs) continue to remain committed to do what is necessary. However, with the rebound in commodity prices and a shift in tone toward actual fiscal stimulus and lower taxes in the U.S., inflation gauges have continued to increase, and central banks have begun to acknowledge the possibility of less aggressive policies. Despite a changing tone, market participants continue to have faith in governments and central banks to do right.

Overall, we enter 2017 modestly positive on the prospects for improving international growth. We are taking incremental risks where it makes sense, but continue to keep an eye towards hedging capital from potential downside risks. Outperformance of more cyclically sensitive value stocks reflected some of the same drivers that were in place earlier in the year, as well as increasingly optimistic expectations for economic growth, following the U.S. election. Our investment process favors a long-term secular growth perspective coupled within the context of our country specific macro analyses. We will look for opportunities to buy or add to companies that are exposed to secular growth, improving balance sheets and sustainable business models and whose valuation will potentially provide appropriate prospective returns for our investors.

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*The Fund’s investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it must be obtained by calling 1-800-49-BUFFALO or visiting [www.buffalofunds.com](http://www.buffalofunds.com). Read it carefully before investing.*

As of 9/30/16 the Buffalo International Fund’s top ten equity holdings were: Fresenius SE & Co. KGaA 3.35%, Broadcom Ltd. 2.70%, SAP SE 2.59%, Wirecard AG 2.48%, Taiwan Semiconductor 2.36%, Publicis Groupe SA 2.24%, Linde AG 2.22%, Symrise AG 2.13%, Liberty Global PLC 2.06%, Henkel AG & Co. KGaA 2.00%.

*Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.*

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The opinions expressed are those of the Portfolio Manager(s) and are subject to change, are not guaranteed and should not be considered recommendations to buy or sell any security. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

The U.S. 10-year Treasury note is a debt obligation issued by the United States government that matures in 10 years. The Russell Global ex-U.S. Index measures the performance of the global equity market based on all investable equity securities, excluding companies assigned to the United States. You cannot invest directly in an index.

**Mutual Fund Investing involves risk. Principal loss is possible. The Fund invests in foreign securities which will involve greater volatility and political, economic and currency risks and differences in accounting methods. Investments in emerging markets involve greater risks. The fund may invest in smaller companies which involve additional risks such as limited liquidity and greater volatility than larger companies.**