Buffalo International Fund

QUARTERLY COMMENTARY

March 31, 2023

Capital Market Overview

Global equity markets, as measured by the MSCI ACWI ex-USA Index, advanced 6.90% in the first quarter in sympathy with the S&P 500 Index advance of 7.50% during the quarter. Most markets abroad outperformed the US in US dollar terms during the first month of the quarter, in large part due to the weakening of the US dollar, but also due to cash flows abroad. However, global markets experienced considerable volatility during the last two months of the quarter, as expectations for the US Federal Reserve's monetary policy fluctuated, and bank failures in the US and the near failure of Credit Suisse rocked markets. Investor sentiment subsequently shifted away from inflation fears toward greater concerns about the broader global economy.

European markets were especially strong in the quarter, as measured by the STOXX Europe 600 Index which advanced 7.75% in local currency, and 9.34% in US dollar terms. With China emerging from its zero-COVID policy, enthusiasm for European companies with exposure to China drove the luxury sector and certain industrials. Meanwhile semiconductors and technology were also strong performing sectors.

In Asia, Japan's Nikkei Index advanced 7.46% in the quarter (6.05% in USD terms), while Hong Kong's Hang Seng Index rose 2.49% in USD terms. The Korean market rose 7.34%, while domestic Chinese markets rose about 5.00% (both in USD terms). Some other notable emerging markets countries declined, notably India, which fell -3.44% and Brazil pulled back -3.09% (in USD terms).

Performance Commentary

The Buffalo International Fund produced a return of 12.51% for the quarter, a result that outperformed the prospectus benchmark FTSE All-World ex-US Index return of 6.57%. The fund outperformed two growth indexes, the MSCI All-Country World ex-US Growth Index and the and the developed country MSCI EAFE Growth Index, which posted returns of 8.69% and 11.21%, respectively. Compared to the prospectus FTSE All-World ex-US Index, the Buffalo International Fund's outperformance was due to stock selection, while the fund's cash position was a small drag on performance.

Average Annualized Performance (%)

As of 3/31/23	1 YR	3 YR	5 YR	10 YR	Since Inception
Investor Class - *BUFIX*	-0.21	15.58	7.39	7.97	5.47
Institutional Class - *BUIIX*[1]	-0.09	15.76	7.55	8.13	5.63
FTSE All-World ex US Index	-4.82	12.62	3.15	4.85	2.54
Morningstar Global Markets ex-US Index	-5.72	12.22	2.55	4.56	2.39
MSCI ACWI ex USA Growth Index	-6.35	9.49	3.36	5.08	–
MSCI EAFE Growth Index	-2.45	11.30	5.26	6.39	–

[1]For performance prior to 7/1/19 (Inception Date of Institutional Class), performance of the Investor Class shares is used and includes expenses not applicable and lower than those of Investor Class shares. 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 buffalofunds.com.

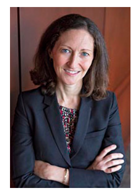
↑ Top Contributors

Top contributors in the period included **Renesas Electronics Corporation, MercadoLibre Inc.,** and **BayCurrent Consulting, Inc.** Renesas is a global semiconductor manufacturer, headquartered in Japan. Renesas shares rose after fourth quarter sales and profits came in ahead of expectations, driven by continued strong demand for their Automotive and Industrial IoT chips. Renesas is exposed to two big changes that are happening currently in the Auto industry, namely EV (electric vehicles) and ADAS (Advanced Driver-Assistance

Fund Facts

	Investor	*Institutional*
Ticker:	BUFIX	BUIIX
Inception Date:	9/28/07	7/1/19
Expense Ratio:	1.03%	0.88%
Fund Assets:	$610.73 Million	
Category:	Foreign Large Growth	
Benchmark:	FTSE All World Ex-US Index	

Management Team



Nicole Kornitzer, CFA

Manager since 2009
M.B.A. – INSEAD (Paris)
M.A. – Columbia University
B.A. – University of Pennsylvania

Pat Srinivas

International Equity Research Analyst
M.B.A. – Univ. of Chicago
M.S. – Univ. of TX-Dallas
B.S. – Karnatak Univ. (India)

Systems), which we expect to drive demand for their products over the next several years. Even after the current share price run-up, Renesas continues to trade at a 30% - 40% discount to global peers with similar growth and profitability metrics, according to our analysis. BayCurrent consulting is benefiting from the structural growth in digitization/SaaS in Japan. Headed into the year, there were concerns about a slowdown in IT spend impacting BayCurrent, but the results and the guidance for the year is proving that with overall IT spend, digitization trend in Japan is proving to be recession resilient due to the delayed digital transformation in Japan (Japan, while the 3rd largest IT spender globally behind the US and Europe, has lagged behind in digitization and SaaS over the past decade). Finally, MercadoLibre, the largest ecommerce platform in South America, had a strong quarter driven by margin expansion and operating leverage. Their recent initiatives to manage credit quality appear to be working, as delinquencies reduced sequentially. We believe MercadoLibre will have a strong 2023, with incremental growth and margin expansion coming from their Fintech initiatives and continued operating leverage.

↓ Top Detractors

Top detractors in the quarter were **Nintendo Co., Ltd., L'Occitane International S.A.** and **Nordic Semiconductor ASA**. Nintendo, the Japanese gaming company, cut their sales and profit outlook for the year ending March 2023 due to lackluster sales of their Switch console. The Switch console is six years old while rival Sony's PlayStation 5 is just over two years old. However, we continue to like Nintendo as a business over the medium to long term. Currently they have over 100 million active Switch users, which will undoubtedly continue to buy games over the next several years. In addition, management is now focusing more on monetizing their IP through partnerships. They opened a Super Mario World theme park at Universal Studios Hollywood in Feb 2023, and they plan to release The Super Mario Bros. movie in April. While we believe hardware and software will remain their core business, this newer initiative could increase brand awareness and provide SG&A leverage to sell more games.

L'Occitane also detracted from fund performance the quarter, after reporting a worse than expected third quarter driven by weak sales trends in China, due to COVID disruption and inflation-driven consumption weakness in Europe. This prompted management to lower both sales and profit guidance. We believe the stock is undervalued post the sell-off, and that the risk-reward profile is favorable. The post-COVID recovery in China and the steady pick-up in travel retail sales should help sales to recover over the next couple of quarters, while the long term growth potential is still attractive with the company's multi-brand strategy and global footprint.

Finally, Nordic Semiconductor's stock fell sharply as their guidance was poor, driven by weakness in consumer electronics, specifically in China. China went from 25% of revenue to less than 10% in a little over a year. In prior meetings with investors management was optimistic due to their strong order backlog, but this quarter painfully reminded us that order backlogs are not always a good indicator of real demand or future earnings. Considering management's inability to read into the backlog issues and hence manage investor expectations, we decided to exit our position and take tax losses to offset realized gains in the portfolio.

Outlook

Looking forward, we continue to closely monitor the outlook for the United States economy, as the signs of an economic slowdown have been growing. We would anticipate that for the fund's companies that sell into the US, this slowdown could start to appear in management comments or in the reported numbers over the next few quarters. Fortunately for many portfolio companies, the economies of the Eurozone have been more resilient this year than expected, and the recovery in China appears to be gaining momentum. So far, the Chinese recovery has led to increased spending by the wealthy, benefiting luxury goods. Consumer confidence is only beginning to return to a level where the Chinese middle class can feel comfortable enough to increase spending, which could boost businesses investment. For our global companies, we are optimistic that economic malaise will not occur in all regions simultaneously. Depending on the size of the potential slowdown in the US, however, we know that an impact felt will be felt by the rest of the world in time.

Nevertheless, we continue to seek out high quality companies that have sound, sustainable business models, competitive advantages, benefiting from secular growth drivers that should continue beyond an economic downturn. We prefer businesses that have strong balance sheets and generate consistent free cash flow. In this inflationary environment we also favor companies that can pass off cost pressures, such as those with competitive advantages, high recurring revenues, or companies whose products make up a small cost of a larger product. Faced with a potential recession, we are emphasizing companies that can preserve margins even in a weaker economic environment. This may include businesses that are asset light, have low fixed costs, or have the means to drive efficiency improvements through a downturn. As always, we are paying close attention to the valuation of the companies in our portfolio, and seek out opportunities during periods of market weakness or volatility to buy high quality growth companies at attractive valuations. We believe that by continuing this time-tested, disciplined investment strategy we should be able to produce superior risk-adjusted returns over the long term.

Interested in more info?

For questions or to speak with a relationship manager about adding any of the 10 Buffalo Funds to your portfolio, contact:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537