

Capital Market Overview

International markets continued to remain volatile during the quarter, driven by a slowdown in economic growth outside the U.S. and elevated global trade tensions. Concerns of increasing populism and trade protectionism, along with the Federal Reserve continuing to push up U.S. interest rate targets, kept markets in a somewhat directionally undecided mood. Given the time lag in economic growth, central banks around the world still favor a more stimulative monetary policy framework compared to that of the U.S., but with the U.S. dollar as the primary reserve currency, global asset prices are affected by U.S. rate decisions.

While European stocks saw generally positive corporate earnings and signs of higher inflation in the 19-member Eurozone, investor enthusiasm was tempered by concerns of slowing economic growth driven by their export-oriented economics where trade skirmishes are garnering much scrutiny.

In Asia, China is still experiencing decelerating growth, which hasn't been helped by the ratcheting of trade tensions, leaving their stock markets near two year lows. Japan, on the other hand, posted modest economic surprises in both growth and inflationary measures, and stock indices there posted gains toward the end of the quarter, as investors saw some bright spots in an otherwise troubled region.

Performance Commentary

For the 3rd quarter of 2018, the Buffalo International Fund produced a return of +2.22%, outperforming the Morningstar Global Markets ex-U.S. Index's return of +0.70%. The Fund's outperformance versus the benchmark was driven entirely by stock selection, but our sector allocations had a negative impact on relative return versus the benchmark.

Average Annualized Performance (%)

As of 9/30/18	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo International Fund	7.72	13.45	8.06	8.36	4.72
Morningstar Global Markets ex-U.S. Index	2.20	10.67	4.87	6.03	2.04
Russell Global ex-U.S. Index	1.88	10.26	4.54	5.79	1.72

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 **Wirecard**, **Taiwan Semiconductor Manufacturing**, and **Carl Zeiss Meditec**. Wirecard, which we've mentioned before, benefited from continued strong earnings growth as well as perception that it would be included in a major German stock index in the coming months. Taiwan Semiconductor, which was among our detractors last quarter, is a third-party manufacturer of advanced node semiconductors. It continued to benefit from strong growth in artificial intelligence data processing, data center build-out, and even cryptocurrency mining. Carl Zeiss Meditec, a leading provider of ophthalmic equipment and solutions, benefited from demographic trends and the roll-out of their intraocular lenses.

Fund Quick Facts

Ticker:	BUFIX
Inception Date:	9/28/2007
Net Assets:	\$295.98 Million
Expense Ratio:	1.05%
Category:	Foreign Large Growth
Benchmark:	Morningstar Global Markets ex-U.S. Index

Management Team



Bill Kornitzer, CFA

Manager since Inception
M.B.A. – Drexel University
B.S. – Virginia Tech



Nicole Kornitzer, CFA

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

↓ Top Detractors

Detractors in the period included **Fresenius SE**, **Bayer AG**, and **Broadcom**. Fresenius, a global dialysis and hospital management company, became embroiled in a legal battle with a former acquisition target. Investors became concerned that the company would be forced by the courts to complete the previously terminated acquisition. Broadcom, a specialty semiconductor company, was hurt as it announced a significant acquisition in software, outside of their core competency. We agreed with the market's assessment and viewed with skepticism the fundamental underpinnings of the acquisition target and subsequently removed the stock from the portfolio.

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:

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Outlook

While global growth has slowed recently, we expect the pick-up in growth that the U.S. has experienced in recent quarters will filter toward foreign economies. Equity markets have been increasingly concerned over rising protectionism and fears of escalating trade wars; however, we remain somewhat sanguine over the range of potential outcomes.

Our process naturally leads us away from commodity-oriented, heavily-cyclical industries, which are typically the easy target of trade rhetoric, and toward secularly-growing companies with strong intellectual property and high barriers to entry. While not immune from a potential economic slowdown caused by an all-out trade war, we believe our approach to investing positions us to identify companies that can grow throughout the economic cycle.

Our view is that stocks outside the U.S. have become even less expensive relative to their domestic counterparts, and the heightened level of U.S. trade tension may actually increase the potential for internationally-based companies to increase market share. We hope to use any significant market dislocation caused by these trade concerns to add to positions in companies whose long-term prospects remain unchanged, in our view.

Economic condition may ebb and flow, but our focus remains steadfast on investing in attractively priced, financially strong, well-managed companies with innovative strategies fueled by secular growth trends. We believe this discipline should lead to superior risk-adjusted returns over the long term. ▲

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.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contains this and other important information about the investment company, and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read it carefully before investing.

Earnings growth is not representative of the Fund's future performance.

As of 6/30/18 the Buffalo International Fund top 10 equity holdings were Kering 3.36%, Wirecard 3.03%, SAP SE 2.41%, Fresenius SE & Co KGaA 2.28%, Sartorius Stedim Biotech 2.14%, Taiwan Semiconductor Mfg 2.07%, Linde 2.00%, Davide Campari-Milano 1.99%, Dassault Systemes 1.97%, LVMH Moet Hennessy 1.92%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.

The opinions expressed are those of the Portfolio Managers 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 Morningstar Global Markets ex-US Index is designed to provide exposure to the top 97% of companies by market capitalization in each of two economic segments – developed markets (excluding the United States) and emerging markets. Russell Global ex-US Index measures the performance of the global equity market based on all investable equity securities, excluding companies assigned to the United States. One cannot invest directly in an index.

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.

