Buffalo International Fund

QUARTERLY
COMMENTARY

December 31, 2018

Capital Market Overview

The 4th quarter of 2018 was a tumultuous period for global equity markets, and steep declines during the period dragged full year returns into negative territory. The Morningstar Global Markets ex-U.S. Index declined -11.53% during the quarter, while the S&P 500 Index declined -13.52%.

The main source of investor anxiety in the quarter was the maturing global business cycle; as the quarter went on, it became more clear that global growth has peaked. Though global growth remains positive, European economies posted slowing growth, and China entered a period of economic contraction toward the end of the quarter. Though Chinese authorities implemented various measures to stimulate growth, investor confidence in their ability to reaccelerate economic growth has been weak thus far.

Performance Commentary

For the 4th quarter of 2018, the Buffalo International Fund produced a return of -13.27%, underperforming the Morningstar Global Markets ex-U.S. Index's return of -11.57%. The Fund's underperformance versus the benchmark was primarily driven by stock selection. However, our sector allocations also had a negative impact due to our overweight of the three weakest performing sectors: technology, consumer discretionary and healthcare.

Average Annualized Performance (%)

As of 12/31/18	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo International Fund	-8.85	6.75	3.48	9.23	3.30
Morningstar Global Markets ex-U.S. Index	-14.17	4.85	1.37	7.37	0.89
Russell Global ex-U.S. Index	-14.69	4.41	0.97	7.25	0.55

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 **ICICI Bank**, **Linde AG**, and **Jardine Matheson**.

- ICICI Bank Limited, India's #2 bank and its largest private bank, benefited from improving retail loan growth and fewer problems in its corporate loan book.
- Linde AG and Praxair won needed approval from the U.S. antitrust enforcers for their proposed merger, and were able to finalize their bid to create the world's largest supplier of industrial gases, a development which drove Linde's stock during the period.
- Jardine Matheson Holdings Limited, a Singapore-based holding company focused in Asia, whose eight business segments include transportation services, luxury hotels, retailing, restaurants, and agribusiness, among others, announced the future disposal of a stake in an insurance company for $2.2 billion, news which was well-received by investors.

Fund Quick Facts

Ticker:	BUFIX
Inception Date:	9/28/2007
Net Assets:	$282.65 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 **Wirecard**, **Fresenius SE**, and **Sartorius Stedim Biotech**.

- Wirecard, which was a top contributor in the prior quarter, followed strong declines in the global technology sector as well as the German market.
- Fresenius, a global dialysis and hospital management company, had positive news about a prior legal battle with a former acquisition target. However, the stock declined later in the quarter after a surprise preannouncement in December about expected weakness in both its U.S. dialysis service business and its German hospital business. The weakness was due to mostly external factors, and we believe the stock reaction was overdone.
- Sartorius Stedim Biotech, which develops and manufactures laboratory equipment for the manufacturing of biological drugs, disappointed investors by the amendment of a joint venture agreement with Lonza to supply cell culture to make it non-exclusive. We feel the impact is short-term in nature and does not change the growth drivers for the company long term.

Outlook

While global growth has further slowed recently, we expect the continued growth in the U.S. to continue to filter toward foreign economies, and we don't yet see a potential recession. Equity markets have been on an upswing since the U.S. Federal Reserve took a more dovish stance, suggesting less monetary policy tightening in 2019 than previously expected. Diminishing concerns over the trade war with China have also been a boost to investor confidence. The Chinese economy, however, remains a potential pain point, with recent slower growth signaling that China hasn't been a near term driver of global economic growth, and a slowdown there may weigh on global corporations with significant exposure to the country.

China has recently become more stimulative, both fiscally and monetarily, with new infrastructure projects, a lowering of both reserve requirements and interest rates for banks, as well as tax cuts for consumers. We expect these measures to begin to bubble through the global system as we move toward the 2nd half of the year. Of course, trade tensions continue as China and the U.S. continue to negotiate. However, the rhetoric has calmed down and markets have taken that as a sign both parties want to get a deal done.

The United Kingdom's planned exit from the European Union (BREXIT) is also still on the table, but details on how that may occur are unknown.

We will be monitoring these dynamics on the industries, companies, and countries in which we invest, and will continue to pay close attention to risk, while taking advantage of short-term volatility to invest in those companies that we believe have solid long-term prospects.

While not immune to a global economic slowdown, we believe our approach to investing positions us to identify companies than 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 that continues may actually increase the potential for internationally-based companies to increase market share. We hope to use any significant market dislocation caused by slowing economic growth or trade concerns to add to positions in companies whose long-term prospects remain unchanged, in our view.

Economic conditions 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.

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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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As of 9/30/18 the Buffalo International Fund top 10 equity holdings were Wirecard 3.84%, Kering 2.08%, Sartorius Stedim Biotech 2.71%, SAP SE 2.46%, Taiwan Semiconductor Mfg 2.41%, Carl Zeiss Meditec 2.26%, Fresenius SE & Co KGaA 2.08%, Dassault Systemes 2.02%, Interxion Holding N.V. 1.99%, Davide Campari-Milano 1.99%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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. The S&P 500 is a capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. One cannot invest directly in an index.

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