Buffalo International Fund

QUARTERLY
COMMENTARY

December 31, 2022

Capital Market Overview

Global equity markets rallied in the 4th quarter after 3rd quarter earnings reports were generally better than expected. Economic data throughout the quarter began to show moderating inflation in the U.S., along with resilient consumer spending. Most markets abroad outperformed the domestic U.S. market in a large part due to the weakening of the U.S. dollar. While the S&P 500 Index rose 7.56% during the quarter, the MSCI ACWI ex USA Index advanced 14.37% in USD terms. The STOXX Europe 600 Index was up 9.6% in local currency, and nearly 20% in U.S. dollar terms. European markets rose following a better-than-expected earnings season and less benign economic data. It also became apparent that the energy crisis in Europe would not be as serious as feared, thanks to European stockpiling of gas combined with a relatively mild start to winter. In Asia, China's about face with respect to its "COVID zero" policy was also a boost to European market sentiment. Exports to China make up a smaller, yet significant, portion of revenue for most large multinational corporations domiciled in Europe.

In Japan, the Nikkei Index was flat in local currency, but advanced 11% in USD terms due to strengthening of the Japanese yen vs. the U.S. dollar. The Bank of Japan surprised investors when it decided to widen the spread on 10-year government bond yields, which was seen as a first step toward policy normalization. The Bank of Japan has been maintaining its yield control policy (keeping yields low) despite other global central banks moving rates higher. The surprise policy change suggests that inflation may finally be taking hold in the country after decades of deflation.

The reversal of the COVID zero policy in China also drove Asian markets higher during the period. The Hong Kong Hang Seng market index rose almost 15% in USD terms, so did the Australian market, while the Korean markets advanced an astonishing 28%. Performance across other emerging markets countries was mixed -- India's stock market index rose 4.2% and the Brazilian market advanced 6% in USD terms.

Performance Commentary

The Buffalo International Fund (BUFIX) produced a return of 15.64% for the quarter, a result that outperformed the prospectus benchmark FTSE All-World ex US return of 14.36%. Fund results also outperformed two widely followed international growth indexes, the MSCI All-Country World ex USA Growth Index and the developed country MSCI EAFE Growth Index, which advanced 12.94% and 15.08%, respectively.

For calendar year 2022, the Buffalo International Fund produced a return of -21.79%, underperforming the broad FTSE All-World ex-US Index return of -15.22%, but outperforming the two growth indexes, the MSCI EAFE Growth Index with a return of -22.69%, and the MSCI ACWI ex-USA Growth index, which posted a return of -22.80%.

Average Annualized Performance (%)

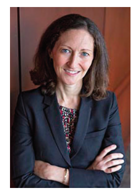
As of 12/31/22	1 YR	3 YR	5 YR	10 YR	Since Inception
Investor Class - *BUFIX*	-21.79	3.26	5.14	7.15	4.75
Institutional Class - *BUIIX*[1]	-21.65	3.42	5.30	7.31	4.91
FTSE All-World ex US Index	-15.22	0.91	1.58	4.49	2.16
Morningstar Global Markets ex-US Index	-16.15	0.35	1.07	–	–
MSCI ACWI ex USA Growth Index	-22.80	-0.10	1.83	5.04	–
MSCI EAFE Growth Index	-22.69	0.79	2.85	5.97	–

[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.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFIX	BUIIX
Inception Date:	9/28/07	7/1/19
Expense Ratio:	1.03%	0.88%
Fund Assets:	$528.88 Million	
Category:	Foreign Large Growth	
Benchmark:	FTSE All World Ex-US Index	

Management Team



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↑ Top Contributors

Top contributors in the period included **Siemens AG**, **Linde plc**, and **ASML Holding NV**. Siemens' shares rose after the company raised its dividend and reported 4th quarter earnings that beat expectations. Revenue and profits grew across all the industrial businesses, but results in Siemens digital industries and the smart infrastructure division were particularly strong. The former is being boosted by large contracts while the later is being driven by strong demand from data centers and for digital building services.

Linde, the global industrial gas giant, announced 3rd quarter results that beat expectations and raised guidance for the year. The company also announced a potential delisting from Germany's biggest stock exchange, but will maintain a listing in the U.S., a move the company says should help it attain a higher valuation.

ASML, the sole provider of certain equipment for semiconductor manufacturing, reported good financial results and raised its long-term outlook at an upbeat investor event. The company has seen increased demand for its equipment as semiconductor manufacturers have been building capacity. ASML should also be a key beneficiary of some longer-term trends such as spend on elevated logic and memory equipment for AI.

↓ Top Detractors

Top detractors in the quarter were **Tomra Systems ASA**, **Adidas AG**, and **Asahi Group Holdings**. Tomra, a manufacturer of machines for sorting and recycling waste, is seeing demand for its products as governments around the world seek ways to tackle the growing waste problem. Third quarter results were a bit disappointing due to a weaker margin in their food sorting segment. We continue to be positive about Tomra's prospects over the long term. The EU plastic directive bodes well for a much larger opportunity for Tomra in Reverse Vending or Deposit Machines, and the global need for better recycling and management of recyclable waste is a growing demand.

Adidas, a global sporting goods brand, was a position we decided to exit in early October after negative news continually hammered the stock. It looked like more bad news was on the horizon due to a deteriorating relationship with Kanye West and a worsening Chinese market. We believed our investment thesis was no longer in vigor, nor was the brand. A few weeks later Adidas hired Puma's CEO, a rival of Adidas, in a move that revived the stock and reminded us that a change in management can often be an overlooked potential positive catalyst. In spite of the rally, we believe the brand has a tough and long road ahead of it in order to get back to its glory days, particularly in China.

Meanwhile shares of Asahi, Japan's largest beer company, lagged due to its exposure to the European consumer, which generates as much as 25% of sales, on an expected potential economic recession in the continent.

Outlook

Looking back at our 3rd quarter commentary, we can't help but think what a difference three months can make. The big surprise closing out the year was when the Chinese government decided to abandon "COVID zero" and instead choose a policy of living with the virus. Markets were expecting a more gradual change of policy with a slower path to reopening in 2023. An about-face from one day to the next was not expected. With the pandemic now raging in China, we are confident that a return to a COVID zero policy is no longer an option, and now their leaders sound keen on prioritizing economic growth.

What effect will this have on the rest of the world? It is too early to know entirely, as the China that is reopening is not the same one that helped drive global economic growth prior to the pandemic. Policies implemented over the last few years have been more focused on "shared prosperity" rather than on unbridled growth. The reopening will most likely mean a return to better growth in the near term and should help a number of our portfolio companies that do business in China.

Will China's reopening stoke global inflation? For the moment the consensus is that it will not be a problem. China will likely begin to consume more resources just as much of the rest of the world's economic growth is slowing. The outcome will also depend on the size and manner of stimulus the Chinese government deploys.

It appears that the US, UK, and European economies are slowing, and that inflation has peaked. So far in 2023, markets have rallied on easing inflation data, and the hope that central banks, particularly the U.S. Federal Reserve, will slow rate hikes and perhaps begin lowering them later in the year.

While we are doubtful of predicting such an exact outcome, we acknowledge that there are some signs pointing to the upside. Europe, for one, is faring better than feared in the face of the energy crisis and is now getting a bit of a boost from China's reopening. As a result, Europe could potentially see better growth later in 2023 than the current economic forecasts. As far as consumer sentiment is concerned, as inflation pressures ease, consumers could feel more confident with higher real income if the labor markets remain strong. Businesses could also feel less margin pressure and supply chain pressures could soon be resolved, assuming the pandemic does not cause too much disruption in China.

We believe the next two earnings seasons will be informative. As earnings expectations reset, there could be room for positive surprises. Investment flows into markets outside the U.S. have been strong so far this year. With the weakening US dollar, and the reopening in China, sentiment has been particularly positive on Asian and emerging markets where a weaker dollar would mean more easily available liquidity.

We have modestly increased our weight in Japan and added ideas from Hong Kong or China into the portfolio, however we continue to overweight Europe. As usual, this is mostly a function of our bottom-up investment process of using fundamental analysis to find companies that fit our buy criteria. We continue to deploy cash in ideas with attractive valuations, and invest in high quality companies that have sound, sustainable business models, competitive advantages, that are benefiting from secular growth drivers that should endure a potential 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 companies with high recurring revenues or those whose products make up a small cost of a larger product. And faced with a potential recession, we seek out companies that can preserve margins even in a weaker environment. This includes businesses that are asset light, have low fixed costs, or have the means to drive efficiency improvements through a downturn. We pay close attention to the valuation of the companies in our portfolio and seek to buy high quality growth companies during periods of market weakness. As always, we believe that by continuing our disciplined, time-tested 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:

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