

Capital Market Overview

Global equity markets declined in the third quarter, following a strong first half of the year, as signs of weakness across international economies weighed on sentiment and investor concern increased about the impact of persistently higher interest rates in most developed market economies. Currency movements had a strong negative effect on international market performance in US dollar terms, as the dollar strengthened during the quarter. While the S&P 500 Index declined -3.3%, the MSCI ACWI ex-USA Index declined -4.4%, in USD terms.

In Europe, the STXE 600 Index, a broad European Index was down -5.6% in US dollar terms (-2.5% in local currency). The United Kingdom's (UK) equity market was the best performing market in Europe, as the FTSE 100 Index was slightly positive in local currency, though down -3% in USD terms. The German DAX was the weakest market in Europe, with a decline of -7.7% in USD terms (-4.7% in local currency). Both U.K. and Eurozone economic data weakened in the quarter, most notably in Germany, where concerns around the country's higher exports to China played a role. Inflation receded across Europe, but remained stubbornly above target. The European Central Bank (ECB) raised rates in September for the tenth time in a row, while the Bank of England held rates unchanged in September, after hiking in August. Both central banks signaled rates would remain high.

In Asia, Japan's Nikkei 225 Index also posted negative performance, declining -7.3% in USD terms (-4.0% in local currency). Large growth stocks were especially weak as there was a market shift toward value stocks. There was a surge in Japanese tourism in the quarter and business sentiment in the country has been rising with firm consumer spending, and a weak yen that supports exports. However, concerns related to weakness in China and the broader global economy weighed on the market performance. A weakening yen was an additional drag on performance which was related to the potential for additional US interest rate hikes.

Elsewhere in Asia, The Korean market, as measured by the Korea Composite Stock Price Index, declined -6.7% in USD terms (-3.9% in local current), the Australian S&P 200 index declined -6.1% in USD terms (-2.5% in local currency), and the Hong Kong Hang Seng market declined -5.8% in USD terms. Sentiment on China weighed heavily on the region in the quarter as investors worried that the Chinese government would not stimulate the economy enough to offset problems in the property market.

Emerging Markets were also weak in the quarter. The Chinese CSI 300 Index was down -4.6% in USD terms (-4.0% in local), while the Brazilian IBOVESPA dropped -7.0% in USD terms (-2.0% in local). India, represented by the BSE SENSEX, was the one region of the world where returns were positive in USD terms, up 1.0% (2.3% in local).

Performance Commentary

The Buffalo International Fund posted a return of -8.24% for the quarter, however, the fund underperformed the prospectus benchmark FTSE All-World ex-US Index return of -3.34% due to our focus on growth-oriented companies. The only sector to have a positive return in the quarter was Energy, a sector in which the Buffalo International Fund is typically underweight. Conversely, the fund is usually overweight Technology, which was the worst-performing sector in the quarter.

Average Annualized Performance (%)

As of 9/30/23	1 YR	3 YR	5 YR	10 YR	Since Inception
Investor Class - BUFIX	23.09	3.63	5.41	6.73	4.93
Institutional Class - BUIIX¹	23.25	3.79	5.57	6.89	5.09
FTSE All-World ex US Index	21.06	4.55	3.31	4.06	2.42

¹For 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:	1.04%	0.89%
Fund Assets:	\$753.84 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 **Novo Nordisk**, **Disco Corporation** and **Mercadolibre, Inc.** Novo Nordisk, the large pharmaceutical company headquartered in Denmark, announced positive headline results from its SELECT trial, a long-term outcomes study of its GLP-1, semaglutide. The primary endpoint of cardiovascular death, heart attack or stroke was reduced by 20%. The full data set will be released in November and could be key to achieving greater payor coverage of the drug for weight loss, as well as greater usage for type 2 diabetes.

Next, Disco, a Japanese company, is one of the world's largest manufacturers of specialized cutting and polishing equipment used in semiconductor manufacturing. It is a massive indirect beneficiary of AI demand, as their equipment is used at critical chokepoints facing AI-related equipment. For example, foundries like TSMC will have to invest heavily in CoWoS (3D stacking), which relies on equipment manufacturers such as Disco.

Finally, Mercadolibre, the largest and most vertically-integrated ecommerce ecosystem for Latin American markets, announced results in the quarter that beat expectations. Operating margin expansion was especially strong, with 670 basis points of year-over-year expansion to 16.3%, and non-performing loans continued to trend down.

↓ Top Detractors

Top detractors in the quarter were **Adyen NV**, **Hexagon AB**, and **Renesas Electronics Corporation**. Adyen, a global payment solutions provider headquartered in the Netherlands, announced results that disappointed on both revenues and margins. The company cited "increasingly competitive pricing" in North America as the reason for a strong deceleration in growth in the region, down to 13% in the first half of 2023 from 36% in the prior half year. As a result, investor concerns toward the company's ability to compete against competitors like Stripe and PayPal weighed heavily on the stock. We continue believe that Adyen has a very competitive offering for the more complex European market, as well as for large multinational enterprises, yet we await the November investor day to better understand the company's strategy for the US market.

Next, Hexagon, a global provider of design, measurement, and visualization technologies, reported strong organic sales growth in the quarter, but weaker-than-expected profit and cash flow. The company was also the subject of a short report in the quarter. The allegations in the report have been strongly denied by management with supporting data, and we hope will be further improved and clarified by the company at the December investor day, and that this attack will push Hexagon to improve its transparency. We also await the next quarter to learn more about the company's announced cost improvement program. Hexagon benefits from trends in digitalization and automation, and has over the years improved its recurring revenue due to a higher portion of group sales from software.

Lastly, Renesas reported a solid quarter with a strong margin beat and robust free cash flow generation. Management's guidance was more conservative, however, calling for slower sales for industrial applications and flat sales growth in automotive products in the coming quarter. Their usual conservatism, as well as profit-taking following two very strong quarters for the stock, were the most likely reasons for the drawdown. Renesas is a beneficiary of both EV (electric vehicles) and ADAS (Advanced Driver-Assistance Systems), which we expect to drive demand for their products over the next several years.

Outlook

We could see some increased volatility in capital markets in the near term. While future data showing receding inflation should be a positive, weakening economic growth and interest rates that will remain "higher for longer" could weigh on sentiment. The near-term trajectory for the European consumer could also continue to be particularly weak, given high rates and weak consumer confidence in the region. Looking out further into 2024, however, we foresee some of the headwinds in Europe easing, as inflation continues to recede, and real wage growth turns positive. In Japan, the government's structural reforms and an end to deflation bode well for economic growth. In China, we imagine that the housing market and consumer sentiment could stabilize, and potentially improve, as the government could finally implement some meaningful fiscal stimulus. Of course, what happens to the global outlook for 2024 also depends on if the U.S. avoids a recession. Additionally, the tragic new war in the Middle East is also worth monitoring.

Whatever the future brings, we will continue to use short term volatility to invest in long-term opportunities. Our strategy remains the same—focus on companies that benefit from long-term secular trends. We seek quality companies that are benefiting from those trends, but that also have sound, sustainable business models, competitive advantages, and the ability to generate consistent free cash flow with strong returns on their investments. In this inflationary environment we favor companies that have the means of passing off cost pressures, and companies that can preserve margins even in a potentially weaker economic environment. This may include businesses that are asset light, have low fixed costs, or have the means to drive efficiency improvements through downturns. We pay attention to valuation multiples 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 our time-tested, disciplined investment strategy we should be able to post attractive 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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The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the investment company and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read carefully before investing.

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

As of 6/30/23 the Buffalo International Fund top 10 equity holdings were Renesas Electronics 2.54%, Linde 2.39%, Schneider Electric 2.17%, Ashtead Group 1.97%, Aon 1.86%, Siemens 1.82%, Taiwan Semiconductor Manufacturing 1.75%, LVMH Moët Hennessy Louis Vuitton 1.66%, Novo Nordisk 1.65%, Thales 1.61%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. 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 S&P 500 Index is a capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. The Financial Times Stock Exchange (FTSE) All-World ex US Index is a market-capitalization weighted index representing the performance of around 2200 large cap and mid cap companies in 46 developed and emerging markets worldwide, excluding the US. The STOXX Europe 600 index measures the performance of large mid and small-cap companies across 17 countries in Europe. The Nikkei Index is a price-weighted index comprised of the top 225 blue chip companies traded on the Tokyo Stock Exchange. Hang Seng Index is a market capitalization index that reflects the market performance of the Hong Kong stock exchange. The DAX measures the performance of the Prime Standard's 30 largest German companies in terms of order book volume and market capitalization. The Korea Composite Stock Price Index (KOSPI) is an index of all companies traded on the Korea Stock Exchange. The Australian S&P/ASX 200 index is a market-capitalization weighted and float-adjusted stock market index of stocks listed on the Australian Securities Exchange. The index is maintained by Standard & Poor's and is considered the benchmark for Australian equity performance. The China Shenzhen SE (CSI 300) Index is a market cap weighted stock market index designed to map the performance of the 300 most liquid A shares traded in the Shanghai and Shenzhen stock exchanges. The BSE SENSEX is a basket of 30 large, liquid and representative stocks traded in India. Companies are selected based on listed history, trading frequency, final rank, market capitalization weightage, industry representation and track record. One cannot invest directly in an index. Free cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows. A basis point is one hundredth of a percentage point (0.01%).

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

