

"Are We Afraid of Trade Wars?"

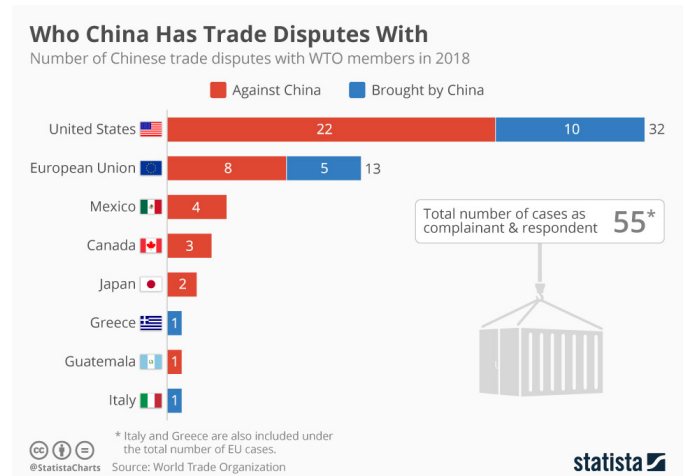
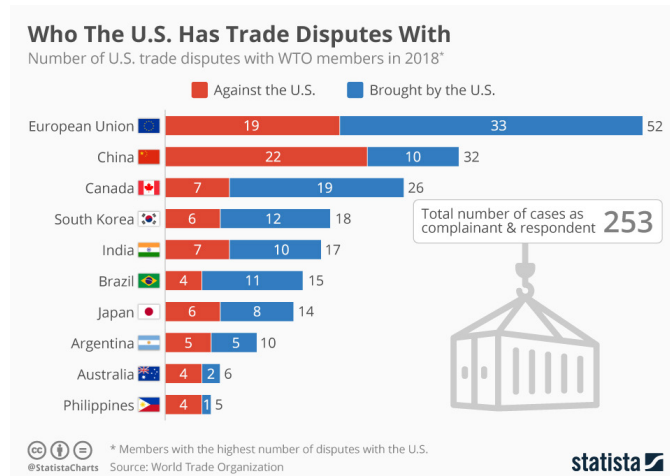
FINDING SUBSTANCE IN ALL THE HYPE

Because the phrase "Trade War" has been in the news so consistently of late, investors have naturally felt the need to ask us, given that we manage an international mutual fund, how the trade wars could affect our fund. It is impossible to say with any high degree of specificity given we don't know how these trade disputes will turn out. However, looking at our investment approach and style could be helpful in gauging any potential impacts from these disputes.

First, let us preface our comments by saying that we are "free traders" at heart. The imposition of tariffs certainly can cause economies driven by global trade to be less robust. While free trade is a "good thing", unfettered free trade may not always be in the best interests of a particular country. Frankly, world governments do not allow unfettered free trade. Ultimately, erecting trade barriers (or their removal) are politically-calculated decisions designed to appeal to different constituencies at a point in time.

The issue is not really about free trade versus tariffs but changing the current tariff regime. These potential changes undoubtedly can have adverse impacts on certain industries and global trade in general. However, it is instructive to note that much of the trade noise we hear is to some degree part of the current negotiation strategies being carried out between countries. Usually this process takes place behind closed doors, and when tariffs or penalties are imposed, it typically doesn't garner much press.

The frequency of trade disputes can be seen in the World Trade Organization (WTO) data as of April 30, 2018:



Political motivations are also why countries such as China and Mexico favor imposing tariffs on industries viewed as heavily populated by the current administration's political base. Meanwhile, in news last week, European automakers agreed to the removal of trade barriers for U.S.-manufactured cars, while \$34 billion of Chinese tariffs and their retaliation went in to effect. Markets reacted positively to both events.

BUFFALO INTERNATIONAL FUND (BUIFX) MANAGER



Bill Kornitzer, CFA
 Portfolio Manager
 Since 2002
 26 Years Experience

MBA - Drexel Univ.
 BS - Virginia Tech

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Experts suggest a full trade war between the U.S. and China could slow the rate of economic growth by 0.7% for the U.S. and for China by 0.6%. For an all-out global trade war scenario, the same experts suggest U.S. real Gross Domestic Product (GDP) could slow by as much as 2.2% and for China GDP by as much as 1.7%.

As a reminder, the above numbers are an estimate of the potential slowdown in the rate of GDP growth. To gauge the impact, the U.S. is estimated to have real GDP growth of around 3% this year, while China’s real GDP growth is expected to come in around 6.5%.

EFFECTS ON COMPANIES

Companies, when directly impacted by a change in tariffs, have a few options in the short term:

1. Pass the change in tariffs on to the end consumer with an increase in price, keeping margins stable;
2. Eat the price increase from tariffs and suffer reduced margins;
3. Some combination of the two in order to balance unit sales and profit margins.

In the longer-term, say 1-3 years, companies have the ability to adjust their supply lines to increase local content and lessen the impact of any change in tariffs. After the tariffs have been put in place and base year effects kick in, there should be less impact to GDP growth in future years.

Most companies around the globe shouldn’t be directly impacted by a change in tariffs, but could be affected by the overall slowdown in GDP growth rates. If a company were directly impacted by a tariff change, the impact would naturally be greater. However, there are some winners too. Companies based in other locales or which provide more local content could be helped in an equally positive direction with higher prices, more demand, or a combination of both.

IMPACTS TO THE BUFFALO INTERNATIONAL FUND & ITS HOLDINGS

The first tenant of our investment approach is to identify companies with structural tailwinds driven by secular growth trends. We generally believe these trends will continue to push the underlying fundamentals of our companies throughout the economic cycle, and through any economic turbulence caused by changing tariff regimes. Because we invest with an eye toward secular growth, we naturally have limited exposure to commodity-type products or heavy industries that are the typical focus of most trade actions.

We are focused on owning companies with wide economic moats and strong intellectual property which, while not immune, have substantial barriers to competitive pricing dynamics and we think should benefit from a strengthening of intellectual property rights. We also don’t look favorably on companies that benefit from governmental largess, as regimes change and politically-erected barriers can easily be dismantled.

This isn’t to say that our portfolio is completely immune to a slowdown in global economic growth, or that none of our companies might be the subject of a trade dispute. It’s simply that the underlying trends driving the fundamentals of the companies we own should be less exposed to direct impact of trade disputes and should over-time be able to better weather any potential set-backs caused by escalating trade tensions.



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EXAMPLE FROM BUFIX PORTFOLIO

Sartorius is a company we've owned in the Fund for quite some time. Sartorius provides equipment for the manufacture of biologic pharmaceuticals. The company is exposed to a few secular growth trends which should help drive their fundamentals:

- Increasing use of new biologic agents to combat disease;
- The increasing penetration of bio-generics, requiring increased technical manufacturing capability; and
- Aging demographics where populations are more exposed to diseases where biologics are gaining a strong foothold (cancers, Alzheimer's, immunodeficiency as examples).

There is strong intellectual property and few competitors capable of providing the government approved technical equipment for the manufacture of biologics the barriers to entry are high.

Sartorius is expected by analysts to grow revenue by 8%+ this year, driven by demand from the trends indicated above, and have little to no exposure to the general economic cycle. We don't see any avenues where their products are easily substitutable or where competitive pricing dynamics could be upset in the advent of trade actions. Any trade disputes that do come along shouldn't have a material impact on the longer-term outlook for their business. That said, market volatility driven by a tariff scare could cause the price of Sartorius stock to drop, which, to our way of thinking, might allow us the potential opportunity to add to shares at a price that we otherwise wouldn't have been able to achieve, all else being equal.

BOTTOM LINE

Recent trade tensions and the worry surrounding the potential for an all-out trade war have certainly contributed to the increase in market volatility around the globe in recent months. So far, we see little in the way of direct impact to the business models for the majority of our portfolio holdings. The increase in volatility may provide us access to lower prices, which theoretically should open the Fund to opportunities to generate more attractive risk adjusted returns.

Yes, we worry about global trade disputes, but we think the impacts to the portfolio are likely to be short-lived and relatively limited. Should trade disputes impact the markets to any significant degree, the volatility just may provide us the opportunity to identify additional attractive investment opportunities. ◀



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| Parent Company: | Sartorius AG (Germany) |
| Company Name: | Sartorius Stedim Biotech |
| Listed On: | Eurolist of Euronext Paris |
| Sales: | € 1,081.0 million (2017) |
| Headquarters: | Aubagne, France |
| Employees: | 5,100+ worldwide |
| Key Products: | Fermentation, filtration, purification, fluid management, lab technologies |

“When it comes to investing internationally, we are focused on finding good companies with sound business models, exposure to long-term secular growth trends, and attractive risk/return growth and valuation characteristics, which fundamentally should not be affected by recent trade tensions.”

Bill Kornitzer, Portfolio Manager

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ABOUT THE BUFFALO FUNDS

The Buffalo Funds are a family of 10 actively-managed mutual funds offering a variety of domestic equity, international equity, and income-generating investment strategies. Located in Mission, Kansas (a suburb of Kansas City), employee-owned Kornitzer Capital Management, Inc. (KCM) has been the exclusive investment advisor to the Funds since inception in 1994.

At KCM, we believe that patient investing backed by solid, intelligent research is the best way to achieve potential long-term financial rewards. Disciplined investment decisions are made using a distinct, time-tested investment approach guided by trend analysis, rigorous fundamental company research, and strict security valuation parameters.

Our fund family is characterized by a long-term growth investment strategy and a team-based, idea-sharing management style. “Trends and Patience” is our mantra, and our great strength.

INTERESTED IN MORE INFORMATION?

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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Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security. As of 3/31/18 the Buffalo International Fund's top ten equity holdings were: Kering 2.93%, Taiwan Semiconductor 2.54%, Wirecard 2.30%, SAP 2.25%, Fresenius 2.23%, Interxion 1.96%, Dassault Systemes 1.96%, Sartorius Stedim Biotech 1.90%, Davide de Campari 1.88%, Broadcom 1.85%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.

As of 12/31/2017, one Euro (€) equalled 1.2006 U.S. dollars (USD).

Mutual Fund investing involves risk. Principal loss is possible. The Fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods. Past performance does not guarantee future results.

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

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