

## Capital Market Overview

Equity markets rebounded sharply to start 2019. The widely followed S&P 500 Index returned 13.65% in the 1st quarter, its best quarterly performance in 10 years. The market advance can be largely attributed to the Federal Reserve's decision to put quarterly short term interest rate hikes on hold and end its balance sheet runoff. Additionally, prospects for a trade agreement between the U.S. and China appeared to improve, and the U.S. Government reopened after its longest shut down in history.

The Russell 3000 Index advanced 14.04% in the 1st quarter. Growth outperformed value, with the Russell 3000 Growth Index returning 16.18% compared to a return of 11.93% for the Russell 3000 Value. By size, midcaps led the way this quarter with the Russell Midcap Index returning 16.54%, followed by a return of 14.58% for the small cap Russell 2000 Index and 14.00% for the large cap Russell 1000 Index. Technology, Real Estate, and Industrials were the best performing sectors, while Health Care and Financials were relative underperformers.

## Performance Commentary

The Buffalo Discovery Fund gained a very solid 19.52% during the quarter but trailed the benchmark Morningstar U.S. Mid Growth Index return of 21.03%. Stock selection within Information Technology and Health Care weighed on relative performance during the period. The Fund was not as aggressively-positioned in these sectors as the Index during a very strong rebound off December 2018 lows. The rebound was sparked by the Fed's dovish pivot on interest policy, which rekindled appetite for risk. The Fund continues to invest in innovative growth stocks with relatively-attractive valuations, which we believe should be a key driver of above-index risk-adjusted returns over the long term.

## Average Annualized Performance (%)

| As of 3/31/19                     | 1 YR  | 3 YR  | 5 YR  | 10 YR | 15 YR | Since Inception |
|-----------------------------------|-------|-------|-------|-------|-------|-----------------|
| Buffalo Discovery Fund            | 10.34 | 14.54 | 10.93 | 17.73 | 10.58 | 9.36            |
| Morningstar U.S. Mid Growth Index | 13.39 | 16.43 | 10.91 | 17.23 | 10.21 | 8.02            |
| Russell Midcap Growth Index       | 11.51 | 15.06 | 10.89 | 17.60 | 9.94  | 8.92            |

*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](http://buffalofunds.com).*

## ↑ Top Contributors

Among the top contributors during the 4th quarter were **MSCI, Inc.** and **Bio-Techne Corporation**. MSCI, an index and exchange-traded fund (ETF) provider, rallied as prospects for asset-based fees improved and the market recovered. The company also reported quarterly results that showed its ETF business saw continued strong inflows and a sequential improvement in average fees despite the bout of market volatility.

Bio-Techne, a life sciences company that develops and sells biotechnology reagents and instruments for research and clinical diagnostic markets, reported better-than-expected quarterly results driven by strong biopharma industry demand for the company's core protein sciences reagents and analytical solutions. The industry trend toward Good Manufacturing Practices (GMP), a system for ensuring that products are consistently produced and controlled according to quality standards, is driving a lift in average selling prices. Strong results in China, where organic growth exceeded 30%, also contributed to the positive performance.

## Fund Quick Facts

|                 |                                   |
|-----------------|-----------------------------------|
| Ticker:         | BUFTX                             |
| Inception Date: | 4/16/2001                         |
| Net Assets:     | \$1.75 Billion                    |
| Expense Ratio:  | 1.02%                             |
| Category:       | Mid-Cap Growth                    |
| Benchmark:      | Morningstar U.S. Mid Growth Index |

## Management Team



### Clay Brethour, CFA

Co-Manager since 2004  
B.S. – Kansas State Univ.



### Dave Carlsen, CFA

Co-Manager since 2004  
B.B.A. – University of WI-Madison

## ↓ Top Detractors

The biggest detractors in the period were **ABIOMED, Inc.** and **Take-Two Interactive Software**. ABIOMED was weak following a U.S. Food and Drug Administration (FDA) letter to doctors noting a higher mortality rate for ABIOMED's Impella RP heart pump in a post-FDA approval study than what was seen in pre-approval studies. The Impella RP product is designed for use in specific clinical situations while the majority of patients in the post-approval study did not meet ABIOMED's original enrollment criteria for treatment with the device. Both the FDA and ABIOMED suggest the Impella RP device's efficacy was studied in a high-risk pool for which it was not well suited. The news introduced near term uncertainty to a stock price that embeds high growth expectations but appears to be an over-reaction in the near term. Impella RP represents less than 5% of total company sales. We believe the device, along with the rest of the ABIOMED product line, is highly efficacious when used as intended. We continue to think the company has a long runway for growth and market share gains within a \$30 billion market.

Take-Two Interactive Software shares were weak after it lowered its forward guidance due to slower-than-expected monetization of its recently launched Red Dead Redemption 2 video game title. Competition for game player's time and attention has been intense recently amid rapid uptake of competitive free-to-play games like Fortnite and Electronic Art's Apex Legends. That followed a crowded new release schedule for the industry. Investor expectations have fallen significantly due to the near-term competitive intensity. However, we expect the pending release of Red Dead Online to catalyze improved monetization. The pipeline is also solid with new content releases expected to accelerate in the near term. The company has premium content, some of the best game development talent in the industry, and remains a prime beneficiary of the positive business model effects of downloadable games and in-game content, combined with a favorable outlook for growth in new users and engagement.

## Outlook

The market environment appears fertile for active growth stock investing. Interest rates, inflation, and unemployment remain relatively low by historical standards, providing a healthy backdrop for consumers and businesses. We don't see a recession on the horizon nor a significant collapse in corporate earnings, but valuations are at lofty levels, especially for big secular growers. Earnings growth comparisons also get more difficult as we lap the positive effects of last year's tax reform.

After a possible 1st quarter earnings reset, we suspect the backup in interest rates, a more dovish Federal Reserve stance, and a trade deal with China could extend the positive market sentiment. Later in the back half of 2019, market pundits could possibly return their focus to the Fed's interest rate normalization process which may weigh on market multiples.

Taking all of this together, we believe a volatile, more discerning market could materialize through 2019. The volatility may favor judicious growth stock investors where a steady hand and active management with an eye toward quality, improving profit cycle dynamics, and relatively-attractive risk-adjusted returns could hold an advantage.

Economic conditions may ebb and flow, but our focus remains steadfast on investing in attractively-priced, financially-strong, well-managed companies whose innovative strategies should fuel secular growth opportunities. We seek those opportunities where thoughtful management teams are in a favorable position to use innovation for market advantage and sustained value creation. Successful innovation may often lead to disruptive share gains in large existing markets or the creation of large new market opportunities, a strategy which we believe is less dependent on the overall macro environment for growth. ▀

## 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](http://buffalofunds.com). Read carefully before investing.*

**Earnings growth is not representative of the Fund's future performance. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible.**

As of 12/31/18 the Buffalo Discovery Fund top 10 equity holdings were The Cooper Cos. 1.94%, Republic Services 1.89%, Roper Technologies 1.69%, LKQ 1.60%, IQVIA 1.58%, Ecolab 1.56%, Illumina 1.56%, IDEXX Labs 1.54%, Garmin 1.51%, MSCI 1.45%. 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 Russell 3000 Index measures the performance of the 3,000 largest publicly held companies incorporated in the U.S. based on market capitalization. The Russell 3000 Growth Index is a market-capitalization weighted index that measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth rates. The Russell 3000 Value Index is based on the Russell 3000 Index, of companies with lower price-to-book ratios and lower expected growth rates which measures how U.S. stocks in the equity value segment perform. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Russell 2000 Index is an unmanaged index that consists of the smallest 2,000 securities in the Russell 3000 Index, representing approximately 10% of the Russell 3000 total market capitalization. The Russell 1000 Index is a subset of the Russell 3000 Index, which measures the performance of the 1,000 largest publicly-held companies incorporated in the U.S. based on market capitalization. The Morningstar U.S. Mid Growth Index measures the performance of U.S. mid-cap stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. One cannot invest directly in an index.

**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.**

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

