

Capital Market Overview

The S&P 500 Index posted its best 1st half of a calendar year since 1997, rising 18.54% from January 1 to June 30. During the most recent quarter, the index was in negative territory for the first two months (April and May) then rose 7.05% in the final month, marking the best June since 1955, and finished with a return of 4.30% for the quarter.

Central banks and trade policies continued to drive financial markets during the period. The threat of increasing tariffs against China and Mexico contributed to the sell-off early in the quarter, and the June rally was largely a result of dovish central bank commentary, leading investors to anticipate rate cuts in the coming months.

The Russell 3000 Index returned 4.10% in the quarter. By style, growth outpaced value, with the Russell 3000 Growth Index up 4.50% and the Russell 3000 Value Index up 3.68%. Large caps generally outperformed small caps in the quarter. The Russell 1000 Index returned 4.25%, just ahead of the Russell Mid Cap Index return of 4.13%. The Russell 2000 returned 2.10% during the quarter. Financials were the best performing sector, followed by Materials and Information Technology. Energy was the only sector to post a negative return, driven by a decline in oil prices. Health Care and Real Estate also underperformed relative to the broad market.

Performance Commentary

The Buffalo Discovery Fund returned 6.33% during the quarter, shy of the benchmark Morningstar U.S. Mid Growth Index return of 7.06%. High-multiple, long-duration growth stocks responded favorably to the Federal Reserve's hint at its June Federal Open Market Committee (FOMC) meeting that interest rate cuts to sustain economic growth could be forthcoming. In general, the Fund was not as aggressively positioned in this cohort as the benchmark. Relative to the benchmark, the portfolio's top three contributing sectors were Financials, Health Care and Industrials. Consumer Discretionary and Information Technology were relative laggards.

Average Annualized Performance (%)

As of 6/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFTX	13.12	16.47	11.27	16.34	10.92	9.60
Institutional Class - BUITX ¹	13.29	16.64	11.43	16.51	11.08	9.76
Morningstar U.S. Mid Growth Index	15.64	17.94	11.62	16.08	10.71	8.31
Russell Midcap Growth Index	13.94	16.49	11.10	16.02	10.25	9.11

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 Institutional 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.

↑ Top Contributors

Among the top contributors during the quarter were **MSCI** and **IDEXX Labs**. MSCI, an index and investment analytics services provider, rallied on strong investment flows into passive products and leverage to a rising market, and asset-based fees support continued strong growth prospects. IDEXX Labs, a lab analysis company for pets and livestock, reported better than expected quarterly results, driven by share gains and better than expected margins due to strong adoption of their premium-priced, single-use, on-site diagnostic test kits.

Fund Facts

	Investor	Institutional
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$1.80 Billion	
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 **Blackberry** and **Arista Networks**. Blackberry's stock was pressured when growth in its software category, which is key to the company's long-term value creation story, did not meet the pace at which investors expected in the near term. Arista Networks, a datacenter software and equipment provider, fell after it guided to lower than expected revenue growth, as its tier 1 cloud customers temporarily slowed spending to digest recent capacity additions.

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 corporate earnings growth. Meanwhile, global central bankers have recently pledged additional stimulus measures to boost inflation and keep the long-running economic expansion alive.

Countering this healthy backdrop are high valuations and deteriorating leading indicators on global trade. Easy money for much of the past 10 years and rising expectations for more to come, have led to asset inflation and generally elevated growth stock valuations. Meanwhile, global trade tensions are weighing on consumer and business confidence, where recent surveys point to a slowdown amongst global purchasing managers. In the near to intermediate term we suspect pockets of weakness could emerge, particularly for the more global and cyclically oriented companies. We have trimmed positions in this area to avoid asymmetric risk associated with high valuation and the potential for downward estimate revisions.

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.

The Fund continues to invest in disruptive and innovative growth companies with relatively attractive valuations, a strategy we believe should be a key driver of above-index, 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. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible.

As of 3/31/19 the Buffalo Discovery Fund top 10 equity holdings were The Cooper Cos. 2.11%, MSCI 1.84%, Roper Technologies 1.82%, IDEXX Labs 1.73%, Republic Services 1.69%, Mettler Toledo Intl 1.69%, Align Technology 1.69%, Bio Techne 1.66%, Verisk Analytics 1.66%, Arista Networks 1.62%. 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 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 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 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.

