

Capital Market Overview

U.S. economic strength and solid corporate earnings growth drove healthy equity returns in the 3rd quarter. The widely-followed S&P 500 Index had a total return of 7.71%, its best quarterly gain since 2013. In September, initial jobless claims fell to the lowest level since 1969, wages grew at the fastest rate since 2009, consumer confidence reached the highest level since 2000, and the National Federation of Independent Business (NFIB) survey of small business optimism was at an all-time high (the survey dates back to 1974). Against this strong economic backdrop, the Federal Reserve raised the targeted federal funds rate by another 25 basis points to a range of 2.00% to 2.25%. Slowly rising interest rates led to flat bond returns.

The divergence between domestic and international equity market performance continued during the quarter, with the MSCI EAFE Index advancing just 1.35%. The Russell 3000 Index gained 7.12% in the 3rd quarter. By style, growth continued to outperform value, with the Russell 3000 Growth Index increasing 8.88% compared to the Russell 3000 Value Index's advance of 5.39%. Large caps did better than small caps as the Russell 1000 Index returned 7.42%, the Russell Midcap Index returned 5.00%, and the Russell 2000 Index returned 3.58% in the quarter. Every economic sector was positive this quarter, with Health Care and Industrials the top performers, while Materials and Energy lagged the indexes.

Performance Commentary

The Buffalo Discovery Fund gained 5.66% during the quarter, trailing the benchmark Morningstar U.S. Mid Growth Index return of 7.86%. Weak stock selection within Health Care, Consumer Discretionary, and Information Technology sectors weighed on performance during the period. While Health Care was the best performing benchmark sector during the quarter we experienced two stock specific setbacks (**Portola Pharmaceuticals** and **Nevro Corp.**) which negatively influenced near term results.

Our investments related to the housing industry were negatively impacted by increasing interest rates and a slowing housing market, while our holdings with automotive exposure struggled due to trade tensions that weighed negatively on the automotive supply chain. Elsewhere, positive stock selection in Materials and a significant underweight in Energy, both poorly performing benchmark sectors, were positive offsetting factors during the quarter. The Fund continues to invest in high-quality 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 9/30/18	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo Discovery Cap Fund	15.87	15.58	13.08	15.11	9.60
Morningstar U.S. Mid Growth Index	24.76	17.07	12.85	12.83	8.25
Russell Midcap Growth Index	21.10	16.65	13.00	13.46	9.16

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 Quick Facts

Ticker:	BUFTX
Inception Date:	4/16/2001
Net Assets:	\$2.14 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 Contributors

Bio-Techne Corporation shares increased 38% during the quarter and was the biggest contributor to the Fund's return. Bio-Techne reported better-than-expected revenue growth, and made two acquisitions that should allow the company to be well-positioned within the research, diagnostics, and therapy of the fast-growing liquid biopsy market for oncology.

Illumina Inc. was another strong performer during the quarter. While the company has historically been known as the leading genetic sequencing provider for clinical research, its technology is increasingly being used in clinical diagnostics. In addition to the emerging clinical diagnostic opportunity, Illumina continues to benefit from two additional tailwinds to its business; a strong new product cycle and a favorable funding environment for its products.

↓ Top Detractors

Detracting from performance was **Portola Pharmaceuticals**, which declined 29% during the quarter. The company's shares sold off after lowering investor expectations for sales of its drug Bevyxxa for the treatment of thrombosis. The near-term outlook for another of the company's drugs Andexxa (for treatment of uncontrolled bleeding) remains stronger but the company has to overcome recent execution challenges to re-rate higher.

Another underperformer was **Nevro Corp.** whose shares experienced intra-quarter price volatility and a steep decline due to heightened patent litigation with a competitor and a disappointing sales forecast caused by ongoing sales force attrition and productivity issues. The patents have since been upheld, demonstrating product viability but leaving the ongoing sales execution issue a multi-quarter fix.

Outlook

The market environment for equities remains favorable. Interest rates, inflation, and unemployment remain low, while corporate earnings grind higher buoyed by improving consumer confidence and recent U.S. corporate tax reform. Growing cash flows combined with foreign cash repatriation should drive improved business investment and more aggressive capital allocation activity including mergers and acquisitions (M&A), buybacks, and dividend increases.

As the U.S. economy continues to strengthen amid a tighter labor market, it could put upward pressure on further rate increases, as the Fed continues its interest rate normalization process after many years of easy money policies. A more restrictive monetary policy could introduce increased volatility. Additional uncertainty could be driven by other factors including: (i) the upcoming midterm elections in November and possible Democratic gains in the Congress; (ii) the ultimate outcome of the trade disputes and the impact it will have on earnings of U.S.-based companies expanding internationally; (iii) the fact that many stocks are trading at elevated valuations after the multi-year bull market.

Economic conditions may ebb and flow. However, our focus for the Discovery Fund is on discovering leading innovative companies with underappreciated growth prospects that are potential beneficiaries of our proprietary long-term secular growth trends, ones we believe should provide a tailwind to the companies' operations regardless of the state of the economy. Additionally, we remain disciplined in seeking attractively-priced, financially-strong, and well-managed companies through our internal investment research efforts.

As volatility picks up, a steady hand and active management with an eye toward quality and relatively-attractive risk-adjusted returns could hold an advantage over passive money strategies. We stand poised to capitalize where we see near term stock price volatility that presents an opportunity to improve risk-adjusted expected returns within the portfolio. ▴

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 contains this and other important information about the investment company, and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read it carefully before investing.

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

As of 6/30/18 the Buffalo Discovery Fund top 10 equity holdings were Align Technology 2.07%, Intuit 1.91%, athenahealth 1.85%, Mylan N V 1.79%, Nasdaq 1.75%, S&P Global 1.70%, Verisk Analytics 1.63%, Roper Technologies 1.63%, MSCI 1.61%, Amazon 1.57%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.

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.

Investing in both actively and passively managed mutual funds involves risk and principal loss is possible.

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 MSCI EAFE Index measures the equity market performance of developed markets outside of the U.S. & Canada; EAFE stands for Europe, Australasia and Far East. 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 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. 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. It is not possible to 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.

