Buffalo Discovery Fund

QUARTERLY
COMMENTARY

September 30, 2019

Capital Market Overview

The U.S. stock market continued to advance in the 3rd quarter, as expectations for accommodative monetary policy appeared to outweigh concerns of slowing economic growth. The S&P 500 Index returned 1.70% in the period, bringing the year-to-date return to 20.55% through quarter-end. Weak economic data led the Federal Reserve to cut interest rates twice in the quarter, driving rates lower and bond prices higher. U.S. markets outperformed international markets on the strength of the U.S. dollar.

The Russell 3000 Index gained 1.16% in the quarter. Value narrowly outperformed growth, with the Russell 3000 Value Index up 1.23% and the Russell 3000 Growth Index advancing 1.10%. Large caps generally outperformed small caps in the quarter. The Russell 1000 Index returned 1.42%, the Russell Midcap Index returned 0.48%, and the Russell 2000 Index posted a loss of 2.40%. Defensive sectors led the way in the period, with Utilities up 9.34%, Real Estate up 7.69%, and Consumer Staples up 6.12%. Energy was the worst performing sector with a total return of -6.61%. Health Care was also weak, returning -2.25% on increasing political concerns.

Performance Commentary

The Buffalo Discovery Fund returned -0.74% during the quarter, outperforming the benchmark Morningstar U.S. Mid Growth Index return of -3.08%. Strong stock selection within the Information Technology and Consumer Discretionary sectors more than offset weak performance of the Fund's Material sector holdings, as concerns of a slowing world economy weighed on cyclical stocks. During the quarter, the Fund was more conservatively-positioned compared to the benchmark. However, the Fund is starting to take advantage of recent weakness in cyclical sensitive stocks and finding opportunities at more reasonable valuations. Relative to the benchmark, the portfolio's top three contributing sectors were Information Technology, Consumer Discretionary, and Energy. Materials and Consumer Staples were relative laggards.

Average Annualized Performance (%)

As of 9/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	6.26	13.77	11.76	14.41	11.37	9.41
Institutional Class - *BUITX*[1]	6.42	13.94	11.93	14.58	11.53	9.58
Morningstar U.S. Mid Growth Index	3.91	15.17	11.22	13.92	10.74	8.01

[1]For 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.

↑ Top Contributors

Among the top contributors during the quarter were **Insulet Corporation** (PODD), **Tyler Technologies** (TYL), and **KLA Tencor** (KLAC).

Insulet is a medical device company that has developed an insulin infusion system (OmniPod) for people with insulin-dependent diabetes. The company reported a strong beat for 2nd quarter earnings, as adoption of unique wearable technology continues to accelerate. We believe the company continues to have a significant runway for growth.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$1.75 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

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Tyler Technologies, an integrator of technology and management solutions and services for public sector entities with a focus on local governments, saw its stock react positively after its 2nd quarter earnings report showed that its subscription offerings have passed critical mass and are now growing materially within the company's revenue mix. Subscription software products (Software as a Service) give Tyler's business model more attractive economics and predictability to its revenue stream. Given the need to modernize local governments' legacy enterprise resource planning (ERP) systems, we believe that the company has a decade-long runway for 10% plus revenue growth.

KLA Corporation, a process control and yield management equipment provider to the semiconductor industry, guided to a stronger second half of 2019. This momentum should carry into 2020 as major customers pursue process technology transitions and begin implementing extreme ultraviolet (EUV) lithography that requires the advanced inspection tools developed by KLA Corp.

↓ Top Detractors

The biggest detractors in the period were Align Technology (ALGN) and Abiomed (ABMD).

Align, as it traditionally does, gave conservative guidance for the next quarter, but it was the 2nd quarter case numbers that had investors wondering if management's guidance was conservative enough with perceived competitive pressures in the clear dental aligner marketplace. We believe that the long-term revenue outlook of 20-30% annually continues to be achievable, given the vastly under-penetrated global market for clear aligners. Nonetheless, with two new public companies gaining more visibility for their own clear aligner product offerings through their initial public offerings, the stock could have some volatility in the short-term, as investors take a wait-and-see approach on whether Align's market leadership becomes challenged. We believe it will remain the market leader and preferred clear aligner choice.

Meanwhile, Abiomed's stock declined, as the company reported a second consecutive quarter of slowing revenue growth. However, we continue to like the company's long-term growth opportunity. It operates in an under-penetrated market that has high barriers to entry, but, nonetheless, we will be closely monitoring management's execution to reinvigorating its growth trajectory.

Outlook

We expect the U.S.–China trade dispute will be resolved in some fashion within the next six months. While it appears that the global economy is slowing, we believe a trade deal could spur the bull market upward, particularly for cyclical stocks that have been delaying corporate investment decisions until there is a resolution. Additional factors, such as low inflation, accommodative monetary policies throughout the world, and low unemployment rates should continue to provide a healthy backdrop for corporate earnings growth.

Easy money for much of the past 10 years and rising expectations for more accommodative monetary policies have led to asset inflation and generally-elevated growth stock valuations. Expensive stocks continue to be littered throughout the market, which provides the potential to protect shareholders from capturing the extreme downside of any market correction through prudent active investment management. While we trimmed economically-sensitive cyclical positions earlier in the year, due to high valuations, we are selectively putting capital to work in the area as valuations have come down and uncertainty reduced with the prospect of a trade agreement.

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We believe a volatile, more-discerning market could continue to materialize through 2020, as the political rhetoric heats up during the presidential election year. Volatility may favor judicious growth stock investors, where a steady hand and active management with an eye toward quality, improving profit cycle dynamics, and attractive risk-adjusted returns could hold advantage. The Fund continues to invest in disruptive and innovative growth companies with attractive valuations identified through our internal analysis; a strategy we believe should be a key driver to above-index, risk-adjusted returns over the long term.

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 that 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. 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 6/30/19 the Buffalo Discovery Fund top 10 equity holdings were The Cooper Cos. 1.94%, Verisk Analytics 1.77%, MSCI 1.77%, IDEXX Labs 1.77%, Copart 1.72%, Republic Services 1.72%, International Flavors & Fragrance 1.60%, IHS Markit 1.59%, Align Technology 1.58%, Exact Sciences 1.56%. 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. 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.

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