Discovery Fund

***PM Commentary** as of June 30, 2018*

BUFFALO FUNDS

CAPITAL MARKET OVERVIEW

Supportive economic data drove positive domestic equity performance in the 2nd quarter. The unemployment rate declined to 3.8%, the lowest level in 18 years. Wages have continued to rise, with average hourly earnings up 2.7% as of May. Corporate earnings growth continued to be robust. The Federal Reserve increased their target rate by 0.25% and raised their forecast for growth and inflation again in June. Meanwhile, economic growth outside the U.S. slowed, with the divergence driving strength in the U.S. dollar. Increasing trade protectionism along with the dollar's strength, led to the relative outperformance of domestically focused industries and smaller capitalization companies, which generally do less international business than large caps. Crude oil prices continued to rise, despite the strong dollar, driven by lower stockpiles in the U.S. and President Trump's decision to withdraw from the Iran nuclear accord.

PORTFOLIO MANAGEMENT TEAM

Clay Brethour, CFA
Co-Manager since 2004
B.S. – Kansas State University

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Co-Manager since 2004
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The Russell 3000 Index returned 3.89% in the quarter. Growth continued to outpace value, with the Russell 3000 Growth Index up 5.87% and the Russell 3000 Value Index up 1.71%. By size, the Russell Microcap Index led the way with a return of 9.97%, followed by the small cap Russell 2000 Index at 7.75%. The large cap Russell 1000 Index was up 3.57%, and the Russell Midcap Index was up 2.82%. Energy was the best performing sector, driven by strength in crude oil prices. The Consumer Discretionary, Information Technology, and Real Estate sectors also had strong quarters. Meanwhile, trade fears and rising input costs caused the underperformance of Industrials, and Financials were weaker as a result of the yield curve flattening.

PERFORMANCE COMMENTARY

The Buffalo Discovery Fund gained 3.71% during the quarter, outperforming the benchmark Russell Midcap Growth Index, which gained 3.16%. The outperformance was fueled by broad-based positive stock selection within the Financials, Technology, Materials, Health Care, and Energy sectors. Industries with standout performance included software and internet services, semiconductors, energy equipment and services, health providers and services, and diversified financial services. Poor selection effect in the Industrials sector was a modest offset, with auto components, building products, and industrial conglomerates hurt by global trade concerns and rising input costs.

TOP CONTRIBUTORS

Align Technology, the maker of clear aligners for dental malocclusion and a long-term holding in the Fund, continued to grow and attract new investors in the period. We believe robust growth is sustainable over the intermediate to long term, as the company has expanded its products to address nearly 70% of the orthodontic market while less than 15% of the orthodontic market has converted from metal braces to clear aligners.

Average Annualized Performance (%)

As of 6/30/18	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo Discovery Fund	15.92	10.33	14.96	13.47	9.39
Russell Midcap Growth Index	18.52	10.73	13.37	10.45	8.84

Expense ratio 1.03%. Inception Date 4/16/2001. 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.

Evolent Health offers software tools, analytics, and best practice services to healthcare providers to manage populations of patients through valued based care. The stock rebounded when new contract signings growth re-accelerated after a pause, disproving concerns of a slowdown in signings caused by government policy uncertainty and potential repeal of the Affordable Care Act.

TOP DETRACTORS

Xylem Inc. is a global smart water infrastructure company, growing share and experiencing a positive shift in its margin structure as it transitions to higher value added technology enabled pumps and sensors, which deliver higher levels of productivity and efficiency for municipal and industrial customers. The stock fell during the quarter after margin guidance did not live up to high Wall Street expectations. We remain positive on the multi-year earnings power of the company and the durability of the secular drivers for water infrastructure in developed and developing markets.

BlackBerry LTD is a leading provider of enterprise mobility management software for connecting, securing, and managing connected devices in the enterprise and beyond. In the short term, analysts have become more skeptical of the company's reiteration of a fiscal year guide for meaningful growth in its core enterprise mobility software segment after it experienced a decline in the most recent quarter, its fiscal 1st quarter. Longer term, we expect the company to benefit from the growth in connected devices in the enterprise as the Internet of Things and digital transformation initiatives in the workplace gain steam.

OUTLOOK

The market environment for equities remains favorable. Interest rates, inflation, and unemployment remain low, while wages and corporate earnings grind higher, buoyed by ongoing benefits of tax reform and improved consumer spending patterns.

As growth strengthens, inflation expectations, rising input costs, and the pace at which the Fed intends to normalize interest rates and the central bank balance sheet could introduce bouts of market volatility. Also, the degree to which Jerome Powell, the new Federal Reserve chairman, will utilize the "Fed Put" when volatility reins remains to be seen. For now, his messaging and mandate suggests normalization with a much lower "Fed Put" than we've become accustomed.

It stands to reason that every basis point higher the market allows Mr. Powell to take rates today provides more room to temper volatility later. Today, times are good -- earnings are good, wages are good, and employment is good. Therefore, volatility protection is cheap. Given rates are at historic lows and so little conventional interest rate accommodation exists, we believe Mr. Powell would be wise to bank that volatility protection when the market is cheerful rather than fearful.

The Fed's apparent desired path is to gradually cede some market stabilization control back to the free markets, which historically have been more unforgiving than some stock market participants have become accustomed to these last several years. As a result, correlations should fall, and we could see the market become choppier and more data point driven. Day to day concerns, like a global trade war breaking out for example, can cause big market swings following each data point that validates or contradicts the climate of opinion.

Volatility is also opportunity. If correlations fall and volatility picks up as we expect, the environment should evolve more toward a stock picker's market, where a steady hand and active management with an eye toward quality and relatively attractive risk-adjusted returns could hold advantage over passive money strategies. We stand poised to capitalize where we see near term stock price volatility present the opportunity to improve risk-adjusted expected returns for the portfolio.

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 prospectus 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.

As of 3/31/18 the Buffalo Discovery Fund's top 10 equity holdings were MSCI 1.98%, Xylem 1.90%, Nevro 1.89%, AthenaHealth 1.78%, Roper Technologies 1.77%, Nasdaq 1.76%, Intuit 1.73%, S&P Global 1.70%, Verisk Analytics 1.68%, Align Technology 1.62%. 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 Manager(s) 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 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 Growth Index measures the performance of those Russell Midcap 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. 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. It is not possible to invest directly in an index. A basis point is one hundredth of a percentage point (0.01%).

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

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.

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