

Capital Market Overview

The 4th quarter of 2018 was a rough period for equity markets, with steep declines dragging full year returns into negative territory. The S&P 500 Index declined -13.52% during the quarter, driven by fears of tightening monetary policy, escalating trade tensions, slowing global economic growth, and margin pressure from higher labor and freight costs. Investors sought safety in government bonds, driving the yield on the 10-year Treasury down from 3.06% at the end of the 3rd quarter to 2.68% at the end of the 4th quarter.

In a reversal of the year-to-date trend, value outperformed growth in the period, as the Russell 3000 Value Index declined -12.24% compared to a -16.33% drop in the Russell 3000 Growth Index. Large companies held up better than smaller companies during the quarter, as the Russell 1000 Index fell -13.82%, the Russell Midcap Index was down -15.37%, and the small cap Russell 2000 Index was down -20.20%. The only sector to post a positive return in the 4th quarter was Utilities. Real Estate, Consumer Staples, and Health Care were down but outperformed the market. Energy was the worst performing sector, driven by steep declines in crude oil. Technology, Industrials, and Consumer Discretionary also underperformed the broad market.

Performance Commentary

The Buffalo Emerging Opportunities Fund posted a loss of -18.99% in the quarter compared to the Morningstar U.S. Small Growth Index's loss of -21.44%. The Fund's previous benchmark, the Russell 2000 Growth Index, declined -21.65% in the quarter.

During the 4th quarter market pullback, stocks of smaller companies performed worse than their larger counterparts as illustrated by the performance of the Russell Microcap Growth Index, which produced a return -24.93%, compared to the Russell 1000 Growth Index decline of -15.89%. For calendar year 2018, the Fund declined -3.95% but outperformed the benchmark's return of -5.67%, and was significantly better than the Russell 2000 Growth index's return of -9.31%.

Given the recent downward volatility in the markets and the Fund's relative outperformance during this timeframe, we would like to highlight a couple important aspects of the Fund. First, the Fund has an active share of approximately 95%, meaning the Fund's cumulative holdings only make up 5% of the benchmark's holdings. Additionally, statistics from FactSet indicate, on average, only 12-14% of the outstanding shares of our holdings are held by "passive" or index tracking funds, compared to the average company in our index which has 25-30% of its outstanding shares held by passive funds. We believe that in periods of extreme volatility, skittish investors are likely to withdrawal cash from index tracking funds. In turn, management companies running the index funds sell the stock of their underlying holdings to generate cash to meet these redemptions. As a result, we believe our holdings should be impacted less by cash flows into and out of index funds.

Average Annualized Performance (%)

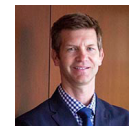
As of 12/31/18	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo Emerging Opportunities Fund	-3.95	10.70	2.62	16.61	7.61
Morningstar U.S. Small Growth Index	-5.67	8.57	5.53	13.89	8.37
Russell 2000 Growth Index	-9.31	7.24	5.13	13.52	8.32

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:	BUFOX
Inception Date:	5/21/2004
Net Assets:	\$73.29 Million
Expense Ratio:	1.50%
Category:	Small-Cap Growth
Benchmark:	Morningstar U.S. Small Growth Index

Management Team



Craig Richard, CFA

Co-Manager since 2013
M.B.A. – Univ. of Kansas
B.S. – Kansas State Univ.



Doug Cartwright, CFA

Co-Manager since 2015
M.B.A. – Univ. of Wisconsin
- Madison
B.S. – Baylor University

During calendar year 2018, the Fund had four holdings acquired. Stryker acquired **Invuity**, a medical device company with solutions that help illuminate body cavities for surgery. Univar announced the acquisition of **Nexeo Solutions**, a specialty chemicals and plastics distributor. In each of these cases, the acquirers were strategic buyers (larger peers). In the first half of the calendar year, financial buyers acquired **Financial Engines** and **CommerceHub** which were also Fund holdings. We believe the market is conducive to both type of acquisitions. In an environment with less robust economic activity and organic growth potential, we expect larger companies, with access to low cost capital, to look at acquisitions as a way to boost revenue and earnings growth. Additionally, many large private equity funds have been created for the purpose of acquiring undervalued companies and are potential buyers in the marketplace.

Regarding portfolio construction activity, the Fund added three new positions in the quarter and sold out of three, ending with 69 holdings.

↑ Top Contributors

One of the largest contributors to the Fund's outperformance in the quarter included **Materialise**, a global company providing system agnostic software solutions for 3D printers. In a rough market environment, Materialise's stock advanced 43% in the period. As healthcare, aviation, auto, and consumer related industries look to speed product development and build customized parts, 3D printing should continue to take share in the \$13 trillion global manufacturing market, in which it currently has less than 1% market share. Strong 3rd quarter earnings results, ramping up partnerships with Hewlett Packard, Siemens, and BASF, and some speculation around a potential acquisition contributed to the strong returns in the quarter.

Air Transport Services Group (ATSG) was another top contributor in the quarter. ATSG is a leading provider of air cargo transportation and is the world's largest owner/operator of converted Boeing 767 freighter aircraft. During the quarter, ATSG expanded its existing relationship with Amazon by extending the leases for the 20 aircraft it currently provides Amazon and agreed to lease 10 additional aircraft to Amazon beginning in 2019. As part of the agreement, ATSG provided Amazon with additional warrants, which would allow Amazon to take a 33% ownership stake in ATSG. In the small cap arena, we believe investing in ATSG is a way to capitalize on Amazon's growing retail dominance as it now has a 40% market share in e-commerce.

Outlook

The compounding of factors that led to the downturn in the 4th quarter continue to be present, but the potential resolution of the U.S./China trade dispute, the U.S. Federal Reserve positioning itself as more dovish, and the firming of global and domestic macro data could be catalysts for stocks in 2019. Our focus remains on finding investment ideas that can sustain growth due to long term secular trends or as a result of the innovation and disruption they are introducing to an industry. Additionally, we operate at the small end of the small capitalization spectrum and can uncover securities that have seen valuation dislocation that we believe is out of line with the actual results and outlook. As always, we will be playing close attention to the valuations of our holdings and will utilize market volatility to trim or add to our holdings as risk/reward profiles improve or degrade, by our internal analysis.

The Buffalo Emerging Opportunities Fund is focused primarily on identifying innovation within U.S. companies that mainly have exposure to North American revenue bases. We continue to look for prudent ways to deploy cash and remain long-term oriented, aiming to be shrewd when the market environment presents opportunity and more cautious when it does not. As illustrated by an active share of greater than 95%, the Fund will continue to offer a distinct offering from the index and its peers. ▲

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 it 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 9/30/18 the Buffalo Emerging Opportunities Fund top 10 equity holdings were Community Healthcare Trust 3.00%, LHC Group 2.66%, Cardlytics 2.55%, Omnicell 2.52%, 8x8 2.46%, Kornit Digital 2.37%, Motorcar Parts of America 2.35%, Nexeo Solutions 2.25%, Wildan Group 2.25%, i3 Verticals 2.13%. 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 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 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 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. Small Growth Index measures the performance of U.S. small-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 2000 Growth Index is an unmanaged index that measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Microcap Growth Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. It is not possible to invest directly in an index. The Russell 1000 Growth Index is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. Market capitalization is a company's total stock market value, calculated by multiplying the price of a single share by the total number of shares outstanding. Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

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.

