

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 Flexible Income Fund produced a return of 4.77% for the period and outperformed the Lipper Mixed-Asset Target Allocation Moderate Funds Index return of 2.73%, but underperformed the primary benchmark, a blended index comprised of 60% of the Morningstar U.S. Large Cap Index and 40% of the ICE BofAML U.S. High Yield Index, which produced a return of 5.92% for the period.

The equity portion of the portfolio returned 5.30% vs. the S&P 500 Index return of 7.71% during the quarter. The fixed income portion of the portfolio generated a return of 1.62% for the quarter, which underperformed the ICE BofAML U.S. High Yield Index return of 2.44%.

Average Annualized Performance (%)

As of 9/30/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Flexible Income Fund	11.17	11.03	6.96	8.12	8.13	7.43
Morningstar Combined Index	12.41	13.90	10.74	10.89	8.81	8.77
Morningstar U.S. Large Cap Index (60%)	18.72	17.70	14.20	11.89	9.59	9.79
ICE BofAML U.S. High Yield Index (40%)	2.94	8.19	5.54	9.38	7.64	7.23
BofA ML Combined Index	11.92	13.66	10.59	10.93	8.85	8.92
S&P 500 Index (60%)	17.91	17.31	13.95	11.97	9.65	10.04
ICE BofAML U.S. High Yield Index (40%)	2.94	8.19	5.54	9.38	7.64	7.23
Lipper Mixed-Asset Target Allocation Moderate Funds Index	5.73	8.56	6.51	7.07	6.18	6.97

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:	BUFBX
Inception Date:	8/12/1994
Net Assets:	\$702.26 Million
Expense Ratio:	1.01%
Category:	Large-Cap Value
Benchmark:	60% Morningstar U.S. Large Cap Index 40% ICE BofAML U.S. High Yield Index

Management Team



John Kornitzer

Manager since Inception
B.A. – St. Francis Univ. (PA)



Paul Dlugosch, CFA

Co-Manager since 2007
B.S. – University of Iowa

↑ Top Contributors

The Fund's equity component is primarily focused on large cap dividend payers, with top contributors in the quarter being **Microsoft**, **Boeing**, and **Johnson & Johnson**. The top contributors to the Fund's fixed income performance included **Nuance Communications**, **Consolidated Communications**, and **Wildhorse Resource Corporation**.

↓ Top Detractors

The primary sectors that led to the relative underperformance were Energy, Industrials, and Consumer Discretionary. Within Energy, the underperformance was due to our sector allocation decision, specifically the significant overweight to energy-related companies, as that area was among the worst performing benchmark sectors for the period. Meanwhile the underperformance within the Industrials and Consumer Sectors was primarily due to security selection.

Specific securities that detracted from performance within Industrials included **General Electric** and **Pitney Bowes** while the underperformance in the Consumer Discretionary sector included shares of **Ford** and **Lions Gate Entertainment**. Additionally, the Fund did not own Amazon, as it is a non-dividend payer, which was once again one of the top contributors for the benchmark.

Outlook

As we begin the 4th quarter, significant uncertainty about the direction of the stock market exists, driven by factors including:

- the upcoming midterm elections in November and possible Democratic gains in the Congress,
- the ultimate outcome of the trade dispute with China and the impact it will have on earnings of large U.S.-based companies,
- the potential for continued interest rate hikes, and
- the fact that many stocks are trading at elevated valuations after the multi-year bull market.

This uncertainty is offset, in part, by continued strength in the U.S. economy and job markets. Amidst this uncertainty, we continue to be diligent in our process of seeking income-producing securities trading at reasonable valuations by our analysis. Given that we believe the U.S. is in the later stages of the current economic cycle, we continue to find ourselves confronted with relatively low spread and yield levels with the non-investment grade fixed income asset class that we prefer over the long haul. This backdrop has resulted in a bond allocation that is close to the low end of our expected range in terms of the fund's overall asset mix of stocks, bonds, and cash. Within the fixed income portion of the portfolio we continue to focus on high-quality, non-investment grade issuers with defensive business models and manageable credit metrics. As always, we appreciate your support and confidence in our investment process 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 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 Flexible Income Fund top 10 equity holdings were Boeing 4.36%, HollyFrontier 4.03%, Microsoft 3.56%, Intel 3.52%, ConocoPhillips 3.45%, Exxon Mobil 2.99%, Royal Dutch Shell 2.88%, Verizon Communications 2.88%, Chevron 2.74%, AT&T 2.72%. 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.

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 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. Large Cap Index measures the performance of the U.S. equity market targeting the top 70% of stocks by market capitalization. The ICE BofAML High Yield Index is an unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. It includes zero-coupon bonds and payment-in-kind (PIK) bonds. One cannot invest directly in an index.

Mutual Fund investing involves risk. Principal loss is possible. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in foreign securities include additional risk such as greater volatility, and political, economic, and currency risks, as well as difference in accounting methods.

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

