

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 Flexible Income Fund produced a return of 1.11% for the quarter, which underperformed the Morningstar Moderately Aggressive Target Risk Index return of 6.05%. The Fund's peer group index, the Lipper Mixed-Asset Allocation Moderate Funds Index, produced a return of 0.99% for the quarter.

Average Annualized Performance (%)

As of 9/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFBX	0.17	7.63	4.94	8.18	7.00	7.13
Institutional Class - BUIBX ¹	0.31	7.79	5.10	8.34	7.16	7.29
Morningstar Moderately Aggressive Target Risk Index	3.91	8.95	6.79	8.80	7.37	-
Morningstar Combined Index	5.06	10.78	8.77	11.07	8.32	8.72
Morningstar U.S. Large Cap Index (60%)	4.23	13.92	11.05	13.21	9.03	9.56
ICE BofAML U.S. High Yield Index (40%)	6.30	6.07	5.36	7.85	7.25	7.47
Lipper Mixed-Asset Target Allocation Moderate Funds Index	4.46	6.92	5.48	7.32	5.82	6.87

¹For 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 Institutional 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.

Equities Performance

The equity portion of the portfolio returned 1.27%, which trailed the Morningstar Moderately Aggressive Target Risk Index. The relative underperformance was primarily driven by the Energy sector. The underperformance within Energy was primarily due to the sector allocation impact as the Fund was overweight the worst performing sector of the Index. Energy companies have underperformed the broader market due to several reasons including, secular growth fears around fossil fuels, market share losses to renewables, the ability of shale drillers to generate sufficient cash flow to service debt at current price levels, as well as investor acceptance of ESG (environmental, social and governance) standards, which typically avoid investment in fossil fuel securities.

Fund Facts

	Investor	Institutional
Ticker:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$581.82 Million	
Category:	Large Cap Value	
Benchmark:	Morningstar Moderately Aggressive Target Risk Index	

Management Team



John Kornitzer

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



Paul Dlugosch, CFA

Co-Manager since 2011
B.S. – University of Iowa

Specific investments that negatively-impacted Fund performance included **Pfizer**, **Schlumberger**, and **Lions Gate Entertainment**. Pfizer shares declined due to the dilutive spin-off of its Upjohn unit (merging with Mylan) as investors re-rated Pfizer based on its new pro-forma margin structure, which will be lower going forward due to the spin off. Meanwhile Schlumberger has been negatively-impacted by the weak macro environment for exploration and production (E&P) which has resulted in declines in drilling activity and eroded fracking pricing. Finally, shares of Lions Gate Entertainment dropped when the company lowered its earnings growth rate from low-to-mid-teens to mid-to-high-single digits. The top three contributors to the Fund's performance during the quarter were **Proctor & Gamble**, **HollyFrontier**, and **AT&T**.

Fixed Income Performance

The fixed income portion of the portfolio represented roughly 5% of fund assets during the period. The best performers within the fixed income portion were the **Medicines Corp** 2.5% convertible bonds and the **Everi Payments** 7.5% senior notes. The Medicines converts benefited from positive clinical trial data for its cholesterol drug, inclisirin, while Everi Payments benefited from positive underlying fundamentals and news that the company was exploring strategic alternatives including a possible sale.

Outlook

Over the first three quarters of the year, the stock market has been primarily driven by expansion in market valuation metrics, as earnings have been relatively flat. Aiding the valuation expansion has been the Federal Reserve's (the "Fed") dovish pivot on monetary policy, indicating that future interest rate action will be down. The Fed has become concerned with inflation running below their targeted levels and slowing economic growth. Vagaries regarding trade policy (tariffs and trade agreements), evolving geopolitical risks, and the divided Congress further limit their forecasting abilities. A key driver for further stock market advancement is likely to be impacted by trade and tariff news and how aggressive the Fed cuts rates and how many cuts they ultimately decide to make. As always, we appreciate your confidence in our investment capabilities 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 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.

As of 6/30/19 the Buffalo Flexible Income Fund top 10 holdings were Boeing 4.24%, Microsoft 4.02%, Chevron 3.11%, Johnson & Johnson 3.02%, BB&T 2.63%, BP 2.53%, Waste Management 2.50%, Clorox 2.42%, GlaxoSmithKline 2.40%, Intel 2.39%. 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 Moderately Aggressive Target Risk Index represents a portfolio of global equities, bonds, and traditional inflation hedges, and seeks approximately 80% exposure to global equity markets. 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. The Lipper Mixed-Asset Target Allocation Moderate Funds Index is an unmanaged index considered representative of mixed-asset target allocation moderate funds tracked by Lipper, which would combine the 30 biggest funds, based on asset size, that belong to this asset category. One cannot invest directly in an index. Cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows.

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.

