

Capital Market Overview

Equity markets rebounded sharply to start 2019. The widely followed S&P 500 Index returned 13.65% in the 1st quarter, its best quarterly performance in 10 years. The market advance can be largely attributed to the Federal Reserve's decision to put quarterly short term interest rate hikes on hold and end its balance sheet runoff. Additionally, prospects for a trade agreement between the U.S. and China appeared to improve, and the U.S. Government reopened after its longest shut down in history.

The Russell 3000 Index advanced 14.04% in the 1st quarter. Growth outperformed value, with the Russell 3000 Growth Index returning 16.18% compared to a return of 11.93% for the Russell 3000 Value. By size, midcaps led the way this quarter with the Russell Midcap Index returning 16.54%, followed by a return of 14.58% for the small cap Russell 2000 Index and 14.00% for the large cap Russell 1000 Index. Technology, Real Estate, and Industrials were the best performing sectors, while Health Care and Financials were relative underperformers.

Performance Commentary

The Buffalo Growth Fund gained 15.30% during the 1st quarter, trailing the benchmark Morningstar U.S. Growth Index return of 17.67%. Stock selection within Financials, Health Care, and Consumer Discretionary weighed on relative performance during the period. Within Financials, the decrease in market volatility had a negative impact on futures volumes for **CME Group** and **Intercontinental Exchange**, two of the Fund's holdings in the sector. As interest rates trended lower during the quarter, Financials that were beneficiaries to the housing markets rebounded, and this is an area where the Fund is underweight relative to the benchmark. Within Health Care, the Fund's underweight in the biotechnology industry had a negative impact on relative results, as biotech was one of the strongest performing areas within the benchmark during the period.

Average Annualized Performance (%)

As of 3/31/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Growth Fund	13.17	14.15	10.40	16.15	9.01	10.16
Morningstar U.S. Growth Index	14.02	17.13	13.45	17.55	9.37	-
Russell 1000 Growth Index	12.75	16.53	13.50	17.52	9.71	9.33

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 fourth quarter was **Microsoft**, **Amazon**, and **Shopify**. Microsoft continued to successfully transition itself from a software company into a cloud provider that can deliver a wide variety of platform-as-a-service and infrastructure-as-a-service solutions at scale. We believe the company has a long runway of double-digit revenue growth opportunities with margin expansion for several years.

Amazon has established itself as the default "go-to" e-commerce website in North America, generating nearly \$280 billion of gross merchandise volume (GMV) during 2018. We believe the company's dominance in e-commerce in the U.S. will continue to grow as it continues to build out its distribution and delivery infrastructure, while also growing its online advertising strategy.

Fund Quick Facts

Ticker:	BUFGX
Inception Date:	5/19/1995
Net Assets:	\$174.81 Million
Expense Ratio:	0.91%
Category:	Large-Cap Growth
Benchmark:	Morningstar U.S. Growth Index

Management Team



Clay Brethour, CFA

Co-Manager since 2007
B.S. – Kansas State Univ.



Dave Carlsen, CFA

Co-Manager since 2007
B.B.A. – Univ. of Wisconsin
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Shopify (SHOP) was one of the best performers on an absolute basis as its shares gained 49.24% during the quarter. The company is a multichannel e-commerce platform that allows businesses or merchants to set up online stores to sell products. We believe the company will continue to be a key enabler of small businesses and entrepreneurs to take on legacy business models.

↓ Top Detractors

The biggest detractors in the period were **ABIOMED, Inc.** and **CME Group**. ABIOMED was weak following a U.S. Food & Drug Administration (FDA) letter to doctors noting a higher mortality rate for ABIOMED's Impella RP heart pump in a post-FDA approval study than what was seen in pre-approval studies. The Impella RP product is designed for use in specific clinical situations while the majority of patients in the post-approval study did not meet ABIOMED's original enrollment criteria for treatment with the device. Both the FDA and ABIOMED suggest the Impella RP device's efficacy was studied in a high-risk pool for which it was not well suited. The news introduced near-term uncertainty to a stock price that embeds high growth expectations but appears to be an over-reaction in the near term. Impella RP represents less than 5% of total company sales. The device, along with the rest of the ABIOMED product line, is highly efficacious when used as intended. We continue to think the company has a long runway for growth and market share gains within a \$30 billion market.

CME Group's shares were weak after futures volumes in the financial markets were lower than last year. The company benefits with higher volatility in markets, which are typically accommodated with rising interest rates. As the quarter progressed it became increasing unlikely that the Fed was in a position to raise short-term interest rates. While the company's derivative product offerings are broader than just interest rate derivatives, the halt in the interest rate hikes decreased the volatility across multiple asset classes, negatively impacting the company's volumes.

Outlook

We believe the current environment is typical of an aged expansionary period and may provide active managers with ample opportunities to capitalize on short-term over-reactions, potentially benefiting long-term performance. With that in mind, the Fund continues to invest in high-quality growth stocks with relatively attractive valuations according to our internal analysis, which we believe could be a key driver of above-index risk-adjusted returns over the long term. The market environment appears fertile for active growth stock investing. Interest rates, inflation, and unemployment remain relatively low by historical standards, providing a healthy backdrop for consumers and businesses. We don't see a recession on the horizon nor a significant collapse in corporate earnings, but valuations are at lofty levels, especially for big secular growers. Earnings growth comparisons also get more difficult as we lap the positive effects of last year's tax reform.

After a possible 1st quarter earnings reset, we suspect the backup in interest rates, a more dovish Federal Reserve stance toward monetary policy, and a trade deal with China could extend the positive market sentiment. With the significant 1st quarter market movement, we believe a volatile, more discerning market could materialize through 2019. Later in the 2nd half of 2019, market pundits may likely return their focus to the Fed's interest rate normalization process, which may weigh on market multiples. The volatility may favor judicious growth stock investors where a steady hand and active management with an eye toward quality, improving profit cycle dynamics, and relatively attractive risk-adjusted returns could hold an advantage. ▀

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 12/31/18 the Buffalo Growth Fund top 10 equity holdings were Microsoft 6.41%, Amazon 4.40%, Abbott Labs 2.55%, Facebook 2.30%, UnitedHealth Group 2.30%, Nike 2.29%, Home Depot 2.26%, Visa 2.24%, Alphabet 2.23%, Baxter International 2.23%. 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.

Investing in both actively and passively managed mutual funds involves risks and principal loss is possible.

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 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 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 Morningstar U.S. Growth Index measures the performance of U.S. 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 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. 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.

