

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 Growth Fund gained 6.78% during the quarter, trailing the benchmark Morningstar U.S. Growth Index return of 7.59%. Weak stock selection within Health Care, Industrials, and Consumer Discretionary weighed on relative performance during the period. While Health Care was the best performing benchmark sector during the quarter, we experienced two stock specific setbacks that negatively influenced near term results. Within Industrials and Consumer Discretionary, rising input costs, higher interest rates, and trade fears more generally hampered results. Elsewhere, positive stock selection in Information Technology and a significant underweight in Energy, the worst performing benchmark sector during the quarter, were positive offsetting factors.

The Fund continues to invest in high-quality growth stocks with relatively attractive valuations, which we believe should be a key driver of above-index risk-adjusted returns over the long term.

Average Annualized Performance (%)

As of 9/30/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Growth Fund	17.85	16.93	13.07	12.45	10.33	10.47
Morningstar U.S. Growth Index	28.95	19.68	16.18	14.04	10.27	-
Russell 1000 Growth Index	26.30	20.55	16.58	14.04	10.67	9.65

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:	BUFGX
Inception Date:	5/19/1995
Net Assets:	\$209.33 Million
Expense Ratio:	0.91%
Category:	Large-Cap Growth
Benchmark:	Morningstar U.S. Growth Index

Management Team



Clay Brethour, CFA

Co-Manager since 2004
B.S. – Kansas State Univ.



Dave Carlsen, CFA

Co-Manager since 2004
B.B.A. – University of WI-Madison

↑ Top Contributors

Amazon shares increased nearly 18% during the quarter, making it the biggest contributor to the Fund's return. The company continued to grow revenue in excess of expectations with strength across its various businesses including ecommerce and Web Services. Investors believe the company has a long runway to continue to gain share at the expense of many traditional businesses.

Microsoft was another strong performer during the quarter. The company reported strong results in Intelligent Cloud and Personal Computing, and appears poised for strong performance in these business lines in coming quarters.

↓ Top Detractors

Detracting from performance was **Portola Pharmaceuticals**, which declined 29% during the quarter. The company's shares sold off after lowering investor expectations for sales of its drug Bevyxxa for the treatment of thrombosis. The near-term outlook for another of the company's drugs Andexxa (for treatment of uncontrolled bleeding) remains stronger but the company has to overcome recent execution challenges to rerate higher.

Nevro Corp. shares experienced price volatility and a steep decline due to heightened patent litigation challenges and a disappointing sales forecast caused by ongoing sales force attrition and productivity issues. The patents have since been upheld, demonstrating product viability but leaving the ongoing sales execution issue a multi-quarter fix, much to the chagrin of short-term oriented Wall Street analysts.

Outlook

The market environment for equities remains favorable. Interest rates, inflation, and unemployment remain low, while corporate earnings grind higher buoyed by improving consumer confidence and recent U.S. corporate tax reform. Growing cash flows combined with foreign cash repatriation should drive improved business investment and more aggressive capital allocation activity including mergers and acquisitions (M&A), buybacks, and dividend increases.

As the U.S. economy continues to strengthen amid a tighter labor market, it could put upward pressure on further rate increases, as the Fed continues its interest rate normalization process after many years of easy money policies. A more restrictive monetary policy could introduce increased volatility. Additional uncertainty could be driven by other factors including: (i) the upcoming midterm elections in November and possible Democratic gains in the Congress; (ii) the ultimate outcome of the trade disputes and the impact it will have on earnings of U.S.-based companies expanding internationally; (iii) the fact that many stocks are trading at elevated valuations after the multi-year bull market.

Economic conditions may ebb and flow. However, our focus for the Growth Fund is to invest in secular trend stars – attractively-priced, financially-strong, well-managed companies across all market cap segments – which we believe are favorably positioned to harvest the lion's share of big secular growth trends.

As volatility picks up, 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 that presents an opportunity to improve risk-adjusted expected returns within the portfolio. ▲

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 Growth Fund top 10 equity holdings were Amazon 6.16%, Microsoft 4.98%, Alphabet (A) 2.37%, Alphabet (C) 2.25%, Facebook 2.23%, Home Depot 2.15%, Align Technology 2.05%, Apple 2.04%, Baxter International 2.00%, Nike 1.97%. 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.

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 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 1000 Growth Index measures the performance of those Russell 1000 Index 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 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. 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. It is not possible to invest directly in an index. A basis point is one hundredth of a percentage point (0.01%).

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.

