Buffalo Growth Fund

QUARTERLY COMMENTARY

December 31, 2018

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 Growth Fund declined -14.71% during the 4th quarter but outperformed the Morningstar U.S. Growth Index, which declined -16.39%. Positive stock selection within the Technology, Financials, and Consumer Discretionary sectors, and holding no investments in the Energy sector, were contributing factors to relative outperformance during the period. Results in the aforementioned sectors offset weaker stock selection within the Health Care and Industrials sectors. Heightened market skittishness in the quarter dramatically increased volatility in stocks of companies that gave the perception of a change in status quo and uncertainty regarding future results.

This environment is typical of an aged expansionary period and may provide active managers with ample opportunities to capitalize on short-term overreactions, that could potentially benefit 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.

Average Annualized Performance (%)

As of 12/31/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Growth Fund	0.51	8.98	7.66	13.67	8.26	9.61
Morningstar U.S. Growth Index	0.78	10.43	9.87	15.50	8.23	-
Russell 1000 Growth Index	-1.51	11.15	10.40	15.29	8.68	8.74

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:	$165.15 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. – Univ. of Wisconsin - Madison

Buffalo Growth Fund

↑ Top Contributors

The Fund's top contributor during the quarter was Red Hat, whose shares jumped higher when the company announced it has agreed to be acquired by IBM for a substantial premium.

Starbucks guided weak trends in June, but reported a much-better outlook in November than investors were anticipating. The stock continued to rebound from its July lows and was one of our top contributors in the quarter.

↓ Top Detractors

Amazon briefly topped $1 trillion in market capitalization and was the top contributor to the Fund during the 3rd quarter, but pulled back in the 4th quarter, delivering one of its worst periods of performance since The Great Recession of 2008. While we believe the company continues to have a long runway of top-line growth, investors were surprised by the conservative guidance of revenue growth of only 10-20% year-over-year, a range the company has rarely experienced.

Shares of Align Technology sold off after issuing lower-than-expected 4th quarter 2018 guidance, which was driven by a near-term product mix shift to less complex case volumes and promotional activity that resulted in a lower average selling price (ASP). The lower ASP during the quarter raised concerns that competitive pressures were starting to make inroads to the company's business. We believe continued robust growth is sustainable over the intermediate to long term, as Align has expanded its products to address nearly 70% of the orthodontic market, and while less than 15% of the orthodontic market has converted from metal braces to clear aligners.

Outlook

The market environment appears fertile for active growth stock investing. Interest rates, inflation, and unemployment remain relatively low by historical standards, which provides a healthy environment for both consumers and businesses. Meanwhile, rising interest rates and quantitative tightening measures are gradually rescinding the extraordinary monetary easing and volatility-dampening measures deployed during and after The Great Recession. The effects of lower taxes and regulation, which are broadly positive for the stock market, are starting to wane, leaving global trade negotiations as a key driver of near term event-risk.

Taking all of this together, we believe a more discerning market is ahead of us, which could benefit selective growth stock investors, where a steady hand and active management with an eye toward quality, profit cycle dynamics and relatively attractive risk-adjusted returns could hold advantage, in our opinion. While economic conditions may ebb and flow, 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.

Buffalo Growth Fund

QUARTERLY
COMMENTARY

December 31, 2018

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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537

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.

As of 9/30/18 the Buffalo Growth Fund top 10 equity holdings were Amazon 7.16%, Microsoft 5.69%, Alphabet (A) 2.91%, Alphabet (C) 2.50%, Apple 2.45%, Align Technology 2.31%, Facebook 2.27%, Home Depot 2.25%, Visa 2.19%, Abbott Labs 2.17%. 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 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. 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 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. It is not possible to 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.

BUFFALO FUNDS