

Growth Fund

PM Commentary as of September 30, 2017



Average Annualized Performance (%)

As of 9/30/17	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Growth Fund	15.94	7.73	13.65	8.05	8.73	9.81
Russell 1000 Growth Index	20.42	11.11	15.30	8.91	9.03	8.78

Expense ratio 0.92%. Inception date 5/19/1995. 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.

CAPITAL MARKET OVERVIEW

Equity markets continued their winning streak in the 3rd quarter of 2017 with the S&P 500 Index posting its 8th consecutive quarterly gain. Investors have been encouraged by the synchronized upswing in global economic growth. For the first time since 2007, all 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) are on pace to grow this year, with the growth rates expected to accelerate in 33 of those countries. This economic backdrop, in conjunction with strong corporate earnings and a renewed focus on tax reform, helped the reflation trade regain momentum in the quarter.

The reflation trade, also known as the "Trump trade", pushed shares of banks, industrials, and smaller companies higher, while expectations of another interest rate increase by the Federal Reserve drove relative weakness in Treasury bonds and their stock market proxies, such as utility companies. The U.S. dollar also strengthened during the period against most major foreign currencies. Furthermore, strong demand and slowing production of oil in the U.S. drove West Texas Intermediate crude prices up 12.2% in the period.

The Russell 3000 Index, a broad market performance benchmark, produced a total return of 4.57% during the quarter. Growth stocks outperformed value stocks, as the Russell 3000 Growth Index advanced 5.93% compared to a gain of 3.27% for the Russell 3000 Value Index. Shares of smaller-capitalized companies generally outperformed larger companies during the quarter. The Russell Microcap Index and the smaller-cap Russell 2000 Index climbed 6.65% and 5.67% respectively during the period, while the Russell Midcap Index advanced by 3.47%, and the larger-cap Russell 1000 Index increased by 4.48%. Technology and energy were the best performing sectors, while consumer staples and consumer discretionary sectors lagged.

PERFORMANCE COMMENTARY

With this as the backdrop, the Buffalo Growth Fund returned 3.32% in the third quarter compared to the benchmark Russell 1000 Growth Index return of 5.90%. Relative to the benchmark, financials and health care ended the quarter as the largest overweight sectors, while information technology and consumer staples were the most underweight.

Among the top contributors, **Facebook** shares earned the top spot during the quarter. The company has shaken off concerns over decelerating growth, which sprung from an earnings call in the fourth quarter of last year. Despite lower ad unit growth, Facebook's sales and profit growth continued to exceed expectations. The strength this year has been

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from ad pricing, which has accelerated, while ad unit growth has declined. Next, **Align Technology** shares continued to rally on another strong quarter in which the company reported accelerating revenue growth. The dental aligner company is deriving increased growth from markets where it has low penetration (U.S. teen; international) providing confidence that it has ample room for additional growth. Finally, **Visa** shares received a boost from earnings and growth that exceeded expectations. The company has benefited from its Visa Europe acquisition last year. Visa's plans to accelerate growth and expand margin in Europe has happened more quickly, boosting results for the company.

Detractors in the period included **Chipotle Mexican Grill**, **Amerisource Bergen**, and **Under Armour**. Chipotle shares came under pressure as the recovery in same store sales from the food-borne illness outbreak of 2015 has been slower, raising concern over whether sales will ever fully recover. The company announced new menu items, digital ordering improvements, and a new marketing campaign as the company aims to reengage customers and improve sales. Next, Amerisource Bergen shares traded lower on concerns of a weaker pricing environment for branded and generic drugs. In addition, management disclosed incremental expense growth in 2018 related to the opening of four new distribution centers. Finally, shares of Under Armour traded lower as sales growth in North America has been under pressure. The company has responded with plans for tighter expense control and a focus on product innovation to improve both growth and profitability in 2018.

OUTLOOK

Although the Federal Reserve raised rates for the 2nd time this year in June, overall economic growth remains below previous cycles and signs of an acceleration in growth remain scant. President Trump's plans for stimulating economic growth have not yet materialized. In addition, the Federal Reserve has signaled another rate hike is likely before year end. In past cycles, there has typically been a broadening out of economic growth that has spurred expansion prior to Federal Reserve taking rates higher. However, the path of this economic cycle is unique, perhaps due to the unprecedented measures taken to avert a deeper financial crisis during the Great Recession of 2008. During this expansion growth has been more limited, adding to the attractiveness of premier growth companies that have sustained high growth despite a difficult environment.

Given this environment, we continue to be opportunistic in the pursuit of owning high quality growth companies, while exercising caution to not overpay for prospective growth that we believe is already priced for perfection. ◀

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 prospectus 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.

As of 6/30/17 the Buffalo Growth Fund's top ten equity holdings were: Facebook, Inc. Class A 4.76%, Alphabet, Inc. Class C 3.47%, Amazon.com 3.22%, Apple Inc. 3.16%, Alphabet, Inc. Class A 2.98%, Visa, Inc. 2.83%, Home Depot, Inc. 2.71%, Intercontinental Exchange, Inc. 2.67%, Abbott Laboratories 2.61%, & 3M Company 2.41%.

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 Manager(s) 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 free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. Treasury bonds are debt obligations issued by the United States government. 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 Microcap Index is a small-cap and micro-cap stock market index of the smallest 2,000 companies in the Russell 3000E Index incorporated in the U.S. based on market capitalization. The Russell 2000 Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index based on market capitalization. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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. You cannot invest directly in an index.

Earnings growth is not representative of the fund's future performance.

Mutual Fund investing involves risk. Principal loss is possible. The Fund invests in small, mid, and micro-cap companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. The Fund may invest in foreign securities and ADR's which involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.

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