

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 Mid Cap Fund returned 4.63% in the 3rd quarter, underperforming the Morningstar U.S. Mid Growth Index return of 7.86%. The fund's relative underperformance was largely driven by stock selection in the Information Technology sector, where not owning Advanced Micro Devices and Square caused performance to trail the benchmark. Both stocks are large benchmark weights and were up 106% and 61% in the quarter, respectively. A large relative underweight in the retail industry was also a drag on performance as that area produced outsized gains for the benchmark.

Average Annualized Performance (%)

As of 9/30/18	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo Mid Cap Fund	15.56	10.40	8.62	10.84	8.27
Morningstar U.S. Mid Growth Index	24.76	17.07	12.85	12.83	8.96
Russell Midcap Growth Index	21.10	16.65	13.00	13.46	9.43

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

Bio-Techne rallied during the period on strong organic sales growth, which drove earnings to exceed consensus expectations. The company benefited from new diagnostics and therapeutics being developed from information derived from the Human Genome Project. Further, the company provided guidance for its upcoming fiscal year that calls for sustained organic growth.

Ligand shares were higher in the quarter on strong results driven by outperformance of its royalty income driven by growing sales of two drugs at Novartis and Amgen. In addition, the company recognized a large milestone payment related to its OmniAb platform for antibody discovery during the quarter.

Fund Quick Facts

Ticker:	BUFMX
Inception Date:	12/17/2001
Net Assets:	\$151.84 Million
Expense Ratio:	1.02%
Category:	Mid-Cap Growth
Benchmark:	Morningstar U.S. Mid Growth Index

Management Team



Chris Carter, CFA

Co-Manager since 2017
M.B.A. – University of WI-Madison
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Josh West, CFA

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↓ Top Detractors

Summit Materials, a vertically-integrated construction materials company, reported a weak 2nd quarter, missing estimates and reducing guidance for the year. The stock continued to decline throughout the quarter, driven by wet weather in key markets, hurricanes, and reports of competitive cement pricing.

Portola Pharmaceuticals shares traded lower during the quarter on disappointing sales of its newly launched drug, Bevyxxa. The drug struggled to gain traction among hospitals, as price and gaining approval at individual hospitals were cited as causes for disappointing sales. Those hospital approvals are taking longer than originally planned as some hospitals only review drugs annually for addition, with the 4th quarter as the key time to get approval. It appears meaningful sales will be on hold until at least 2019.

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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Outlook

According to Federal Reserve Bank of Chicago President Charles Evans, "the U.S. economy is firing from all cylinders." Going forward, the market could experience some volatility as investors focus alternately on economic strength and the removal of monetary stimulus. While the economy remains supportive of corporate earnings growth, valuation multiples may not continue expanding in a rising interest rate environment. As always, we remain focused on investing in competitively-advantaged companies with strong long-term growth opportunities when they are trading at attractive valuations. ▲

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 Mid Cap Fund top 10 equity holdings were MSCI 2.72%, ServiceNow 2.57%, Verisk Analytics 2.44%, Zoetis 2.41%, CME Group 2.35%, Moody's 2.16%, F5 Networks 2.15%, Proofpoint 2.14%, Palo Alto Networks 2.11%, CoStar Group 2.11%. 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.

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 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. Mid Growth Index measures the performance of U.S. mid-cap 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 Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. 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.

