

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.

Fund Quick Facts

Ticker:	BUFMX
Inception Date:	12/17/2001
Net Assets:	\$118.20 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. – Univ. of Wisconsin
- Madison
B.S. – Santa Clara Univ.



Josh West, CFA

Co-Manager since 2017
M.B.A. – Univ. of Missouri
- Columbia
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Performance Commentary

In the 4th quarter, the Buffalo Mid Cap Fund returned -16.67%, bettering the benchmark Morningstar U.S. Mid Growth Index return of -17.26%. The Fund's outperformance was driven by favorable stock selection within the Technology and Financial sectors.

Average Annualized Performance (%)

As of 12/31/18	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo Mid Cap Fund	-7.30	3.73	3.28	11.67	6.99
Morningstar U.S. Mid Growth Index	-3.16	9.02	7.15	14.54	7.61
Russell Midcap Growth Index	-4.75	8.59	7.42	15.12	8.17

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 4th quarter were **Red Hat** and **Chicago Mercantile Exchange**. Red Hat's share price was boosted by an agreement to be acquired by IBM. The acquisition is expected to close during the 2nd half of 2019. IBM's acquisition of Red Hat is aimed at boosting its presence in cloud architectures where it has lagged behind peers like Microsoft, Amazon, and Google, causing the company to lose market share. Red Hat will bring IBM immediate credibility in cloud architectures and enable it to build a software and services business that is agnostic to the cloud host (i.e. Microsoft, Amazon, Google).

Chicago Mercantile Exchange was a beneficiary of financial market turmoil, which bodes well for the volumes in a number of financial instruments offered for trade on its exchange. Equity and bond markets saw a very steep increase in volatility in the 4th quarter, leading to an increase in volumes traded on its exchanges.

↓ Top Detractors

The biggest detractors in the period were **Bio-Techne** and **Ligand Pharmaceuticals**. While each was among top contributors in prior quarters, the markets sell-off seemed to hit some of the previous top performers particularly hard, although incremental concerns drove these two to be leading detractors.

For Ligand Pharmaceuticals, the company reported a record year for profit that included a big boost from several milestone payments. These milestone payments are more unpredictable in nature than its royalty business which is based off sales of approved drugs in market. Concern increased as 2019 drew nearer, with many wondering how it would compare to the record year in 2018. The company sought to assuage concern in December by guiding to 2019 numbers that were ahead of consensus estimates for the company.

Bio-Techne shares sold off on its quarterly report at the end of October. Disappointment in the quarter centered around management delaying the revenue ramp of a recent acquisition, Exosome Diagnostics, based on a delay in Medicare reimbursement approval. It is not uncommon for new diagnostic tests to have a slow launch. In health care, key opinion leaders often form recommendations on new treatments or tests that then spur reimbursement discussions, but the timeline for such a chain of events is dependent on factors outside of a management control.

Outlook

Despite the significant sell-off in markets across the world in the 4th quarter, we still see a positive environment for equities. The economic data points to a slowdown off of a robust year of economic growth spurred by tax reform, but has yet to suggest a recession is imminent. Further, corporate profitability has remained strong, and, given the negative performance of the market in 2018, valuations are more attractive entering 2019 than they were entering 2018. The potential for trade negotiations with China to devolve into a trade war remains the most significant risk to the stock market and economic expansion. This risk is closely followed by the potential for the Federal Reserve to overshoot on interest rate increases, where the three rate increases in 2018 has started to negatively impact housing and lending. Despite these risks, our outlook for returns in 2019 is positive. ▲

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 it carefully before investing.

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

As of 9/30/18 the Buffalo Mid Cap Fund top 10 equity holdings were Bio Techne 2.82%, ServiceNow 2.75%, Verisk Analytics 2.72%, MSCI 2.66%, Ligand Pharmaceuticals 2.34%, RealPage 2.34%, Exact Sciences 2.31%, Norwegian Cruise Lines 2.31%, Palo Alto Networks 2.30%, LogMeIn 2.29%. 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.

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. 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.

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.

