

Mid Cap Fund

PM Commentary as of March 31, 2018



CAPITAL MARKET OVERVIEW

The long streak of low volatility and positive stock market returns ended in the 1st quarter of 2018. Strong gains in January were erased in February and March, leaving the S&P 500 Index down 0.76% for the quarter. Volatility as measured by the Cboe Volatility Index (VIX) was up about 80% in the 1st quarter after falling for the last three years. Investor worries about increasing interest rates, possible trade wars, and threatened government action against large technology companies, offset generally strong economic data and corporate earnings growth.

The Russell 3000 Index declined 0.64% in the quarter, and, broadly speaking, small cap companies outperformed large cap companies during the period. The Russell Microcap Index advanced 0.68% and the Russell 2000 Index finished the period nearly flat, edging down just 0.08%. Moving up the market cap spectrum, performance worsened – the Russell Mid Cap Index was down 0.46% and the larger cap Russell 1000 Index declined 0.69%. Growth outperformed value by a wide margin during the quarter as the Russell 3000 Growth Index advanced 1.48% compared to a decline of 2.82% for the Russell 3000 Value Index. Technology and Consumer Discretionary were the best performing sectors, while Consumer Staples and Energy were the worst performing.

PERFORMANCE COMMENTARY

The Buffalo Mid Cap Fund produced a return of 2.79% in the first quarter, outperforming the Russell Midcap Growth Index return of 2.17%. The Fund's outperformance was mainly driven by our stock selection in the Information Technology and Financials sectors.

Among the top contributors during the quarter were **Zendesk**, **ServiceNow**, and **Proofpoint**. Each of these top contributors are software companies, an industry that benefited from strong IT spending and less cyclical concerns than the balance of the technology sector, mostly comprised of semiconductor and equipment companies. This backdrop, combined with company-specific fundamentals, drove the top contributors higher.

PORTFOLIO MANAGEMENT TEAM



Chris Carter, CFA

Co-Manager since 2017
M.B.A. – Univ. of WI-Madison
B.S. – Santa Clara University



Josh West, CFA

Co-Manager since 2017
M.B.A. – Univ. of MO-Columbia
B.S. – Univ. of MO-Columbia

Average Annualized Performance (%)

As of 3/31/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Mid Cap Fund	11.69	4.77	9.76	9.18	10.79	8.00
Russell Midcap Growth Index	19.74	9.17	13.31	10.61	12.12	9.04

Expense ratio 1.02%. Inception Date 12/17/2001. 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.

Zendesk recognized a return on its investment in selling solutions to larger corporations when it reported billings growth of over 40%, marking the 2nd consecutive quarter of accelerated growth. The strong results and guidance for 2018 have reduced a key bear argument that the company would not be able to gain traction with larger enterprises.

ServiceNow continued to make progress on expanding its dollar share of IT budgets among Global 2000 enterprises. Importantly, its emerging products continued to grow share of new bookings, showing that it has a significant opportunity beyond its core IT services management product.

Proofpoint also reported strong growth in the quarter and provided guidance for 2018, forecasting another year of growth of roughly 30%. The company has benefited (and expects to continue to benefit) from two megatrends in technology, security and cloud. Its core product of email security is able to operate in the cloud and has benefited from Microsoft's Office 365 initiative, which is moving Office products into the cloud.

The largest detractors in the period were **Portola Pharmaceuticals, Forum Energy Technologies, and FMC Corporation.**

Portola Pharmaceuticals is a biotechnology company with a drug, AndexXa, that is awaiting decision from the U.S. Food and Drug Administration (FDA) on whether it is approved for market or not. During the quarter, Portola disclosed the FDA had submitted an inquiry on Andexxa suggesting a randomized clinical trial be performed, a reversal of previous communication from 2016. However, it is unclear whether the FDA would require such a trial pre- or post-approval. The stock sold off reflecting increased concern on the probability of AndexXa's approval.

Forum Energy Technologies shares were weak following a disappointing earnings release and weak guidance. Weak spending from their oil and gas customers continued to be the culprit. They have started to see improving orders and expect revenues to follow in the second half of the year.

Announced capacity increases at a competing lithium producer drove shares of FMC Corporation lower in the quarter. A strong quarterly report in February and raised guidance in late March did little to boost the stock. Their Agriculture business is improving and the lithium business will be divested via a spin-off later this year.

OUTLOOK

The solid economic backdrop, with low inflation and unemployment, should support strong corporate earnings growth. Lower tax rates for businesses should continue to provide stimulus to the economy, as many corporations have announced plans to invest tax savings in capital equipment and higher compensation for employees. In the absence of a sharp rise in inflation, strong earnings growth should create a healthy environment for equities.

While we continue to monitor the risks associated with rising interest rates and protectionist trade policies, we are hopeful that the recent return of volatility to equity markets could present opportunities to invest in attractive businesses that we previously viewed as too expensive. We remain focused on investing in competitively-advantaged companies with strong long-term growth opportunities, when they are trading at attractive valuations. ◀

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 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 12/31/17 the Buffalo Mid Cap Fund's top ten equity holdings were: Verisk Analytics 2.44%, CME Group 2.16%, Zoetis 2.08%, F5 Networks 2.03%, Equinix 2.02%, FMC 1.94%, Xylem 1.91%, LKQ 1.85%, Air Products & Chemicals 1.85%, VMware 1.82%. 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 capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. 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 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 Chicago Board of Options Exchange Volatility (CBOE) Index measures the market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The Russell Microcap Index is a capitalization weighted index of 2,000 small cap and micro cap companies. The Russell Midcap Growth Index is an unmanaged index that measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 26% of the total market capitalization of the Russell 1000 Index. It is not possible to 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 U.S. based companies with substantial interests outside of the U.S. which may involve additional risk such as greater volatility and political, economic and/or currency risks. This risk is greater in emerging markets. Earnings growth is not representative of the fund's future performance.

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