

## Capital Market Overview

The U.S. stock market continued to advance in the 3rd quarter, as expectations for accommodative monetary policy appeared to outweigh concerns of slowing economic growth. The S&P 500 Index returned 1.70% in the period, bringing the year-to-date return to 20.55% through quarter-end. Weak economic data led the Federal Reserve to cut interest rates twice in the quarter, driving rates lower and bond prices higher. U.S. markets outperformed international markets on the strength of the U.S. dollar.

The Russell 3000 Index gained 1.16% in the quarter. Value narrowly outperformed growth, with the Russell 3000 Value Index up 1.23% and the Russell 3000 Growth Index advancing 1.10%. Large caps generally outperformed small caps in the quarter. The Russell 1000 Index returned 1.42%, the Russell Midcap Index returned 0.48%, and the Russell 2000 Index posted a loss of 2.40%. Defensive sectors led the way in the period, with Utilities up 9.34%, Real Estate up 7.69%, and Consumer Staples up 6.12%. Energy was the worst performing sector with a total return of -6.61%. Health Care was also weak, returning -2.25% on increasing political concerns.

## Performance Commentary

The Buffalo Small Cap Fund declined by 3.79% during the quarter, a result that outperformed the Morningstar U.S. Small Cap Growth Index, which declined 4.45%. Stock selection in Financials and Industrials were key drivers of outperformance relative to the Index. These strong sources of return were offset, in part, by poor stock selection in Consumer Staples and a portfolio overweight position in Health Care.

## Average Annualized Performance (%)

As of 9/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFSX</i>	5.30	19.66	9.00	12.53	8.85	11.77
Institutional Class - <i>BUISX</i> <sup>1</sup>	5.46	19.84	9.17	12.70	9.01	11.93
Morningstar U.S. Small Growth Index	3.47	15.78	9.50	14.84	9.09	6.23
Lipper Small Cap Growth Fund Index	-0.49	14.69	8.63	14.41	8.90	6.18

<sup>1</sup>For performance prior to 7/1/19 (Inception Date of Institutional Class), performance of the Investor Class shares is used and includes expenses not applicable and lower than those of Investor Class shares. 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](http://buffalofunds.com).

## ↑ Top Contributors

**CyrusOne** was the Fund's top contributor, with the stock increasing 37% during the period. The company is a leading data center operator and has generated strong and consistent operating performance in a favorable demand environment. The stock spiked during the quarter on reports it could be a buyout target at a high premium relative to its then-current share price.

**MasTec** was another strong contributor to results as the company's stock increased by 26% for the quarter. Mastec continues to post solid results in its pipeline construction division. Its telecom division, which installs fiber for telecom and cable companies, looks to accelerate growth in 2020 in anticipation of 5G wireless networks that require additional fiber for small cell sites. Furthermore, its power generation and electric transmission businesses seem poised for improved results in coming years, setting up the company for stronger growth than many other players in the engineering and construction space.

## Fund Facts

	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$496.89 Million	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

## Management Team



**Jamie Cuellar, CFA**

Co-Manager since 2015  
M.B.A. – Southern Methodist  
B.B.A. – Univ. of San Diego



**Bob Male, CFA**

Manager since Inception  
M.B.A. – Southern Methodist  
B.S. – University of Kansas



**Alex Hancock, CFA**

Co-Manager since 2017  
B.A. – Dartmouth College

Palomar was also among the top contributors in the quarter, increasing 64%. The company is a property and casualty insurer, which completed an initial public offering in April 2019. It has produced solid results with best-in-class underwriting margins, strong premium growth, and improved investment income, and we are optimistic about its long-term growth prospects.

## ↓ Top Detractors

CareDx was the worst-performing position during in the quarter. The company is a player in diagnostic solutions for organ transplant patients, and its AlloSure product is a leader in transplant centers with strong growth prospects. The stock has been weak due to investor fears over the potential threat from a competing product.

## Outlook

Looking forward into the 4th quarter of 2019 and beyond, we remain cautiously optimistic about the long-term outlook for small cap stocks but believe they could be poised for continued volatility. Factors we believe will drive this volatility include the ongoing unresolved trade dispute with China. While there is no obvious end in sight for the trade war, we believe President Trump has a strong incentive to reach an agreement in order to prevent a sinking of the U.S. economy and a decline in the stock market going into the 2020 election year. We continue to see mixed signals about the health of the U.S. economy as the job market has remained relatively strong, but some data has pointed to slowing economic growth. The Federal Reserve cut rates twice in the 3rd quarter, but the timing and direction of more easing is unclear. We expect political concerns to drive market volatility as the Democrat-led House of Representatives explores an impeachment process against President Trump. While small cap names have lagged large cap names year-to-date (the Morningstar U.S. Large Growth Index has advanced nearly 21% year to date versus the Morningstar U.S. Small Growth Index advance of 17%), we believe small cap valuations remain favorable compared to large cap, which could lead to outperformance for small caps in coming quarters, if these valuations converge.

Within this context, we have been managing the Fund actively, seeking to deploy capital into investments we believe have the most favorable risk/reward trade-offs. The portfolio finished the quarter with 73 investment positions (excluding cash), down from 77 at the beginning of the period. We continue to identify investment opportunities in small companies with strong secular growth opportunities with the potential to benefit from long-term growth trends and trade at attractive valuations. As always, we appreciate your continued support and confidence in our investment capabilities over the long haul. ▲

## 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](http://buffalofunds.com). Read carefully before investing.*

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

As of 6/30/19 the Buffalo Small Cap Fund top 10 equity holdings were PROS Holdings 2.51%, Kornit Digital 2.46%, Catalent 2.43%, Natera 2.33%, Repligen 2.33%, Paylocity 2.29%, Bandwidth 2.28%, Bio Techne 2.17%, Air Transport Services 2.11%, Mimecast 2.09%. 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 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. Small Growth Index measures the performance of U.S. small-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 Lipper Small Cap Growth Fund Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. The Morningstar U.S. Large Growth Index measures the performance of U.S. large-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. One cannot invest directly in an index.

**Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities 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.

