

“SEEKING GROWTH THROUGH INNOVATION”

GUIDING PRINCIPLES OF THE FUND

The growth investment strategy that guides the Buffalo Discovery Fund’s management team has been in place since the mid-90s when the first Buffalo growth fund opened. In keeping with the long-term focus of Kornitzer Capital Management (KCM), advisor to the Buffalo Funds, the team invests based on long-term trends that underlie secular growth opportunities. These trends are diversified across sectors, are based on common sense, are quantifiable, and play out over a minimum three to five year time horizon. KCM has identified 26 such trends used to narrow the investment universe, only investing in companies believed to be beneficiaries of those trends.

Our growth universe establishes our hunting grounds, not the constituents of an index, and purposely distances us from relative benchmark portfolio management styles. Some examples of Buffalo growth trends include health care cost containment, substitution of capital for labor, and the growth of internet commerce. The goal of this strategy is to focus on businesses exposed to growth markets with the wind at their backs, while avoiding declining, flat, or deeply cyclical industries, and to populate the Fund with companies targeting durable growth markets that we can hold long term, limiting turnover. We believe this strategy enables greater productivity and efficiency.

While all the Buffalo growth funds employ this strategy, the Buffalo Discovery Fund layers on top a requirement that the investment be innovative.



Clay Brethour, CFA
Portfolio Manager



Dave Carlsen, CFA
Portfolio Manager

MANAGEMENT TEAM GOALS

1 – Beat the Benchmark

- Russell Midcap Growth Index
- After fees and expenses
- 3, 5, 10 years or more

2 – Limit Excessive Risk Taking

- Minimize downside market capture
- Risk awareness is central to our process
- Perform better than market during bulls

A STRATEGY OF INNOVATION

The Discovery team seeks companies that can benefit from innovation because we believe innovative companies hold the potential for higher than average growth, which should lead to significant growth of capital over the long run.

We believe innovation is about embracing change as an opportunity to create business value. It’s breaking from established techniques and traditional models to transform imagination, ingenuity, and new ideas into meaningful commercial value. The greater the economic benefit and the longer staying power, the better.

We look for beneficiaries of broadly reaching secular growth trends. Then we dig deeper at the company level, seeking companies we believe can gain competitive advantage and market share through innovation, further positioning them to capture the lion’s share of the secular growth opportunity.

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We have found that our focus on innovation is one of the best ways to hitch our wagon to share gainers and market disruptors, believing they are companies most likely to reap the rewards of the secular trends, while also minimizing risk of diminishing returns, market maturation, and obsolescence.

In our view, the purpose of innovation is to create business value. Quite often, companies that catch our eye have developed a better mousetrap with respect to a new product or service, which drives new sales and a significant top line growth opportunity. But, innovation can also be a unique new manufacturing, branding, or distribution strategy that can lead to an advantaged position in the market that drives improved efficiency, enhanced competitiveness, or higher profitability. Innovation occurs where change for the better is accepted and valued, and we have found it in almost every sector.

UNCONVENTIONAL INNOVATION

Republic Services Group (RSG) is an unconventionally viewed innovator from within the waste management sector. First, Republic significantly enhanced its market share and return profile by implementing automated collection vehicles. Now, over 70% of Republic’s residential fleet is automated, utilizing a robotic arm to tip trash, allowing a single operator to stay inside the truck, enhancing safety, lowering labor cost, and boosting route efficiency.



Republic is also employing innovative digital strategies to boost customer service levels that could drive the next leg of share gain from the roughly 50% of the industry still done by small and municipal trash collectors. These operators, it’s thought, will unlikely have the

INNOVATION IN ACTION

As one of the world’s most successful innovators, **Amazon** (AMZN) is the poster child of innovation.

First, Amazon changed the way people shopped for books when it successfully sold and distributed them online. Then it broadened its online offerings to a big array of products and digital services like movies and music. It also began utilizing its massive scale, efficiency, and technology expertise to win share in computing infrastructure as a service, effectively disrupting the traditional on-premise computing model, along with the bulk of the world’s traditional retail value chain.



With its latest acquisition of Whole Foods, Amazon continues to disrupt and capture market share from brick and mortar retailers, utilizing its unmatched brand, scale, and distribution advantage.

scale and wherewithal to implement digital services in an increasingly tech-savvy customer base, especially as Millennials begin the home ownership stage.

Republic’s digital services allow customers to become more informed about the service (what’s the holiday pickup schedule for instance, or what do I do with an old couch?). Click-to-buy capabilities mean customers can now schedule a special pickup of a large item or report a broken wheel on their trash bin all via the web or mobile app.

Imagine a future in which the driver could even be assisted by geo-positioning telematics as he approaches a customer address and pick up the bulk item service you requested and paid for via your mobile app.

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A ROLE IN EVERY PORTFOLIO

We believe the Buffalo Discovery Fund plays a role in every portfolio seeking long-term growth of capital as an investment objective. Even for those investors who are fee-sensitive and primarily invest in passive strategies, such as ETFs or Index funds, this fund could be incorporated to provide an additional alpha source as a growth component to your overall strategy that may not be possible through index investing alone. Institutional investors and investment consultants can also utilize the Fund as a mid-cap growth option for group retirements, such as within 401(k) and 403(b) fund line-ups.

Innovation is having an impact on everyone’s life. We believe it makes sense to strive to capitalize on that trend with an investment in the Buffalo Discovery Fund. As always, we continue to seek opportunities to invest in premier growth companies using innovation to disrupt the old ways of conducting business, which should benefit stakeholders. ▽

ABOUT THE AUTHORS

Clay Brethour, CFA, Portfolio Manager

Clay joined the Buffalo Funds in 2000 and has been the portfolio manager of the Discovery Fund since 2004. Previously Clay was an equity research analyst with Security Management Group in Topeka, Kansas and a research analyst with Dain Rauscher Wessels. At the Buffalo Funds, Clay works with equity portfolios, and his focus areas include healthcare, industrial and material sciences, energy technology, and consumer discretionary sectors. Clay received a B.S. in Finance from Kansas State University.

Dave Carlsen, CFA, Portfolio Manager

Dave joined the Buffalo Funds in 2004 as portfolio manager of the Discovery Fund. Previously Dave worked at Strong Capital Management as a Senior Equity Analyst and at Northern Capital Management as an Investment Analyst. At the Buffalo Funds, Dave works with growth equity portfolios, and his focus is on companies in all market sectors, with competitive advantages and durable growth opportunities derived from innovation. Dave received a B.S. in Finance from the University of Wisconsin – Madison.



Discovery Fund

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ABOUT THE BUFFALO FUNDS

The Buffalo Funds are a family of 10 actively-managed mutual funds offering a variety of domestic equity, international equity, and income-generating investment strategies. Located in Mission, Kansas (a suburb of Kansas City), employee-owned Kornitzer Capital Management, Inc. (KCM) has been the exclusive investment advisor to the Funds since inception in 1994.

At KCM, we believe that patient investing backed by solid, intelligent research is the best way to achieve potential long-term financial rewards. Disciplined investment decisions are made using a distinct, time-tested investment approach guided by trend analysis, rigorous fundamental company research, and strict security valuation parameters.

Our fund family is characterized by a long-term growth investment strategy and a team-based, idea-sharing management style. “Trends and Patience” is our mantra, and our great strength.

INTERESTED IN MORE INFORMATION?

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

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

As of 3/31/18, the Buffalo Discovery Fund holdings included 1.43% of Amazon (AMZN) and 1.27% of Republic Services Group (RPG). Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

The Russell Midcap Growth Index is an unmanaged index that 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. Alpha is a measure of performance of an investment against a market index used as a benchmark - excess returns of a fund relative to the return of a benchmark index is the fund's alpha.

Diversification does not assure a profit or protect against loss in a declining market.

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

Mutual fund investing involves risk; Principal loss is possible. The Fund may invest in smaller companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. The Fund may invest in foreign securities which will involve political, economic and currency risks, greater volatility and differences in accounting methods. This risk is greater in emerging markets. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Past performance does not guarantee future results.

The Funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus contains this and other important information about the investment company, and may be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read carefully before investing.

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