

Large Cap Fund

June 30, 2017



Average Annualized Performance

(As of 6/30/17) Expense Ratio: 0.95%	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception (5/19/95)
Buffalo Large Cap Fund	22.46%	12.68%	16.51%	7.84%	8.60%	9.43%
Russell 1000 Growth Index	20.42%	1.11%	15.30%	8.91%	9.03%	8.78%

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 www.buffalofunds.com.

CAPITAL MARKET OVERVIEW

Equity markets continued their strong start to the year during the second quarter, primarily driven by strong corporate earnings growth. The Russell 3000 Index advanced 3.02% in the second quarter. As reported during the June 30 period, earnings from S&P 500 Index companies were up 14% year-over-year in the first quarter, the strongest growth reading since 2011.

Broadly speaking, growth stocks continued their outperformance relative to value stocks, while cyclical stocks that rallied to end 2016 underperformed as investors continue to discount the likelihood of government infrastructure spending and comprehensive tax reform.

The yield on the U.S. 10-year Treasury ended the June 30 period at 2.298%, a decline from its recent high of 2.609% in March due in large part to weaker inflation readings. In contrast, the outlook for growth and interest rate expectations improved in much of the rest of the world, which has driven the trade weighted U.S. dollar down 5.6% year to date. Oil entered bear market territory, with crude prices declining 9% during the quarter in response to stronger than expected inventory levels and rising U.S. production.

As mentioned above investors continued to favor growth over value, and the Russell 3000 Growth Index climbed 4.65% during the period compared to the more modest gain of 1.29% for the Russell 3000 Value Index. By size, microcaps were the best performers with the Russell Microcap Index gaining 3.83%. Meanwhile the large cap Russell 1000 Index gained 3.06%, followed by the Russell Midcap Index at 2.70% and the Russell 2000 Index finishing with a gain of 2.46% during the period.

In general health care was the best performing sector as the chances for legislation to repeal or reform the Affordable Care Act appeared to diminish, and investors reacted by bidding up health care stocks. The technology sector was also a strong performer as the market continued to reward the strong earnings growth produced in this area. Conversely, energy was the worst performing sector driven by the decline in oil prices mentioned above.

PERFORMANCE COMMENTARY

The Buffalo Large Cap Fund appreciated 5.16% in the second quarter of calendar 2017 outperforming the Russell 1000 Growth Index which advanced 4.67%. Stock selection was strong across the Fund with the top sectors for outperformance being healthcare and consumer staples. Sector allocation was a modest negative in the period attributable to the Fund's slight overweight position in energy, a sector that pulled back over 10% in the benchmark.

PORTFOLIO MANAGER



Elizabeth Jones, MD, CFA

Manager since 2007
M.D. - Vanderbilt University
M.B.A. - Arizona State University
B.S. - Georgetown University

TOP CONTRIBUTORS

Three top contributing stocks in the period were **athenahealth**, **Kansas City Southern**, and **Praxair**. athenahealth has been a holding in the Fund for several years. The company offers a subscription business model for its electronic health record and practice management software solutions. In the prior two quarters the company's operating performance had fallen short of guidance and the stock sold off dramatically. We added aggressively after the last earnings miss because our view is that athenahealth has the best products and business model in the healthcare information technology space. Most of the competitors sell software licenses as opposed to software as a service. Subsequent to the end of the quarter Elliott Management announced they had acquired over 9% of the company. Elliott Management, an activist hedge fund manager, has a reputation of extracting value through pressuring managements to reduce expenses to drive earnings growth and/or consider strategic alternatives. The stock appreciated meaningfully in the wake of this ownership disclosure.

Kansas City Southern recovered from the depressed levels seen in the fourth quarter of 2016 and early 2017 attributable to concerns that the U.S. would have a trade war with Mexico under a Trump Administration. As investors have grown skeptical of Trump's trade agenda materializing, the equity of Kansas City Southern has recovered.

Finally, Praxair's stock appreciated meaningfully in the quarter after delivering strong earnings growth in the first quarter of 2017, the best growth in two years. Subsequent to the report Praxair announced plans to merge with Linde. We like the deal since we believe that Praxair can meaningfully improve Linde's operating margin, which is about 800 basis points lower, over the intermediate to long term and thus potentially unleash substantial value for shareholders. The deal should close in the second half of 2018.

TOP DETRACTORS

Three top detractors in the period were **Schlumberger**, **Stericycle**, and **TJ Maxx**. Schlumberger traded lower in response to the decline in the price of crude oil, stemming from oversupply and high inventories. Schlumberger is a victim of its own success. Schlumberger develops technologies that lower the cost of extracting oil, thereby lowering the breakeven crude oil price for many companies that are fracking in North America. As the Organization of Petroleum Exporting Countries (OPEC) limited production in an attempt to drive up the price of crude, North America ramped up production. Since Schlumberger has a global presence, the strength in North America is likely to be offset by weakness outside North America in the near term. But over the intermediate to long term we believe that Schlumberger can adapt to optimize its operating performance and drive solid shareholder returns.

Stericycle's stock gave back all of its recent gains during the quarter, an overreaction, in our opinion, to concerns over litigation related to pricing. The company is likely to be fined, but we believe the current stock price factors in a worst case scenario which is unlikely to come to fruition.

Finally, TJ Maxx declined in the period in sympathy with other brick and mortar retailers who have experienced declining same store sales. However TJ Maxx has had strong same store sales growth, beating its guidance and Wall Street consensus estimates. We believe that fears related to Amazon and ecommerce impacting TJ Maxx's growth trajectory are overblown.

OUTLOOK

The Fund ended the second calendar quarter of 2017 with 46 stocks representing 45 companies, as we hold both the Class A and Class C shares of Alphabet, Inc. We exited two positions and added two stocks to the Fund during the second quarter of 2017. The cash weighting stood at 7.74% ending the period. As valuations increased we trimmed some of the winners and expect to deploy the cash during earnings season as buying opportunities present themselves.

While the Fund has had average performance calendar year to date, we strive to be above average. The biggest misstep in the Fund's positioning year to date has been the exposure to brick and mortar retailers. We believe we have added several consumer discretionary equities to the Fund during the last eight months that are trading at attractive valuations and that should remain relevant even as ecommerce gains share. However the thesis on these holdings has yet to play out and has been a drag on year to date performance. Nevertheless we believe with patience we will be rewarded and that companies with strong brands, convenience and/or a value proposition will prevail.

The Buffalo Large Cap Fund's process is to invest based on the Buffalo Long Term Growth Trends. By limiting our investment universe to companies that we believe are beneficiaries of the trends, we are exposed to businesses operating in secular growth markets. Over the intermediate to long term, the capital markets are highly efficient. Attractively valued companies exposed to the long term trends driving growth in our economy should potentially outperform.

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 prospectus contains this and other important information about the investment company, and can be obtained by calling (800) 49-BUFFALO or visiting www.buffalofunds.com. Read it carefully before investing.

As of 3/31/17 the Buffalo Large Cap Fund's top ten equity holdings were: Microsoft Corporation 4.56%, Apple, Inc. 3.75%, Amazon.com, Inc. 3.71%, Roche Holdings, Ltd. 3.55%, Alphabet Inc. Class A 3.29%, Schlumberger NV 2.91%, Praxair Inc. 2.58%, VISA, Inc. 2.55%, CME Group, Inc. 2.44%, & Intercontinental Exchange, Inc. 2.37%.

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 Russell 3000 Index measures the performance of the 3,000 largest publically held companies incorporated in the U.S. based on market capitalization. The S&P 500 Index is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The 10-year Treasury Note is a debt obligation issued by the United States government that matures in 10 years. Yield is the income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. 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 publically-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 a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index based on market capitalization. Russell Microcap Index is a small-cap and micro-cap stock market index of the smallest 2,000 companies in the Russell 3000E Index incorporated in the U.S. based on market capitalization. The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. You cannot invest directly in an index.

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

A basis point (bps) refers to one hundredth of one percent.

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.

The Buffalo Funds are distributed by Quasar Distributors, LLC.