

Capital Market Overview

Equity markets rebounded sharply to start 2019. The widely followed S&P 500 Index returned 13.65% in the 1st quarter, its best quarterly performance in 10 years. The market advance can be largely attributed to the Federal Reserve's decision to put quarterly short term interest rate hikes on hold and end its balance sheet runoff. Additionally, prospects for a trade agreement between the U.S. and China appeared to improve, and the U.S. Government reopened after its longest shut down in history.

The Russell 3000 Index advanced 14.04% in the 1st quarter. Growth outperformed value, with the Russell 3000 Growth Index returning 16.18% compared to a return of 11.93% for the Russell 3000 Value. By size, midcaps led the way this quarter with the Russell Midcap Index returning 16.54%, followed by a return of 14.58% for the small cap Russell 2000 Index and 14.00% for the large cap Russell 1000 Index. Technology, Real Estate, and Industrials were the best performing sectors, while Health Care and Financials were relative underperformers.

Performance Commentary

The Buffalo Flexible Income Fund returned 11.84% for the quarter compared to the Fund's primary benchmark (60% Morningstar U.S. Large Cap Index / 40% ICE BofAML U.S. High Yield Index) which produced a return of 10.85% during the period. For additional reference, the S&P 500 Index returned 13.65% for the period and the ICE BofAML U.S. High Yield Index returned 7.40%.

Average Annualized Performance (%)

As of 3/31/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Flexible Income Fund	7.73	8.76	5.38	10.82	7.21	7.22
Morningstar Combined Index	8.39	11.85	8.57	13.87	8.04	8.69
Morningstar U.S. Large Cap Index (60%)	10.02	13.95	11.15	15.63	8.57	9.50
ICE BofAML U.S. High Yield Index (40%)	5.94	8.69	4.70	11.24	7.25	7.47
BofA ML Combined Index	8.08	11.58	8.43	14.05	8.04	8.84
S&P 500 Index (60%)	9.50	13.51	10.91	15.92	8.57	9.75
ICE BofAML U.S. High Yield Index (40%)	5.94	8.69	4.70	11.24	7.25	7.47
Lipper Mixed-Asset Target Allocation Moderate Funds Index	3.93	7.35	5.12	9.44	5.56	6.84

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.

Fund Quick Facts

Ticker:	BUF BX
Inception Date:	8/12/1994
Net Assets:	\$590.58 Million
Expense Ratio:	1.01%
Category:	Large-Cap Value
Benchmark:	60% Morningstar U.S. Large Cap Index 40% ICE BofAML U.S. High Yield Index

Management Team



John Kornitzer

Manager since Inception
B.A. – St. Francis Univ. (PA)



Paul Dlugosch, CFA

Co-Manager since 2011
B.S. – University of Iowa

Equities Performance

For the quarter, the equity portion of the portfolio returned 12.96% vs. 13.65% for the S&P 500 Index. The Fund's equity allocation is primarily focused on large cap, dividend-paying companies which we believe possess significant competitive advantages.

The primary sectors that led to slight relative underperformance during the period were Information Technology, Consumer Staples, and Consumer Discretionary. Technology was the best performing sector for period, and the Fund was underweight Technology when compared to the S&P 500 Index during the quarter. Security selection within Technology contributed to underperformance as the Fund was underweight **Apple** and **Facebook** – both stocks advanced over 20% during the quarter.

Meanwhile the underperformance in Consumer Staples was mostly due to security selection. Specific securities that detracted from performance included **Coca-Cola** and **Clorox**. Coca-Cola lowered earnings guidance for 2019 due to sluggish top line growth and higher costs. Clorox advanced during the period but not as much as the sector or the market overall, which negatively impacted relative performance.

The underperformance in the Consumer Discretionary sector was mostly due to security selection. Securities that negatively impacted performance with the sector were **Lions Gate Entertainment**, **Amazon**, and **Netflix**. Lions Gate's stock price was essentially flat over the period, which negatively impacted relative performance when compared to the sector and broader market. Company management indicated the slate of films to be released in 2019 would be down, but that new releases should accelerate in 2020. In a bright note for the company, Starz continued to exceed expectations.

Overall the top contributors to the equity portfolio's performance were **Boeing**, **Microsoft**, and **Exxon Mobil** while the top detractors were **B&G Foods**, **Pfizer**, and **Lions Gate**.

Fixed Income Performance

The fixed income portion of the Buffalo Flexible Income Fund generated a return of 1.18% for the 1st quarter and underperformed the ICE BofAML U.S. High Yield Index return of 7.40%. The underperformance was primarily due to stock selection in the Energy sector. **Approach Resources'** bonds declined significantly during the quarter as the company is faced with tight liquidity and potential fears over tripping a debt covenant due to weak underlying financial results.

The top contributors to the Fund's fixed income portfolio included **Nuance Communications** 1.5% convertible bonds, **Medicines Company**, and **Everi Payments**, while the top detractors were **Approach Resources**, **UTi Worldwide**, and **Nuance Communications** 5.375% senior notes.

Outlook

We continue to be diligent in our process of seeking income-producing securities trading at reasonable valuations, by our analysis. Given that we believe the U.S. is in the later stages of the current economic cycle, we continue to find ourselves confronted with relatively low spread and yield levels with the non-investment grade fixed income asset class that we prefer over the long haul. This backdrop has resulted in a bond allocation that remains close to the low end of our range in terms of the Fund's overall asset mix of stocks, bonds, and cash. Within the fixed income portion of the portfolio, we continue to focus on higher-quality, non-investment grade issuers with defensive business models and manageable credit metrics.

Following the strong market performance during the period, uncertainties that could impact capital markets for the remainder of the year include the Federal Reserve's recent signaling of a less hawkish stance on further rate increases, the recent inversion of the yield curve, increased investor confidence that the trade dispute with China will be resolved, and recent weakness in the economies of many European countries. We are also seeing continued strength in the U.S. job market and signs that the U.S. housing market may be improving. As always, we appreciate your confidence in our investment capabilities over the long term. ▲

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 carefully before investing.

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

As of 9/30/18 the Buffalo Flexible Income Fund top 10 holdings were Boeing 4.64%, Microsoft 4.13%, Intel 3.70%, Verizon Communications 3.14%, Johnson & Johnson 3.02%, GlaxoSmithKline 2.98%, Exxon Mobil 2.89%, Waste Management 2.86%, Royal Dutch Shell 2.84%, AT&T 2.84%. 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 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 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 Morningstar U.S. Large Cap Index measures the performance of the U.S. equity market targeting the top 70% of stocks by market capitalization. The ICE BofAML High Yield Index is an unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. It includes zero-coupon bonds and payment-in-kind (PIK) bonds. The Lipper Mixed-Asset Target Allocation Moderate Funds Index is an unmanaged index considered representative of mixed-asset target allocation moderate funds tracked by Lipper, which would combine the 30 biggest funds, based on asset size, that belong to this asset category. One cannot invest directly in an index. Spread is the difference between the bid and the ask price of a security or asset. Yield is the income return on an investment, referring 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. Investment grade is a rating that indicates a municipal or corporate bond has a relatively low risk of default.

Mutual fund investing involves risk. Principal loss is possible. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in foreign securities include additional risk such as greater volatility, and political, economic, and currency risks, as well as difference in accounting methods.

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

