

## Capital Market Overview

The S&P 500 Index posted its best 1st half of a calendar year since 1997, rising 18.54% from January 1 to June 30. During the most recent quarter, the index was in negative territory for the first two months (April and May) then rose 7.05% in the final month, marking the best June since 1955, and finished with a return of 4.30% for the quarter.

Central banks and trade policies continued to drive financial markets during the period. The threat of increasing tariffs against China and Mexico contributed to the sell-off early in the quarter, and the June rally was largely a result of dovish central bank commentary, leading investors to anticipate rate cuts in the coming months.

The Russell 3000 Index returned 4.10% in the quarter. By style, growth outpaced value, with the Russell 3000 Growth Index up 4.50% and the Russell 3000 Value Index up 3.68%. Large caps generally outperformed small caps in the quarter. The Russell 1000 Index returned 4.25%, just ahead of the Russell Mid Cap Index return of 4.13%. The Russell 2000 returned 2.10% during the quarter. Financials were the best performing sector, followed by Materials and Information Technology. Energy was the only sector to post a negative return, driven by a decline in oil prices. Health Care and Real Estate also underperformed relative to the broad market.

## Performance Commentary

The Buffalo Flexible Income Fund produced a return of 0.37% for the quarter and underperformed the primary prospectus benchmark (60% Morningstar U.S. Large Cap Index / 40% ICE BofAML High Yield Index) return of 3.69%. The Fund's peer group index, the Lipper Mixed-Asset Target Allocation Moderate Funds Index, produced a return of 3.15% for the quarter.

## Average Annualized Performance (%)

As of 6/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFBX</i>	3.80	7.58	4.60	9.42	7.03	7.16
Institutional Class - <i>BUIBX</i> <sup>1</sup>	3.95	7.74	4.76	9.58	7.19	7.32
Morningstar Combined Index	6.70	7.35	4.57	9.25	7.45	7.47
Morningstar U.S. Large Cap Index (60%)	7.58	7.54	4.70	9.22	7.48	7.50
ICE BofAML U.S. High Yield Index (40%)	5.37	7.06	4.37	9.30	7.41	7.42
BofA ML Combined Index	8.40	11.34	8.17	12.54	8.21	8.87
S&P 500 Index (60%)	10.42	14.19	10.71	14.70	8.75	9.83
ICE BofAML U.S. High Yield Index (40%)	5.37	7.06	4.37	9.30	7.41	7.42
Lipper Mixed-Asset Target Allocation Moderate Funds Index	6.25	7.68	5.04	8.45	5.81	6.90

<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).

## Fund Facts

	Investor	Institutional
Ticker:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$599.75 Million	
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

The equity portion of the portfolio underperformed the S&P 500 Index with a return of 0.61% for the quarter. The relative underperformance was primarily driven by the Energy, Consumer Discretionary, and Industrials sectors. The underperformance within Energy was primarily driven by sector allocation as the Fund was overweight the worst performing sector in the index.

The underperformance within the Consumer Discretionary sector was primarily due to security selection. **Lions Gate Entertainment** was the primary detractor from Fund performance due to weak films and fears over disintermediation.

Relative underperformance within the Industrials segment was due to security selection. Specific securities that held back performance were **Pitney Bowes** and **Boeing**. Pitney Bowes was negatively impacted by the secular trend away from traditional mail while Boeing was adversely impacted by the grounding of the 737 MAX airplanes due to safety issues.

Overall the top three contributors to the Fund's performance during the quarter were **Microsoft**, **Qualcomm**, and **Waste Management** while the top three detractors were **Dupont**, **Pitney Bowes**, and **Lions Gate Entertainment**.

## Fixed Income Performance

The fixed income portion of the Fund represented roughly 5% of the Fund. The best performers within the fixed income portion were the **Medicines Corporation** 2.5% convertible bonds and the **Everi Payments** 7.5% senior notes. The Medicines convertible bonds benefited from positive clinical trial data for its cholesterol drug, inclisirin, while Everi Payments benefited from positive underlying fundamentals and news that the company was exploring strategic alternatives, including a possible sale.

## Outlook

The strong gains in the stock market for the 1st half of the calendar year have been primarily driven by expansion in market valuation metrics, as earnings have been relatively flat. Aiding the valuation expansion has been The Federal Reserve's (the "Fed") dovish pivot on monetary policy indicating that the next interest rate action will be down. The Fed has become concerned with inflation running below their targeted levels and slowing economic growth. Vagaries regarding trade policy (tariffs and trade agreements), evolving geopolitical risks, and the divided congress further limit their forecasting abilities. A key driver for further stock market advancement is likely to be impacted by how aggressive the Fed cuts rates (0.25% or 0.50%) and how many cuts they decide to make this year. 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](http://buffalofunds.com). Read carefully before investing.*

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

As of 3/31/19 the Buffalo Flexible Income Fund top 10 holdings were Microsoft 4.60%, Boeing 4.23%, Johnson & Johnson 2.94%, Chevron 2.88%, BB&T 2.63%, Procter & Gamble 2.56%, BP 2.56%, Coca-Cola 2.48%, Intel 2.45%, Clorox 2.43%. 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. 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.

**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.

