

Capital Market Overview

The combination of a U.S. Federal Reserve (Fed) interest rate cut, an improving economic outlook, and easing trade tensions, sent equity markets sharply higher in the 4th quarter. The S&P 500 Index advanced 9.10% during the period, which brought the full-year (2019) gain to 31.49%. The Fed cut interest rates three times in 2019, erasing the brief yield curve inversion and assuaging fears of a recession. The economy continued to add new jobs at a strong pace and unemployment declined to 3.5%. Consumer spending remained healthy, and there is optimism for better business investment following the announced "phase one" trade deal with China.

Similar to the S&P 500 Index, the broad-based Russell 3000 Index returned 9.04% during the quarter. Growth outperformed value, as the Russell 3000 Growth Index returned 10.62% compared to a return of 7.41% for the Russell 3000 Value Index. Smaller companies outperformed larger companies, as one would expect in a "risk-on" period. The Russell Microcap Index surged 13.45% and the Russell 2000 Index advanced 9.94%. Large company benchmarks such as the Russell 1000 Index advanced 9.04% while the Russell Midcap Index produced a return of 7.06%. Technology and Health Care were the best performing sectors in the quarter, while more defensive areas of the market lagged such as Real Estate and Utilities. Higher long-term interest rates weighed on high-quality bond proxies – the safe haven 10-year U.S. Treasury Bond produced a return of -1.74% during the quarter.

Performance Commentary

The Buffalo Flexible Income Fund produced a return of 4.64% for the quarter, underperforming the Morningstar Moderately Aggressive Target Risk Index return of 6.87%. The Fund's peer group index, the Lipper Mixed-Asset Allocation Moderate Funds Index, produced a return of 4.69% for the quarter.

Average Annualized Performance (%)

As of 12/31/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUF BX</i>	18.76	7.73	6.14	8.20	6.96	7.25
Institutional Class - <i>BUI BX</i> ¹	18.87	7.87	6.29	8.36	7.11	7.41
Morningstar Moderately Aggressive Target Risk Index	22.95	10.88	7.96	9.07	7.36	–
Morningstar Combined Index	24.83	12.13	9.69	11.15	8.30	8.92
Morningstar U.S. Large Cap Index (60%)	31.77	16.00	12.07	13.58	9.09	9.86
ICE BofAML U.S. High Yield Index (40%)	14.41	6.32	6.13	7.50	7.11	7.51
Lipper Mixed-Asset Target Allocation Moderate Funds Index	18.22	8.31	6.09	7.44	5.71	6.99

¹For 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.

Fund Facts

	Investor	Institutional
Ticker:	BUF BX	BUI BX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$590.23 Million	
Category:	Large Cap Value	
Benchmark:	Morningstar Moderately Aggressive Target Risk 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

Portfolio Performance

The equity portion of the portfolio produced a return of 4.62%. The top three contributors to the Fund's performance during the quarter were Home Depot, Schlumberger, and McDonald's. Relative underperformance compared to the Morningstar U.S. Large Cap Index was primarily driven by stock selection in the Information Technology, Consumer Staples, and Industrial sectors. Underperformance within the Information Technology segment was driven by an underweight position to the sector and the fact that Fund did not own Apple, a large weight in the benchmark, which negatively-influenced relative performance. The underperformance within the Consumer Staples segment was driven by security selection and included General Mills, Clorox, and Kimberly Clark. Meanwhile, Boeing drove underperformance within the Industrial sector. The company has been negatively impacted by the grounding of the 737 MAX airplane and the uncertainty of when it will return to production, delivery, and service.

Outlook

The healthy gains in the stock market during the quarter were primarily driven by expansion in market valuation metrics, as corporate earnings have been relatively flat. Key drivers for further stock market advancement are likely to be driven by how Middle East conflicts play out, the upcoming domestic election cycle, and improved corporate earnings growth.

We continue to be diligent in our process of seeking wide moat, large capitalization, 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 find ourselves confronted with relatively low spread and yield levels. This backdrop has resulted in a bond allocation that is close to the low end of our expected 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 high-quality, non-investment grade issuers with defensive business models and manageable credit metrics. As always, we appreciate your support and confidence in our investment process 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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537

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 9/30/19 the Buffalo Flexible Income Fund top 10 holdings were Boeing 4.58%, Microsoft 4.30%, Chevron 3.06%, BB&T 2.94%, Johnson & Johnson 2.89%, Procter & Gamble 2.78%, Intel 2.66%, GlaxoSmithKline 2.65%, Allstate 2.62%, Coca Cola 2.57%. 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. 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 Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Morningstar Moderately Aggressive Target Risk Index represents a portfolio of global equities, bonds, and traditional inflation hedges, and seeks approximately 80% exposure to global equity markets. 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.

