

Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

March 31, 2019

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 Large Cap Fund (the "Fund") returned 15.02% in the quarter, underperforming the Morningstar U.S. Large Growth Index (the "Index") by 74 basis points, which returned 15.76% during the same time period. During the quarter, many stocks in the Fund rebounded and generated strong returns after the market sell-off in the final quarter of 2018. Stock selection within the Financial and Industrial sectors was a primary source of underperformance. Relative to the Index, the Fund outperformed in the sectors of Consumer Discretionary, Consumer Staples, Energy, Health Care, Real Estate, and Telecom. These sources of outperformance were more than offset by weakness in Financials, Industrials, IT, and Materials. The Fund's cash position also served as a source of underperformance amidst the very strong market environment.

The Fund ended the quarter with 48 holdings (excluding cash) representing 47 companies, down from 49 holdings representing 48 companies at the end of the previous quarter. The cash position ended the period at about 5% of Fund assets, up from about 2.5% the prior quarter. During the period we initiated one new position in the Fund, and two of our holdings were eliminated due to mergers.

Average Annualized Performance (%)

As of 3/31/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Large Cap Fund	12.96	15.66	12.87	16.54	8.77	9.69
Morningstar U.S. Large Growth Index	13.51	17.27	14.42	17.60	9.03	-
Russell 1000 Growth Index	12.75	16.53	13.50	17.52	9.71	9.33

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:	BUFEX
Inception Date:	5/19/1995
Net Assets:	\$68.98 Million
Expense Ratio:	0.94%
Category:	Large-Cap Growth
Benchmark:	Morningstar U.S. Large Growth Index

Management Team



Alex Hancock, CFA

Manager since 2018
B.A. – Dartmouth College



↑ Top Contributors

Microsoft returned 16% during the quarter, making the stock the biggest contributor to the Fund's return. The company continued to report strong operating results, and its Azure (cloud infrastructure) segment appeared poised for further strong growth.

Amazon was another strong performer, returning almost 19% in the period. The company's core retail business, web service, and smaller revenue sources like advertising continued to show significant growth opportunity, with the ability to take share from competitors.

Xilinx was the third best performing holding in the Fund during the quarter. The company reported strong quarterly earnings and its platforms appeared positioned for sustained growth in markets such as data center and 5G communications.

↓ Top Detractors

After outperforming in 2018, **CME Group** was the weakest relative performer this quarter, declining by almost 13%. Many of the company's futures products (especially Equities) saw declines in traded volume driven by factors including lower volatility. While we believe the long-term growth outlook for the business is positive, difficult comps are likely to hold back growth rates for several quarters to come.

Another underperformer was **Biogen**, whose stock declined 21% in the quarter. The company announced in late March it would halt development of an important Alzheimer's drug, leaving a significant hole in the company's development pipeline.

Outlook

Following the strong market performance during the period, uncertainties that could drive large-cap growth stocks for the remainder of the year include: (i) the Fed's recent signaling of a less hawkish stance on further rate increases; (ii) recent inversion of the yield curve that could portend future economic weakness, though investors appear to be ignoring it for now; (iii) increased investor confidence that the trade dispute with China will be resolved; and (iv) recent weakness in the economies of many European countries where many of our holdings have significant exposure.

These uncertainties are offset, in part, by apparent continued strength in the U.S. job market and signs that the U.S. housing market may be improving. At the same time, the benefits that many large cap companies reached from the tax reforms of 2018 are reaching an anniversary, and valuations of these stocks are trading at elevated valuations.

In the wake of the very strong market performance to start 2019, the Fund continues to focus on investing in high-quality growth stocks in all industries with relatively attractive valuations, which we believe should be a key driver of above-index risk-adjusted returns over the long term. We are seeking to reduce weightings in names that have appreciated above our target price and redeploy capital into those names with better risk-reward tradeoffs. As always, we appreciate your support and confidence in our 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:

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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 12/31/18 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 7.38%, Amazon 6.19%, Alphabet (A) 4.93%, CME Group 3.93%, Apple 3.40%, Visa 3.24%, Lowe's 2.68%, Salesforce 2.48%, Intercontinental Exchange 2.42%, Danaher 2.38%. 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. A basis point is one hundredth of a percentage point (0.01%).

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 Growth Index measures the performance of U.S. large-cap stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. 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. One cannot invest directly in an index.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in U.S. based companies with substantial interests outside of the U.S. which may involve additional risk such as greater volatility and political, economic and/or currency risks. This risk is greater in emerging markets.

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

