

Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

June 30, 2019

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.

Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.94%	0.79%
Fund Assets:	\$72.42 Million	
Category:	Large Cap Growth	
Benchmark:	Morningstar U.S. Large Growth Index	

Management Team



Alex Hancock, CFA
Manager since 2018
B.A. – Dartmouth College

Performance Commentary

The Buffalo Large Cap Fund (the "Fund") returned 4.77% in the 2nd quarter underperforming the Morningstar U.S. Large Growth Index (the "Index"), which returned 5.05% during the same time period. In spite of significant intra-quarter volatility, most sectors generated positive returns for the period. Our stock selection within the Consumer and Health Care sectors was a key driver of relative underperformance, partially offset by comparatively strong performance in Financials and Materials.

Average Annualized Performance (%)

As of 6/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFEX	12.47	16.73	13.19	15.15	9.04	9.80
Institutional Class - BUIEX ¹	12.64	16.90	13.36	15.32	9.21	9.96
Morningstar U.S. Large Growth Index	11.43	19.44	13.91	16.46	9.27	-
Russell 1000 Growth Index	11.56	18.07	13.39	16.28	9.90	9.44

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.

The Fund ended the quarter with 51 holdings (excluding cash) representing 50 companies, up from 48 holdings representing 47 companies at the end of the previous quarter. The cash position ended the period at about 5% of Fund assets, in line with the prior quarter. During the period we initiated three new positions in the Fund.

↑ Top Contributors

With a 14% return in the 2nd quarter, **Microsoft** was the biggest contributor to the Fund's overall performance. The company continues to report solid operating results, and its Azure (cloud infrastructure) and Office 365 segments appear poised for strong growth in coming quarters.



Qualcomm was another top-performing position during the quarter, returning 33%. In mid-April the company announced an agreement to settle litigation with Apple and paved the way for Apple to use Qualcomm's 5G modems in upcoming iPhone models. While this agreement led to a very strong upward move for Qualcomm's share price, there was a significant reversal in the quarter when the Federal Trade Commission (FTC) issued a ruling that questioned its licensing agreements with some of its large customers.

CME was also among the best performing investments in the Fund during the quarter, returning 18%. The company has an appealing business model and generated strong volume growth in many of its asset classes, including interest rates and equities, but was partially offset by some pressure in the pricing rate of some of its contracts.

↓ Top Detractors

Alphabet, the parent company of Google, was the largest detractor from performance in the quarter, with both of its share classes declining about 8%. While the company retains its dominance in search and generates strong free cash flow, its 1st quarter results were weak due to a revenue miss driven by decelerating growth in Google Properties and Google Other.

Mylan was also underperformer whose stock declined 33%. Mylan is a large generic drug maker whose stock has struggled due to pricing pressure on generic drugs and manufacturing issues related to the EpiPen device. In its 1st quarter results, the company reported weaker-than-expected revenues (especially in Europe), and consensus estimates for the remainder of 2019 remain under pressure.

Another detractor from the Fund's performance in the quarter was **Alnylam**, which declined by 22%. The company is a leader in RNA interference and has launched Onpattro, a drug to treat amyloidosis. While the long-term potential for the company's products remain strong, its stock has been hurt by the potential for increased competition, a Chief Financial Officer (CFO) transition, and the expected need for a large capital raise in the relative near term.

Outlook

Looking forward into the 2nd half of 2019 and beyond we are cautiously optimistic about the outlook for large cap stocks. There is still significant uncertainty in the market about President Trump's trade stance, which could cause volatility, but we believe all sides have an interest in reaching an agreement, and recent rhetoric has become more positive.

While there has been some mixed data on the health of the U.S. economy and Gross Domestic Product (GDP) growth, the job market remains broadly strong, and investors have been cheered by the increased dovish stance from the Federal Reserve and outlook for interest rate cuts. The risk of increased government scrutiny and regulation of some of the largest technology companies is a risk through the 2020 election cycle that we will watch closely. Along these same lines, we also expect continued volatility in the Health Care sector as the prospect of more pricing pressure could intensify in the election cycle as well.

Within this context, we have been managing the Fund cautiously yet actively, seeking to deploy capital into investment ideas which we believe have the most favorable risk/reward tradeoffs. We will continue with our strategy of identifying investment candidates among large cap companies with strong secular growth opportunities that can benefit from long-term trends and trade at attractive valuations. As always, we appreciate your continued confidence in our investment capabilities over the long term. ▲

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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 3/31/19 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 7.97%, Amazon 6.67%, Alphabet (A) 4.75%, Apple 3.63%, Visa 3.39%, CME Group 2.78%, Danaher 2.56%, Salesforce 2.51%, Equinix 2.41%, Xilinx 2.24%. 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.

Free cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows. 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 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.

