

Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

September 30, 2018

Capital Market Overview

U.S. economic strength and solid corporate earnings growth drove healthy equity returns in the 3rd quarter. The widely-followed S&P 500 Index had a total return of 7.71%, its best quarterly gain since 2013. In September, initial jobless claims fell to the lowest level since 1969, wages grew at the fastest rate since 2009, consumer confidence reached the highest level since 2000, and the National Federation of Independent Business (NFIB) survey of small business optimism was at an all-time high (the survey dates back to 1974). Against this strong economic backdrop, the Federal Reserve raised the targeted federal funds rate by another 25 basis points to a range of 2.00% to 2.25%. Slowly rising interest rates led to flat bond returns.

The divergence between domestic and international equity market performance continued during the quarter, with the MSCI EAFE Index advancing just 1.35%. The Russell 3000 Index gained 7.12% in the 3rd quarter. By style, growth continued to outperform value, with the Russell 3000 Growth Index increasing 8.88% compared to the Russell 3000 Value Index's advance of 5.39%. Large caps did better than small caps as the Russell 1000 Index returned 7.42%, the Russell Midcap Index returned 5.00%, and the Russell 2000 Index returned 3.58% in the quarter. Every economic sector was positive this quarter, with Health Care and Industrials the top performers, while Materials and Energy lagged the indexes.

Fund Quick Facts

Ticker:	BUFEX
Inception Date:	5/19/1995
Net Assets:	\$71.23 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

Performance Commentary

The Buffalo Large Cap Fund returned 7.97% in the quarter, outperforming the Morningstar U.S. Large Growth Index, which returned 7.16% during the period. Stock selection within the Information Technology and Consumer sectors were key drivers of outperformance, partially offset by weakness in several Health Care holdings.

The Buffalo Large Cap Fund's outperformance relative to the Index was driven by holdings in Technology, Consumer Discretionary, Consumer Staples, Real Estate, Energy, Financials, and Telecom. Outperformance in these sectors was offset, in part, by below-index returns in Health Care, Industrials, and Materials. The Fund continues to focus on investing in high-quality growth stocks with relatively-attractive valuations, which we believe should be a key driver of above-index risk-adjusted returns over the long term.

Average Annualized Performance (%)

As of 9/30/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Large Cap Fund	21.26	17.03	15.07	13.37	9.53	9.93
Morningstar U.S. Large Growth Index	29.11	20.03	17.23	14.29	9.59	-
Russell 1000 Growth Index	26.30	20.55	16.58	14.04	10.67	9.65

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 48 holdings (excluding cash) representing 47 companies, up from 46 holdings representing 45 companies at the end of the previous quarter. The cash position ended the period at about 4% of fund assets, unchanged from the prior quarter. During the quarter we exited one holding and initiated three new positions in the Fund.



↑ Top Contributors

Amazon shares increased 18% during the quarter, making the stock the biggest contributor to the Fund's return. The company continued to grow revenue in excess of expectations with strength across its various businesses including ecommerce and Web Services. Investors believe the company has a long runway to continue to gain share at the expense of many traditional businesses.

Microsoft was another strong performer during the quarter. The company reported strong results in Intelligent Cloud and Personal Computing and appears poised for strong performance in these business lines in coming quarters.

Apple was also among the largest contributors to performance during the period. The company continued to generate strong growth amidst robust demand for its products including the next generation iPhone.

↓ Top Detractors

The largest detractor from performance was **Portola Pharmaceuticals**, which declined 29% during the quarter. The company's shares sold off after lowering investor expectations for sales of its drug Bevyxxa for the treatment of thrombosis. The near-term outlook for another of the company's drugs Andexxa (for treatment of uncontrolled bleeding) remains stronger.

Another underperformer was **athenahealth**. The company has been viewed as a likely takeover candidate, but its shares drifted down during the quarter on news reports that potential buyout price would likely be lower than investors were initially hoping.

Outlook

As the 4th quarter begins, significant uncertainty about the direction of the stock market exists, driven by factors including: (i) the upcoming midterm elections in November and possible Democratic gains in the Congress; (ii) the ultimate outcome of the trade dispute with China and the impact it will have on earnings of large U.S.-based companies; (iii) the potential for continued interest rate hikes; and (iv) the fact that many stocks are trading at elevated valuations after the multi-year bull market. This uncertainty is offset, in part, by continued strength in the U.S. economy and job markets.

Amidst this uncertainty, we continue to be diligent in our process of finding large-cap growth companies that could benefit from long-term trends while still trading at reasonable valuations. We are seeking to reduce holdings that have appreciated above our target price and redeploy capital into investments with better risk-reward tradeoffs. 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:

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The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contains this and other important information about the investment company, and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read it carefully before investing.

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

As of 6/30/18 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 6.35%, Amazon 6.21%, Alphabet (A) 4.72%, Apple 3.54%, Visa 3.23%, CME Group 3.04%, Lowe's 2.46%, Praxair 2.42%, Equinix 2.41%, Alynlam Pharmaceuticals 2.36%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.

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 MSCI EAFE Index measures the equity market performance of developed markets outside of the U.S. & Canada; EAFE stands for Europe, Australasia and Far East. 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 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. 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. It is not possible to invest directly in an index. A basis point is one hundredth of a percentage point (0.01%).

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.

