Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

December 31, 2018

Capital Market Overview

The 4th quarter of 2018 was a rough period for equity markets, with steep declines dragging full year returns into negative territory. The S&P 500 Index declined -13.52% during the quarter, driven by fears of tightening monetary policy, escalating trade tensions, slowing global economic growth, and margin pressure from higher labor and freight costs. Investors sought safety in government bonds, driving the yield on the 10-year Treasury down from 3.06% at the end of the 3rd quarter to 2.68% at the end of the 4th quarter.

In a reversal of the year-to-date trend, value outperformed growth in the period, as the Russell 3000 Value Index declined -12.24% compared to a -16.33% drop in the Russell 3000 Growth Index. Large companies held up better than smaller companies during the quarter, as the Russell 1000 Index fell -13.82%, the Russell Midcap Index was down -15.37%, and the small cap Russell 2000 Index was down -20.20%. The only sector to post a positive return in the 4th quarter was Utilities. Real Estate, Consumer Staples, and Health Care were down but outperformed the market. Energy was the worst performing sector, driven by steep declines in crude oil. Technology, Industrials, and Consumer Discretionary also underperformed the broad market.

Fund Quick Facts

Ticker:	BUFEX
Inception Date:	5/19/1995
Net Assets:	$60.27 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 declined by -13.57% in the quarter but outperformed the Morningstar U.S. Large Growth Index, which declined -14.48%. Stock selection within the Health Care and Financials segments of the portfolio was a key driver of outperformance, partially offset by weakness in several Materials and Industrial holdings.

The Fund ended the quarter with 49 holdings (excluding cash) representing 48 companies, up from 48 holdings representing 47 companies at the end of the previous quarter. The cash position ended the period at about 3% of Fund assets, down slightly from the prior quarter. During the quarter we initiated one new position in the portfolio.

Relative to the Index, the Fund outperformed in the sectors of Financials, Health Care, Materials, Energy, Consumer Staples, and Technology. The Fund's cash position also served as a cushion in the midst of the declining markets. These sources of outperformance were offset, in part, by weakness in Real Estate, Industrials, Telecommunications, and Consumer Discretionary.

Average Annualized Performance (%)

As of 12/31/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Large Cap Fund	-1.63	9.51	9.67	14.92	7.88	9.15
Morningstar U.S. Large Growth Index	2.94	11.18	11.10	15.92	7.91	-
Russell 1000 Growth Index	-1.51	11.15	10.40	15.29	8.68	8.74

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.

BUFFALO FUNDS

Top Contributors

CME Group generated a return of 11% during the quarter, and the stock was the biggest contributor to the Fund's performance results. The environment of macro uncertainty and market volatility helped drive increased trade volumes on the company's exchanges, and hence the stock held up better during the quarterly market downturn than other securities.

Xilinx was another strong performer, returning 6% in the period. The company's platforms are positioned to grow in markets such as data center and 5G communications, and its business seemed relatively well-insulated from a slowing semiconductor demand environment that has impacted many less diversified microchip companies.

Roche Holding was the third best performing holding in the Fund during the quarter. In recent years, this stock has been a laggard in the Health Care space, but investors are becoming more optimistic about the company's drug pipeline, relatively stable nature of its marketed drugs, and opportunity to expand margins in coming periods.

Top Detractors

Amazon was the largest detractor from performance in the quarter, declining by -25%. The company had been one of the top performing investments in the first nine months of the year, increasing by 71%, but suffered during the period driven by investor fears of a growth slowdown and multiple contraction which coincided with the overall market declines. We remain confident in the long-term outlook for the company, driven by our optimism for continued growth in internet retail, web services, and ad revenue.

Another larger detractor from performance in the quarter was Apple, which declined by -30%. The company's shares suffered as many signs, such as weak guidance coming out of the company's supply chain, suggested that the newest generation of iPhones was not selling as well as initially hoped (especially in China). While we believe the long-term outlook for Apple remains bright, on January 3rd, 2019, the company pre-announced a weak 4th quarter.

Outlook

Despite market declines and high volatility, Fund management continues to focus on investing in high-quality growth stocks across industries with relatively attractive valuations, in our opinion, which we believe could be a key driver of above-index risk-adjusted returns over the long term.

As calendar year 2019 begins, significant uncertainty about the direction of large cap growth stocks exists, driven by factors including: (i) the ultimate outcome of the trade dispute with China as many of our large-cap names have outsized exposure to the Chinese market; (ii) the resolution of the budget war between President Trump and the newly elected Democratic House; (iii) mixed signals about the health of the U.S. economy as the prolonged economic expansion is at risk of slowing down or reversing; and (iv) lack of clarity about the Fed's ultimate path to continue to raise interest rates. These uncertainties are offset, in part, by apparent continued strength in the U.S. job market and the fact that valuations of many large-cap stocks are lower due to recent market declines.

As always, we continue to be diligent in our process of finding large-cap growth companies that can potentially benefit from long-term trends while still trading at reasonable valuations, in our opinion. We are seeking to reduce weightings in positions that have appreciated above our target price, and redeploy capital into those investments we believe have better risk-reward tradeoffs.

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 it carefully before investing.

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

As of 9/30/18 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 7.03%, Amazon 6.99%, Alphabet (A) 4.82%, Apple 4.12%, Visa 3.12%, CME Group 3.01%, Lowe's 2.82%, Salesforce 2.43%, Equinix 2.32%, Qualcomm 2.23%. 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 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 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 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 is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. It is not possible to 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.