

Large Cap Fund

PM Commentary as of June 30, 2018



CAPITAL MARKET OVERVIEW

Supportive economic data drove positive domestic equity performance in the 2nd quarter. The unemployment rate declined to 3.8%, the lowest level in 18 years. Wages have continued to rise, with average hourly earnings up 2.7% as of May. Corporate earnings growth continued to be robust. The Federal Reserve increased their target rate by 0.25% and raised their forecast for growth and inflation again in June. Meanwhile, economic growth outside the U.S. slowed, with the divergence driving strength in the U.S. dollar. Increasing trade protectionism along with the dollar's strength, led to the relative outperformance of domestically-focused industries and smaller capitalization companies, which generally do less international business than large caps. Crude oil prices continued to rise, despite the strong dollar, driven by lower stockpiles in the U.S. and President Trump's decision to withdraw from the Iran nuclear accord.

The Russell 3000 Index returned 3.89% in the quarter. Growth continued to outpace value, with the Russell 3000 Growth Index up 5.87% and the Russell 3000 Value Index up 1.71%. By size, the Russell Microcap Index led the way with a return of 9.97%, followed by the small cap Russell 2000 Index at 7.75%. The large cap Russell 1000 Index was up 3.57%, and the Russell Midcap Index was up 2.82%. Energy was the best performing sector, driven by strength in crude oil prices. The Consumer Discretionary, Information Technology, and Real Estate sectors also had strong quarters. Meanwhile, trade fears and rising input costs caused the underperformance of Industrials, and Financials were weaker as a result of the yield curve flattening.

PERFORMANCE COMMENTARY

The Buffalo Large Cap Fund returned 5.23 % in the quarter while the Russell 1000 Growth Index appreciated 5.76%. Stock selection within the Healthcare and Industrials sectors accounted for the relative underperformance, which was somewhat offset by strong selection within the Consumer Discretionary sector. In addition, the Fund's underweight of Consumer Staples, a sector that underperformed the index in the period, contributed positively to relative returns.

TOP CONTRIBUTORS

Amazon continues to grow revenue in excess of expectations with strength across its various businesses including ecommerce, Amazon Web Services, and advertising.

Under Armour delivered results in excess of expectations in North America in the 1st quarter of 2018. During the latter part of the company's hyper-growth phase from 2010 to 2016, management lost its way, sacrificing attention to product quality for increased distribution. In the wake of that fiasco, leadership has revamped product development with two key goals: 1) a dramatic SKU reduction and 2) refocused development efforts on innovation and quality. Investors should expect to see the results of these efforts starting in the fall of 2018.

Microsoft also delivered stellar results in the quarter that drove stock appreciation. The standout performers for the company were Office 365 (the subscription Office product), Azure (the cloud services segment), LinkedIn, and gaming.

PORTFOLIO MANAGER



Alex Hancock, CFA

Manager since 2018

B.A. – Dartmouth College

Average Annualized Performance (%)

As of 6/30/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Large Cap Fund	15.48	12.68	15.17	11.44	9.34	9.68
Russell 1000 Growth Index	22.51	14.98	16.36	11.83	10.30	9.34

Expense ratio 0.94%. Inception Date 5/19/1995. 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.

TOP DETRACTORS

The only meaningful detractor in the period was **Alnylam Pharmaceuticals**. Alnylam is the leader in silencing production of specific proteins at the cellular level through binding RNA and therefore rendering the RNA inactive. Their lead drug candidate, Patisarin, successfully completed phase III clinical trials in patients with hATTR amyloidosis and is awaiting Federal Drug Administration (FDA) approval. In the quarter, a rival drug from Pfizer also reported positive phase III results in this patient population, and Alnylam's stock sold off due to fears of competition. Nevertheless, we are confident that Alnylam's drug is more effective and will be the market leader in this life-threatening disease. In addition, Alnylam has a rich pipeline with other development products expected to launch in 2019 and 2020.

PORTFOLIO POSITIONING & OUTLOOK

The Fund ended the quarter with 46 stocks representing 45 companies as we hold both the Class A and C shares of Alphabet. The cash position ended the period at about 4.2% of fund assets. During the quarter we exited three holdings and initiated three new positions in the Fund.

The Buffalo Large Cap Fund's modest underperformance this quarter is not surprising given continued strong outperformance of growth over value. While we are definitively growth managers, we do not chase momentum, and we have valuation discipline. We have populated the portfolio with growth stocks with attractive valuations. This discipline typically leads to underperformance in a momentum market, but should be rewarded once valuation moves to the forefront of investors' psyche. We embrace this approach because it should lead to better performance in a down market and better risk-adjusted returns over the long term.

With midterm elections approaching, the likelihood of a resolution to the current trade dispute with China seems high in the 2nd half of 2018. Based on domestic growth equity returns over the past several months, investors appear to be discounting any prolonged trade war leading to a derailment of this expansion. While volatility may increase in the near term, as timelines extend and rhetoric escalates on the topic, we believe that ultimately a compromise will be reached. Once that happens, market strength should broaden as a key overhang is removed for certain industries that are more exposed to this threat. ◀

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 prospectus 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.

As of 3/31/18 the Buffalo Large Cap Fund's top 10 equity holdings were Amazon 5.89%, Microsoft 5.79%, Alphabet (A) 4.27%, Apple 3.67%, CME Group 2.95%, Visa 2.88%, Alnylam Pharmaceuticals 2.81%, Lowe's 2.33%, Equinix 2.31%, Facebook 2.26%. 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 Manager 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 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 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. It is not possible to invest directly in an index.

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

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.