

Large Cap Fund

PM Commentary as of September 30, 2017



Average Annualized Performance (%)

As of 9/30/17	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Large Cap Fund	16.47	13.06	16.06	8.08	10.29	9.45
Russell 1000 Growth Index	21.94	12.69	15.26	9.08	10.65	8.96

Expense ratio 0.96%. 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.

CAPITAL MARKET OVERVIEW

Equity markets continued their winning streak in the 3rd quarter of 2017 with the S&P 500 Index posting its 8th consecutive quarterly gain. Investors have been encouraged by the synchronized upswing in global economic growth. For the first time since 2007, all 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) are on pace to grow this year, with the growth rates expected to accelerate in 33 of those countries. This economic backdrop, in conjunction with strong corporate earnings and a renewed focus on tax reform, helped the reflation trade regain momentum in the quarter.

The reflation trade, also known as the "Trump trade" pushed shares of banks, industrials, and smaller companies higher while expectations of another interest rate increase by the Federal Reserve drove relative weakness in Treasury bonds and their stock market proxies such as utility companies. The U.S. dollar also strengthened during the period against most major foreign currencies. Furthermore, strong demand and slowing production of oil in the U.S. drove West Texas Intermediate crude prices up 12.2% in the period.

The Russell 3000 Index, a broad market performance benchmark, produced a total return of 4.57% during the quarter. Growth stocks outperformed value stocks, as the Russell 3000 Growth Index advanced 5.93% compared to a gain of 3.27% for the Russell 3000 Value Index. Shares of smaller capitalized companies generally outperformed larger companies during the quarter. The Russell Microcap Index and the smaller-cap Russell 2000 Index climbed 6.65% and 5.67% respectively during the period, while the Russell Midcap Index advanced by 3.47% and the larger-cap Russell 1000 Index increased by 4.48%. Technology and energy were the best performing sectors, while consumer staples and consumer discretionary sectors lagged.

PERFORMANCE COMMENTARY

The Buffalo Large Cap Fund returned 2.83% in the quarter, underperforming the Russell 1000 Growth Index which rose 5.90%. Stock selection within the consumer discretionary and healthcare sectors drove the underperformance for the period.

TOP CONTRIBUTORS

Facebook continued to drive impressive top line growth and operating leverage through mobile advertising spending on its platform. The value proposition of digital ad spending appears to resonate with Facebook's clients.

Microsoft was another top contributor in the third calendar quarter. The company is transitioning from a packaged software company to a cloud based software solution for both B2B (business-to-business) and B2C (business-to-consumer) end markets. This transition, which is gaining momentum, has accelerated growth and the equity has advanced as a result.

PORTFOLIO MANAGER



Elizabeth Jones, MD, CFA

Manager since 2007
M.D. – Vanderbilt University
M.B.A. – Arizona State University
B.S. – Georgetown University

T. Rowe Price's stock appreciated in the quarter. After several years of net outflows T. Rowe Price has seen solid capital inflows this year which we attribute to the strong performance of the equity funds as well as the attractive pricing of their actively managed products.

TOP DETRACTORS

Top detractors in the period all have exposure to the consumer discretionary sector.

Chipotle Mexican Grill saw decelerating same store sales growth over the last two quarters and efforts to jumpstart growth have fallen short. The near term operating performance is likely to remain challenged. Nevertheless, we believe the company is a leader in the fast casual space, and with better leadership, can resume its growth trajectory.

Alliance Data Systems' equity declined in the quarter as charge-offs from the private label credit card portfolio exceeded expectations. In addition, the BrandLoyalty business will fall short for the fiscal year due to some promotional program delays, resulting in a 5% earnings guidance reduction. Since the new guidance was issued in July the stock is off about 15% which we believe is an over-reaction. The company has a plan to improve collections and has a track record of executing. Given the overall strength of the consumer, we do not find this modest charge off increase as overly concerning.

Under Armour also declined in the period. For the five years leading up to 2017 the company experienced hyper-growth. Such growth is hard to sustain and most recently management lost sight of some important drivers of the business, including product quality, the fashion trend, channel conflict and encroaching competition. A high quality Chief Operating Officer, Patrik Frisk, was added to the executive team in late June. The turnaround will take some time, but we continue to believe the category has positive underlying long term growth trends, namely the increasing consumer focus on healthy living and active lifestyles.

OUTLOOK

The Fund ended the 3rd calendar quarter of 2017 with 46 stocks representing 45 companies, as we hold both the Class A and Class C shares of Alphabet, Inc. We exited four positions and added four stocks to the Fund during the 3rd quarter of 2017. The cash weighting stood at 4.2% ending the period.

U.S. economic growth accelerated in the 2nd quarter with U.S. Real Gross Domestic Product (GDP) growing 3.1%, recent measures of manufacturing and industrial activity in the U.S. support expanded activity in the 3rd quarter of 2017, consumer confidence is high, and unemployment reached a low of 4.2% in September.

Companies who have beaten earnings expectations and lack controversy have predominately seen their stocks appreciate as investors appear to be chasing the outperformers. Our discipline requires we trim or exit the winners as valuation exceeds our best case scenarios. While we see ample opportunities to deploy capital in companies trading at attractive valuations, frequently those valuations come with some controversy. And just as investors are bidding up the outperformers, they are driving down the underperformers to, at times, irrational low valuations, as traders press the panic button and sell. However, with fear comes opportunity; we are acutely aware of the current market dynamic and stand ready to potentially profit from it. ◀

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 6/30/17, the Buffalo Large Cap Fund's top ten equity holdings were: Amazon.com, Inc. 4.70%, Microsoft Corporation 4.18%, Facebook, Inc. 3.49%, Apple, Inc. 3.29%, Alphabet Inc. Class A 3.16%, Schlumberger NV 2.82%, United Parcel Service, Inc. 2.57%, Praxair, Inc. 2.53%, CME Group, Inc. 2.50%, & Shire PLC 2.49%. 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, 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 free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. Treasury bonds are debt obligations issued by the United States government. 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 Microcap Index is a small-cap and micro-cap stock market index of the smallest 2,000 companies in the Russell 3000E Index incorporated in the U.S. based on market capitalization. The Russell 2000 Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index based on market capitalization. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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. You cannot 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.