

## Capital Market Overview

Equity markets rebounded sharply to start 2019. The widely followed S&P 500 Index returned 13.65% in the 1st quarter, its best quarterly performance in 10 years. The market advance can be largely attributed to the Federal Reserve's decision to put quarterly short term interest rate hikes on hold and end its balance sheet runoff. Additionally, prospects for a trade agreement between the U.S. and China appeared to improve, and the U.S. Government reopened after its longest shut down in history.

The Russell 3000 Index advanced 14.04% in the 1st quarter. Growth outperformed value, with the Russell 3000 Growth Index returning 16.18% compared to a return of 11.93% for the Russell 3000 Value. By size, midcaps led the way this quarter with the Russell Midcap Index returning 16.54%, followed by a return of 14.58% for the small cap Russell 2000 Index and 14.00% for the large cap Russell 1000 Index. Technology, Real Estate, and Industrials were the best performing sectors, while Health Care and Financials were relative underperformers.

## Performance Commentary

The Buffalo Mid Cap Fund produced a strong absolute return of 20.20% in the 1st quarter, but slightly trailed the Morningstar U.S. Mid Growth Index's return of 21.03%. The relative underperformance was largely due to stock selection in the Consumer Discretionary and Health Care sectors.

## Fund Quick Facts

Ticker:	BUFMX
Inception Date:	12/17/2001
Net Assets:	\$135.56 Million
Expense Ratio:	1.02%
Category:	Mid-Cap Growth
Benchmark:	Morningstar U.S. Mid Growth Index

## Management Team



### Chris Carter, CFA

Co-Manager since 2017  
M.B.A. – Univ. of Wisconsin  
- Madison  
B.S. – Santa Clara Univ.



### Josh West, CFA

Co-Manager since 2017  
M.B.A. – Univ. of Missouri  
- Columbia  
B.S. – Univ. of Missouri  
- Columbia

## Average Annualized Performance (%)

As of 3/31/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Mid Cap Fund	8.40	10.99	6.60	13.58	7.73	8.03
Morningstar U.S. Mid Growth Index	13.39	16.43	10.91	17.23	10.21	8.69
Russell Midcap Growth Index	11.51	15.06	10.89	17.60	9.94	9.18

*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](http://buffalofunds.com).*

## ↑ Top Contributors

**ServiceNow** shares surged higher after the company provided guidance for 2019 sales and earnings that exceeded consensus expectations. The company has benefited from digital transformation of business among its core customers in the Forbes Global 2000, a trend that appears to be capable of sustaining long term growth.

**MSCI Inc.**, the index and investment services provider advanced 35% in the 1st quarter. The stock reacted favorably to a strong earnings report, an upbeat analyst day, and rising international equity markets. Looking forward, MSCI should continue to benefit from trends towards globalization, the growth of passive investing internationally, and the increasing focus on ESG (environmental, social, and governance) factors by investors.

**EPAM Systems** was another top performer in the 1st quarter, and like ServiceNow, has benefited from digital transformation. EPAM is a leading provider of outsourced engineering services for software and digital platform services. The company exceeded expectations for both the current quarter and guidance for 2019 and appears to have a sustainable path to future growth in the years to come.

## ↓ Top Detractors

A leading detractor in the quarter was **Sony Corporation**, where the outlook and results within the gaming division softened in the period causing investor concern. The current generation of gaming consoles, including Sony's PlayStation are nearing replacement with many expecting next generation consoles to come to market in 2020-2021. Historically, gaming profits have peaked prior to new consoles being introduced. However, the business has become more subscription oriented, which should benefit profits relative to past cycles.

Another detractor in the quarter was **Inogen**, a leading medical device company in the portable oxygen market. Shares traded off following the company's announcement of in-line financial results and guidance. The company described a tough comparison for growth in the 1st half of 2019, as a home care medical company which was a large purchaser of its portable oxygen devices in 2018 has paused orders indefinitely. Inogen has ramped its direct-to-consumer sales force, which has led to some margin compression as it invests to support new hires. The sales force expansion investment is expected to lead to growth acceleration later in 2019.

## 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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## Outlook

The labor market continues to strengthen, boding well for consumer spending. While industrial activity has decelerated, it is still at a level that supports moderate Gross Domestic Product growth. Continued economic growth, subdued inflation, and a rebound in corporate earnings growth create a healthy backdrop for equity investing. However, the recent bounce back in equity valuations and ongoing trade disputes somewhat temper our bullish sentiment. Regardless, we continue to believe that investing in businesses with competitive advantages, strong growth outlooks, and attractive valuations, in our opinion, should generate solid risk adjusted returns. ▲

*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](http://buffalofunds.com). Read carefully before investing.*

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

As of 12/31/18 the Buffalo Mid Cap Fund top 10 equity holdings were ServiceNow 3.42%, RedHat 3.14%, Verisk Analytics 3.05%, MSCI 2.75%, Palo Alto Networks 2.75%, IHS Markit 2.42%, Expedia Group 2.32%, F5 Networks 2.28%, AMETEK 2.27%, Bio Techne 2.27%. 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 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 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 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 Morningstar U.S. Mid Growth Index measures the performance of U.S. mid-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 Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. One cannot invest directly in an index. The Forbes Global 2000 is an annual ranking of the top 2,000 public companies in the world by Forbes magazine.

**Mutual fund investing involves risk. Principal loss is possible. The Fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods.**

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.

