

## Capital Market Overview

The S&P 500 Index posted its best 1st half of a calendar year since 1997, rising 18.54% from January 1 to June 30. During the most recent quarter, the index was in negative territory for the first two months (April and May) then rose 7.05% in the final month, marking the best June since 1955, and finished with a return of 4.30% for the quarter.

Central banks and trade policies continued to drive financial markets during the period. The threat of increasing tariffs against China and Mexico contributed to the sell-off early in the quarter, and the June rally was largely a result of dovish central bank commentary, leading investors to anticipate rate cuts in the coming months.

The Russell 3000 Index returned 4.10% in the quarter. By style, growth outpaced value, with the Russell 3000 Growth Index up 4.50% and the Russell 3000 Value Index up 3.68%. Large caps generally outperformed small caps in the quarter. The Russell 1000 Index returned 4.25%, just ahead of the Russell Mid Cap Index return of 4.13%. The Russell 2000 returned 2.10% during the quarter. Financials were the best performing sector, followed by Materials and Information Technology. Energy was the only sector to post a negative return, driven by a decline in oil prices. Health Care and Real Estate also underperformed relative to the broad market.

## Performance Commentary

In the 2nd quarter of 2019, the Buffalo Mid Cap Growth Fund returned 6.68% compared to the benchmark Morningstar U.S. Mid Growth Index return of 7.06%. The Fund's underperformance was driven by stock selection in Information Technology, which was partially offset by favorable stock selection in the Financials sector. For the year-to-date period, the Fund has returned 28.23% compared to the benchmark return of 29.58%.

## Average Annualized Performance (%)

As of 6/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFMX</i>	11.81	13.19	7.21	12.32	8.31	8.31
Institutional Class - <i>BUIMX</i> <sup>1</sup>	11.97	13.35	7.37	12.49	8.47	8.47
Morningstar U.S. Mid Growth Index	15.64	17.94	11.62	16.08	10.71	8.99
Russell Midcap Growth Index	13.94	16.49	11.10	16.02	10.25	9.37

<sup>1</sup>For performance prior to 7/1/19 (Inception Date of Institutional Class), performance of the Investor Class shares is used and includes expenses not applicable and lower than those of Institutional Class shares. 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

Exact Sciences shares have been driven by the acceleration in growth of its Cologuard test used for colon cancer screening. Management commentary about the Pfizer sales agreement, beginning in 2019, provided optimism about the potential for sustaining high growth in Cologuard tests. The company stated that completed test results in the 1st quarter reflected little contribution from Pfizer because timeline from signing up new doctors to a patient's completed test is around six months.

## Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$159.15 Million	
Category:	Mid Cap Growth	
Benchmark:	Morningstar U.S. Mid Growth Index	

## Management Team



### Chris Carter, CFA

Co-Manager since 2017  
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MSCI posted strong 1st quarter results, with the market rebound helping their asset-based fees and strong subscription growth, driven by successful growth initiatives (e.g. ESG and factor-based investing). Market tailwinds and solid exchange-traded fund (ETF) inflows continued to help the stock's performance throughout the quarter.

CoStar Group, a provider of information and marketing services to the commercial real estate industry, continued to benefit from accelerating sales growth, with bookings up 36% year-over-year. The integration of ForRent into Apartments.com continued to go smoothly and create revenue synergy opportunities. Looking forward, we expect CoStar to continue to grow revenues at an attractive rate, as they further penetrate a large addressable market within the industry.

## ↓ Top Detractors

Among the top detractors in the quarter were **Palo Alto Networks**, **Arista Networks**, and **Inogen**. Both Arista Networks and Inogen shares declined on disappointing earnings reports. Arista faced a surprise slowdown in spending toward the end of the quarter, which impacted its results – surely a side effect of its concentration of sales to several of the top technology companies building out public cloud offerings at hyperscale. Inogen continued to face difficult comps from 2018, when its sales were boosted by orders from one of the largest home care providers in the portable oxygen market. Higher sales in its direct-to-consumer business and international markets have not been enough to offset headwinds in the home care market.

Palo Alto shares were weaker despite results that exceeded expectations. Investors concentrated their attention toward the growing focus on cloud security and its subscription business model. There are fears that the subscription nature of cloud security could become a headwind for growth in the core business of selling next generation firewalls, a hardware plus subscription business model.

## Outlook

We continue to see the economic environment as supportive for earnings growth. The most worrisome risk to this status quo has been the increasing probability of trade wars, particularly with China. President Trump has initiated tariffs and other restrictions on imports from China and has shown a willingness to rethink other trade agreements. The fallout from these decisions is on our radar, particularly for the companies most impacted by changes to international trade. The Federal Reserve (the "Fed") appears to be shifting back to an accommodative stance, as the next interest rate move is expected to be lower, breaking trend with the interest rate increases over the last several years. It appears the Fed is being proactive to avoid being too late in providing economic support, perhaps the trade situation with China has them more ready to act. Regardless of the outcome on trade with China, we believe a strong domestic economy will help offset any negative impact from changes in international trade and our outlook for the remainder of 2019 remains positive. ▲

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

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

As of 3/31/19 Buffalo Mid Cap Fund top 10 equity holdings were ServiceNow 3.24%, Palo Alto Networks 2.99%, MSCI 2.95%, CoStar Group 2.67%, IHS Markit 2.57%, Verisk Analytics 2.43%, VMware 2.33%, RealPage 2.26%, AMETEK 2.13%, Expedia Group 2.10%. 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 1000 Index is a subset of the Russell 3000 Index, which measures the performance of the 1,000 largest publicly-held companies 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. 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.

**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.

