

## 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.

Small cap stocks rebounded from the deep selloff in the 4th quarter of 2018 as recession fears lessened over the past three months and investors scooped up oversold stocks. Energy, Technology, and Real Estate led the move higher as oil prices rose and 4th quarter earnings and 2019 outlooks for most technology companies were better than expected. All sectors of the small cap index rose during the period, though Financials and Industrials were notable laggards as were the more defensive sectors like Consumer Staples, Telecom Services, and Utilities.

## Performance Commentary

The Buffalo Small Cap Fund (the "Fund") gained 21.83% during the quarter, comparing favorably to the Morningstar U.S. Small Cap Growth Index's (the "Index") gain of 19.43%. Technology and Telecom led returns, providing about 345 basis points of relative outperformance while Health Care and Consumer Staples were also meaningful contributors. Real Estate was the largest detractor from performance, as the Fund's investments in the sector failed to keep pace with the Index's almost 24% gain for the sector. Overall, stock selection drove the Fund's outperformance for the period, while the sector allocation impact was a detractor from relative performance.

## Average Annualized Performance (%)

As of 3/31/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Small Cap Fund	12.19	18.01	7.47	13.95	8.38	11.58
Morningstar U.S. Small Growth Index	8.94	16.74	9.58	16.99	8.99	6.18
Russell 2000 Growth Index	3.85	14.87	8.41	16.52	8.71	6.11

*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

Paylocity was the largest contributor to performance, as the stock enjoyed a 50% gain in the quarter. The company has proven to be an extremely consistent provider of outsourced payroll and human capital software to small and medium-sized businesses, growing revenues between 23% and 28% for the past 9 quarters. The stock also got a boost during the quarter as a mid-market competitor, Ultimate Software, received an offer to be taken private.

## Fund Quick Facts

Ticker:	BUFSX
Inception Date:	5/21/2004
Net Assets:	\$510.32 Million
Expense Ratio:	1.01%
Category:	Small-Cap Growth
Benchmark:	Morningstar U.S. Small Growth Index

## Management Team



### Jamie Cuellar, CFA

Co-Manager since 2015  
M.B.A. – Southern Methodist  
B.B.A. – Univ. of San Diego



### Bob Male, CFA

Manager since Inception  
M.B.A. – Southern Methodist  
B.S. – University of Kansas



### Alex Hancock, CFA

Co-Manager since 2017  
B.A. – Dartmouth College



The next largest positive contributor was **Bandwidth, Inc.** The company provides telecom services and software to enterprises, many of whom are involved in high growth areas such as voice assistants and unified communications as a service (UCaaS). After coming public with a fairly small market cap in late 2017, Bandwidth continued to attract more attention from Wall Street as it grows in size and is reminiscent of the success of peer companies, such as Twilio.

## ↓ Top Detractors

**Inogen** was the largest detractor from performance during the period. However, as a newer investment in the Fund, its smaller weighting limited the negative impact. We initiated a position last quarter after the stock corrected to a more attractive valuation, by our analysis. On their 4th quarter earnings call, Inogen admitted to seeing some weakness from a home medical equipment customer, which further reduced investor sentiment for the company's shares. We continue to own this stock as we believe the company is an industry leader in portable oxygen concentrators, and increased investments made last year in their direct-to-consumer salesforce will accelerate growth and improve investor enthusiasm for the stock.

## Outlook

To date, we are pleased with the start of the year. While large gains in a short period of time can cause investor angst, we note that small caps would still require another 12% increase to reclaim the previous high watermark made in early September 2018. Meanwhile, market fundamentals remain mostly positive. U.S. investors appear to have resigned themselves to slower economic growth expectations. However, we feel that the economy could accelerate if the Trump administration concludes the trade war with China, which seems likely to happen this summer. In Europe certain regions are showing signs of slowing, however most U.S. companies are not yet claiming that the continent has taken a leg down in economic activity. This is clearly an area to watch.

In the U.S., the Federal Reserve has moved to a more neutral position regarding monetary policy and is doing a much better job communicating its intentions relative to last year. Growth investing remains in favor compared to value investing, as slower economic activity means investors should continue to place a premium on faster growing companies that require less of an economic tailwind to excel. Furthermore, the market has historically performed well in the 3rd year of a presidential cycle.

As always, we remain steadfast to our process of identifying investment opportunities in smaller, faster-growing companies with the potential to benefit from long term trends, which are trading at attractive valuations, by our analysis. We appreciate your continued support and confidence in our investment capabilities over the long term. ▀

## 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 12/31/18 the Buffalo Small Cap Fund top 10 equity holdings were Paylocity 2.33%, PROS Holdings 2.29%, CyrusOne 2.27%, MasTec 2.12%, Monolithic Power Systems 2.10%, Bio Techne 2.09%, Repligen 2.08%, Ligand Pharmaceuticals 2.02%, Air Transport Services Group 1.97%, 8x8 1.90%. 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. A basis point is one hundredth of a percentage point (0.01%).

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. Small Growth Index measures the performance of U.S. small-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 2000 Growth Index measures the performance of those Russell 2000 Index 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 smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.**

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

