

Buffalo Small Cap Fund

QUARTERLY
COMMENTARY

June 30, 2019

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

Following very strong returns in the 1st quarter of 2019, small cap stocks continued their upward trajectory this period. However, investor uncertainty about U.S. trade policy and future economic growth did cause significant intra-quarter volatility. Most small cap sectors gained, led by Industrials, Consumer, Financials, and Technology while Energy was the worst performing sector. Health Care also lagged due, in part, to investor fear about the prospect for pricing legislation, which could impact the business models of many companies in the sector.

The Buffalo Small Cap Fund (the "Fund") gained 6.44% during the quarter, significantly outperforming the Morningstar U.S. Small Growth Index (the "Index"), which gained 2.47%. Health Care and Technology were the Fund's top-performing sectors relative to the Index, providing almost 4% of outperformance. Stock selection within Telecom and the portfolio's underweight position to Energy also contributed significantly to the outperformance. Poor stock selection in Consumer Discretionary and Consumer Staples were the largest sources of underperformance relative to the Index during the quarter.

Average Annualized Performance (%)

As of 6/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUF</i> SX	5.30	19.66	9.00	12.53	8.85	11.77
Institutional Class - <i>BUI</i> SX ¹	5.46	19.84	9.17	12.70	9.01	11.93
Morningstar U.S. Small Growth Index	3.47	15.78	9.50	14.84	9.09	6.23
Russell 2000 Growth Index	-0.49	14.69	8.63	14.41	8.90	6.18

¹For 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 Investor 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.

Fund Facts

	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$527.80 Million	
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



↑ Top Contributors

Pros Holdings was the Fund's top contributor, with the stock increasing 50% during the quarter. The company is a leading provider of AI-powered software that helps customers optimize revenue. It has rapidly grown its subscription revenue and has significant room for more growth among its customers in the air travel, eCommerce, and B2B sectors.

Repligen was the second best-performing position for the Fund during the quarter, with the stock increasing 46%. The company is a pure-play bioprocessor with products that serve the makers of biologic drugs. During the quarter, Repligen announced acceleration in the organic growth of its core business, as well as a large and accretive acquisition in the process analytics space, which helped to drive the share price higher.

Kornit Digital was also a top contributor during the quarter, with the stock gaining 33%. The company is a leader in digital ink printers used by companies in the textile industry. The company has reported improved customer adoption as the transition from analog to digital printing in textiles is in its infancy, as well as traction with newer systems, which increase throughput and are made for other materials like polyester.

↓ Top Detractors

At Home Group, a retailer of home furnishings, was the worst performing investment during the quarter. In June, during the company's earnings report, management cited headwinds to its business including tariff impacts, markdowns on seasonal products, and a slowing sales outlook, all of which led to investor pessimism and a large decline in the stock.

Outlook

Looking forward into the 2nd half of 2019 and beyond, we are cautiously optimistic about the outlook for small cap stocks in the U.S. There is still significant uncertainty in the market about President Trump's trade stance, which could cause volatility, but we believe all sides have an interest in reaching an agreement, and recent rhetoric has become more positive. While there has been some mixed data on the health of the U.S. economy and gross domestic product (GDP) growth, the job market remains broadly strong, and investors have been cheered by the increased dovish stance from the Federal Reserve and outlook for interest rate cuts.

We note that small caps have lagged large caps by around 7% for the 12 month period ending June 30, 2019, with the Morningstar U.S. Large Growth Index advancing 11.43% versus the Morningstar U.S. Small Growth Index's advance of 3.47%. This dispersion in performance has helped create an environment in which the valuations of small cap stocks are now more attractive than large cap stocks and could help to drive relative outperformance of smaller cap stocks in coming quarters.

Within this context, we have been managing the Fund actively, seeking to deploy capital into ideas which we believe have the most favorable risk/reward tradeoffs. The portfolio ended the period with 77 positions (excluding cash), up from 72 at the end of the 1st quarter. We will continue with our strategy of identifying investment candidates among small cap companies with strong secular growth opportunities that can benefit from long term trends and trade at attractive valuations. As always, we appreciate your continued 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. Read carefully before investing.

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

As of 3/31/19 the Buffalo Small Cap Fund top 10 equity holdings were Paylocity 2.61%, Mimecast 2.27%, Bandwidth 2.27%, Kornit Digital 2.22%, Lumentum Holdings 2.14%, PROS Holdings 2.13%, Monolithic Power Systems 2.11%, Bio Techne 2.10%, 8x8 2.02%, Catalent 1.99%. 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 incorporated 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. 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. The Morningstar U.S. Large Growth Index measures the performance of U.S. large-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. 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.

