

Capital Market Overview

Equity markets rebounded sharply in the 2nd quarter following steep losses in the previous period. The S&P 500 Index produced a return of 20.54%, marking the best quarterly performance results in 20 years. Stimulus efforts by the Federal Reserve (the "Fed") and the U.S. Treasury Department to limit COVID-related economic damage helped equity markets find a floor in late March. Declining COVID-19 case counts, optimism about treatment and potential vaccines, along with better-than-expected economic data also contributed to improved investor sentiment during the period. Although confirmed virus cases began spiking again in the final days of June, it was not enough to undo the best quarterly market results since the dot-com boom.

The broad market Russell 3000 Index advanced 22.03% in the quarter, and Growth outperformed Value as the Russell 3000 Growth Index moved up 27.99% during the period, compared to the Russell 3000 Value Index's advance of 14.55%. Relative performance was inversely-correlated by market cap as the Russell Micro Cap Index advanced 30.54%, well above the large cap Russell 1000 Index's return of 21.82%. Meanwhile the small cap Russell 2000 Index and the Russell Mid Cap Index were up 25.42% and 24.61%, respectively. The best performing sectors were Technology, Consumer Discretionary, and Energy while the less cyclically exposed, more defensive areas like Utilities, Telecommunication, and Consumer Staples lagged in the quarter.

Performance Commentary

The Buffalo Dividend Focus Fund (BUFDX) posted a return of 19.93% during the period, a result that slightly trailed the Morningstar U.S. Large-Mid Cap Index return of 21.76% and the S&P 500 Index return of 20.54%. All sectors in the Fund and benchmark Index posted positive returns. The Fund's sectors with the highest weightings had mixed performance relative to the Index. Health Care and Financials posted favorable relative performance compared to the benchmark's sectors, while Information Technology experienced lagging relative returns. Smaller-weighted sectors like Industrials, Energy, and Utilities also delivered constructive performance relative to the benchmark, while Consumer Discretionary, Consumer Staples, Materials, and Telecommunications Services experienced weaker stock selection.

Average Annualized Performance (%)

As of 6/30/20	1 YR	3 YR	5 YR	Since Inception
Investor Class - BUFDX	5.67	8.17	8.26	11.61
Institutional Class - BUIDX ¹	5.84	8.33	8.42	11.78
Morningstar U.S. Large-Mid Cap Index	8.13	10.96	10.59	13.32
S&P 500 Index	7.51	10.73	10.73	13.28

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. 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. Each Morningstar category average represents a universe of funds with similar objectives.

Fund Facts

	Investor	Institutional
Ticker:	BUFDX	BUIDX
Inception Date:	12/3/12	7/1/19
Expense Ratio:	0.96%	0.81%
Fund Assets:	\$75.78 Million	
Category:	Large Cap Blend	
Benchmark:	Morningstar U.S. Large-Mid Cap Index	

Management Team



Paul Dlugosch, CFA
Co-Manager since 2013
B.S. – University of Iowa



Jeff Sitzmann, CFA
Co-Manager since 2018
M.B.A. – Univ. of Chicago
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Jeff Deardorff, CFA
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B.S. – Kansas State Univ.

↑ Top Contributors

Specific securities that contributed most positively to performance include **Apple Inc.** (AAPL), **Microsoft Corporation** (MSFT), and **Horizon Therapeutics Investments Ltd.** (HZNP). Apple advanced on solid quarterly results, guidance on iPhone sales, strength in services, and the expected rebound in COVID-19 disruptions. Microsoft improved on growing momentum from cloud services and enterprise products, which boosted quarterly results above analyst's estimates and drove expansion in the company's valuation metrics. Meanwhile, shares of the biopharmaceuticals company Horizon Therapeutics rose on strong quarterly results, driven by the launch of Tepezza for thyroid eye disease and favorable study data on Krystexxa in combination with immunomodulation (methotrexate).

↓ Top Detractors

Conversely, **Delta Airlines Inc.** (DAL), **Elanco Animal Health, Inc.** (ELAN), and **Otis Worldwide Corp.** (OTIS) were the largest detractors from the Fund's performance. Delta declined on reduced demand for airline travel due to COVID-19. Elanco Animal Health fell on poor quarterly results due to distributor inventory destocking. While OTIS, the elevator and escalator manufacturing and installation company, dropped as the investor base digested the shares from the spin out from United Technologies (now Raytheon Technologies). All three positions were liquidated during the quarter in favor of more attractive risk-reward opportunities.

Outlook

The primary driver of the sharp rise in the stock market during the quarter was the expectations that the economy can recover from the COVID-19 pandemic. Central Banks have cut benchmark lending rates and expanded their balance sheets as they buy various assets of eligible securities. Investors have reacted by accumulating more risk assets as they have been driven by the need to boost returns as well as the perception that Central Banks stand ready as a backstop to bail them out. The fiscal stimulus and financial aid programs passed by governments have begun to work their way into the economy. If the economy does not recover, politicians appear to be reluctantly willing to pass additional stimulus as needed. In addition, during the quarter, COVID-19 cases started to decline from peak levels, allowing domestic and international regions to reduce shelter in place orders and slowly get back to work. Nevertheless, as the restrictions are relaxed, the COVID-19 case count has begun to accelerate from trough levels. However, policy makers appear reluctant to re-impose shelter in place orders. Several promising therapies appear to lessen the death rate of the virus, but, over the intermediate term, for the economy to recover and generate sustainable growth, the pandemic will need to be contained through vaccine development, which still appears several quarters out.

Despite the uncertainty, we remain focused on wide-moat, large-capitalization companies trading at reasonable valuations, in our view. As always, the Fund will continue to place an emphasis on competitively-advantaged companies that can be purchased at a fair value, in our opinion. As stock market volatility spikes, we will look for opportunities to find companies that fit our investment criteria, as we continue to follow our process of finding new investment ideas and to be ready when market declines provide better entry points. ▾

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.

As of 3/31/20 the Buffalo Dividend Focus Fund top 10 equity holdings were Microsoft 5.11%, Apple 3.63%, Visa 3.22%, Edison Intl 2.59%, UnitedHealth Group 2.16%, S&P Global 1.95%, American Electric Power 1.94%, Johnson & Johnson 1.67%, Amazon 1.66%, Lumentum Holdings 1.58%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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

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 Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. The Russell 1000 Index is a subset of the Russell 3000 Index and measures the performance of the 1,000 largest publicly-held companies incorporated in the U.S. based on market capitalization. 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Morningstar U.S. Large-Mid Cap Index measures the performance of the U.S. equity market targeting the top 90% of stocks by market capitalization. One cannot invest directly in an index. Cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows.

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. The Fund may invest in convertible securities which may be influenced by changing interest rates and the credit standing of the company. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies.

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