

Capital Market Overview

Equity market returns were somewhat mixed in the 3rd quarter, but the S&P 500 Index etched out a modestly positive return of 0.58%. The global recovery hit a speed bump during the period as the world dealt with rising COVID-19 Delta variant infections, an energy price spike, and supply chain issues that continued to constrain economic growth. After trading lower earlier in the quarter, interest rates increased later in the period in response to higher-than-expected inflation data and an admission from the Federal Reserve (the "Fed") that they would need to begin removing monetary stimulus from the economy sometime soon.

The Russell 3000 Index declined -0.10% in the quarter. Growth stocks outperformed Value stocks as the Russell 3000 Growth Index returned 0.69% versus a drop of -0.93% for the Russell 3000 Value Index. Relative performance was correlated with market cap size as large caps outperformed small caps in the quarter. The large cap Russell 1000 Index returned 0.21% compared to the Russell Midcap Index return of -0.93%. Smaller market cap indices were even more negative, with the Russell 2000 Index returning -4.36% and the Russell Microcap Index returning -4.98%. Financials were the top performing sector for the quarter, while Industrials and Materials were lagging sectors.

Performance Commentary

The Buffalo Dividend Focus Fund (BUFDX) posted a return of 0.33% for the quarter, a result in-line with the Morningstar U.S. Large-Mid Cap Index return of 0.29%. Health Care, Financials, Energy, Industrials, Materials, and Telecommunication Services delivered constructive performance relative to the benchmark. The Fund's investments in Information Technology, Consumer Discretionary, Consumer Staples, Real Estate, and Utilities detracted from the relative performance.

Average Annualized Performance (%)

As of 9/30/21	1 YR	3 YR	5 YR	Since Inception
Investor Class - BUFDX	29.83	13.74	14.26	14.00
Institutional Class - BUIDX ¹	30.03	13.91	14.73	14.17
Morningstar U.S. Large-Mid Cap Index	30.20	16.56	17.18	15.90
S&P 500 Index	30.00	15.99	16.90	15.77

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.

↑ Top Contributors

Specific securities that contributed most positively to performance included Viper Energy Partners LP (VNOM), Horizon Therapeutics PLC (HZNP), and HCA Healthcare Inc. (HCA). Viper Energy, an owner of oil and natural gas properties, climbed as energy prices moved higher with improving supply/demand drivers. Horizon Therapeutics, a biopharmaceutical company, advanced on a strong earnings report and favorable outlook for its drug pipeline. Meanwhile, HCA Healthcare, an owner and operator of hospitals and healthcare services, gained as the company's quarterly results beat estimates and management raised its guidance.

Fund Facts

	Investor	Institutional
Ticker:	BUFDX	BUIDX
Inception Date:	12/3/12	7/1/19
Expense Ratio:	0.94%	0.79%
Fund Assets:	\$111.06 Million	
Category:	Large Cap Blend	
Benchmark:	Morningstar U.S. Large-Mid Cap Index	

Management Team



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↓ Top Detractors

Activision Blizzard Inc. (ATVI), Apellis Pharmaceuticals Inc., and Absolute Software Corporation (ABST) reduced from the Fund's performance. Activision Blizzard, a gaming and software producer, fell as the company faced mounting backlash regarding sexual harassment, pay discrimination, and related litigation. Apellis Pharmaceuticals, a biopharmaceutical company, declined on mixed late-stage eye drug trial results (one study was safe; however, it missed its effectiveness target). Absolute Software Corporation, a provider of security software, dropped after management's recent conservative financial guidance did not meet investors' robust expectations.

Outlook

The stock market continued to advance in June and July reaching record highs, however in September the market traded off and gave up most of its early quarter gains. The rise in the first months of the quarter was attributed to the expectations that the economy continued to recover from the COVID-19 pandemic. New COVID-19 infections, hospitalizations, and deaths were declining in the U.S. as vaccines have been approved and injected into arms. Life was on the cusp of returning to normal; however, the Delta variant flared up and the momentum for returning to normality waned. The late summer surge in COVID-19 cases coincided with severe weather events (hurricanes, flooding, fires, etc.), supply chain logistics issues, key parts shortages, unemployment insurance plans ending, and inflation pressures led to reduced estimates for economic growth. Investors are also watching the politics in Washington as Congress works on the budget, infrastructure plans, and raising the debt ceiling, with all parties indicating an unwillingness to compromise. The Federal Reserve continued to indicate that it views the current elevated levels of inflation as transitory, and that they are not likely to raise interest rates in the near term. However, they did note that they are likely to curtail (or taper) their bond buying activity in near term, with a modest monthly decline in purchases.

Despite the uncertainty created by pandemic and fiscal policy, we remain focused on wide moat, large capitalization companies trading at reasonable valuations, in our view. As always, the Fund will continue to emphasize 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 6/30/21 the Buffalo Dividend Focus Fund top 10 equity holdings were Microsoft 4.58%, Apple 3.85%, Viper Energy Partners 2.90%, Visa 2.74%, CVS Health 2.49%, Elanco Animal Health 2.43%, Bank of America 2.20%, Horizon Therapeutics 2.09%, UnitedHealth Group 2.03%, Citizens Financial Group 1.93%. 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 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 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 Microcap Index measures the performance of 2,000 small cap and micro cap companies. 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.

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.

