

Capital Market Overview

Equity markets continued to move higher in the 1st quarter of 2021, with the S&P 500 Index returning 6.17%. The period was marked by outperformance of value stocks as the market rotation that began in the last quarter of 2020 became even more pronounced. The vaccination rollout, combined with prospects for more fiscal stimulus, bolstered optimism towards companies that could benefit from the economy reopening. Additionally, an 80+ basis point move higher in the 10-Year U.S. Treasury yield during the quarter left sentiment towards growth stocks relatively more subdued.

The broad market Russell 3000 Index advanced 6.35% in the quarter. Value outperformed growth for the second straight quarter, with the Russell 3000 Value Index up 11.89% compared to the Russell 3000 Growth Index returning 1.19%. Relative performance was inversely-correlated with market cap size in the quarter, with the Russell Micro Cap Index up 23.89%, the small cap Russell 2000 Index up 12.70%, the Russell Midcap Index up 8.14%, and the large cap Russell 1000 Index returning 5.91%. The more cyclically-sensitive Energy, Financial, and Industrial sectors performed best in the quarter. Consumer Staples, Information Technology, and Utilities were the bottom three performing sectors. All sectors produced positive returns.

Performance Commentary

The Buffalo Flexible Income Fund (BUF BX) produced a return of 9.11% in the quarter, outperforming the Morningstar Moderately Aggressive Target Risk Index return of 4.08%. The top three contributors to the Fund's performance during the quarter were **Hess**, **Chevron**, and **ConocoPhillips**. All of these companies experienced significant price appreciation as oil prices increased due to the improved outlook for global travel and the corresponding potential for an increase in oil consumption. The top three detractors were **Costco**, **Clorox**, and **Pepsi**. Stocks most leveraged to rising interest rates, a steepening yield curve, and reopening did relatively better, while pricey, more crowded beneficiaries of COVID lockdowns experienced some investor rotation away.

Average Annualized Performance (%)

| As of 3/31/21 | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|---|-------|-------|-------|-------|-------|-----------------|
| Investor Class - BUF BX | 40.94 | 6.86 | 7.82 | 7.12 | 6.68 | 7.16 |
| Institutional Class - BUI BX ¹ | 41.15 | 7.02 | 7.99 | 7.28 | 6.84 | 7.32 |
| Morningstar Moderately Aggressive Target Risk Index | 45.13 | 10.96 | 11.81 | 8.84 | 7.55 | - |
| Morningstar Combined Index | 42.54 | 13.29 | 13.41 | 11.11 | 9.04 | 9.20 |
| Morningstar U.S. Large Cap Index (60%) | 55.35 | 17.80 | 17.06 | 14.31 | 10.25 | 10.38 |
| ICE BofAML U.S. High Yield Index (40%) | 23.31 | 6.53 | 7.94 | 6.31 | 7.21 | 7.42 |
| Lipper Mixed-Asset Target Allocation Moderate Funds Index | 33.64 | 9.51 | 9.34 | 7.46 | 6.22 | 7.25 |

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: | BUF BX | BUI BX |
| Inception Date: | 8/12/94 | 7/1/19 |
| Expense Ratio: | 1.02% | 0.87% |
| Fund Assets: | \$425.68 Million | |
| Category: | Large Cap Value | |
| Benchmark: | Morningstar Moderately Aggressive Target Risk Index | |

Management Team



John Kornitzer

Manager since Inception
B.A. – St. Francis Univ. (PA)



Paul Dlugosch, CFA

Co-Manager since 2011
B.S. – University of Iowa

Outlook

The S&P 500 Index achieved a record high during the period and ended just below the intra-quarter peak. The rise can be attributed to the expectation that the economy can recover from the COVID-19 pandemic. New COVID-19 infections, hospitalizations, and deaths have declined in the U.S. as vaccines have been approved and injected into arms. The market favorably reacted to the new administration, passage of additional fiscal stimulus, and the central banks' continued accommodative policies. Although the Federal Reserve continues to indicate that interest rates increases are on hold for the near future, the longer end of the treasury market sold off on concerns that inflation will increase. The rise in bond yields resulted in some market rotation as investors shifted from growth to value sectors. As the year continues to unfold, investors will be focused on the administration's recently announced infrastructure proposal, vaccine rollouts, COVID-19 related reopening, and the length of accommodative monetary policy.

Despite the uncertainty created by the pandemic, we remain focused on wide moat, large capitalization dividend paying companies trading at reasonable valuations, in our view. 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.

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

As of 12/31/20 the Buffalo Flexible Income Fund top 10 holdings were Microsoft 7.82%, Nuance Comm. (1.500%, 11/1/35) 3.99%, Qualcomm 3.30%, Costco Wholesale 3.18%, Chevron 3.05%, Johnson & Johnson 3.03%, Intel 3.00%, Truist Financial 2.89%, Digital Realty Trust 2.87%, PepsiCo 2.86%. 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 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 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 Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. 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 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 Morningstar Moderately Aggressive Target Risk Index represents a portfolio of global equities, bonds, and traditional inflation hedges, and seeks approximately 80% exposure to global equity markets. The Morningstar U.S. Large Cap Index measures the performance of the U.S. equity market targeting the top 70% of stocks by market capitalization. The ICE BofAML High Yield Index is an unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. It includes zero-coupon bonds and payment-in-kind (PIK) bonds. The Lipper Mixed-Asset Target Allocation Moderate Funds Index is an unmanaged index considered representative of mixed-asset target allocation moderate funds tracked by Lipper, which would combine the 30 biggest funds, based on asset size, that belong to this asset category. One cannot invest directly in an index. A basis point (bps) is one hundredth of a percentage point (0.01%). A yield curve is a curve showing several yields to maturity or interest rates across different contract lengths for a similar debt contract. The curve shows the relation between the interest rate and the time to maturity.

Mutual fund investing involves risk. Principal loss is possible. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in foreign securities include additional risk such as greater volatility, and political, economic, and currency risks, as well as difference in accounting methods.

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

