

Capital Market Overview

Equity markets moved higher for the fifth consecutive quarter, as the S&P 500 Index returned 8.55%, raising the year-to-date return to 15.25%. The COVID-19 vaccine rollout has helped fuel an economic comeback while corporate earnings are improving. The vaccine adoption around the world is encouraging, and over 50% of the U.S. population is now vaccinated. Capital markets continued to be supported by significant spending from Congress and aggressive monetary policy from the Federal Reserve (the Fed). The 2nd quarter was marked by outperformance of growth stocks, overcoming investor concerns of rising inflation and potential interest rate hikes in the prior quarter. Hawkish comments from the Fed replaced inflation worries with concerns about the magnitude and duration of the economic recovery. Long duration growth companies were beneficiaries as yields on the 10-Year and 30-Year Treasuries declined during the period after climbing for the previous four months.

The broad market Russell 3000 Index advanced 8.24% in the quarter. Growth stocks outperformed Value stocks, as the Russell 3000 Growth Index surged 11.38% compared to the Russell 3000 Value Index gain of 5.16%. Relative performance was correlated with market cap size in the quarter, as the large cap Russell 1000 Index returned 8.54%, the Russell Midcap Index advanced 7.50%, the small cap Russell 2000 Index returned 4.29%, and the Russell Microcap Index finished 4.14% higher.

All economic sectors produced positive returns during the period with the exception of Telecom Services. Real Estate, Information Technology, and Energy led the advance followed by Financials and Health Care. More defensive areas, such as Telecom Services, Utilities, and Consumer Staples, trailed on a relative basis.

Fund Facts

	Investor	Institutional
Ticker:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$444.61 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

Performance Commentary

The Buffalo Flexible Income Fund (BUFBX) returned 7.82% in the quarter, compared to a return of 5.88% for the Morningstar Moderately Aggressive Target Risk Index.

Average Annualized Performance (%)

As of 6/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFBX	29.92	8.10	8.67	7.80	7.05	7.39
Institutional Class - BUIBX ¹	30.11	8.24	8.82	7.96	7.21	7.55
Morningstar Moderately Aggressive Target Risk Index	32.55	12.79	12.55	9.42	8.02	–
Morningstar Combined Index	30.43	14.79	14.06	11.77	9.55	9.37
Morningstar U.S. Large Cap Index (60%)	40.31	19.89	18.57	15.29	10.99	10.64
ICE BofAML U.S. High Yield Index (40%)	15.62	7.15	7.30	6.50	7.39	7.46
Lipper Mixed-Asset Target Allocation Moderate Funds Index	24.31	10.94	9.91	7.89	6.60	7.37

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 Institutional 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.

↑ Top Contributors

The top three contributors to the Fund's performance during the quarter were **Microsoft**, **Nuance Communications**, and **Hess**. Microsoft's share appreciation reflects its market leadership positions in software, cloud computing, and gaming. Over the past year, the company has executed well, resulting in positive earnings revisions and a favorable growth outlook. Nuance Communications announced during the quarter that it had agreed to be acquired by Microsoft for a premium. Hess' share appreciation reflects the increase in oil prices due to a resumption in travel, as the travel restrictions around the pandemic have been eased in various geographies.

↓ Top Detractors

The top three detractors from the portfolio's results were **Intel**, **Clorox**, and **HollyFrontier**. Intel's share price weakness reflects weak sales growth, concerns about personal computer competition, weaker gross margins, slower data center growth, and announced expansion into foundry. Clorox shares declined due to tougher comparisons, as cleaning products saw strong demand in 2020 due to the pandemic, and higher raw material prices which compressed margins. HollyFrontier shares declined in the quarter due to market skepticism around its acquisition of a West Coast refining asset (Puget Sound refinery) and the suspension of its dividend for a year to maintain balance sheet flexibility and strength.

Outlook

The stock market continued to advance during the quarter and ended the period at a record high. New COVID-19 infections, hospitalizations, and deaths have declined in the U.S. as vaccines have been approved and administered. This has allowed the relaxing of COVID-related closures and restrictions. Workers are gradually returning to the office, and consumers are emerging from their homes and venturing back out. The pent-up demand aided by additional fiscal stimulus checks, and continued central banks' accommodative policies, provide a favorable tailwind for the economy. Although the Fed continues to indicate that it is holding off raising interest rates, investors are mindful for any signs of inflation. While some prices have gone up, the Fed believes these are transitory. As the year continues to unfold, investors will also be focused on the following topics: prospects for passage of an announced infrastructure agreement, vaccination rates, booster shots, how COVID-19 variants will spread or be contained, if COVID-19 lockdowns resume, and how long monetary policy will remain accommodative.

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 3/31/21 the Buffalo Flexible Income Fund top 10 holdings were Microsoft 7.47%, Nuance Comm. (1.500%, 11/1/35) 3.85%, Chevron 3.57%, Costco Wholesale 2.90%, Johnson & Johnson 2.89%, Eli Lilly & Co 2.85%, Digital Realty Trust 2.82%, Hess Corp 2.81%, Qualcomm 2.80%, ConocoPhillips 2.72%. 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 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 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.

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.

