

Capital Market Overview

Equity markets extended their rally in the 4th quarter, with the S&P 500 Index returning 12.15%. This capped the end to a historic year in which the S&P advanced 18.40% despite the world suffering through a global pandemic. The biggest news in the quarter was the U.S. Food and Drug Administration's (FDA) approval of two separate vaccines, following very encouraging clinical results. This helped investors look beyond worsening COVID-19 trends and provided hope that an end to the pandemic could be in sight.

The Russell 3000 Index increased 14.68% in the quarter. Value stocks led the advance, as the Russell 3000 Value Index advanced 17.21% compared to the Russell 3000 Growth Index return of 12.41% during the period. Relative performance was inversely correlated by market cap in the quarter (i.e., small caps outperformed big caps). The Russell 1000 Index delivered a return of 13.69% compared to the Russell Mid Cap Index return of 19.91%. Smaller market cap indexes surged even more as the Russell 2000 Index returned 31.37% and the Russell Micro Cap Index returned 31.39%. Cyclically-sensitive sectors such as Energy, Financials, Industrials, and Materials performed best in the quarter. The more defensive areas like Telecom Services, Consumer Staples, Utilities, and Healthcare lagged. All sectors produced positive absolute results.

Performance Commentary

The Buffalo Flexible Income Fund (BUFBX) posted a return of 10.23% in the quarter, but underperformed the Morningstar Moderately Aggressive Target Risk Index return of 13.41% and the S&P 500 Index return of 12.15%.

The top contributors for the Fund during the quarter were **Nuance** 1.5% convertible bonds, **Qualcomm**, and **Truist**. Nuance benefited from positive earnings and guidance, as it showed continued momentum with its cloud transition, positive signs on the adoption of another one its software platforms, Dragon Ambient Experience (DAX), and the divestiture of some slower growth businesses. Qualcomm increased during the quarter due to improved clarity around its legal settlement, positive earnings and guidance as well its role in the upcoming transition to 5G. Truist's positive return reflects good earnings and investor expectations that a steeper yield curve will result in better future earnings.

Average Annualized Performance (%)

As of 12/31/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFBX	-2.24	2.59	6.08	6.77	6.42	6.88
Institutional Class - BUIBX ¹	-2.10	2.72	6.23	6.92	6.58	7.03
Morningstar Moderately Aggressive Target Risk Index	13.51	9.18	11.27	8.94	7.66	-
Morningstar Combined Index	15.50	11.78	13.06	11.28	9.05	9.15
Morningstar U.S. Large Cap Index (60%)	21.72	15.70	16.14	14.38	10.18	10.28
ICE BofAML U.S. High Yield Index (40%)	6.17	5.89	8.43	6.62	7.35	7.45
Lipper Mixed-Asset Target Allocation Moderate Funds Index	12.47	8.00	8.95	7.52	6.21	7.19

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.

Fund Facts

	Investor	Institutional
Ticker:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$414.79 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

The top detractors from the Fund during the quarter were Kimberly Clark, Digital Realty, and Intel. Kimberly Clark provided weak earnings, and there are concerns around rising input costs (pulp), competition, and tougher 2021 earnings comparisons, though some of its business lines benefited in 2020 due to COVID. Digital Realty reported good earnings in the quarter, but the stock reflected a lot of good news and the outlook was not as glowing as some investors had expected. Intel was negatively impacted by weak earnings and an announcement by Apple that it would begin using some of its own chips in certain products.

Outlook

The stock market ended the quarter at a record high on the expectations that the economy can recover from the COVID-19 pandemic. The double-digit stock market gain came despite rising cases and deaths due to COVID-19. The market favorably reacted to continued central banks' accommodative policies, the conclusion of the U.S. presidential election, approval of COVID-19 vaccines, passage of another fiscal stimulus package, and an agreement on Great Britain's exit from the European Union. As the new year begins the market will be focused on the change in the administration, potential for additional fiscal stimulus, vaccine rollouts, lockdowns to bend the COVID-19 curve, and how long monetary policy will remain accommodative.

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

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 9/30/20 the Buffalo Flexible Income Fund top 10 holdings were Microsoft 7.95%, Costco Wholesale 3.46%, Johnson & Johnson 3.45%, Intel 3.41%, Verizon 3.12%, Nuance Comm. (1.500%, 11/1/35) 3.11%, Digital Realty Trust 3.05%, PepsiCo 3.04%, Waste Mgmt 2.90%, Procter & Gamble 2.88%. 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 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 Micro Cap 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.