# Buffalo Growth Fund

QUARTERLY COMMENTARY

June 30, 2021

## 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.

## Performance Commentary

The Buffalo Growth Fund (BUFGX) gained 11.17% in the 2nd quarter, but trailed the Morningstar U.S. Growth Index's gain of 13.90%. Strong stock selection in Health Care and Industrials was offset by underperformance in the Fund's Technology and Consumer Discretionary holdings. In short, our valuation discipline was the root of the relative underperformance in the quarter. Long-term Treasury yields fell in the quarter after jobs reports surprised to the downside, inflation reports surprised to the upside, and Federal Reserve communications turned slightly more hawkish. Within equity markets, the main beneficiaries of lower long-term interest rates were long-duration (high valuation) growth stocks, where the Fund is underweight relative to the Index.

## Average Annualized Performance (%)

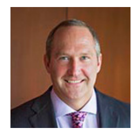
| *As of 6/30/21* | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|---|---|---|---|---|---|---|
| Investor Class - *BUFGX* | 37.51 | 19.98 | 19.37 | 14.68 | 12.06 | 11.35 |
| Institutional Class - *BUIGX*[1] | 37.71 | 20.16 | 19.55 | 14.85 | 12.23 | 11.52 |
| Morningstar U.S. Growth Index | 44.24 | 26.24 | 24.91 | 18.14 | 13.47 | - |
| Lipper Large Cap Growth Fund Index | 41.90 | 24.24 | 23.62 | 16.69 | 12.31 | 10.05 |
| Morningstar Large Growth Category | 41.70 | 22.56 | 21.98 | 15.99 | 12.13 | 10.00 |

*[1]For 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. Each Morningstar category average represents a universe of funds with similar objectives.*

## Fund Facts

| | Investor | Institutional |
|---|---|---|
| Ticker: | BUFGX | BIIGX |
| Inception Date: | 5/19/95 | 7/1/19 |
| Expense Ratio: | 0.93% | 0.79% |
| Fund Assets: | $215.04 Million | |
| Category: | Large Cap Growth | |
| Benchmark: | Morningstar U.S. Growth Index | |

## Management Team



**Dave Carlsen**, CFA

Co-Manager since 2007
B.B.A. – Univ. of WI-Madison

**Josh West**, CFA

Co-Manager since 2020
M.B.A. – Univ. of MO-Columbia
B.S. – Univ. of MO-Columbia



BUFFALO FUNDS

## ↑ Top Contributors

Microsoft Corporation was the top contributor to performance in the 2nd quarter. The company reported a strong quarter driven by rapid growth in Azure revenues, as their enterprise customers accelerated cloud migrations. Furthermore, forward guidance appears conservative considering the strong commercial bookings in the quarter.

Alphabet Inc. was another top contributor. A recovery in advertising spending led to the company reporting earnings that were 67% ahead of expectations. Strength was broad-based, driven by the search business, YouTube, and Google Cloud.

Amazon.com continues the trend of top contributors benefiting from strong cloud growth, with AWS revenues up 32%. Ecommerce sales showed resiliency, and advertising revenues rebounded. Revenue from physical stores was the only weak spot but should improve going forward, barring a rebound in COVID cases.

## ↓ Top Detractors

Two of the top detractors in the period, TripAdvisor Inc. and Booking Holdings, were caught up in general travel industry weakness. The rise of the Delta variant drove some countries to reinstate previously-abandoned lockdown measures, causing investors to push out their projections for a broad travel recovery. Furthermore, the decline in interest rates led investors to sell economically-sensitive companies to fund the purchase of companies with higher secular growth profiles.

Global Payments also detracted from the Fund's performance. Despite reporting a strong quarter, investors were concerned the company didn't raise annual guidance by the amount of the beat, implying a slowdown in the 2nd half of the year. Additionally, investors responded to changing interest rates by rotating from payment stocks to banks and/or faster growing "fintech" companies.

## Outlook

The most prominent debates among investors are whether inflation is transitory or resilient and whether economic growth is self-sustaining or likely to fizzle when stimulus is removed. The year started with increasing optimism about the recovery, and we saw the 10-Year Treasury yield increase from 0.9% to 1.7%. Since then, we've been surprised by bad jobs data, labor shortages, port closures, and shipping bottlenecks, as well as increasing COVID cases driven by the Delta variant. As a result, the 10-Year Treasury yield dropped to 1.3%.

In our view, demand is strong and capacity is holding back economic growth. We expect job growth to improve as enhanced unemployment benefits roll off, schools reopen to in-person learning (providing would-be workers with child care), and offices continue to reopen. While the Delta variant is concerning, early indications are that vaccines are effective at preventing hospitalizations and deaths. As vaccination rates improve worldwide, supply constraints should ease. We believe that the global reopening has been delayed and that as these supply side bottlenecks ease, economic growth will remain relatively strong.

So, what are we doing about it? The answer is not much. We believe the portfolio is well-positioned for an environment of increased economic optimism and higher long-term interest rates. But this is a result of our bottom-up process, not the implementation of any top-down view. We are under-exposed to hyper-growth companies with sky high valuation multiples because we don't think they currently present us with an attractive risk/reward profile. While we are mindful of macroeconomic fluctuations, they do not drive our investment process. We will continue to invest in businesses with solid growth opportunities, durable competitive advantages, scalable business models, and good management teams, when they are trading at attractive valuations, in our opinion. We thank you for your continued support.

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### 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. Investing in both actively and passively managed mutual funds involves risks and principal loss is possible.**

As of 3/31/21 the Buffalo Growth Fund top 10 equity holdings were Microsoft 10.76%, Amazon 6.44%, Apple 5.83%, Alphabet (C) 3.99%, Alphabet (A) 3.32%, Mastercard 3.29%, Facebook 3.16%, Home Depot 2.48%, Broadcom 2.25%, Linde 2.19%. 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 U.S. Growth Index measures the performance of U.S. stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. The Lipper Large Cap Growth Fund Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Large-Cap classification. One cannot invest directly in an index.

**Mutual fund investing involves risk. Principal loss is possible. The Fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods.**

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