

Capital Market Overview

Equity markets sustained their momentum in the 3rd quarter, with the S&P 500 Index returning 8.93%. Macro data continued to improve, and companies broadly reported earnings that proved to be more resilient than expectations. While the U.S. experienced another spike in COVID-19 cases during the quarter and tragically surpassed 200,000 deaths, positive news on vaccines and therapy fronts continued to provide hope for investors.

The Russell 3000 Index increased 9.21% in the quarter. Growth continued to outperform value, as the Russell 3000 Growth Index advanced 12.86%, compared to the Russell 3000 Value Index return of 5.41%. Relative performance was correlated with market cap size in the quarter, with the large cap Russell 1000 Index delivering a return of 9.47%, compared to the Russell Mid Cap Index return of 7.46%, the smaller cap Russell 2000 Index return of 4.93%, and the Russell Micro Cap Index return of 3.69%. More cyclically-exposed Consumer Discretionary, Materials, and Industrial sectors performed best in the quarter. Energy was the sole declining sector, hurt by lingering weakness in oil demand.

Performance Commentary

The Buffalo Growth Fund (BUFGX) gained 9.47% in the 3rd quarter of 2020 versus the Morningstar U.S. Growth Index's gain of 11.72%. Stock selection in the Consumer Discretionary sector and the drag from un-invested cash were the leading causes of relative underperformance. Within the Consumer Discretionary sector, most of the underperformance was driven by not owning Tesla, a relatively large benchmark position, which was up nearly 100% in the quarter. Across the entire portfolio, underexposure to companies with no earnings and stocks, with what we believe to be unsustainable valuation multiples, hurt relative performance. With interest rates expected to be "lower for longer", sales growth was rewarded over profitability and valuation-sensitivity in the quarter. Regarding our un-invested cash, while not a level we consider elevated, cash averaged 2.77% of Fund assets, and any allocation to cash holds back performance when the market is up almost 12%.

Average Annualized Performance (%)

As of 9/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFGX</i>	22.88	17.23	15.54	14.15	10.43	10.71
Institutional Class - <i>BUIGX</i> ¹	23.06	17.40	15.71	14.32	10.59	10.87
Morningstar U.S. Growth Index	41.39	23.14	19.94	17.30	11.71	-
Lipper Large Cap Growth Fund Index	37.42	20.84	18.91	15.90	10.63	9.35
Morningstar Large Growth Category	32.13	18.22	16.99	15.01	10.39	9.28

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. Each Morningstar category average represents a universe of funds with similar objectives.

Fund Facts

	Investor	Institutional
Ticker:	BUFGX	BUIGX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.93%	0.79%
Fund Assets:	\$187.47 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

↑ Top Contributors

Apple (AAPL) shares increased over 27% during the quarter, making it the biggest contributor to the Fund's quarterly return. The company is experiencing better-than-expected demand improvement, driven by the work/learn from home trend and a rebound in international sales as global markets reopen. Apple's handset sales growth is likely to benefit from the upcoming 5G iPhone introduction which should mark the beginning of a 2-year handset upgrade cycle for the company.

Amazon (AMZN) was another top contributor, with shares up over 14%. The ongoing shift to ecommerce continued during the quarter as consumers avoided brick-and-mortar stores during the pandemic. Furthermore, the company's web services division is also well positioned to benefit from the growing need for cloud computing in a world with more people working from home.

↓ Top Detractors

Illumina (ILMN) is a global leader in sequencing tools and consumables for genetic and genomic analysis. Shares were pressured in the quarter after it revealed that instrument sales were being negatively-impacted by shutdowns and low utilization at research and medical labs. The company expects utilization to have troughed in the 2nd quarter with sequential improvement through year end.

RealPage (RP) is a leading provider of hosted software and data analytics to the real estate industry. Its solutions enable the rental real estate industry to manage property operations more efficiently. The stock was weak in the quarter as investors fear the negative effects of higher unemployment and deurbanization may weigh on occupancy rates and yield at rental properties. However, lower occupancy rates may help drive increased sales for RealPage as property managers have to invest in marketing and operational solutions that aid in attracting new tenants.

Outlook

The first nine months of 2020 have been an extremely volatile period for the market, and given the market's quick rebound despite a slower economy, lower earnings, political uncertainty, and continued COVID-19 concerns, a lot rests on the trajectory of earnings recovery in 2021. Volatility is likely to remain in place at least through the early November election, but the good news is that it should ease once we get a clearer picture of fiscal stimulus plans and the policy biases of the next administration. Investors will then likely continue to focus on the trajectory of COVID-19 cases, the progression of additional treatments and vaccines, and ongoing company commentary on business trends. We believe there will be a meaningful amount of data on vaccine and treatment options over the next few months that could be quite positive for those willing to look beyond near-term case numbers. Furthermore, regardless of who will be in the Oval Office, fiscal and monetary policy remain extremely accommodative worldwide, with activity levels rebounding across countries and sectors. The economy is mending. Consumer and business confidence are rising too as the world has found innovative ways to adapt, progress and grow despite the 100-year pandemic in our midst.

While the election remains a wildcard, the market has taken Biden's early lead and greater chances of a Democratic sweep in stride, contrary to prevailing wisdom that the market would suffer. Due to a reduction in growth opportunities in the last 6-9 months, we are mindful that investors may have bid up certain high growth stocks to unsustainable valuations, and we continue to focus on the downside risk relative to upside opportunity for stocks in the portfolio. The disparity in returns between growth and value has been extreme this year, and at some point, there could be a meaningful reversion to the mean, likely triggered by lower political uncertainty and successful



clinical results from a potential vaccine. Going forward, we think lower political uncertainty and a probable COVID-19 vaccine could steepen the yield curve and should be good for more economically sensitive areas at the expense of over-priced growth stocks, and we are adjusting the portfolio accordingly.

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. ▲

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 6/30/20 the Buffalo Growth Fund top 10 equity holdings were Microsoft 8.55%, Amazon 5.74%, Mastercard 3.09%, Alphabet (C) 3.09%, Apple 3.07%, Danaher Corp 2.83%, Home Depot 2.72%, Linde 2.68%, Alphabet (A) 2.59%, Visa 2.21%. 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.

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

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 Micro Cap 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.

