

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 Growth Fund (BUEGX) gained 12.08% in the 4th quarter, which was slightly behind the Morningstar U.S. Growth Index's gain of 12.66%. The largest contributors to relative performance came from stock selection in the Information Technology sector and the Fund's overweight position in the Industrial sector. Once again, the largest headwind to relative performance came from our decision not to own Tesla, Inc., which was up 64% in the quarter (accounting for a 130 basis point relative drag). As of this writing, Tesla's market capitalization is larger than the market cap of GM, Ford, Toyota, Daimler, Volkswagen, and Fiat Chrysler... combined. It is somewhat interesting that Tesla is only able to report a profit by selling regulatory credits to those automakers. We do not expect Tesla to advance another 740% again this year, and we believe the headlines for Tesla's stock performance will decrease significantly in the future.

Average Annualized Performance (%)

As of 12/31/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUEGX	28.29	19.37	16.98	14.00	11.28	11.09
Institutional Class - BUIGX ¹	28.49	19.55	17.16	14.17	11.45	11.25
Morningstar U.S. Growth Index	44.65	25.28	21.32	17.28	12.37	-
Lipper Large Cap Growth Fund Index	38.60	22.59	19.55	15.80	11.15	9.71
Morningstar Large Growth Category	35.86	20.50	18.30	15.14	11.06	9.69

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

Fund Facts

	Investor	Institutional
Ticker:	BUEGX	BUIGX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.93%	0.79%
Fund Assets:	\$201.10 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

The **Walt Disney Company** (DIS) was the top contributor in the quarter. In November, Disney reported earnings that were ahead of analyst estimates, driven largely by their streaming business. Later in the quarter, the company hosted a very bullish analyst day. The company is adding subscribers to its Disney+ streaming service at a faster rate than expected, and they will be implementing a price increase ahead of expectations.

Apple (AAPL) was another top contributor in the quarter. The company's iPad and Mac products continue to benefit from work from home trends. Investors were also optimistic about the company's opportunity to benefit from the 5G upgrade cycle and longer term aspirations involving electric vehicles.

↓ Top Detractors

Salesforce.com (CRM) was the largest detractor in the quarter. Although the company reported better-than-expected earnings, new billings were a disappointment. The company also announced the acquisition of Slack Technologies and the surprise retirement of their CFO. While the acquisition makes strategic sense, most investors viewed the price to be too expensive.

S&P Global, Inc. (SPGI) reported a beat and raise quarter, but investors were more focused on the outlook for the ratings business in 2021. Bond issuance is expected to be down modestly in 2021 against a tough 2020 comparison. S&P also announced the acquisition of IHS Markit during the quarter. While the premium paid was small compared to the outlook for synergies, some investors have questioned the strategic fit.

Outlook

The last nine months of 2020 has been an extremely volatile period, 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. With Democrats controlling both the legislative and executive branches, we expect more stimulus spending as well as higher taxes and increased regulation. In addition, 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 one-hundred-year pandemic in our midst.

We are mindful that investors may have bid up certain high growth stocks to unsustainable valuations, and we continue to focus on both the downside risk and the 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. Going forward, we think lower political uncertainty and the rollout of COVID-19 vaccines could steepen the yield curve. This should be positive 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 9/30/20 the Buffalo Growth Fund top 10 equity holdings were Microsoft 10.15%, Amazon 6.92%, Apple 5.85%, Mastercard 3.30%, Alphabet (C) 2.99%, Facebook 2.97%, Home Depot 2.81%, Alphabet (A) 2.50%, Nike 2.38%, Linde 2.29%. 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 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 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. A basis point is one hundredth of a percentage point (0.01%).

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.

