

Capital Market Overview

Global equity markets fell sharply in the 1st quarter of 2020 in reaction to the global spread of COVID-19. As the case count increased exponentially, the only effective response was for countries to go into lockdown. The economic impact of these actions became clear as the quarter progressed and virtually all asset classes suffered as a result. From February 19 through March 23, the U.S. stock market, as measured by the S&P 500 Index, declined around 34%, which was the fastest meltdown in history. Central banks and governments responded quickly to this event, with the U.S. Federal Reserve (the "Fed") cutting interest rates twice in March and announcing unlimited quantitative easing. The U.S. Senate passed a \$2 trillion stimulus package, providing assistance to individuals and businesses in distress. Optimism around these efforts helped the market rally into quarter end, leaving the S&P 500 Index down 19.60% from the start of the year.

The broad market Russell 3000 Index declined 20.90% in the 1st quarter. Growth outperformed value, with the Russell 3000 Growth Index declining 14.85% compared to the Russell 3000 Value Index decline of 27.32%. By capitalization size, large cap stocks held up best, with a -20.22% return in the quarter, represented by the Russell 1000 Index. The Russell Mid Cap Index fell -27.07%, followed by the smaller cap Russell 2000 Index which declined -30.61%. Best performing sectors were the Technology, Health Care, and Consumer Staples sectors. The Energy sector was hit hardest as falling demand and rising supply from Saudi Arabia caused oil prices to crater. The economically-sensitive Financial and Industrial sectors were also among the worst performing sectors in the quarter.

Fund Facts

| | Investor | Institutional |
|-----------------|-------------------------------------|---------------|
| Ticker: | BUFEX | BUIEX |
| Inception Date: | 5/19/95 | 7/1/19 |
| Expense Ratio: | 0.94% | 0.79% |
| Fund Assets: | \$89.88 Million | |
| Category: | Large Cap Growth | |
| Benchmark: | Morningstar U.S. Large Growth Index | |

Management Team



Alex Hancock, CFA
Manager since 2018
B.A. – Dartmouth College

Performance Commentary

The Buffalo Large Cap Fund (BUFEX) declined by 15.68% during the quarter underperforming the Morningstar U.S. Large Growth Index, which declined by 11.51%. While the effects of the global COVID-19 pandemic caused both the Fund and the Index to decline materially during the quarter, stock selection in Consumer Discretionary and an overweight position in Industrials were key detractors of the Fund's relative underperformance. These sources of underperformance were offset, in part, by strength in the Real Estate sector and the portfolio's cash balance.

Average Annualized Performance (%)

| As of 3/31/20 | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|--|-------|-------|-------|-------|-------|-----------------|
| Investor Class - BUFEX | -3.40 | 7.99 | 8.03 | 10.81 | 8.41 | 9.13 |
| Institutional Class - BUIEX ¹ | -3.27 | 8.15 | 8.19 | 10.98 | 8.57 | 9.29 |
| Morningstar U.S. Large Growth Index | 2.29 | 13.56 | 10.81 | 13.32 | 9.52 | - |
| Lipper Large Cap Growth Index | -3.72 | 8.65 | 7.64 | 10.99 | 8.40 | 7.95 |

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.

The Fund ended the quarter with 52 holdings (excluding cash) representing 51 companies, down from 54 holdings representing 53 companies at the end of the previous quarter. The cash position ended the period at about 6% of assets. We initiated one new position and eliminated three holdings during the quarter.

↑ Top Contributors

Amazon was the top-contributing investment for the Fund during the quarter with shares advancing 5%. The stock proved to be a relative safe haven in the midst of the market sell-off that began in earnest in February. Demand for Amazon's delivery services have increased sharply as consumers avoid brick-and-mortar stores. We continue to believe Amazon's web services division should perform strongly in this environment as well.

Equinix was the next best performer for the Fund during the quarter, with the stock rising 14%. The company is the biggest provider of co-located data centers in the world, and enables customer access to networks, partners, and cloud service providers. The growth in remote-work driven by social distancing has increased demand for Equinix's internet communication services, and we expect the company to benefit from this increased demand in coming quarters.

Biogen was also among the top contributors for the Fund as the stock returned 6% during the quarter. This pharmaceutical company generates strong free cash flow and has a relatively stable drug franchise that investors have perceived to be fairly immune from the disruptions caused by the COVID-19 outbreak. At the same time, we do expect volatility in coming quarters, driven by its drug pipeline including the potential approval of aducanumab, a treatment for Alzheimer's disease.

↓ Top Detractors

Schlumberger was the worst-performing investment position during the quarter. This oil and gas services company, whose business was hurt by the large decline in energy prices during the quarter, as well as COVID-19 driven operational slowdowns in its customer base. The company's ability to maintain its dividend and the trajectory of its operating performance in coming quarters are uncertain given the difficult macro environment.

Marriott was another weak-performer for the Fund during the period. Like many travel-related consumer companies, this stock has experienced a large contraction in demand in its business due to the global evaporation of the travel industry in the second half of the quarter. While the company has taken steps to cut costs and its liquidity remains relatively strong, there is limited clarity on the exact timing of improved occupancy at its hotel properties.

Outlook

As we enter the 2nd quarter, the global spread of COVID-19 has carved out significant uncertainty about the direction of the global economy and large cap growth stocks. Large portions of the U.S. and European economies are closed in an attempt to contain the spread of the virus, and the timing at which they will begin to reopen is unclear. The fiscal stimulus passed by Congress in March to help individuals and businesses impacted by virus shutdowns, and aggressive moves by the Federal Reserve to support liquidity in the financial system, are expected to soften the depth of the economic downturn the U.S. economy is facing. With the uncertainty surrounding the exact timing and process to reopen the economy, we expect large cap stocks to stay on a path of elevated volatility, influenced by the spread and recovery rates of COVID-19 and potential treatments or vaccines for the virus. Other factors such as data showing how consumers are impacted and behaving, and corporate earnings, which will show the extent of the damage they are seeing in their operations and balance sheets, will also be monitored closely.

Within this environment, we are managing the Fund cautiously yet opportunistically. Large cap growth stocks have declined less than some other asset classes, but we have taken the opportunity to trim holdings whose operations are highly exposed to the economic shutdown and add to companies that are relatively more insulated. We have also taken the opportunity to initiate new positions in several ideas where the stock price has pulled back to more appealing levels, even after accounting for near-term declines in revenue and earnings. ▲



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 12/31/19 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 7.69%, Amazon 5.11%, Apple 4.25%, Alphabet (A) 4.24%, Visa 2.98%, CME Group 2.49%, Equinix 2.43%, S&P Global 2.16%, Danaher 2.07%, Intercontinental Exchange 2.00%. 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.

Free cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows. 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, which 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 Morningstar U.S. Large Growth Index measures the performance of U.S. large-cap 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 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 U.S. based companies with substantial interests outside of the U.S. which may involve additional risk such as greater volatility and political, economic and/or currency risks. This risk is greater in emerging markets.

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

