

# Buffalo Large Cap Fund

QUARTERLY  
COMMENTARY

March 31, 2021

## Capital Market Overview

Equity markets continued to move higher in the 1st quarter of 2021, with the S&P 500 Index returning 6.17%. The period was marked by outperformance of value stocks as the market rotation that began in the last quarter of 2020 became even more pronounced. The vaccination rollout, combined with prospects for more fiscal stimulus, bolstered optimism towards companies that could benefit from the economy reopening. Additionally, an 80+ basis point move higher in the 10-Year U.S. Treasury yield during the quarter left sentiment towards growth stocks relatively more subdued.

The broad market Russell 3000 Index advanced 6.35% in the quarter. Value outperformed growth for the second straight quarter, with the Russell 3000 Value Index up 11.89% compared to the Russell 3000 Growth Index returning 1.19%. Relative performance was inversely-correlated with market cap size in the quarter, with the Russell Micro Cap Index up 23.89%, the small cap Russell 2000 Index up 12.70%, the Russell Midcap Index up 8.14%, and the large cap Russell 1000 Index returning 5.91%. The more cyclically-sensitive Energy, Financial, and Industrial sectors performed best in the quarter. Consumer Staples, Information Technology, and Utilities were the bottom three performing sectors. All sectors produced positive returns.

## Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.95%	0.81%
Fund Assets:	\$108.80 Million	
Category:	Large Cap Growth	
Benchmark:	Morningstar U.S. Large Growth Index	

## Management Team



**Ken Laudan**

Manager since 2021  
B.S. – Kansas State Univ.

## Performance Commentary

The Buffalo Large Cap Fund (BUFEX) gained 3.22% during the 1st quarter, outperforming the Morningstar U.S. Large Growth Index return of -0.73%. Strong stock selection in the Industrials, Health Care, Consumer Discretionary, and Financials sectors were the biggest contributors to outperformance relative to the Index. With the exception of the slight drag on relative results from Telecommunications and Real Estate, all remaining sectors contributed to the outperformance, compared to the Index, but to a lesser degree. Cash averaged just over 3% of Fund assets in the quarter, in-line with our normal cash range. Stocks most leveraged to rising interest rates, a steepening yield curve, and reopening did relatively better while pricey, more crowded beneficiaries of COVID lockdowns and digital transformation experienced some investor rotation away.

## Average Annualized Performance (%)

As of 3/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFEX	56.78	19.60	18.56	14.50	11.00	10.67
Institutional Class - BUIEX <sup>1</sup>	57.02	19.77	18.74	14.67	11.17	10.83
Morningstar U.S. Large Growth Index	55.78	21.84	20.77	16.89	12.03	-
Lipper Large Cap Growth Index	62.69	22.03	20.97	15.44	11.09	9.68

<sup>1</sup>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 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](http://buffalofunds.com).



## ↑ Top Contributors

**Alphabet, Inc.** was the top contributor to portfolio results in the quarter. The company experienced improving growth in its leading digital advertising businesses following a relatively cautious ad budget environment through most of last year. Alphabet is poised to benefit in 2021 as digital advertising budgets expand alongside improving economic conditions.

**Microsoft Corporation** was also a top contributor to the Fund during the quarter, as it continued its streak of beating and raising expectations for revenue and earnings per share (EPS). The company is a prime beneficiary of workplace digital transformation and the move from on-premise IT infrastructure to the cloud. As the economy emerges from the pandemic, Microsoft is well positioned to gain share of rising IT budgets.

## ↓ Top Detractors

**Apple Inc.** shares declined modestly in the quarter, after more than doubling in the last nine months of 2020, as news of downwardly revised iPhone build expectations emerged intra-quarter. Weaker consumer demand in China and supply chain component shortages are thought to have led to the lower build expectations. The company remains well positioned to benefit from the 5G handset product cycle and a favorable mix shift to high margin digital services.

**Amazon.com, Inc.** shares were relatively weak, despite strong results and upward earnings revisions, as investors rotated toward more cyclical reopening beneficiaries. In the near term, some investors worry the pandemic has pulled forward ecommerce adoption contributing to above trend growth rates in 2020 that may moderate going forward. Over the long run, Amazon should continue to disrupt markets and sustain an attractive growth rate as its Amazon Web Services and leadership position in ecommerce capture additional share gains from on-premise computing and off-line commerce.

## Outlook

The market environment remains constructive for active growth stock investing, in our view. Interest rates and inflation remain relatively low by historical standards, providing a healthy backdrop for corporate earnings growth and investors' allocation to equities. Meanwhile, global central bankers have pledged to sustain aggressive monetary and fiscal stimulus measures to ward off deflation and spur along continued economic recovery. Recent improvement in vaccine availability has accelerated shots-in-arms and is a much-needed spark that should help ignite economic recovery and a return to normalcy. We are seeing mobility and economic activity levels begin to rebound across many countries and sectors. Consumer and business confidence is rising too as the world has found innovative ways to adapt, progress, and grow despite the one-hundred-year pandemic still in our midst.

We are constructive about continued recovery and believe a rising and strengthening economic tide is likely to materialize in 2021 producing above average gross domestic product (GDP) growth. The market should continue to broaden out as more sectors of the economy recover and as under-appreciated growth and/or operating leverage materialize. Under-appreciated is key. Compared to history, valuations are higher than normal in the early stages of this economic recovery due to the faith placed in the ability of unprecedented fiscal and monetary stimulus to ignite and sustain earnings recovery. Interest rates are lower too in support of higher valuations, and we are likely to embark on a period of rising revenue and earnings expectations on relatively easy growth comparisons, which is fuel for optimism and sustained multiples.

For 2021, we believe there's ample room for earnings upside in our investable universe and are constructive on the prospects for the portfolio. On a broader level, earnings growth expectations for 2021 S&P 500 Index earnings are reasonable at about \$175 per share, 26% higher than 2020's COVID-impacted earnings but only about 9% higher than pre-pandemic earnings in 2019, implying about 4.5% cumulative annualized growth over the two-year period. 2022 S&P 500 Index earnings expectations at about \$201 per share again imply a reasonable 7.8% cumulative annualized growth rate expected over the 2019 to 2022 period.

As we get deeper into recovery and positive estimate revisions slow, the interplay between interest rates and stock market multiples will likely wax more prominently, while concerns about high debt levels and rising tax rates could also begin to affect broader valuation levels. That said, we think under-appreciated growth and operating leverage will be ample and rewarded throughout 2021.

Economic conditions may ebb and flow, but our focus remains constant; we invest in attractively-priced, financially-strong, well-managed companies benefiting from secular growth opportunities, in our opinion. Thank you for your support. ▲

## 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](http://buffalofunds.com). Read carefully before investing.*

### Earnings growth is not representative of the Fund's future performance.

As of 12/31/20 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 9.08%, Amazon 7.55%, Apple 6.43%, Alphabet (A) 4.65%, Visa 2.78%, Danaher 2.52%, PayPal 2.49%, Equinix 2.27%, Salesforce.com 2.10%, S&P Global 1.98%. 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 Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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 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. A basis point (bps) is one hundredth of a percentage point (0.01%). A yield curve is a curve showing several yields to maturity or interest rates across different contract lengths for a similar debt contract. The curve shows the relation between the interest rate and the time to maturity. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

**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.

