Buffalo Large Cap Fund

QUARTERLY COMMENTARY

March 31, 2022

Capital Market Overview

The equity market, as measured by the S&P 500 Index, suffered its second quarterly decline since the onset of the COVID-19 pandemic, over two years ago, producing a return of -4.60% during the January–March period. Weak capital market performance can be largely attributed to the Federal Reserve's decision to raise interest rates and reduce the size of its balance sheet, also known as quantitative tightening. Other headwinds, including the war in Ukraine, significant inflation, and persistent supply chain bottlenecks, only added to the backdrop of uncertainty for domestic and global markets.

The broad-based Russell 3000 Index fell -5.28% in the quarter. Value stocks outperformed growth stocks by a large amount, as the Russell 3000 Value Index returned -0.85% compared to a decline of -9.25% for the Russell 3000 Growth Index. Large cap stocks fell less than smaller cap stocks during the quarter, as the Russell 1000 Index declined -5.13%, followed by a return of -5.68% for the Russell Midcap Index, and -7.53% for the small cap Russell 2000 Index. Energy stocks surged during the period on rising oil prices while the more defensive Utilities and Telecommunication Services sectors were also modestly positive. The Consumer Discretionary and Technology areas of the market were the largest underperformers due to inflation and rising rates.

Performance Commentary

The Fund declined 9.76% during the period versus a decline of 13.55% for the Morningstar U.S. Large Growth Index. Favorable relative performance reflects continued better stock selection within the Healthcare and Technology sectors. The Fund also outperformed the Morningstar U.S. Large Growth category average of other large cap growth funds (our peer group) by nearly 100 basis points. While our large cap growth fund is not measured directly against the S&P 500 Index, we highlight its performance as you may use it as a natural comparator for equity returns.

As we've stated previously, there are key investment style differences between how we build a growth portfolio versus the components of the S&P 500 Index. Recall, the S&P 500 has a dramatically higher weighting in lower growth and more cyclically-oriented sectors such as the Energy, Industrial, and Financial Services sectors. On the other hand, the Fund is more focused on high-quality, secular (not cyclical) growth stories that are disrupting and transforming large markets within the global economy. These are frequently highly innovative companies that have the ability to invest retained earnings at a high rate of return, owing to incredibly attractive business models that offer durable growth opportunities.

Average Annualized Performance (%)

As of 3/31/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFEX*	10.23	18.63	16.83	15.18	10.94	10.65
Institutional Class - *BUIEX*[1]	10.42	18.81	17.01	15.36	11.11	10.82
Russell 1000 Growth Index	14.98	23.60	20.88	17.04	12.92	10.84
Morningstar U.S. Large Growth Index	5.79	19.01	19.27	15.95	12.03	–
S&P 500 Index	15.65	18.92	15.99	14.64	10.26	10.06
Morningstar Large Growth Category	5.75	18.74	17.65	14.65	11.04	9.51

[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:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.95%	0.80%
Fund Assets:	$113.48 Million	
Category:	Large Cap Growth	
Benchmark:	Russell 1000 Growth Index	

Management Team

Ken Laudan

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

Top Contributors

1) Palo Alto Networks
2) Costco
3) Aon Plc
4) Visa
5) Tesla

Palo Alto Networks (PANW) is the leading global cybersecurity software firm, with a broad portfolio of products for both large and medium sized enterprises who want a cloud or hybrid cloud/on-premise security solution. Shares rose nearly 12% in the quarter and represented one of our largest overweight stock positions. Cybersecurity remains one of the highest spending priorities for chief information officers (CIOs) given the heightened cyber and ransom wear attacks and the need to protect data and networks. The deteriorating relationship between the West and Russia only raises the risk of accelerating cyber-attacks and the need for both governments and business around the world to make needed investments.

Costco (COST) is also one of our largest overweight investment positions, and shares rose 2.1% in the quarter, reflecting its dominant position in the food and staples warehouse category, which is less likely to be negatively impacted by rising interest rates or a recession.

Aon (AON), a relatively smaller weight in the Fund, returned 8.5% this quarter, reflecting a strong pricing environment within the property and casualty insurance brokerage market and the company's large commitment to repurchase shares.

Visa (V) shares rose a modest 2.4% in the quarter as the company's financial performance and outlook continued to remain strong, with the possibility of revenue and earnings upside from the return of cross boarder travel from pent-up consumer and business demand for overseas travel.

Tesla (TSLA), beyond reporting robust vehicle deliveries during each of the three months in the quarter, also benefited thematically as the leading electric vehicle manufacturer amidst an environment of rising gasoline prices.

Top Detractors

1) Meta Platforms (formerly Facebook)
2) Microsoft
3) Netflix
4) Intuit
5) PayPal

Of the group, Meta Platforms (FB) had the biggest detraction to results, negatively impacting Fund performance by 138 basis points. The company reported weaker than expected advertising revenues related to new consumer privacy restrictions with Apple's new IDFA policy and from retailers who had limited available inventory to promote, owing to supply chain constraints.

Microsoft (MSFT) shares declined 8% owing to weakness across the technology and software sector during the first three months of the year. Company fundamentals remain positive as they continue to take share in Cloud hosting, and their core Office and gaming franchises remain the global leaders in their respective categories.

Netflix (NFLX), the global leader in streaming video reported lower than expected new subscriber adds during the quarter with renewed concerns about the competition in streaming. As a result, we trimmed its weighting to a small, minimum position until we see durable signs of reaccelerating acquiring subscriber growth along with some increased confidence that recent sub price increases will not materially impact sub churn. We continue to believe strong secular growth tailwinds should benefit Netflix over the long term as the company accounts for less than 10% of TV time in the U.S.. A strong content calendar in 2022 should help gross sub adds but we remain in wait and see mode here.

Intuit (INTU) and **Paypal** (PYPL) also negatively impacted performance in the most recent quarter, owing to different nuances around reported numbers. Intuit reported a weaker start to the tax preparation season (TurboTax) but remained optimistic the tax season would wind up similar to last year, while Paypal continued to face headwinds from a soft eCommerce environment during the holiday season and an uncertain eCommerce recovery coming into 2022, given a lack of government stimulus benefits relative to 2021.

Regarding Intuit, we remain overweight relative to our benchmark, owing to the strong competitive position within the small business eco-system within the U.S., buoyed by a growing platform of small business solutions beyond the prodigious QuickBooks franchise. The company is essentially becoming the enabler of digital work solutions for small business around the U.S. and Western Europe -- a massively large addressable and under-penetrated market. We will continue with diligence around Intuit's Credit Karma division, evaluating what a possible recession may portend for that business segment, but otherwise, we really like the long-term opportunity with our investment in Intuit.

Outlook

The broad equity and bond markets continue to be highly volatile given a number of discrete variables and risk factors. We highlighted a number of these in our recent year-end shareholder letter but we added a new risk factor during the March quarter, with the tragic and devastating invasion of Ukraine by Russia. While we mostly deal with risk and event factors in investment terms within these shareholder updates, it would be inappropriate for us not to stress the incalculable human toll of this unnecessary tragedy that clearly usurps any financial or investment implication. We can't express enough our heartfelt concern for those innocent human beings in Ukraine who have died or been unjustly dislocated from their homes and community.

Overall, the Buffalo Large Cap Fund continues to have a defensive bias, as it increasingly appears the Fed may indeed be behind the curve on taming inflation, at least over the short term with the most recent March consumer price index (CPI) data indicating inflation continues to increase, now at 8.5% on annual basis. The market is pricing in nine interest rate hikes over the course of 2022, but the delayed timing of these rate hikes may make it difficult to achieve a soft landing of continued strong employment, coupled with dramatically more stable pricing. While we are bottom's up investors, we remain macro aware.

There are three drivers to the ongoing inflation pressures: 1) supply chain related to a shortage of parts and products that most everyone has read about. Goldman Sachs indicated that autos accounted for 50% of the overshoot in core inflation via used car price increases 2) commodity related inflation as oil, gas, and metals such as nickel become in short supply, mostly related to Russia's invasion of Ukraine and 3) wage inflation.

Of these three inflation drivers, the most troubling for equity and bond markets is wage inflation and the risk that we've possibly entered a wage/price spiral. Remarkably, in the U.S., we currently have two job openings for every job seeker. This ratio of job openings to job seekers is unprecedented by any historical standard in country's economic history and it could potentially cause the Fed to further accelerate the pacing of its planned rate hikes. Time will tell, but we are watching this closely. In the meantime, we will continue with a skew toward a defensive posture within the large cap growth portfolio.

As equity valuations continue to offer more attractive entry points, with some high growth stocks down 50% or more from recent high's in 2021, we will selectively take advantage of strong franchises, with recurring revenue, high cash flow returns on invested capital, and pristine balance sheets. The software industry is one example of this and is an area we are looking with more interest.

As always, we appreciate your continued interest in the Fund.

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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.

As of 12/31/21 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 9.86%, Apple 7.27%, Amazon 6.53%, Alphabet (A) 6.49%, Meta Platforms 3.72%, Visa 2.64%, NVIDIA Corporation 2.21%, Intuit 1.89%, ASML Holding 1.76%, Costco Wholesale 1.70%. 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 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 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. One cannot invest directly in an index. A basis point (bps) is one hundredth of a percentage point (0.01%). 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. Free cash flow (FCF) is the cash flow available for the company to repay creditors or pay dividends and interest to investors. The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

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.