Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

March 31, 2023

First Quarter 2023 Key Takeaways

- The S&P 500 Index bounced off the December lows and reasserted itself in the first quarter of 2023 with information technology (particularly, semi-conductor stocks) leading the way.
- Notably, what bounced the hardest were stocks that experienced the biggest corrections in 2022. Key drivers for the tech-centric resurgence were the "eye-popping" adoption of ChatGPT and the mainstreaming of artificial intelligence (AI) that relies on high powered chip performance, coupled with investor's pervasive belief that the US Federal Reserve was likely finished raising interest rates...a generally positive backdrop, for technology companies.
- The Buffalo Large Cap Fund continues to be defensively positioned owing to a belief that the earnings and economic outlook remains challenged through the next several quarters. Most leading indicators, and a highly inverted yield curve continue to signal some form of a recession that we believe is not adequately priced into the market.
- It is important to note that stocks don't tend to bottom until fundamentals stop getting worse. 90% of the S&P 500 Index return in the quarter was driven by just seven stocks. Such a narrow group indicates the market may not be as big a believer in the recent rally and near-term fundamental outlook as the positive stock market returns imply.

Performance Commentary

The Buffalo Large Cap Fund advanced 13.65% during the quarter versus a gain of 14.37% for the Russell 1000 Growth Index. Our relative underperformance in the quarter entirely reflects not owning shares of Tesla, which represented about 2.4% of the Russell 1000 Growth Index and gained 68% during the quarter. If, for example, the fund had held a benchmark weighted position in Tesla during the period, the portfolio would have outperformed the index by 22 basis points, all other things equal. We chose to no longer hold Tesla given growing concerns about CEO stewardship and the troubling pattern around both statements and actions, which are incongruent with the type of authentic leadership we are drawn to. Moreover, as a fiduciary, we place great value on transparency and the consistent track records of management teams.

As you may know from prior shareholder letters, we believe fund performance relative to a peer group of other large cap growth funds is an important performance metric to consider over the long term. This peer relative performance combined with the fund's risk profile is what determines our fund's Morningstar "star rating". In the quarter, the

Average Annualized Performance (%)

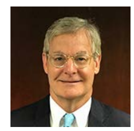
As of 3/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFEX*	-10.08	15.83	11.14	12.97	10.63	9.83
Institutional Class - *BUIEX*[1]	-9.97	16.00	11.30	13.14	10.80	10.00
Russell 1000 Growth Index	-10.90	18.58	13.66	14.59	12.11	9.97
Morningstar U.S. Large Growth Index	-18.90	10.15	9.19	12.71	10.63	–
S&P 500 Index	-7.73	18.60	11.19	12.24	10.06	–
Morningstar Large Growth Category	-12.65	14.44	9.78	11.68	9.40	8.63

[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:	0.93%	0.78%
Fund Assets:	$94.62 Million	
Category:	Large Cap Growth	
Benchmark:	Russell 1000 Growth Index	

Management Team



Ken Laudan

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

Buffalo Large Cap Fund

Buffalo Large Cap Fund outperformed the Morningstar Large Growth category average return by about 200 basis points +13.65% versus 11.65%. The Buffalo Large Cap Fund has now outperformed the Morningstar Large Growth peer group average return over the past 1-, 3-, 5-, 10-, and 15-year periods on an annualized basis.

While the Buffalo Large Cap Fund is not directly measured against the S&P 500 Index by prospectus, we choose to highlight its performance as a natural comparator for overall U.S. equity returns. As you may know, the core difference between Buffalo Large Cap and the S&P 500 Index is the latter has much larger weightings in more cyclical sectors of the U.S. economy, namely energy, financials and industrials. Given our focus on more secular growth companies, the fund handily outperformed the S&P 500 Index return of 7.50% during the quarter.

↑ Top Contributors

Apple (AAPL) – We consider Apple as the best positioned company in the technology hardware category. We believe its key advantage is the company's vertically integrated platform of leading consumer technology products with strong brands and recurring revenue. Despite near-term macro challenges the company, like other mega- cap tech companies, was a safe haven for investors in the first quarter and shares advanced by about 27%. We continue to believe in the long-term secular drivers of Apple (iPhone, Mac and wearables) along with their ability to leverage scale into further margin benefits.

Microsoft (MSFT) – Despite a mixed earnings message, Microsoft's shares outperformed the market (+20.5%) owing to the security and shelter of owning one of the premier growth companies in the world. The company's share price was further buttressed by the rapid engagement of people around the world to OpenAI's ChatGPT generative search engine (MSFT owns 49% of OpenAI) and the prospects of integrating ChatGPT into the company's Bing search engine. The belief being that Microsoft will be able to benefit from accelerating share gains in the large web-based search and eCommerce marketplace currently, dominated by Google (GOOGL).

Nvidia (NVDA) – Nvidia is the leader in accelerated compute and is a critical enabler for deploying AI across a number of vertical industries. The company's next generation datacenter accelerator GPU the H100 is ramping at the ideal time as generative AI becomes mainstream driving accelerating investments for both enterprises and public cloud providers in the leading AI chip and software company. After a rough 2022 with weakness across gaming and desktop computing, Nvidia's shares rebounded strongly in the quarter, advancing 90% around its leadership in AI. The risk/reward is more balanced given the strong share price runup and for the shares to work further from here, the company will need to compound its revenue growth above 20% for the foreseeable future and keep making adroit decisions within their annual $8 billion in Research & Development (R&D) spending to stave off smart and well financed competitors.

↓ Top Detractors

UnitedHealth Group (UNH) – UnitedHealth is the largest integrated health benefits company in the world. Beyond the delivery of managed care and primary care physician services, the company is the most equipped and competitively advantaged healthcare technology provider with an unprecedented amount of healthcare outcomes and claims data that can be leveraged into improved clinical decision making.

We continue to believe UnitedHealth has a number of levers it can pull to produce durable EPS growth in the range of 13%-16% for the foreseeable future absent decisive regulatory changes in the structure of U.S. healthcare delivery. After strong outperformance in 2022, shares fell 11% in the quarter reflecting some uncertainty on Medicare Advantage rates and policies in addition to an investor shift to other healthcare industries during the quarter, such as medtech.

Northrop Grumman (NOC) – Northrop Grumman is a key prime contractor for the U.S. Department of Defense who we believe is aligned well with future growth areas for DoD such as autonomous aircraft, the modernization of the nuclear triad and hypersonic technology. Like other industrial companies, the shares underperformed in the quarter, falling 16%. Concerns about Northrop Grumman's premium valuation and rotation to other less defensive sectors drove the under-performance.

Honeywell (HON) – Honeywell's industrial business model is attractive given its minimal exposure to short-cycle and residential markets and heavier focus on secular growth trends of digital process automation, defense, building efficiency and commercial aerospace. Moreover, the company is benefiting from an increased mix of software as adjacencies to it's core offerings where it has a legacy of domain expertise. We see HON well positioned to grow above peers and generate meaningful margin expansion over the long term. Like Northrop Grumman above and other industrial companies that performed well in the last quarter, Honeywell's shares declined 10% this quarter owing to growing concerns about a macro economic slowdown and the impact to the industrial and manufacturing sectors.

Outlook and Portfolio Positioning

Ken Laudan, portfolio manager of the Buffalo Large Cap Fund, has a reminder pinned to his office wall called "The Shock Cycle". The shock cycle occurs when investors become either overly optimistic or overly pessimistic about the future prospects of a particular stock or the stock market, in general.

During one phase of the "shock cycle" investors will tend to assume all good news is permanent, while ignoring bad news or assuming that bad news is positive. This typically leads to a period of rapid stock market appreciation as human emotion and confirmation bias rebukes the present reality. Conversely, in the opposite phase of the cycle, investors will tend to deny good news and overreact to so-called bad events until their beliefs once again come full circle reflecting all good news is permanent while searching for the next big thing in the stock market.

The key tenet of keeping the shock cycle reminder visible is to ensure fund management remains cognizant of the cycle in either of its phases, and importantly, to maintain a balanced perspective ensuring we carefully calibrate both positive and negative news/events when making any investment decision.

We continue to believe the risk/reward of the current market is skewed to the downside with the price/earnings ratio of the S&P 500 trading at 18x using what we believe are elevated earnings estimates, particularly as we have yet to enter the last phase of the bear market, the credit cycle downturn where revenue and earnings are most likely to be negatively impacted.

Accordingly, the portfolio remains overweight defensive sectors, such as healthcare, and underweight technology and consumer discretionary, while holding a higher-than-normal level of cash. We continue to avoid any investments in banks as credit cycle revisions are rarely a good time to own that group. However, we continue to monitor developments in the broader economy and the outlook for earnings revisions of our specific portfolio holdings.

Conclusion

Inflation has likely peaked, notwithstanding being a bit stickier than most would prefer. Coincident with peaking inflation, the Fed is very likely nearing the end of its interest rate-raising cycle with perhaps another 25 basis points of increase in the Fed Funds Rate at its May meeting.

We are still a bit early on this call, but we believe the recent banking crisis will further reduce market liquidity (money supply growth) as loan volumes within the U.S. will most certainly be more constrained throughout the next six to nine months. In fact, the most recent loan growth data shows a sharp decline of loans during the last week of March.

Combined with the lagging effect from the sharp rise in interest rates over the last 15 months, companies are likely to face a tougher revenue and earnings growth environment as the economy continues to weaken heading into the second half of the year.

As always, we appreciate your continued confidence in our investment strategy and approach. Our conviction comes from the belief that the investment process has historically demonstrated a track record of consistent outperformance through various market challenges and opportunities.

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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As of 12/31/22 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 10.40%, Apple 7.87%, Alphabet (A) 5.85%, Amazon 4.87%, UnitedHealth Group 3.84%, Visa 3.06%, NVIDIA 1.84%, Costco 1.48%, Linde 1.38%, Honeywell International 1.38%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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 Nasdaq Composite Index is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. 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 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 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. 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. Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. The yield curve is a graph which depicts how the yields on debt instruments such as bonds vary as a function of their years remaining to maturity. The price-to-earnings (P/E) ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share.

BUFFALO FUNDS