

Buffalo Large Cap Fund

Capital Market Overview

Equity markets rebounded sharply in the 2nd quarter following steep losses in the previous period. The S&P 500 Index produced a return of 20.54%, marking the best quarterly performance results in 20 years. Stimulus efforts by the Federal Reserve (the "Fed") and the U.S. Treasury Department to limit COVID-related economic damage helped equity markets find a floor in late March. Declining COVID-19 case counts, optimism about treatment and potential vaccines, along with better-than-expected economic data also contributed to improved investor sentiment during the period. Although confirmed virus cases began spiking again in the final days of June, it was not enough to undo the best quarterly market results since the dot-com boom.

The broad market Russell 3000 Index advanced 22.03% in the quarter, and Growth outperformed Value as the Russell 3000 Growth Index moved up 27.99% during the period, compared to the Russell 3000 Value Index's advance of 14.55%. Relative performance was inversely-correlated by market cap as the Russell Micro Cap Index advanced 30.54%, well above the large cap Russell 1000 Index's return of 21.82%. Meanwhile the small cap Russell 2000 Index and the Russell Mid Cap Index were up 25.42% and 24.61%, respectively. The best performing sectors were Technology, Consumer Discretionary, and Energy while the less cyclically exposed, more defensive areas like Utilities, Telecommunication, and Consumer Staples lagged in the quarter.

Performance Commentary

The Buffalo Large Cap Fund (BUFEX) returned 24.25% during the quarter, but lagged the Morningstar U.S. Large Growth Index's gain of 26.60%. Poor stock selection in the Consumer Discretionary and Financials sectors was the leading cause of underperformance compared to our benchmark, which was offset, in part, by strong Fund results in Information Technology. While large cap growth stocks outperformed small cap growth stocks during the broad market selloff of the 1st quarter, this trend reversed itself in the 2nd quarter, and large cap growth underperformed small cap growth by about 7%. However, large cap growth outperformed large cap value by a wide margin in both of the first two quarters of this year. Within the Index, Materials, Consumer Discretionary, and IT were the strongest sectors, all reversing sharp declines from the 1st quarter, reflecting investor optimism about a potential economic rebound and recovery.

Average Annualized Performance (%)

As of 6/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFEX	14.55	14.16	13.01	15.03	9.94	9.98
Institutional Class - BUIEX ¹	14.74	14.34	13.18	15.20	10.10	10.15
Morningstar U.S. Large Growth Index	23.28	20.46	16.00	17.71	11.06	-
Lipper Large Cap Growth Index	21.75	18.37	14.60	15.91	10.14	8.94

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 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.

Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.94%	0.79%
Fund Assets:	\$90.11 Million	
Category:	Large Cap Growth	
Benchmark:	Morningstar U.S. Large Growth Index	

Management Team



Alex Hancock, CFA

Manager since 2018
B.A. – Dartmouth College

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↑ Top Contributors

Microsoft was the top-contributing stock for the Fund during the quarter, with the stock returning 29%. The company's business has been insulated from COVID-19 slowdowns, amidst the increase in remote work and learning. Growth in its cloud services and Office 365 products also remained strong. We believe the company's growth outlook over the next several quarters is solid regardless of the trajectory of the COVID-19 pandemic.

Amazon was another top contributor, with shares increasing by 41%. Demand for Amazon's delivery services accelerated as consumers avoided brick-and-mortar stores in the pandemic environment. The company's web services division was also well positioned for continued growth, driven by the need for cloud computing in a remote work environment.

↓ Top Detractors

Biogen underperformed during the quarter, after losing a courtroom decision in June that could lead to the loss of patent protection for Tecfidera, a key drug treatment for multiple sclerosis. There is also significant uncertainty regarding the potential approval of its Alzheimer's drug Acucanumab, but we expect more clarity on this in coming quarters. While the risk/reward tradeoff for the stock appears favorable at current levels, Biogen remains a relatively small position in the Fund, given our expectation that upcoming news flow will drive significant volatility in the company's shares.

Outlook

The first two quarters of 2020 were turbulent for investors, and we expect the trend of elevated volatility to continue into the 2nd half of the year. We believe the trajectory of the COVID-19 pandemic will be a key driver of market direction. The gradual reopening of the U.S. economy has coincided with a surge of virus cases in Sunbelt states and California. Investors will closely watch evolving data on infection rates, hospitalization rates, and deaths, and, while we believe that state and federal governments will resist shutting down economies again, any signs that the U.S. is returning to broad-based quarantines would likely lead the stock market downward.

We are also closely watching for news on treatments, as well as indications of a promising vaccine, and expect to see more data within the next several months. Any sign that an effective vaccine could be rolled out in the near term would be a binary event, and we would expect the market, especially the value stocks that have lagged growth in the 1st half of 2020, to rerate and trade sharply upward.

The trajectory of the U.S. economy and potential recovery in the job market remains another question mark. While jobless claims in June have pointed to a sharp recovery in the U.S. job market, employment remains far below pre-pandemic levels, and any efforts to reinstate quarantines could derail the recovery.

We are also paying close attention to the upcoming elections in November. Recent signs suggest larger Democratic Party gains than what we would have predicted at the start of 2020. Large Democratic gains could lead to factors such as higher corporate taxes, an increased focus on prescription drug prices, and regulatory pressure on the business models of the mega-cap technology companies that have been market leaders in recent years.

Other factors that could drive market volatility in coming months include: (i) the extension or expiration of various government stimulus efforts this summer and fall; (ii) expansion of the protest movements that swept across numerous large cities in June; and (iii) the upcoming earnings season. Earnings announcements will give us a better sense of the declines and balance sheet stress experienced by corporate America due to the pandemic-related shutdowns.



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Within the framework above, we are cautiously optimistic about the prospects for economic recovery in the U.S., but expect significant volatility in large cap growth stocks in coming months.

We finished the June quarter with 54 holdings, up from 52 at the start of the quarter. During the period, we sold out of two positions, and initiated four new ones. We are continuing to manage the Fund actively, allocating capital to ideas we believe have the best risk/reward tradeoffs, and reducing those that are less favorable. We also continue to invest in companies whose organic growth is pressured in the near-term by pandemic-driven slowdown, but whose business models and balance sheets are strong. We believe many of these businesses can use the downturn as an opportunity to operate more efficiently, gain market share, and find new opportunities for growth. We expect many of these holdings to emerge from the downturn with stronger, higher-margin businesses after the U.S. economy returns to more normalized levels.

Our time-tested strategy of investing in premier large cap growth companies, which could benefit from long-term trends and trade at attractive valuations, remains the cornerstone of our work, and we appreciate your continued confidence in our efforts. ▲

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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537

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 3/31/20 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 9.44%, Amazon 6.62%, Alphabet (A) 4.52%, Apple 4.52%, Equinix 3.19%, Visa 3.14%, CME Group 2.63%, S&P Global 2.38%, Danaher 2.30%, Salesforce.com 2.15%. 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 Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. 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. 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.