

Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

June 30, 2021

Capital Market Overview

Equity markets moved higher for the fifth consecutive quarter, as the S&P 500 Index returned 8.55%, raising the year-to-date return to 15.25%. The COVID-19 vaccine rollout has helped fuel an economic comeback while corporate earnings are improving. The vaccine adoption around the world is encouraging, and over 50% of the U.S. population is now vaccinated. Capital markets continued to be supported by significant spending from Congress and aggressive monetary policy from the Federal Reserve (the Fed). The 2nd quarter was marked by outperformance of growth stocks, overcoming investor concerns of rising inflation and potential interest rate hikes in the prior quarter. Hawkish comments from the Fed replaced inflation worries with concerns about the magnitude and duration of the economic recovery. Long duration growth companies were beneficiaries as yields on the 10-Year and 30-Year Treasuries declined during the period after climbing for the previous four months.

The broad market Russell 3000 Index advanced 8.24% in the quarter. Growth stocks outperformed Value stocks, as the Russell 3000 Growth Index surged 11.38% compared to the Russell 3000 Value Index gain of 5.16%. Relative performance was correlated with market cap size in the quarter, as the large cap Russell 1000 Index returned 8.54%, the Russell Midcap Index advanced 7.50%, the small cap Russell 2000 Index returned 4.29%, and the Russell Microcap Index finished 4.14% higher.

All economic sectors produced positive returns during the period with the exception of Telecom Services. Real Estate, Information Technology, and Energy led the advance followed by Financials and Health Care. More defensive areas, such as Telecom Services, Utilities, and Consumer Staples, trailed on a relative basis.

Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.95%	0.81%
Fund Assets:	\$120.90 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

During the 2nd quarter, the Buffalo Large Cap Fund (BUFEX) generated a 10.92% return, with large cap growth, as an asset class, broadly outperforming both mid and small cap growth, as investors grappled with growing inflation concerns and rising cases of COVID-19 around the globe. It seems like we are approaching maximum uncertainty regarding the direction of the U.S. economy, owing to the nuances of how novel the current pandemic-dominated business cycle is turning out to be, coupled with concomitant ambiguity on inflation being either transitory or secular.

Average Annualized Performance (%)

As of 6/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFEX	39.97	21.72	20.59	15.49	12.04	11.00
Institutional Class - BUIEX ¹	40.16	21.90	20.77	15.67	12.21	11.17
Morningstar U.S. Large Growth Index	42.02	24.95	24.44	18.53	13.46	-
S&P 500	40.79	18.67	17.65	14.84	10.73	-
Lipper Large Cap Growth Index	41.90	24.24	23.62	16.69	12.31	10.05

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 underperformed the Morningstar U.S. Large Growth Index, which rose 15.42%, principally owing to the Fund's large underweighting within the Technology sector at the beginning of the quarter (1300 basis points) and the tech sector's strong 16% return in the quarter. Our Fund did outperform the S&P 500 Index in the June quarter by 237 basis points, as the S&P 500 has a lower tech weighting.

Importantly, we made a conscious decision during the quarter to expand the Fund's exposure to the Technology sector, with that category now representing 52% of the Fund, which is more in-line with our benchmark's 55% weight. Any further changes from here will be dependent on finding more attractive valuation entry points and the more macro sensitivity to possible regime changes regarding interest rates at the Fed.

↑ Top Contributors

Intuit, the leading small business financial and accounting software, and its TurboTax software, also the most popular with individual do-it-yourself filers, was a top contributor in the 2nd quarter. The company recently acquired Credit Karma as a new product offered across its platform. The company's 28% share price return resulted from the company's small business QuickBooks segment, seeing accelerating revenue growth of 20% in the 2nd quarter, up from 11% in 1st quarter 2021. Intuit also benefited in the quarter from better-than-expected performance in the company's new Credit Karma division with over 100 bps of operating margin expansion.

DocuSign, the world's leading e-Signature provider, was another top contributor in the quarter, as it continues to automate the entire agreement process within a cloud-based platform. DocuSign generated the fourth-highest revenue growth rate of any software company in 2Q21, expanding billings 54% and revenues by an "eye-popping" 61%, as new customer adds came in ahead of expectations. Operating margins also increased a strong 260 basis points. The strong financial performance helped drive the shares higher 39% in the quarter.

Cloudflare, a global provider of solutions for cloud-based internet security, was another top contributor in the quarter. Cloudflare's share price increased 40% in the June quarter from our recent initial purchase in late April. There continue to be two large favorable trends playing to Cloudflare's strengths – 1) the growth in cloud computing and 2) the exponential rate of cyber and ransomware attacks from Russia and China based organizations, mostly. The increased publicity and magnitude of the attacks has driven the shares of all cyber-security firms higher. The most prominent of the attacks was the ransomware infiltration into the largest meat processing company in North America on Memorial Day. We see no real end to the key trends aiding the strong growth of Cloudflare, although we are a bit more cautious on the opportunity in China given geopolitical uncertainties.

↓ Top Detractors

Delta Airlines, a large U.S.-based airline, was our largest detractor in the 2nd quarter, down nearly 7%, owing mostly to rotation away from profit taking associated with the strong performance over the preceding six months. Nothing in the structural fundamentals drove the underperformance.

Bookings Holding, a large global internet travel site, also saw some profit-taking pressure during the quarter, stemming from the big share price bounce from last November when we received positive vaccine clinical trial results.

Finally, **Sysco Corporation** shares, similar to Delta and Bookings, experienced some investor rotation shift out of recovery trade holdings back into secular growth technology companies. Sysco also had a generally positive investor day during the quarter, where management expressed a lot of confidence in the company being able to consistently grow faster than competitors while also offering positive but beatable guidance, in our opinion.

Outlook

We see the 2nd half of 2021 quite wobbly from an economic perspective. As we stated earlier, we believe the U.S. economic backdrop is very opaque given the unique nature of the COVID-centric economic cycle and the impossible task of predicting how existing and new variants will affect the global economy. With well-known and elevated concerns surrounding price stability with both inflation and deflationary concerns, it makes being an equity growth investor a bit more challenging than within a typical economic cycle. Accordingly, we see plausible risks to projected revenue and earnings in the 2nd half of the year, as supply chains remain strained and COVID case rates accelerate globally, owing to the Delta variant.

In the meantime, it seems the Fed remains committed to maintaining the lower bound on interest rates in 2021 and 2022 while supporting increased monetary stimulus when they see the need.

With the 10-year Treasury Bond's yield back down 1.19%, it's clear the broad market has sided with the Fed's "transitory" perception of rising prices. In our opinion, it will take until October or November prior to having a clear sense of both the COVID recovery outlook and the inflation/deflation debate. Both outcomes will have implications both up and down for equity valuations. ▀

A Personal Note from the New Fund Manager – Ken Laudan

I would like to introduce myself to all Buffalo Funds Large Cap shareholders. I was appointed to oversee the Large Cap Fund on April 12, 2021, following the departure of the prior manager, Alex Hancock, who left the firm after 19 years to pursue a personal investment opportunity.

I have been an institutional growth money manager for over 19 years, including the past 15 months at the Buffalo Funds. My approach to growth investing follows the concept of focusing on high quality, durable growth companies that address six key factors:

- 1) Has a large and growing addressable market
- 2) Is potentially a key beneficiary of a durable secular theme or super-cycle trend
- 3) Has a minimum of 5% to 7% organic revenue growth outlook over next 3 to 5 years
- 4) Capable of doubling earnings per share over the next 5 years
- 5) Top quartile cash flow returns on invested capital (e.g. >15%)
- 6) Pristine balance sheet strength – low debt levels give us the best chance of outperforming in both up and down markets.

While not every holding in our Fund may possess all of these factors, the overall portfolio will indeed reflect all of these key investment characteristics that I have followed for most of my investment career. I believe this investment approach will position the Fund to potentially outperform the benchmark index.

I'm inspired to invest in the best mix of U.S. and, in some cases, global large cap growth companies, who are led by management teams who want to change the world in a durable and positive way.

I am gratified by your confidence in overseeing the growth and stewardship of this important legacy fund within the Buffalo Funds.

~ Ken Laudan, portfolio manager for the Buffalo Large Cap Fund

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 3/31/21 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 9.49%, Amazon 7.07%, Apple 5.84%, Alphabet (A) 5.39%, Visa 2.65%, Danaher 2.51%, Kansas City Southern 2.43%, PayPal 2.33%, Alphabet (C) 2.18%, Equinix 2.13%. 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 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 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 Russell Microcap Index measures the performance of 2,000 small cap and micro cap companies. 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.

