Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

June 30, 2022

Capital Market Overview

The stock market extended year-to-date losses during the 2nd quarter. Inflation, rising interest rates, and economic uncertainty continued to be major headwinds for investors as recession talks gained traction. The S&P 500 Index fell -16.10% during the quarter, bringing the total return for the first half of the year to -19.96%. News headlines, which included energy shortages, the war in Ukraine, China's COVID lockdowns, and the potential for softer corporate earnings next quarter, added to the pessimistic market sentiment. However, the Federal Reserve's hawkish stance on inflation, expectations for additional interest rate increases, and a reduction in the size of its balance sheet, continued to signal confidence in the U.S. economy moving forward.

The broad-based Russell 3000 Index declined -16.70% in the quarter. Value stocks fell less than growth stocks as the Russell 3000 Value Index returned -12.41%, versus a return of -20.83% for the Russell 3000 Growth Index. Relative performance slightly favored market cap size as large caps outperformed small caps in the quarter. Larger cap stocks, as measured by the Russell 1000 Index, returned -16.67% compared to the smaller cap Russell 2000 Index return of -17.20% and the Russell Microcap Index return of -18.96%. There were no advancing economic sectors for the quarter, but Consumer Staples, Energy, Utilities, and Healthcare held up better on a relative basis. Consumer Discretionary, Information Technology and Communication Services areas lagged.

Performance Commentary

For the quarter, the Buffalo Large Cap Fund (BUFEX) declined -19.47% versus a decline in the Russell 1000 Growth Index of -20.92%. Our relative outperformance reflects continued improved stock selection and better sector exposure performance within the Consumer Discretionary and Industrials categories.

As we do every quarter, we stress that while the Buffalo Large Cap Fund is not directly measured against the S&P 500 Index, we highlight its performance as you may use it as a natural comparator for equity returns. As you may know, the core difference between Buffalo Large Cap and the S&P 500 is the latter has much larger weightings in more cyclical sectors of the U.S. economy, namely Energy, Financials, and Industrials.

Average Annualized Performance (%)

As of 6/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFEX*	-19.98	8.66	10.75	13.59	8.80	9.67
Institutional Class - *BUIEX*[1]	-19.85	8.83	10.92	13.77	8.96	9.84
Russell 1000 Growth Index	-18.77	12.58	14.29	14.80	10.67	9.78
Morningstar U.S. Large Growth Index	-35.67	4.05	9.81	12.36	8.96	–
S&P 500 Index	-10.62	10.60	11.31	12.96	8.54	–
Morningstar Large Growth Category	-23.86	8.10	11.01	12.51	8.74	8.48

[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.

BUFFALO FUNDS

Top Contributors

1) Enphase Energy
2) UnitedHealth Group
3) Eli Lilly
4) Vertex Pharmaceuticals
5) Arthur J. Gallagher & Co.

Enphase Energy (ENPH) is novel solar energy company that is rapidly becoming one of the leading global manufacturers of microinverters for solar panels used for residential and small commercial businesses. Key to the company's leading market share has been its own proprietary integrated circuit which results in lower energy costs and increased solar energy features for homeowners. Beyond seeing sharp accelerating demand in Europe for residential and small business solar panel installations related to the Russia invasion into Ukraine, we're equally positive on the company's entrance into the important solar battery storage segment. Having the ability to store rather than lose excess solar energy to the grid provides a compelling holistic energy management system for customers while increasing the company's revenue potential from $2,500 to $8,500 per home. Enphase shares rose 20.4% during the 2nd quarter and was the Fund's top relative contributor this period.

UnitedHealth Group (UNH) was one of the Fund's largest overweight investments during the period, with the shares rising 1.11%, reflecting its defensive positioning as the leading and best positioned healthcare service company in the U.S. We have increased the weighting from 1.9% of portfolio assets to over 3% as of the end of 2nd quarter.

Eli Lilly (LLY), although a smaller weighting than UnitedHealth above, the shares were still the third best contributor to Fund performance in the quarter, increasing 13.4%, reflecting the company's appealing large cap growth profile but also a clear sector rotation to more defensive safe haven for investors.

Vertex Pharmaceuticals (VRTX) is akin to Eli Lilly, in the large cap pharma category, in that it represents one of the best growth profiles in the large cap biotech sector. Vertex shares rose 8% in the quarter, reflecting its favorable growth profile, reasonable valuation, and the thrust to more defensive positions for growth investors.

Arthur J. Gallagher (AJG) is one of the country's largest insurance brokers within the property/casualty market while also recently expanding into the lucrative reinsurance segment via the acquisition of Willis Towers Watsons' global reinsurance business. This was a growth accretive acquisition for Gallagher and should help accelerate organic revenue growth closer to high single digits through 2025.

Top Detractors

1) Amazon
2) Apple
3) Microsoft
4) Alphabet
5) NVIDIA

Of the holdings that weighed the most on relative performance in the quarter, Amazon (AMZN) had the biggest affect, negatively impacting Fund performance by 256 basis points, as the company's shares slid 34.8%. While the top-line for Amazon has held up, the company has had a host of cost challenges from over-building on distribution facilities in 2020 and 2021, to over-hiring coming into 2022, to buying too much inventory, and being negatively impacted by fuel costs. These are similar headwinds felt by other large retailers including Walmart and Target during the most recent quarter. Things should start to ease for the company as sales comparisons get easier in the 3rd and 4th quarter of this year, and as the company slows down its spending and cuts back on some of its infrastructure. We believe shares are likely to mark time until we get into early 2023 when we expect revenue growth rates and margin expansion both improve.

Apple (AAPL) stock declined 21.6% this most recent quarter, reflecting the higher interest rate environment (tech stock valuations inversely correlated to rates) and consumer macro concerns, specifically around iPhone sales and recent lockdowns in China where most iPhone production resides. Otherwise, Apple remains one of the most structurally-sound holdings in the portfolio, although, an 8% weighting is still below the index weighting of 12%.

Microsoft (MSFT) shares declined 16.5% on weakness across the technology and software sector during the first three months of the year, mostly owing to a higher rate environment mentioned above. 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.

Alphabet (GOOG), not dissimilar to the three preceding jumbo market cap tech companies above, saw shares down 21.6% in the quarter. As you may know, GOOG is the market share leader in internet driven paid advertising and paid search. Much of the advertising and paid search is related to eCommerce retail goods and services. Retailers for the last year have been struggling through supply chain headwinds and now face a more challenged consumer both at the low and at the mid to high end, owing to ongoing inflation and creeping economic softness. Partially offsetting the slower retail/eComm issues for GOOG is that travel remains the second largest contributor to their large paid advertising platform, and travel is seeing a renaissance of sorts with solid underlying demand. As we head into the second half of 2022, we'll continue to monitor the slope of eCommerce growth, with consensus calling for a 10% increase from 2021.

NVIDIA (NVDA) is a fabless semiconductor manufacturer that designs hardware and software aimed at various graphics applications used in gaming and industrial design (professional visualization/design simulation). NVDA is the leader in graphic processing units (GPUs) used in high performance computing. NVIDIA is also the global leader in the production of integrated circuits used for AI and machine learning, currently possessing the largest market share of AI/ML GPUs embedded in servers located in most of the large cloud and enterprise data centers. The shares declined 44.5% during the quarter owing to the macro market and tech valuation compression in addition to growing but decelerating demand for gaming GPUs. We view NVIDIA uniquely well positioned to capture the leading GPU share in the emerging market for virtual reality and in autonomous driving, in addition to a long runway in cloud-based AI/ML.

Outlook

As was the case in the 1st quarter of 2022, the broad equity and bond markets continue to be highly volatile, given an ongoing number of discrete variables and risk factors the market continues to grapple with. From stubborn inflation, to slowing economic indicators to geo-political issues (Ukraine/Russia war & heady ongoing tensions between China/Taiwan) around the globe, capped off by a global pandemic that has proven it's also not transitory.

In a nutshell, this current market backdrop is all about risk-management. While adroit stock picking is always important for a fund's performance, we've continued to ensure we remain sensitive to the rapidly changing macro environment with a balance of growth-oriented holdings but with a clear risk-management "defensive posture" within the portfolio. For instance, our average cash weighting during the 2nd quarter was 6.7%. As of mid-July, we've elevated the cash weighting slightly to 7.5% of Fund assets.

While inflation in the U.S. is hopefully nearing its peak over the next month or so, albeit at 40 year highs, there are an increasing array of decelerating economic indicators (as of early July) that raise the risk of lower corporate profit results and guidance as we head into the back half of 2022 and 2023. Therefore, we see no need to shift away from a more defensive positioned portfolio until we're able to gain better clarity around several key risk factors, including more granularity surrounding both the global and U.S. economic outlook.

In this regard, if you were to ask us what the single most important unknown we most need clarity on, it would be the ability to better assess recession risk. Specifically, having more constructive data points that provide insight in the plausible depth and length of a potential U.S and global recession outcome over the next 6 to 9 months. Unfortunately, there are no clear answers today where we can even estimate likely probabilities.

As we move through the upcoming earnings season, we hope to gain incremental insight and perspective to better judge the risk and/or magnitude on the slowing U.S. and global economies. The Buffalo Large Cap management team's base case is that we expect a recession both in Europe and in the U.S. over the next six to nine months that will at least produce a moderate impact on consumer and business spending with some concomitant negative impact to current financial estimates.

We are also keeping a close eye on the tragic Ukraine/Russia conflict, the economic situation in Europe (and Asia) as well as the growing BA.5 infection levels related to the most recent Omicron variant both in the U.S. and around the world.

While a potent combination of Federal Reserve (the "Fed") monetary policy and fiscal stimulus provided a soft landing through the core COVID period, we now have entered an inflation-led phase and the Fed must now re-absorb much of the liquidity it provided over the last 28 months. Inflation is a stubborn enemy, particularly when, as a central bank you're late in recognizing the intransigence of the beast as the Fed as been.

For this reason, we will continue with a defensive oriented portfolio while also keeping a close eye on compelling longer term growth opportunities should the market continue in a volatile cycle.

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 3/31/22 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 10.10%, Apple 8.00%, Amazon 7.14%, Alphabet (A) 6.97%, Visa 3.10%, NVIDIA Corp 2.55%, Costco 2.41%, Tesla 2.18%, Meta Platforms 2.12%, UnitedHealth Group 1.82%. 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 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 Russel Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. The Russell 1000 Growth Index is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. 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.

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.