Buffalo Large Cap Fund

QUARTERLY COMMENTARY

September 30, 2020

Capital Market Overview

Equity markets sustained their momentum in the 3rd quarter, with the S&P 500 Index returning 8.93%. Macro data continued to improve, and companies broadly reported earnings that proved to be more resilient than expectations. While the U.S. experienced another spike in COVID-19 cases during the quarter and tragically surpassed 200,000 deaths, positive news on vaccines and therapy fronts continued to provide hope for investors.

The Russell 3000 Index increased 9.21% in the quarter. Growth continued to outperform value, as the Russell 3000 Growth Index advanced 12.86%, compared to the Russell 3000 Value Index return of 5.41%. Relative performance was correlated with market cap size in the quarter, with the large cap Russell 1000 Index delivering a return of 9.47%, compared to the Russell Mid Cap Index return of 7.46%, the smaller cap Russell 2000 Index return of 4.93%, and the Russell Micro Cap Index return of 3.69%. More cyclically-exposed Consumer Discretionary, Materials, and Industrial sectors performed best in the quarter. Energy was the sole declining sector, hurt by lingering weakness in oil demand.

Performance Commentary

The Buffalo Large Cap Fund (BUFEX) returned 11.26% during the September quarter, but lagged the Morningstar U.S. Large Growth Index's gain of 13.83%. Poor stock selection in the Consumer Discretionary and Information Technology sectors was the leading cause of underperformance compared to our benchmark, which was offset, in part, by relatively strong stock selection in Industrials. After lagging small cap growth in the June quarter, this trend reversed itself in the September quarter with large growth outperforming small growth by about 6%. Large growth also continued to outperform large value as the Index outperformed value by about 9%. Within the Index, IT and Consumer Discretionary were the top performers, reflecting the continued dominance or FAANGMT stocks (Facebook, Amazon, Apple, Netflix, Google, Microsoft, Tesla).

Average Annualized Performance (%)

As of 9/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFEX*	26.21	17.20	16.30	14.95	10.55	10.34
Institutional Class - *BUIEX*[1]	26.41	17.39	16.48	15.12	10.72	10.51
Morningstar U.S. Large Growth Index	40.45	23.51	20.34	17.79	11.77	-
Lipper Large Cap Growth Index	37.42	20.84	18.91	15.90	10.63	9.35

[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.

Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.95%	0.81%
Fund Assets:	$101.18 Million	
Category:	Large Cap Growth	
Benchmark:	Morningstar U.S. Large Growth Index	

Management Team

Alex Hancock, CFA

Manager since 2018
B.A. – Dartmouth College

↑ Top Contributors

Apple was the top-contributing stock for the Fund during the 3rd quarter, with the stock returning 27%. Demand for the company's devices has remained strong in the downturn, and the upcoming launch of the iPhone 12 with 5G technology appears poised to generate strong growth. The company is also continuing its favorable mix shift to high margin digital services products, which could help drive significant earnings growth in 2021 and beyond.

Amazon was another top contributor, with shares increasing by 14% during the period. Demand for Amazon's delivery services remained strong as consumers continued to avoid brick-and-mortar stores in the pandemic environment to shift spending online. The company's web services division is also well positioned for continued growth, driven by the need for cloud computing in an increased remote work environment.

↓ Top Detractors

Illumina was the Fund's worst-performing stock in the quarter. Performance was weak, in part, due to a lack of clarity in how successful the company's COVID-19 testing programs will be and that consensus estimates may be too high. The company also announced a large and dilutive acquisition in the cancer testing space which was poorly received by the investor community.

Outlook

Similar to the March and June quarters, large cap stocks experienced elevated volatility in the 3rd quarter. The Fund returned nearly 16% between the months of July and August and declined over 4% in the month of September as the overall market sell off pressured many large cap stocks.

Looking forward and into 2021, we believe large caps are poised to experience continued volatility driven by factors including:

1. **Trajectory of the U.S. economy's recovery.** While the September unemployment rate in the U.S. declined to 7.9% (down from 14.7% in April), the rate of job gains has slowed in recent months, and we believe any signs that the U.S. economy is growing at a rate below consensus could pressure many large cap stocks owned by the Fund.

2. **Future government fiscal and monetary stimulus.** While we believe that the aggressive policy response to the virus from the Federal Reserve and Congress earlier in 2020 helped to prevent a deeper recession, future stimulus agreement appears uncertain in the pre-election political environment. We believe that individual consumers could suffer if no deal is reached, which could have widespread impacts on many market sectors.

3. **Corporate earnings.** Many of the FAANGMT stocks, which are large positions in the Fund, have performed well in the "stay and work from home" environment of 2020, and these stocks appear poised to report strong earnings for the 3rd quarter. At the same time, this earnings season will reveal more about how companies with more cyclical business models are performing. Many companies in industries such as bricks-and-mortar retail and restaurants will likely continue to report very weak results this quarter, with an uncertain path to return to pre-pandemic levels.

4. **COVID-19 infection and vaccine development.** At this point in mid-October, many areas in the U.S. continue to report growth in infections, and signs are emerging that we may be entering a "third wave" of this pandemic. While improved testing and treatments will likely help many states avoid further lockdowns, a surge in infections would be a clear negative for large cap stocks and the overall market. At the same time, we believe that positive data on a vaccine could help the stock market rerate, and value names that have suffered the most in 2020 would strongly outperform the broad market in this scenario.

5. November election. While the Democratic party appears poised to make significant gains in the November election, the ultimate outcome remains uncertain. If the Democratic party wins control of all three branches of government, large cap stocks could be pressured due to potential increases in taxes, and selected health care names could decline due to pricing pressure on their business models. Names focused on green energy would likely perform well in this scenario. Many of the "big tech" companies, which are large positions in the Fund, could be pressured if Democrats aggressively seek to increase regulation of their business models. Along these lines, any election result for the president in which there is no clear winner would likely lead to significant downward pressure on the markets.

Mindful of the risks described above, we are cautiously optimistic about the prospects for our large cap growth stocks in coming months but believe many of our holdings could see significant volatility in coming periods. The Fund finished the quarter with 54 holdings (representing 53 companies) and a cash position of about 4%. We are continuing to actively manage the portfolio to try to position it for outperformance by allocating capital to opportunities that we believe have the best risk/reward tradeoffs. As always, we will look to reduce or sell those securities which we consider to be fully valued and replace them with other large cap stocks with a better risk/reward opportunity. We expect many of our holdings to emerge from the downturn with stronger businesses when the world economies return to more normalized levels. Our time-tested strategy of investing in premier companies, which could benefit from long-term trends and trade at relatively 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:

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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 6/30/20 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 9.89%, Amazon 7.61%, Apple 5.26%, Alphabet (A) 4.48%, Visa 2.92%, Equinix 2.66%, Danaher 2.38%, S&P Global 2.37%, PayPal 2.20%, Salesforce.com 2.10%. 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 Micro Cap 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.

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.