Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

December 31, 2021

Capital Market Overview

After shrugging off volatility in November, equity markets finished the quarter significantly higher, as the S&P 500 Index returned 11.03%, adding to the market's 2021 calendar year return of 28.71%. Global growth pushed ahead in the face of threats from the spread of a new COVID variant, while persistent inflation and increasingly hawkish commentary from the Federal Reserve (the "Fed") drove interest rates higher during the period.

The Russell 3000 Index advanced 9.28% in the final quarter of 2021. Among larger cap stocks, Growth outperformed Value stocks as the Russell 3000 Growth Index returned 10.89% versus a gain of 7.54% for the Russell 3000 Value Index. Interestingly, however, this was not the case for mid cap or small cap stocks where Growth underperformed Value significantly. Relative performance was correlated with market cap size as large caps outperformed small caps in the quarter. The large cap Russell 1000 Index returned 9.78% compared to the Russell Midcap Index return of 6.44% and then just 2.14% for the smaller market cap Russell 2000 Index. The smallest market cap companies that comprise the Russell Microcap Index declined -2.66% in the period. Real Estate, Materials, Consumer Staples, and Technology were the top performing sectors for the quarter while Telecom, Financials, and Consumer Discretionary lagged.

Performance Commentary

The Buffalo Large Cap Fund (BUFEX) generated an annual return in 2021 of 26.08% relative to a rise of 21.47% for the benchmark Morningstar U.S. Large Cap Growth Index. For the December quarter, the Fund increased 8.85% versus the benchmark of 3.59%. The Fund's performance relative to the benchmark, over both time periods, reflected better stock picking performance within the Healthcare and Technology sectors.

While the Fund is not measured against the S&P 500 Index, we highlight its performance as a natural benchmark for equity returns. We cover key investment style differences between how we build our growth portfolio versus the S&P 500 later, but suffice it to say, the S&P has a dramatically higher weighting in less growth / more cyclically-oriented sectors such as Energy, Industrials, and Banking. The Buffalo Large Cap Fund is more focused on high quality, secular (not cyclical) growth stories that are disrupting and transforming large markets within the global economy. These are frequently highly-innovative companies that have the ability to invest their retained earnings at a high rate of return, owing to incredibly attractive business models that offer durable growth opportunities.

Average Annualized Performance (%)

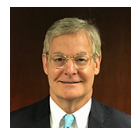
As of 12/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFEX*	26.08	28.62	21.19	18.05	11.99	11.18
Institutional Class - *BUIEX*[1]	26.27	28.82	21.37	18.22	12.16	11.35
Morningstar U.S. Large Growth Index	21.47	31.18	24.96	19.57	13.24	-
S&P 500 Index	28.71	26.07	18.47	16.55	10.66	10.51
Lipper Large Cap Growth Index	22.36	31.33	24.34	18.51	12.31	10.16
Morningstar Large Growth Category	20.45	29.54	22.39	17.65	11.99	10.07

[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:	$126.94 Million	
Category:	Large Cap Growth	
Benchmark:	Morningstar U.S. Large Growth Index	

Management Team



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Manager since 2021
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BUFFALO FUNDS

↑ Top Contributors

1) Microsoft
2) Apple
3) Alphabet
4) Arista Networks
5) Intuit

Microsoft, Apple, and Alphabet have frequently been top contributors to the Fund given their large weighting but also because the companies continue to lead a transformational thrust to the digital economy. In the 4th quarter, while much of the growth oriented equity sector sold off, owing to the more "hawkish" monetary policy emanating from the Fed, these three large cap titans became a safe haven for investors and continue to be a more desirable alternative than cash. With respect to Arista Networks and Intuit, the companies outperformed from a positive revenue and earnings-per-share (EPS) outlook, as analysts took their forward estimates up for both the 4th quarter and for 2022, reflecting strong customer demand.

↓ Top Detractors

1) Paypal Holdings
2) Uber Technologies
3) Snap Inc.
4) RH
5) Meta Platforms (formerly Facebook)

Of the group, PayPal had the biggest detraction to the Fund's 4th quarter performance, negatively-impacting Fund performance by 43 basis points. Paypal is the global leader in the digital payments space with over 400 million individual users across 40 million merchants worldwide. Their Venmo super app being the big growth driver for the company. Shares declined 27% in the quarter owing to concerns about the company purportedly having an interest in acquiring Pinterest, which has very little to do with the digital payments industry. We took our overweight position size down by 2/3 in the 4th quarter, as acquiring Pinterest would ostensibly be akin to competing with your customers – rarely is that a good idea. Management eventually decided not to acquire Pinterest but the tacit acknowledgment there was an interest at all created a pall over the shares. We think the company should stick to disrupting the digital payments space and stay away from owning consumer social media sites.

Uber stock came under pressure as the Omicron variant concerns swept through the mobility and travel sector.

Snap had a disappointing October quarter, as digital advertising was weak across the consumer app complex, as a result of Apple's new iPhone third party privacy identifier making it more difficult to track users for ad-targeting. Snap believes they have new tools that will allow the work around but we sold the shares until the revenue visibility improves.

We continue to follow our well-defined investment template for investing in large cap growth:

- Focus on high quality, durable growth companies who are transforming large and growing addressable markets and who have the potential to double EPS over the next five years.
- Ensure the companies we invest in generate high cash-flow returns (at least 15% and higher is better) on invested capital and are growing revenues fast enough so they can reinvest excess cash at high return rates.
- We believe the biggest risk to permanent loss of capital is excessive debt. Accordingly, we assiduously focus our investments in companies who possess pristine balance sheets that, in our opinion, should materially mitigate the risk of our portfolio being negatively-impacted by a company with too much debt.
- Our management teams must have a proven track record of operating excellence, having successfully scaled the business into both a successful and important company.

In the table below, we provide more context and insight into the key portfolio metrics highlighted above and how our overall portfolio scores:

As of 12/31/21	**Buffalo Large Cap Fund**	**Russell 1000 Growth**	**S&P 500**
Cash Flow - ROIC - LTM	24.6%	18.8%	9.4%
Revenue Growth	12.4%	9.6%	5.5%
EPS Growth	19.5%	13.3%	9.6%
Debt Ratio[1]	(0.2%)	0.2%	1.3%

[1]Net Debt/EBITDA - Lower is better and negative infers net cash rather than net debt position.

As illustrated, relative to the Russell 1000 Growth and the S&P 500, our group of portfolio companies fundamentally generate higher cash flow returns on invested capital, while possessing better revenue and EPS growth prospects and while maintaining a stronger balance sheet and capital position.

In terms of valuation, our portfolio of stocks is valued at a 2.1% FCF Yield (free cash flow generated as a percentage of market value) versus the Russell 1000 Growth of 2.6% and S&P at 4%. However, more expensive doesn't necessarily mean too expensive. We view companies that possess superior CF-ROIC, coupled with above average growth, are more important characteristics than an absolute valuation metric.

While we rarely would buy a stock at an all-time valuation high, we believe it's important to focus on the strength of the durability of the business and financial model, along with the quality of the management team, in assessing the quality of a long term investment opportunity.

Outlook

Reimagining the next five years and getting an early read on the 2022 investment backdrop, we continue to believe there are terrific super-cycle investment themes still with plenty of room to run for growth investors that will create a widening divergence between winners and losers in a post-COVID world.

The five key super-cycle trends we see driving above average returns over the next five years include:

1) Transition to The Cloud – Enterprises' ongoing shift of their technology workload to the public and multi-cloud environment via subscription revenue models.
2) Heightened Demand for Cyber-Security Solutions – Continued thrust and adoption of cyber-security software among both large and small enterprises. With 30,000 daily cyber attacks, daily demand for security software should grow in the double digits over the next few years.
3) Our World Is Becoming Digital – Digital-first economy from digital payments to industrial robotics to autonomous transportation to online gaming.
4) Continued Growth in eCommerce – Global consumer via eCommerce and its impact to traditional retailing and distribution (eComm at 25% of all).
5) AI's Time is Finally Here – Often over-hyped in the past, artificial intelligence and machine learning has become mainstream as a key tool to enhance the power of big data, providing better insight and more predictive value. Also, AI is likely to have a key role in the creation of the so-called metaverse.

Fund management is working hard to ensure we're owning and buying the structural winners who are revolutionizing our world in a meaningful and durable way.

With respect to the more macro investment environment, there continues to be a myriad of possible outcomes for the U.S. and global economy replete with opacity not certainty. As noted in the previous quarterly update, the nuances and uncertainties of having so many low probability events all occurring at the same time is unprecedented. From COVID-19 and the recent ramp of Omicron to climate change to debates around the durability of the most significant inflation in 40 years to from supply chains congestion and product shortages. Add to this an array of uncertainties around the increasingly-tenuous relations between the U.S. and China and China's own overt intentions around reunification with Taiwan.

Some of the opaqueness from our previous update has dissipated while many other variables remain clouded. As inflation persists, we now have a better appreciation that the Fed has become much more "hawkish" about taming the not so "transitory" inflation. The market anticipates further tapering through the end of March 2022 with the Fed likely raising the Federal Funds rates at least three different times during 2022. This manifested in the NASDAQ 100 (a proxy for technology stocks) trading down 5.5% the first week of 2022. The Russell 1000 Growth also declined 5.5% while the more cyclically-oriented S&P 500 traded down a more muted 2%.

The most recent December inflation numbers were released in early January, with the U.S. CPI being up a seasonally adjusted 7%, providing another confirmation we're in a wage-price spiral, at least in the early part of 2022. However, we're also seeing the fastest nominal Gross Domestic Product (GDP) in 40 years. With consumer balance sheets in great shape, inventories set to re-build and the U.S. home building survey at record levels, the economy should continue to do well in 2022.

Rudi Dornbusch, a famous U.S economist, famously said some 40 years ago, economic expansions don't die of old age, they die because of errant Fed policy. Hence, the great unknown of 2022 is – did the Fed miss the window by moderating inflation in the summer of 2021 and if so, will they have to over-compensate with more assertive behavior around Fed Funds rates this year? This is a major unknown going into 2022. Investors will have to be patient in better assessing this question, but it's a real risk.

Beyond rates, the other key variable is getting some conviction on the behavior of the COVID pandemic. Omicron will likely trim a bit off the global GDP growth rate in 2022, but it may be a trade-off with some positive offset if this variant transforms COVID from a pandemic to more of a seasonal flu, what others refer to as becoming endemic. If so, we should see a nice acceleration in economic growth as hiring improves and as services like travel and entertainment rebound close to pre-COVID levels.

While we don't make broad-based portfolio changes on our ability to forecast inflation, we do pay attention to the macro environment to ensure we have proper context of what sort of investment regime the U.S. and global economy are facing. Therefore, we may make minor tweaks regarding our cash weighting and perhaps adjust our exposure (either up or down) in high beta names in an attempt to smooth out the volatility of the Fund relative to the market.

Notwithstanding, the economic, geo-political and pandemic uncertainties, we have a portfolio of 65 high-quality large cap growth companies that have created great businesses with top-tier cash flow returns, growth prospects, and balance sheet strength that we believe is more than sufficient to weather any storm or economic hiccups.

As always, we appreciate your continued interest in the 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 9/30/21 the Buffalo Large Cap Fund top 10 equity holdings were Microsoft 8.58%, Amazon 6.68%, Alphabet (A) 6.22%, Apple 6.01%, Facebook 4.29%, Visa 2.21%, PayPal 2.03%, Intuit 2.00%, Adobe Systems 1.65%, S&P Global 1.49%. 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. 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 NASDAQ 100 is an unmanaged index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ stock exchange. One cannot invest directly in an index. A basis point (bps) is one hundredth of a percentage point (0.01%). 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. 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. Return on invested capital (ROIC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. Last twelve months (LTM) refers to the timeframe of the immediately preceding 12 months. EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBITDA is one indicator of a company's financial performance and is used as a proxy for a company's current operating profitability. Free cash flow (FCF) is the cash flow available for the company to repay creditors or pay dividends and interest to investors. The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. Beta is a measure of the volatility or systematic risk of a security or portfolio compared to the market as a whole.

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.

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