

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

In the 2nd quarter of 2020, the Buffalo Mid Cap Growth Fund (BUFMX) returned 22.66%, lagging the benchmark Morningstar U.S. Mid Growth Index return of 34.66%. The Fund's underperformance was due to stock selection in the Information Technology, Health Care, and Consumer Discretionary sectors. The quarter was defined by a significant rally across the board, however, companies less impacted, or even helped by shutdowns in the period, saw their share prices increase rapidly. Several companies in the benchmark more than doubled in value, with a speculative fervor that included little regard for how price paid today impacts returns over a long-term holding period. We anticipate that these speculative gains will be reconciled in the coming quarters and our more disciplined approach to price paid for future growth will be rewarded.

Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$162.83 Million	
Category:	Mid Cap Growth	
Benchmark:	Morningstar U.S. Mid Growth Index	

Management Team



Chris Carter, CFA

Co-Manager since 2017
M.B.A. – Univ. of WI-Madison
B.S. – Santa Clara Univ.



Josh West, CFA

Co-Manager since 2017
M.B.A. – Univ. of MO-Columbia
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Average Annualized Performance (%)

As of 6/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFMX	11.66	12.15	8.00	11.40	8.52	8.49
Institutional Class - BUIMX ¹	11.79	12.31	8.15	11.57	8.68	8.65
Morningstar U.S. Mid Growth Index	17.32	17.81	12.98	15.45	10.89	9.42
Lipper Mid Cap Growth Index	11.23	14.37	11.23	13.95	10.13	8.76

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.

↑ Top Contributors

Among the top contributors during the second quarter were **Veeva Systems**, **Splunk**, and **MarketAxess Holdings**. Digital product delivery was a common thread for each of these three top performers. The market rewarded companies whose revenue models were unaffected by a nationwide shutdown during the pandemic.

Veeva Systems was boosted by strong 1st quarter results and guidance that surpassed consensus expectations. Veeva's core business of providing software to the life sciences industry was helped by shutdowns as companies prioritized digital capabilities to support work from home.

Splunk shares rallied on quarterly results that benefited from accelerating digital transformation adoption by customers. Many customers of Splunk completed multi-year projects in just months spurred by office closures due to the shutdown.

MarketAxess benefited from volatility in fixed income markets as well as the shutdown, which helped to accelerate market share growth for its electronic platform for fixed income trading.

↓ Top Detractors

With the Fund up significantly in the quarter, there were not many positions detracting from performance and none significantly. **TripAdvisor** and **Universal Display**, two newly initiated positions, were the largest detractors. Each company is dependent upon a return to normalized economic activity on the part of the U.S. consumer, which was challenged as COVID-19 daily case counts increased in June.

Universal Display is a technology company that licenses and sells materials for making OLED screens, used in TVs and other electronics such as tablets and mobile phones. It is a beneficiary of growing penetration of OLED TVs, where LCD display is still the market share leader.

TripAdvisor is reliant on travel, where it sells advertising space alongside its review content and earns fees as a booking platform for restaurants and excursions. The drop off in revenue has been severe due to the pandemic. However, the company shares represent a significant opportunity as a more normal travel environment should return in coming years.

Outlook

The rally back from market lows in March was unprecedented, surprising in both magnitude and timing. The last several recessions and ensuing bear markets, have lasted several quarters, averaging about a year in duration. Provided the rally holds its gains and does not retest March lows, the peak to trough decline from this bear market will have lasted only about one month. The key premise for the quick market recovery is that the COVID-19 virus is like a natural disaster rather than a structural economic imbalance. In natural disasters, destruction is quick, and rebuilding happens immediately afterwards, spurring economic growth. In a structural economic imbalance, such as the financial crisis, entire sectors of the economy overshoot normal growth, resulting in years of rightsizing and adjustment that detract from economic growth. The biggest risk is that the market rally has assumed damage to future profits that will be short-lived and will steadily recover from lows set during the period. The future path of the COVID-19 virus must prove this to be true, otherwise we may see the narrative for the market change from short-lived losses towards a more structural imbalance, which would challenge the recent rally. ▲

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 3/30/20 Buffalo Mid Cap Fund top 10 equity holdings were MSCI 4.20%, CoStar Group 3.22%, IHS Markit 3.19%, Verisk Analytics 2.84%, Moody's Corp 2.30%, RealPage 2.17%, Veeva Systems 2.14%, Tyler Technologies 2.13%, Kansas City Southern 2.13%, Take-Two Interactive 2.08%. 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 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. Mid Growth Index measures the performance of U.S. mid-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 Mid Cap Growth Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Mid-Cap classification. One cannot invest directly in an index. 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 small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods.

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.

