Buffalo Blue Chip Growth Fund

QUARTERLY
COMMENTARY

June 30, 2024

Capital Market Review

The broad-based equity market advanced in the second quarter (measured by the S&P 500 Index) as the economy continued to grow moderately while inflation and labor market measures eased enough throughout the period that investors became more confident of interest rate cuts. There have been big changes in expectations about the timing and size of interest rate cuts since the start of the year. In January the market was expecting perhaps as many as six rate cuts for 2024, however, that has now shifted to maybe only one or two cuts for the year, starting in September. As has been the case for some time now, however, there was a size bias in performance results during the quarter, which has particularly benefited a few mega-cap companies associated with artificial intelligence (AI). Large cap stocks continued to outperform small cap stocks and growth companies continued to outperform value companies by a wide margin.

Recapping index results, the Russell 3000 Index gained 3.22% during the period. The Russell 3000 Growth Index advanced 7.80% compared to a decline of -2.25% for the Russell 3000 Value Index. Larger cap stocks produced a return of 3.57%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index decline of -3.28%. In terms of sector leadership, Technology and Communication Services were the top performers for the quarter while a larger group of companies in the Industrials, Financials, Health Care, Consumer Discretionary, Energy, Materials and Real Estate sectors declined.

Average Annualized Performance (%)

As of 6/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFEX*	32.94	10.20	16.50	14.83	15.60	10.92
Institutional Class - *BUIEX*[1]	33.10	10.35	16.66	15.00	15.77	11.08
Russell 1000 Growth Index	33.48	11.28	19.34	16.33	17.29	11.08
S&P 500 Index	24.56	10.01	15.05	12.86	14.82	–
Morningstar Large Growth Category	29.15	6.15	15.08	13.40	15.00	9.58

[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.

Performance Commentary

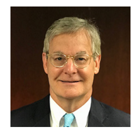
The Buffalo Blue Chip Growth Fund produced a return of 7.72% in the second quarter, a result that slightly trailed the Russell 1000 Growth Index return of 8.33% but outperformed the S&P 500 Index return of 4.28%. As was the case in 2023, most of the performance leadership within the large cap category for 2024 continued to be highly concentrated within the largest seven market cap stocks within the index (The Magnificent Seven). This ongoing outperformance revolves around the dramatic narrative that these companies possess a deep and wide technology and distribution moat to artificial intelligence (AI). It's been stated that AI is a game of Kings and Emperors as massive scale and capital are the required entry fees to play. Our view is that this belief is mostly true, but many other companies outside of the Magnificent Seven should also benefit…eventually.

Remarkably, these seven companies above now comprise 57% of the overall Russell 1000 Growth Index weight by market cap. We expect, at some point, the broader and more equal weighted S&P 500 Index will have a period of outperformance relative to the Russell 1000 Growth index to better balance the overall breadth of the stock market. We would view such a shift in performance as healthy for the overall market. In

Fund Facts

	Investor	*Institutional*
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.89%	0.79%
Fund Assets:	$145.93 Million	
Category:	Large Cap Growth	
Benchmark:	Russell 1000 Growth Index	

Management Team



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Top 10 Holdings*

Microsoft Corporation	10.95%
NVIDIA Corporation	6.99%
Apple Inc.	6.85%
Amazon.com, Inc.	6.10%
Alphabet Inc.	5.34%
Meta Platforms Inc	3.41%
Visa Inc.	2.39%
Costco Wholesale Corporation	2.02%
Eli Lilly and Company	1.69%
Broadcom Inc.	1.39%
Top 10 Holdings Total	**47.11%**

our view, the more concentrated and uneven the outperformance of largest market cap companies becomes, the risk of a significant market correction becomes more elevated.

The timing of a shift in performance remains a key uncertainty but it could be triggered by at least three key variables such as the Fed's posture on inflation (interest rate cuts), the underlying health of the economy, and the potential for positive earnings revisions for the non-magnificent seven. All of these variables need to align to drive a more durable broadening of stock performance, in our view.

Managing a large cap growth fund, we operate within an environment where change is constant. When change happens, whether anticipated or not, we just deal with it while always trying to ensure that prudent risk management is placed ahead of individual stock selection.

Accordingly, while we continue to own a large weighting of the Magnificent Seven companies (about 47% of the fund by weight), our portfolio remains materially below the 57% weighting within the benchmark, as that is just too far outside of the concentration level of what we view as prudent risk management.

If the Magnificent Seven were to continue generating a large portion of the market gains off the unbridled AI sentiment, the fund would clearly still benefit. However, it would likely underperform relative to the Russell 1000 Growth index given the disparity of the concentration in weightings.

We would be ok with that given the alternative of taking on unwanted risk we would be assuming trying to match the concentration of the benchmark.

Notably, a risk we view particularly elevated today when there are growing uncertainties on how quickly AI will be adopted by consumers and enterprises. One could alternatively make a prudent argument that the fund's 47% weighting may be overly elevated. We play the strategic game theory over in our mind, it seems constantly but the risk of moving early can even more punitive than moving more measured.

The fund's underperformance of the index in the second quarter is precisely related to our relative underweight position to the Magnificent Seven companies. The fund's lower relative weighting in these few stocks cost us 168 bps of performance in the quarter but was offset by outperformance among the other non-Mag Seven holdings, representing the large majority (68%) of the fund.

Our long-term goal in managing the fund remains to produce better than benchmark and peer group risk adjusted returns while also generating more consistent, less volatile performance.

↑ Top Contributors

Top contributors to fund results for the quarter were **Nvidia, Microsoft** and **Apple.** Nvidia shares continued their unprecedented rise with another market-leading return of 37% during the quarter owing to another significant raise in its guidance and outlook for its data center AI chip (GPUs) shipments.

As we noted in last quarter's commentary, the company continues to execute at a very high level both in its product technology evolution as well as its go-to-market strategy. It also is executing exceptionally well delivering out-sized results against a very complex supply chain involving the most advanced micro processing units to AI designed network switches to specialized AI servers. Nvidia has brought its "A" game to meet this unique AI opportunity successfully.

So, while the market is likely to continue to ride the broad shoulders of Nvidia, at least for the time being, we do sense some early accumulating data points that AI related workload from large enterprises is moving more slowly than most of the Street expects. If so, this is a critical factor that the hyperscaler cloud service providers (Amazon, Microsoft, Google and Meta) will need to monitor as monetizing their prodigious investments in AI infrastructure is critical to generating the required return on investment.

Microsoft continued to outperform the broader market, and advanced 21% in the quarter. The strong share price appreciation was driven by better-than-expected March quarterly results across all three key business segments. Azure (cloud hosting) lead the overall expectations beat with revenue growth accelerating to 31% aided by strong AI demand, which contributed 700 bps of the growth.

Importantly profitability remains impressive as the company expanded operating margins 230 bps in the quarter despite a heightened cap-ex cycle of investing in its AI date center infrastructure.

We currently expect the company to invest $50 billion in cap-ex during 2024, a 35% increase from the $37 billion spent on cap-ex in 2023. While we expect the cap-ex to expand another 14% in 2025, this level would reflect a decrease in the rate of change. We will be paying close attention to Microsoft's upcoming quarterly results for any possible change or intentions it might need to make in its cap-ex expectations. Any increase in cap-ex intentions without a corresponding increase in AI related revenue would likely negatively impact shares over the near term.

Notwithstanding the above, the company remains well-positioned to be one of the top long term generative AI beneficiaries. The company is now launching their gen AI feature with Office 365 (O365 cloud version) to the over 200 million monthly active users at a price point of $30 per user per month. This launch will be watched with some interest by the investment community to get a sense of what sort of initial interest will be shown by enterprises on engaging with AI tools.

Apple gained 23% in the second quarter (mostly the last month of the quarter) as it had its much-anticipated Developer conference in early June where it provided much more context about its AI product strategy, specifically related to its iPhone and iPad franchise.

While there still remain questions surrounding weak iPhone sales in China and the U.S. investors have shifted their interest into the differentiated role Apple may leverage within the AI eco-system and specifically related to the iPhone and iPad product lines as their potential as the AI platform of choice for those desiring AI features literally at their fingertips.

Think about Apple having a specific AI app store and features where you can download powerful new applications that provide you with more personalized functionality potentially more privacy and security than accessing AI tools and apps via a public cloud vendor such as Amazon or Microsoft. It won't fulfill the needs of everyone but given the installed base of two billion users around the world Apple has a built-in advantage to monetize AI and drive significant returns on investment if they can execute on the AI technology side. Importantly, to capitalize on AI, Apple is one of the only companies where they won't have to spend tens of billions of dollars on infrastructure cap-ex.

↓ Top Detractors

Top detractors for the quarter included **NICE, LTD, Salesforce** and **Advanced Micro Devices.** Shares in NICE declined 34% in the period, despite posting solid first quarter results as the CEO announced his surprising plans to step down effective December 31st, 2024. The market was taken back owing to the successful past performance of the CEO in driving consistent financial results and positioning the company to be an early AI adopter beneficiary. NICE is one of the leading enterprise software companies enabling organizations to improve the customer service experience within many of the largest global organizations. Customer contact centers are believed to be one of the very early beneficiaries of AI adoption in providing more automation and customer problem solving solutions given how acute labor shortage and talent is within the customer call centers.

We have recently added to our relatively small position in NICE, post the share price decline, for three primary reasons:

1. Large installed base of global enterprises that depend on NICE for software automation solutions.
2. Based on numerous data points, it appears NICE's existing customer base are now transitioning from on-prem software workloads to cloud-centric software applications from NICE. The company sees a 2x to 3x uplift in revenues when their clients move to the cloud from on-prem.

3. Furthermore, the early AI momentum continues to be robust with NICE reporting a 200% increase in AI related bookings growth, albeit off a small base, but with all deals adding a 40% uplift to annual contract value to non-AI bookings.

We will continue to watch NICE closely for any signs that might change our optimistic outlook for the company.

Salesforce's shares declined 15% last quarter owing to a slight miss in bookings and concomitant guide down in revenues for the quarter. Notably, the company kept both its annual revenue and EPS guidance in-tact, although we think it would have been prudent to just trim the annual guide down and not create an unnecessary hurdle for the second half of the year.

The enterprise software space, broadly, continues to face macro headwinds owing to mid to largescale enterprises taking longer to close deals with more people involved in reviewing both renewals and new potential wins. We're also hearing the size of deals is running 10% to 15% smaller today compared with 12 to 18 months ago. This is all a function of elevated interest rates, slower hiring environment and a hangover from Covid when enterprise software demand reached an apex resulting from the need for automation and cloud software workloads.

We recently met with company management and feel the company still possesses good long-term fundamentals that will drive 9 to 10% durable revenue growth and, at least, mid-teens EPS and free cash flow growth. We also find the company's current valuation as overdone to the downside, so we continue to hold a modest position size. We will look to increase our weighting in CRM once the macro backdrop improves and we have a clear line of sight to positive revenue and earnings revisions.

Advanced Micro Devices shares underperformed in the quarter (declining 11%) despite quarterly revenue and eps exceeding expectations and no change in the guidance parameters. AMD is a close competitor with Nvidia, but they lag the robust technology graphic processing cycle (GPU) acumen of NVDA.

While AMD should certainly be an AI beneficiary, particularly when inferencing overtakes the training phase (where NVDA dominates) of AI models in 2025 or 2026, it seems investor expectations have been overly aggressive regarding how quickly the company could start to ship GPUs to large data center customers. AMD has guided to $4 billion in AI related revenues in 2024 but investor expectations seem to have been closer to $8 billion however AMD gave no indication in their recent earnings call that doubling of $4 billion was likely to happen in 2024. After a big run-up in the stock last quarter, AMD shares remain 20% higher year to date despite the recent 10% pullback.

We continue to own a position in AMD but it is more modest relative to the size over the last 15 months. However, we don't have plans to increase our exposure to AI infrastructure players such as AMD until we have better visibility and context about the timing of the AI adoption, more generally.

Lastly, please note that the Buffalo Large Cap Fund will officially change its name to the Buffalo Blue Chip Growth Fund, effective July 29th. Nothing else regarding the nature of the fund changes, however.

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.

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.

Effective 7/29/24, the Buffalo Large Cap Fund is the Buffalo Blue Chip Growth Fund.

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 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 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 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 is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. The Bloomberg US Aggregate Bond Index is a broad base, market capitalization weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Russell 3000 Value Index is an unmanaged index with a market-capitalization weighted equity based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform.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. 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. 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. The yield curve is a graph which depicts how the yields on debt instruments such as bonds vary as a function of their years remaining to maturity. 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. The Magnificent Seven is a term used to describe the technology oriented, highly influential companies of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. The Fab 4 refers to four technology stocks including Nvidia, Amazon, Meta Platforms and Microsoft. Free 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. Revenue growth is the increase (or decrease) in a company's sales from one period to the next. Capital expenditure (cap-ex) are funds used to acquire or upgrade assets such as buildings or equipment.

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.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 3/31/24. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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

BUFFALO FUNDS