

Buffalo Blue Chip Growth Fund

QUARTERLY
COMMENTARY

September 30, 2024

Capital Market Review

Equity markets advanced in the third quarter as the economy continued to grow moderately while inflation pressures and labor markets cooled enough to trigger an interest rate cut. The Federal Reserve reduced the fed fund's rate by half a percentage point in September bringing the target to 4.75%-5.00%. This much anticipated pivot on interest rates also propelled the bond market during the quarter. Bond prices rose and yields fell in June and July as the outlook for rate cuts became clearer. The yield on the 10-year Treasury note fell from 4.48% at the beginning of July to 3.75% by the end of the quarter. The slope of the yield curve normalized as short term bond yields fell the most. There have been big changes in expectations about the timing and size of interest rate cuts throughout the year. In January the market was expecting as many as six rate cuts for 2024, however, that has now shifted to maybe just three.

The third quarter witnessed a rotation out of large technology stocks. Microsoft, Nvidia, Alphabet, and Amazon underperformed while value stocks and small cap companies advanced sharply during the period. The Russell 3000 Value Index gained 9.47% and significantly outperformed the Russell 3000 Growth Index return of 3.42% in the quarter. The small cap Russell 2000 Index produced a return of 9.27% compared to the large cap Russell 1000 Index return of 6.08%. Dividend-paying stocks also outperformed the broader market for the quarter.

In terms of sector leadership, Utilities and Real Estate were the top performers for the quarter, followed by Financials, Industrials and Materials. Technology, Communication Services lagged, and Energy was the lone negative returning sector for the period.

Average Annualized Performance (%)

As of 9/30/24

	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFEX	40.47	10.51	16.74	14.86	14.31	10.90
Institutional Class - BUIEX¹	40.64	10.66	16.90	15.03	14.47	11.06
Russell 1000 Growth Index	42.19	12.02	19.74	16.52	16.52	11.10
S&P 500 Index	36.35	11.91	15.98	13.38	14.15	-
Morningstar Large Growth Category	38.83	7.39	16.08	13.73	14.22	-

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. Each Morningstar category average represents a universe of funds with similar objectives.

Performance Commentary

The Buffalo Blue Chip Growth Fund produced a return of 2.03% for the quarter compared to the Russell 1000 Large Cap Growth Index return of 3.19%. The fund's investment underweights in Tesla and Apple were the primary factors to the relative performance. Tesla shares rose 32% in the quarter despite battery electric vehicle (BEV) car deliveries that continued to run below street estimates. Investors have placed a high level of confidence in Tesla becoming a leader in autonomous driving, specifically as it relates to a robotaxi autonomous driving vehicle. The company held a widely anticipated Robotaxi investor demonstration in early October and investors had added exposure to leverage the novel full self-driving technology and plausible leadership position in a large and growing market.

While Apple is the fund's largest holding at slightly over 10% of assets, it remains below the benchmark weight of 12%. We added to the position in the early part of the second quarter anticipating a favorable catalyst with its Worldwide Developer Conference in June, but held off adding more due to valuation. Shares of Apple approached a valuation ratio of 33x forward P/E, a level where we are cautious given the company's mid to high single

Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.89%	0.79%
Fund Assets:	\$149.23 Million	
Category:	Large Cap Growth	
Benchmark:	Russell 1000 Growth Index	

Management Team



Ken Laudan

Manager since 2021
B.S. – Kansas State Univ.

Top 10 Holdings*

Microsoft Corporation	11.33%
NVIDIA Corporation	9.15%
Apple, Inc.	8.39%
Alphabet, Inc.	6.48%
Amazon.com, Inc.	6.16%
Meta Platforms, Inc.	3.18%
Eli Lilly and Company	2.51%
Broadcom, Inc.	2.15%
Visa, Inc.	2.02%
Costco Wholesale Corporation	1.76%
Top 10 Holdings Total	53.14%



digit secular revenue growth. We believe Apple should be able to monetize AI technology in a way that may be more capital efficient relative to other mega-cap AI beneficiaries across its jumbo global device platform of 1.6 billion individuals.

ASML, a manufacturer of essential semiconductor technology in both trailing and leading-edge chips, also detracted from the fund's performance results for the period. Shares of ASML declined 17% in the quarter on concerns about the durability of demand coming out of China and when the order book is likely to recover. There would be no AI, electric vehicles, 3D gaming technology or even high-performance smartphones without ASML's technology. Like most other capital equipment companies, order volumes can be lumpy but there is no question about the fundamental importance of the company's virtual monopoly used in the semi-conductor manufacturing process. Despite the lumpiness caused by this recent technology cycle, underlying revenue and free cash flow growth for ASML is still well above average and the company maintains a significant competitive moat.

Partially offsetting the detractors mentioned above, the fund's top relative contributors were Qualcomm, Nvidia, and Lam Research. The fund does not hold Qualcomm as an investment position in the portfolio. Qualcomm's shares declined 14% in the quarter and represented a large index weight of 70 basis points (bps), therefore not having a position in Qualcomm contributed to relative performance. Nvidia, although the fund has 10% of assets invested in shares of Nvidia, it is underweight relative to the benchmark's exposure of about 11%. Nvidia declined nearly 2% in the quarter and even this modest negative performance resulted in a positive contribution to relative performance due to the large position size. Very similar to Qualcomm's impact above, the fund has no investment exposure to Lam Research. Shares of Lam declined about 23% in the quarter and represented a weight of about a 45 bps in the index so, therefore not having an investment position in Lam contributed to relative performance.

The market swiftly broadened from the narrow leadership of the Magnificent 7 companies that had prominently dominated equity market gains over the last 18 months. This broadening was primarily due to the Federal Reserve strongly signaling it was poised to lower interest rates. The Fed subsequently lowered its benchmark rate by a larger than expected 50 basis point in September, unleashing bullish animal spirits that had been latent waiting for confirmation of easing monetary policy. As a result, the Magnificent 7 as a group underperformed the S&P 500 Index. Despite underperforming the broader market in the quarter, the Mag 7 has advanced a remarkable 54% year to date, outperforming any relevant equity category or large cap growth index. Outperformance in 2024 has been mostly led by contribution from Nvidia (NVDA), whose shares have risen 180% year to date following the advance of 231% in 2023. The company's market cap now approaches \$3.4 trillion dollars, narrowly trailing only Apple at \$3.5 trillion as the highest valued company in the world.

While positioning within the portfolio has evolved over the last two to three months with new adds to the industrial, utility and financial sectors, we simultaneously decreased exposure to the Mag 7. Despite our longer-term enthusiasm for AI, we feel a lower relative Mag 7 portfolio weighting compared to the Russell 1000 Growth, is both prudent and responsible. The enormously high concentration of these seven companies within the benchmark (54% portfolio weighting) and the collective heady valuation of this group, skews the risk/reward to a level we are candidly just not comfortable with irrespective of our optimistic long-term AI outlook. The fund continues to have significant exposure to each of the Mag 7 companies, perhaps with the exception of Tesla, where the fund's exposure is well below the benchmark weight of 2.2%.

We continue to see attractive long term investment prospects and opportunities that should accrue to growth portfolios from the on-going thrust to artificial intelligence. There will however, like all disruptive technology transitions, be air pockets. All told, we feel the portfolio is well positioned for the end of the year albeit, the complex geo-political risks coupled with a divisive Presidential election remain key risk management wildcards. While persistent concerns about the health of the U.S. consumer remain, there is a growing expectation that recurring tapering of interest rates over the next 12 months will serve as a needed tonic to mute any further declines in consumer confidence resulting in more stable consumption levels. Time will tell. ▀

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. 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. 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. Price-Earnings (P/E) Ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

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 6/30/24. 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.

