

# Buffalo Blue Chip Growth Fund

QUARTERLY  
COMMENTARY

December 31, 2024

## Capital Market Review

In the final quarter of 2024 investors processed hawkish comments from the Federal Reserve signaling fewer interest rate cuts in 2025. Bond prices fell and yields rose as the outlook for sustained inflation increased, making rate cuts less certain. The yield on the 10-year Treasury note increased from 3.75% at the beginning of October to 4.57% by the end of the quarter. The Treasury yield curve steepened (normalized) and ten-year Treasury notes have a higher yield than three-month Treasury bills for the first time since October 2022.

The broad equity market, as measured by the S&P 500, managed to advance 2.41% in the period, and there was a rotation back into mega cap growth stocks. Tesla, Nvidia, Amazon, Alphabet, and Apple outperformed while value stocks, as a group, declined. The Russell 3000 Growth Index gained 7.07% significantly outperforming the Russell 3000 Value Index return of -1.94%. In general, performance improved moving up in market capitalization (company size) during the period. The small cap Russell 2000 Index returned 0.33%, the Russell Midcap Index advanced 0.62% while the large cap Russell 1000 Index produced a return of 2.75%.

## Average Annualized Performance (%)

As of 12/31/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFEX	28.87	8.90	15.84	14.48	14.20	10.95
Institutional Class - BUIEX <sup>1</sup>	29.03	9.03	15.99	14.65	14.36	11.11
Russell 1000 Growth Index	33.36	10.47	18.96	16.78	16.45	11.25
S&P 500 Index	25.02	8.94	14.53	13.10	13.88	-
Morningstar Large Growth Category	28.96	6.74	15.42	14.02	14.17	-

<sup>1</sup>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](http://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 4.16% for the period compared to a gain of 7.07% for the Russell 1000 Growth Index. A large portfolio underweight in Tesla, zero weight in Palantir, and an overweight in GE Aerospace were primary factors in the relative performance results.

Amid an ongoing backdrop where we continued to see strong momentum in the Magnificent 7 stocks, particularly Tesla and Nvidia, the market continued to lean into stocks where clear sector trends are driving momentum investing, regardless of the macro environment.

Positive takeaways for the fund included a benefit from having a 150 basis point (bps) underweight position in Microsoft during the quarter. Shares declined as management provided lower revenue guidance for Azure (cloud hosting) while raising cap-ex guidance on AI infrastructure for the third time this year.

GE Vernova was also a strong contributor to performance for the quarter. The company's shares continued to outperform the broader market, advancing 29% driven by accelerating secular demand for power infrastructure due to the exponential growth in AI data center buildouts. We believe the underlying inflection in data center growth and the significant shortage in power capacity will continue to benefit GEV both from a price and volume standpoint over the next several years.

## Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUIEX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.89%	0.79%
Fund Assets:	\$155.80 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\*

Apple, Inc.	10.30%
Microsoft Corporation	9.78%
NVIDIA Corporation	9.11%
Alphabet, Inc.	5.72%
Amazon.com, Inc.	5.44%
Meta Platforms, Inc.	3.61%
Broadcom, Inc.	2.45%
Eli Lilly and Company	2.04%
Visa, Inc.	1.87%
Invesco S&P 500 Equal Weight ETF	1.83%
<b>Top 10 Holdings Total</b>	<b>52.17%</b>



HubSpot rose 31% during the quarter and also contributed to the fund's performance results. The company continued to lead in providing enterprise software solutions for the sales and marketing front offices of small and medium-sized businesses. Hubspot has a vast distribution channel that includes a national sales team in addition to 6500 ad agencies that serve as reseller partners.

The top detractors from fund performance for the quarter were Tesla, Palantir, and GE Aerospace. Tesla continued highly volatile trading activity with shares advancing 54%. Remarkably, Tesla appreciated 63% in 2024 despite trading lower by as much as 45% during the first half of 2024. The primary reason for the big reversal in stock price seems mostly related to the new political relationship between Tesla's founder and CEO, Elon Musk, and President Donald Trump. The corollary of the relationship ostensibly being a more defined route to getting Tesla's full self-driving (FSD) software approved by the Department of Transportation, where Musk has run into some bottlenecks related to not using Lidar technology, just cameras, on Tesla cars.

Importantly, Tesla preannounced another decline in auto deliveries for the December quarter, resulting in an overall decline in deliveries for 2024 compared to 2023. This marks the first time in Tesla's history that deliveries will have declined for an entire year. Nevertheless, it appears many investors are more focused on FSD and the Robo-Taxi opportunity than the traditional automobile business. Tesla's weighting in the index is around 3.8%, therefore the fund remains materially underweight the company at 1.1% of assets.

On the back of a remarkable gain of 103% in the quarter, Palantir amounted to a big detractor for the fund as we don't own a single share of the company. Palantir is a controversial software company that has always traded at a big valuation premium to the technology sector despite having most of its business generated by the Department of Defense (DoD). Shares currently trade at 154x projected 2026 earnings per share (EPS) and an "eye-popping" 48x 2026 projected revenue. Considering this, we continue to sit Palantir out due to its current valuation.

GE Aerospace is one of our favorite ideas within the industrials sector despite shares declining by 11% in the quarter. The fund has had an investment position in GE well over a year and the stock has nearly doubled over that time. The recent pullback mostly relates to a back-up in the company's supply chain as well as questions about aircraft delivery levels from Boeing in 2025. Both factors, which we view as short-term issues, resulted in the company not raising its revenue and EPS forecast as much as some anticipated, which negatively impacted the stock.

We continue to feel good about the long-term positioning of the fund. It is composed of large positions in many of the strongest businesses generating the highest returns on capital that exist in the U.S. Not only are these companies among the fastest growing, in terms of revenues and earnings, but they also possess some of the strongest returns on invested capital in the country, a key focus of our investment process. We also remain diligent managers of risk, particularly at time of complex geo-political uncertainties, macro questions about the on-going strength of the global economy, and new uncertainties associated with possible U.S. tariffs, deportation and sticky inflation. All relevant factors to consider when making a rational judgement about directional changes in interest rates, which is shaping up to be perhaps the single most important aspect for 2025 market return potential.

As noted in previous updates, we have chosen an active positioning strategy to make the Blue Chip Growth fund less concentrated than the benchmark, specifically owning a lower combined weight in the Magnificent 7 stocks. This narrow group of companies makes up over 55% of the Russell 1000 Growth Index by weight, which we view as overly concentrated. By comparison, these same companies represent about 46% of the Blue Chip Growth Fund. A level we also view as concentrated, but one that allows us to exercise more control over portfolio risk even if it means some relative under-performance as it did in 2023, and more so, in 2024.

## 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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Looking ahead, we are generally optimistic about the U.S. economy owing to the backdrop of less restrictive Fed policy. We feel the market has extended equity valuations on heady EPS expectations for 2025 (+15% growth). The numerous uncertainties around the world and domestically leaves little margin of error as we go through the year with what appears to be very complacent markets. We expect positive investment returns for 2025, but well below the mid-20% returns that the S&P 500 Index has delivered over the last two years. We also expect volatility to accelerate as we enter the third full year of a massive AI investment cycle. Like other technology innovations, AI will likely be no different with phases of strong growth and pauses, strong growth then pauses. ▲

*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](http://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 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 Midcap Index is an unmanaged index that measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 26% of the total market capitalization of the Russell 1000 Index. 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. Capital expenditure or cap-ex is the money an organization or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land.

**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 9/30/24. 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.

