Buffalo Large Cap Fund

QUARTERLY
COMMENTARY

December 31, 2023

Capital Market Review

2023 concluded with capital markets moving higher in the final quarter of the year. The S&P 500 Index gained 11.69% and the Bloomberg Aggregate Bond Index advanced 6.82%. A big pivot in expectations for the Federal Reserve's monetary policy drove the market advance during the period, as investors now anticipate a decline in interest rates for 2024. The yield of the U.S. Treasury 10-year note finished the quarter at 3.88%, a significant drop from its peak of nearly 5% in mid-October.

Recapping broad-based index results, the Russell 3000 Index gained 12.07% during the period. Growth stocks outperformed value stocks as the Russell 3000 Growth Index advanced 14.09% compared to a gain of 9.83% for the Russell 3000 Value Index. In typical "risk-on" fashion, relative performance improved going down in market capitalization (size) during the quarter as small caps advanced more than large caps. Larger cap stocks produced a return of 11.96%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 14.03%. The even smaller market cap Russell Microcap Index rallied 16.06% in the quarter.

The stock market recorded impressive gains for 2023 with the S&P 500 Index advancing 26.29%. However, it was a "narrow" market as the "magnificent seven" technology and artificial intelligence (AI) stocks accounted for approximate 80% of the S&P 500's gains in 2023, versus a broad market advance where hundreds of stocks propel the index higher. In terms of economic sectors, technology, communication services, and consumer discretionary stocks were the brightest spots while the utilities and energy sectors declined in 2023.

Performance Commentary

The Buffalo Large Cap Fund produced a return of 13.54% in the quarter versus the Russell 1000 Growth Index return of 14.16%. As mentioned above, the broad large cap market S&P 500 Index advanced 11.69%. While the portfolio performed well on an absolute return basis, the slight benchmark relative underperformance was due to cash drag during the rapid market advance, a decline in the energy company Schlumberger (SLB) and from the pharmaceutical company Sanofi (SNY). Shares of Schlumberger dropped by more than 10%, and shares of Sanofi fell by a little more than 7%.

For calendar year 2023, the Buffalo Large Cap Fund produced a total return of 40.39% versus the Russell 1000 Growth Index gain of 42.68% and 26.29% for the S&P 500 Index. It's worth noting once again that the fund remained underweight to many of the Russell 1000 Growth's high growth, high volatility constituents such as Tesla, which advanced about +105% in 2023. The fund also remains capped on individual position weightings for Apple (AAPL) and Alphabet (GOOGL) owing to SEC requirements regarding diversified investment funds. Apple finished the year representing 12% of the Russell 1000 Growth Index weight and Alphabet represented 6.5% of the index weight. Shares of Alphabet climbed 48% in 2023 and Apple advanced more than 58%.

Average Annualized Performance (%)

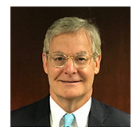
As of 12/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFEX*	40.39	8.11	16.35	12.96	15.40	10.37
Institutional Class - *BUIEX*[1]	40.52	8.25	16.52	13.13	15.56	10.54
Russell 1000 Growth Index	42.68	8.86	19.50	14.86	16.68	10.55
S&P 500 Index	26.29	10.00	15.69	12.03	13.97	–
Morningstar Large Growth Category	36.74	4.68	15.74	12.03	14.50	9.14

[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:	$110.85 Million	
Category:	Large Cap Growth	
Benchmark:	Russell 1000 Growth Index	

Management Team



Ken Laudan

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Top 10 Holdings*

Microsoft Corporation	10.64%
Apple Inc.	8.93%
Amazon.com, Inc.	6.00%
Alphabet Inc. Class A	5.99%
NVIDIA Corporation	4.55%
Meta Platforms Inc. Class A	2.70%
Visa Inc. Class A	2.55%
Costco Wholesale Corporation	1.90%
UnitedHealth Group Inc.	1.62%
Eli Lilly and Company	1.43%
Top 10 Holdings Total	**46.32%**

Top Contributors

Top contributors to fund results for the quarter were Microsoft, Amazon, and Apple.

Microsoft rebounded strongly from relative underperformance in the previous quarter and posted a return of more than 19%. Share price appreciation was driven by better-than-expected quarterly results as revenue growth of 12% materially exceeded expectations of 8%. Furthermore, forward guidance was raised primarily due to Azure (public cloud) growth that is expected to accelerate sequentially owing to increased demand from large enterprise customers including some AI related workloads…a key metric investors are watching as we go forward in 2024. Microsoft remained well-positioned as 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 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 for what sort of initial interest will be shown by enterprises engaging with AI tools.

A big driver for shares of **Amazon's** stock in the most recent quarter (+19.5%) was the strong financial performance and margin expansion within the core eCommerce (internet retail) business for Amazon. Financial performance within eComm had deteriorated materially over the last three years (post Covid) as the company spent nearly $100 billion building out its delivery and logistics network to facilitate a broad next-day/same-day delivery service. The company has finally started to grow into this massive building and logistics expansion and should continue to show strong sequential improvement in operating margins that could exceed 11% by 2027, more than double the pre-Covid operating margins of 5%. Moreover, Amazon possesses one of the highest earnings per share (EPS) growth rates of all the mega cap companies, nearing 30% a year through 2027.

Shares of **Apple** gained 12.6% in the fourth quarter and the company remained an important and large weighting of the Buffalo Large Cap Fund at 9% of total assets. Notwithstanding the large absolute position in Apple, the portfolio is still well below the benchmark weighting of 12%. While there remain concerns surrounding iPhone sales in China, and other markets globally, several investment research reports published in the fourth quarter speculated that Apple may be a stealth AI beneficiary by enabling AI "at the edge". At the edge refers to using AI models to generate content directly on your lap top computer or iPhone (via high powered processing chips in the devices) avoiding the need to access the cloud for AI workloads. Think about Apple having an AI specific app store where one can download powerful new applications that provide potentially more privacy and security than accessing AI tools and apps via a public cloud vendor such as Amazon or Microsoft. This AI at the edge epiphany, seemed to generate renewed enthusiasm for Apple's shares in the period.

Top Detractors

Top detractors from fund results in the quarter were Schlumberger, Sanofi, and Aon. Schlumberger declined by more than 10% owing to across-the-board weakness in commodities and oil specifically. The company is a key beneficiary of increased exploration and production as the world has had a decade of under-investment in oil and gas. Moreover, the Russian invasion into Ukraine shifted the focus from energy transition to energy security…a trend unlikely to reverse over the long term.

We continue to like **Schlumberger** for three primary reasons:

1. Key products for include drill bits, drilling fluids, well construction equipment, wireline testing (computer on stick) used for sampling quality of reservoirs or quality of the wells and a whole array of sub-sea and sub-surface products such as well heads, fluid injection systems and communication equipment.
2. The company also benefits from its growing technological and cloud-based digital offerings that energy producers are demanding to help drive increased efficiency and productivity while providing a more efficient climate impact. Higher margins (38%) by provided by workflow automation, new decision driven insights from its

proprietary data of seismic and geological interpretation of reservoirs, which is a $6 billion business or 21% of total annual revenues.

3. The company has a great balance sheet, industry leading margins (26% EBITDA), a dominant market position, with a thrust to a greener footprint, which all coalesce to make Schlumberger an interesting investment opportunity, in our view.

Sanofi (SNY) declined more than 7% owing to increased investment spend in research and development (R&D) to accelerate their business model transformation to one focusing more on novel biologic molecules. This increased R&D lowered the projected earnings growth for 2024. We expect the company's reset earnings growth rate of 8% coupled with a dividend yield of nearly 3% to commence in 2025. We continue to like the company longer term given its' ongoing shift to more durable and differentiated biologic compounds such as Beyfortus, a novel vaccine for RSV, and Altuvilo, a new treatment for hemophilia Factor VIII. We believe that both compounds have multi-billion drug revenue potential. We also see a growing runway for the company's leading drug, Dupixent given positive data for use in COPF, which is a large new market opportunity for this best-in-class franchise.

Finally, shares of **Aon** pulled back by 10% in the period despite quarterly revenue and EPS exceeding expectations with no change in the guidance parameters. There were, however, some mixed results below the headline numbers such as slower than expected growth within the key commercial risk segment that came in 100 basis points below the 5% growth expectation, well below what peers are generating. The company also announced a large acquisition of NFP, a privately held but leading middle market property and casualty insurance broker. The middle market is where AON had a product offering gap and NFP should help close that. NFP does provide some potential integration and execution risk and the transaction will not be accretive until 2027, so the acquisition represents a bit of balanced risk/reward for AON. Consequently, we continued to reduce our investment weight in the company despite believing it is attractively positioned longer term.

Outlook

As always, our goal in managing the fund is to produce better than benchmark risk-adjusted returns while also generating more consistent, less volatile returns over the long term. We appreciate your continued confidence in our investment strategy and approach. It's one that has historically demonstrated an attractive track record of growth through various market challenges and opportunities.

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.

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.

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 9/30/23. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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