

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

March 31, 2021

Capital Market Overview

Equity markets continued to move higher in the 1st quarter of 2021, with the S&P 500 Index returning 6.17%. The period was marked by outperformance of value stocks as the market rotation that began in the last quarter of 2020 became even more pronounced. The vaccination rollout, combined with prospects for more fiscal stimulus, bolstered optimism towards companies that could benefit from the economy reopening. Additionally, an 80+ basis point move higher in the 10-Year U.S. Treasury yield during the quarter left sentiment towards growth stocks relatively more subdued.

The broad market Russell 3000 Index advanced 6.35% in the quarter. Value outperformed growth for the second straight quarter, with the Russell 3000 Value Index up 11.89% compared to the Russell 3000 Growth Index returning 1.19%. Relative performance was inversely-correlated with market cap size in the quarter, with the Russell Micro Cap Index up 23.89%, the small cap Russell 2000 Index up 12.70%, the Russell Midcap Index up 8.14%, and the large cap Russell 1000 Index returning 5.91%. The more cyclically-sensitive Energy, Financial, and Industrial sectors performed best in the quarter. Consumer Staples, Information Technology, and Utilities were the bottom three performing sectors. All sectors produced positive returns.

Performance Commentary

During the quarter the Buffalo Early Stage Growth Fund (BUFOX) generated a return of 7.62%. This result exceeded the Fund's primary benchmark (Morningstar U.S. Small Growth Index) return of -0.42%. The Russell 2000 Growth Index returned 4.88%.

On a trailing 12 month basis, the Fund returned 112.86%. This compared favorably to the primary benchmark return of 81.92% and the Russell 2000 Growth Index return of 90.20%.

The March 2021 quarter continued to drive positive market returns following a historic December quarter. The U.S. has moved closer towards COVID-19 herd immunity, as more than 50% of the adult population has had at least one vaccine dose. As a result, the potential runway for economic growth is becoming clearer for 2021 and beyond. Additionally, another fiscal stimulus bill to the tune of \$1.9 billion was signed in March and provides further support for the economic outlook in the U.S.

The Fund's outperformance in the quarter was driven by solid returns versus the benchmark in the Consumer Discretionary and Health Care sectors, with Fund returns of 14.7% and 20.5%, respectively, in those sectors.

Average Annualized Performance (%)

As of 3/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	112.86	25.86	24.47	16.84	10.70	11.45
Institutional Class - BUIOX ¹	113.25	26.05	24.66	17.01	10.87	11.62
Morningstar U.S. Small Growth Index	81.92	18.48	19.43	13.36	10.25	11.10

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.

Fund Facts

	Investor	Institutional
Ticker:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.51%	1.37%
Fund Assets:	\$131.77 Million	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

Management Team



Craig Richard, CFA

Co-Manager since 2013
M.B.A. – Univ. of Kansas
B.S. – Kansas State Univ.



Doug Cartwright, CFA

Co-Manager since 2015
M.B.A. – Univ. of Wisconsin
– Madison
B.S. – Baylor University

Note: The Buffalo Emerging Opportunities Fund changed its name to the Buffalo Early Stage Growth Fund effective October 16, 2020. We believe this name better captures the spirit of the Fund, seeking holdings that are generally smaller than the median market capitalization of the benchmark index and are bringing innovation to their industries through new products and/or services.



Individual standouts in the quarter included **Mohawk Group Holdings** and **Sleep Number**. Mohawk is a new consumer economy play, creating brands for online purchasing only, primarily on Amazon. Mohawk uses artificial intelligence and data analytics to discover consumer categories online where there is an opportunity for a new entrant to take market share. Focusing on user product reviews, customer service, product quality, and real-time pricing, Mohawk has created category sales leaders on Amazon in kitchen appliances, environmental appliances, beauty products, and consumer electronics. Additionally, Mohawk has begun to use its platform to scale the business by acquiring other Amazon sellers at very attractive valuations and layering them on to Mohawk's highly automated technology platform. Mohawk is in the early innings of this consolidation play and has ample opportunity remaining.

Sleep Number is a mattress company known for layering technology and analytics into their product offering. Demand remains strong for their Sleep 360 smart beds launched several years ago. Sleep Number beds track heart rate, breathing, sleep/wake cycles, and overall sleep health, all reported through a free app for devices such as smartphones. The pandemic has served to refocus many people on their overall health, and sleep health has become a focal point for many. The demand environment has remained strong and we believe the company will likely continue leading the pack in technology innovation in the mattress industry.

The Fund ended the quarter with 64 holdings. We added 6 new holdings and sold out of 7 during the period. Of note, 4 of the 7 holdings sold out of the Fund departed due to being acquired by a larger competitor or private equity.

Outlook

The successful vaccine rollouts in the U.S. along with continued monetary and fiscal stimulus has created a strong outlook for the domestic economy for the remainder of 2021. COVID-19 hospitalizations are down to 35,000 currently, from a high of 125,000 in early January, and almost 70% of the most susceptible population (those over 65) have been fully vaccinated. Additionally, additional stimulus of \$1.9 billion was passed in early March that provided more direct payments to households in the U.S. Coupled with Federal Reserve statements of continuing monetary policy support, the economic landscape remains favorable. Personal incomes, checking/savings account balances, and money market fund balances are at record levels. This continues to provide strong support for equity prices in the near future.

With the strong recovery in equity markets given the economic backdrop mentioned above, we are vigilant of where valuation multiples stand across our holdings. Additionally, we are concerned about the possibility for accelerating price inflation.

Regardless of all the backdrop we are presented with, our job remains to find attractive small cap companies that have not been fully appreciated by the market or are mispriced due to recent results or events. We believe less investor interest in our segment of the market creates opportunity for us to uncover value.

The Fund typically invests at the smaller end of the small cap growth spectrum, and the managers continue to seek companies with sustainable growth, due to secular growth trends or innovative or disruptive products.

The Buffalo Early Stage Growth Fund is focused primarily on identifying innovation within U.S. companies with primarily North American revenue bases. With an active share of greater than 95%, the Fund will continue to offer a distinct offering from the benchmark Index and category peers. ▲

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 12/31/20 the Buffalo Early Stage Growth Fund top 10 equity holdings were 8x8 3.44%, Open Lending Corp 2.82%, Mimecast 2.69%, Omnicell 2.35%, Cerence 2.29%, Advanced Drainage Systems 2.28%, Varonis Systems 2.23%, dMY Technology Group 2.20%, Shutterstock 2.07%, Willdan Group 2.04%. 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 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 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 Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. 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 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 Morningstar U.S. Small Growth Index measures the performance of U.S. small-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 Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values. One cannot invest directly in an index. Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark 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 smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.

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

