

Capital Market Overview

Equity markets moved higher for the fifth consecutive quarter, as the S&P 500 Index returned 8.55%, raising the year-to-date return to 15.25%. The COVID-19 vaccine rollout has helped fuel an economic comeback while corporate earnings are improving. The vaccine adoption around the world is encouraging, and over 50% of the U.S. population is now vaccinated. Capital markets continued to be supported by significant spending from Congress and aggressive monetary policy from the Federal Reserve (the Fed). The 2nd quarter was marked by outperformance of growth stocks, overcoming investor concerns of rising inflation and potential interest rate hikes in the prior quarter. Hawkish comments from the Fed replaced inflation worries with concerns about the magnitude and duration of the economic recovery. Long duration growth companies were beneficiaries as yields on the 10-Year and 30-Year Treasuries declined during the period after climbing for the previous four months.

The broad market Russell 3000 Index advanced 8.24% in the quarter. Growth stocks outperformed Value stocks, as the Russell 3000 Growth Index surged 11.38% compared to the Russell 3000 Value Index gain of 5.16%. Relative performance was correlated with market cap size in the quarter, as the large cap Russell 1000 Index returned 8.54%, the Russell Midcap Index advanced 7.50%, the small cap Russell 2000 Index returned 4.29%, and the Russell Microcap Index finished 4.14% higher.

All economic sectors produced positive returns during the period with the exception of Telecom Services. Real Estate, Information Technology, and Energy led the advance followed by Financials and Health Care. More defensive areas, such as Telecom Services, Utilities, and Consumer Staples, trailed on a relative basis.

Performance Commentary

During the quarter the Buffalo Early Stage Growth Fund (BUFOX) generated a return of 7.37%, exceeding the Morningstar U.S. Small Growth Index's (the Fund's primary benchmark) return of 4.79%. On a trailing 12-month basis, the Fund returned 62.51%. This compared favorably to the primary benchmark return of 43.51%.

The 2nd quarter continued the strong calendar year 2021 returns, as the U.S. continues to recover from the COVID-19 pandemic. As of this writing, 59.4% of individuals in the U.S. over the age of 18 in the U.S. have been fully vaccinated. Additionally, the primary metric we have watched during the global pandemic, hospitalizations, stands at 16,000 individuals in the U.S. While this has risen somewhat due to the emergence of the Delta variant, it remains substantially below the January 2021 peak of 125,000.

The Fund's outperformance in the quarter was driven by solid returns versus the benchmark in the Consumer Discretionary and Healthcare sectors, with returns of 19.1% and 12.8%, respectively, in those sectors.

Average Annualized Performance (%)

As of 6/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	62.51	25.00	26.02	17.44	11.87	11.74
Institutional Class - BUIOX ¹	62.76	25.19	26.21	17.62	12.04	11.91
Morningstar U.S. Small Growth Index	43.51	17.33	19.37	13.86	11.21	11.23

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 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.

Fund Facts

	Investor	Institutional
Ticker:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.51%	1.37%
Fund Assets:	\$150.62 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 **1847 Goedecker** (Goedecker) and **Mimecast**. Goedecker was a new holding for the Fund in the quarter, as we participated in an equity offering whereby Goedecker raised over \$200 million. The proceeds were used to acquire Appliances Connection, the largest online appliance retailer in the U.S. The combined entity will benefit from increased purchasing power with vendors, along with planned fulfillment center expansion, which will decrease shipping costs. Home Depot and Lowe's do not carry the breadth and depth of mid-to-high end appliances that Goedecker focuses on, providing Goedecker the opportunity to continue to grow in a niche with no dominant competitor. Today online retail penetration of appliances is less than <5% and we believe this will provide Goedecker a long runway for growth if they are able to effectively execute.

Mimecast has been a multi-year holding for the Fund, dating back to its initial public offering in November 2015. The company is a leading global provider of email security. The global pandemic caused some headwinds for Mimecast, as its core customer base of small and mid-size businesses were distracted and pulled back on email security spending. During the quarter, Mimecast communicated that they have seen an improvement in the economic environment and that they are having continued success moving up market into more enterprise-sized customers. Additionally, its primary competitor, ProofPoint, was acquired by private equity firm Thoma Bravo for more than 10 times next 12 months revenue and more than 40 times free cash flow. By comparison, Mimecast currently trades at around 5 times 2022 revenue estimates and 25 times trailing 12-month free cash flow. Given the valuation disparity and the likelihood of some operational disruption (at a minimum, cost reductions) at Proofpoint during the ownership transition, we continue to like the set-up for Mimecast going forward.

The Fund ended the quarter with 66 holdings. We added 5 new holdings and sold out of 3 during the period.

Outlook

The Delta variant, a highly contagious SARS-Cov-2 strain, and inflation are the current U.S. headlines along with the ongoing market obsession of the potential timing of the Federal Reserve beginning to step off the gas pedal.

So far, economic activity in the U.S. remains strong. Personal income is well above pre-COVID levels and household net worth is at record levels, meaning that the consumer is strong. Additionally, the M2 money supply is at a record level at \$20.4 trillion, meaning credit is readily available. The nearly \$5 trillion increase in the money supply since the onset of the pandemic compares to the previous \$5 trillion rise, which took place over the course of eight years. While the market may become unsettled from time to time, we believe there is a strong backstop given the financial strength of the U.S. consumer.

Regardless of economic headlines, 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 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 3/31/21 the Buffalo Early Stage Growth Fund top 10 equity holdings were 8x8 2.94%, Open Lending Corp 2.59%, NV5 Global 2.50%, Shutterstock 2.33%, Omnicell 2.31%, Mimecast 2.25%, EverQuote 2.06%, Patrick Industries 1.94%, Compass Diversified 1.87%, Absolute Software Corp 1.86%. 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 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 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 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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 Microcap Index measures the performance of 2,000 small cap and micro cap companies. 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. M2 is a measure of the money supply that includes cash, checking deposits, and easily convertible near money.

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.

