

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

September 30, 2021

Capital Market Overview

Equity market returns were somewhat mixed in the 3rd quarter, but the S&P 500 Index etched out a modestly positive return of 0.58%. The global recovery hit a speed bump during the period as the world dealt with rising COVID-19 Delta variant infections, an energy price spike, and supply chain issues that continued to constrain economic growth. After trading lower earlier in the quarter, interest rates increased later in the period in response to higher-than-expected inflation data and an admission from the Federal Reserve (the "Fed") that they would need to begin removing monetary stimulus from the economy sometime soon.

The Russell 3000 Index declined -0.10% in the quarter. Growth stocks outperformed Value stocks as the Russell 3000 Growth Index returned 0.69% versus a drop of -0.93% for the Russell 3000 Value Index. Relative performance was correlated with market cap size as large caps outperformed small caps in the quarter. The large cap Russell 1000 Index returned 0.21% compared to the Russell Midcap Index return of -0.93%. Smaller market cap indices were even more negative, with the Russell 2000 Index returning -4.36%, the Russell 2000 Growth Index returning -5.65%, and the Russell Microcap Index returning -4.98%. Financials were the top performing sector for the quarter, while Industrials and Materials were lagging sectors.

Performance Commentary

During the quarter the Buffalo Early Stage Growth Fund (BUFOX) generated a return of -4.14%, exceeding the Morningstar U.S. Small Growth Index's return of -4.50%. On a calendar year-to-date basis, the Fund has seen a return of 10.78%. This compared favorably to the primary benchmark return of -0.35%.

The 3rd quarter saw a small pullback in the small cap universe after a solid start to the year. This marked the first quarter, since the onset of COVID-19 in early 2020, that we have seen a negative return, following five strong quarters of positive returns. The Delta variant was a dominant story for much of the quarter and contributed to the pullback. As of this writing, 68.1% of individuals in the U.S. over the age of 18 have been fully vaccinated. Additionally, the primary metric we have watched during the global pandemic, hospitalizations, stands at 55,000 individuals in the U.S. We began the 3rd quarter with only 12,000 hospitalized and saw the Delta variant quickly take this number to 95,000 by the first week of September. Hospitalizations have been on a downward trajectory since then.

The Fund's slight outperformance in the quarter was a combination of small contributions amongst a number of sectors. The largest positive attribution came from the Healthcare sector where our underweight helped, given the sector outpaced the Index on the downside, returning -9.07% in the quarter on average.

Average Annualized Performance (%)

As of 9/30/21	YTD	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	10.78	44.60	21.11	22.04	19.55	11.49	11.29
Institutional Class - BUIOX ¹	10.88	44.79	21.29	22.22	19.73	11.66	11.46
Morningstar U.S. Small Growth Index	-0.35	27.66	12.76	16.67	15.98	11.01	10.77

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%	1.36%
Fund Assets:	\$140.69 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 **Intelligent Systems Corp.** on the upside and **Open Lending** on the downside.

Intelligent Systems' operations primarily surround its CoreCard Software business. This business offers a comprehensive back office offering for financial institutions, program managers, and retailers looking to offer debit cards, credit cards, private label cards, etc. Their systems maintain individual account level data, assess fees, record payments, resolve disputes, compute interest, etc. The CoreCard platform and their extensive offshore development team has allowed them to win significant clients, including Goldman Sachs. Goldman Sachs has made an aggressive first step into the consumer credit card business with the partnership with Apple in launching the Apple Card. Intelligent Systems offers a way to participate directly in Goldman Sachs' credit card launch with Apple and other partners over time as they pursue growth in this platform. With EBITDA (*earnings before interest, taxes, depreciation, amortization*) margins approaching 40% and the only growth limiting factor being how fast they can hire software engineers, we continue to like the set-up for Intelligent Systems. It remains a smaller weighting in the Fund given the customer concentration with Goldman Sachs providing a higher risk factor.

Open Lending has been a nice contributor to Fund returns over the past 15 months but was a drag on results in the 3rd quarter. The company stands alone currently in providing real-time decision automation tools for lenders in the near-prime consumer segment for auto loans. With over 20 years of data and operations, there are currently no competitive threats to Open Lending. Along with signing up credit unions and banks as customers, Open Lending has signed up two car manufacturers and their captive finance units to use the company's platform for consumers in the near-prime credit score category. These dealerships and their finance departments will use the Open Lending platform for both new and used car financing. We believe the concern around the story in the quarter is transitory, as the delays in bringing on additional car manufacturers and their finance units and the pressure on automotive sales from supply chain disruptions should clear up over time. We continue to like the stock longer term given the long runway for growth, as Open Lending currently processes less than 2% of the over 10 million car loans that are made annually to this consumer set.

The Fund ended the quarter with 66 holdings.

Outlook

The current market concerns are primarily focused on supply chain issues across sectors, along with inflation that appears to not be as transitory as the Federal Reserve would like us to believe. This leads to market concerns over the Federal Reserve letting off the gas pedal and starting to apply pressure to the brake pedal.

While lack of monetary stimulus is of concern, we continue to point to the U.S. consumer balance sheet overall as one of the most important data points in providing positive direction for the economy and financial markets. In particular, personal incomes are well above pre-COVID levels, the M2 money supply is at record levels at \$21 trillion, and household net worth is also at record levels. Thus, while the market might become unsettled from time to time, we believe there remains a strong backstop given the excess funds held by U.S. households. We also note that, despite a potential decline in monetary stimulus, more fiscal stimulus seems possible.

Regardless of all the headlines 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.

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

The Fund is focused primarily on identifying innovation within U.S. companies with primarily North American revenue bases. With an active share of greater than 90% and a lower turnover strategy with 50-70 holdings, 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 6/30/21 the Buffalo Early Stage Growth Fund top 10 equity holdings were Open Lending Corp 2.95%, Mimecast 2.78%, Overstock.com 2.69%, Shutterstock 2.41%, 8x8 2.36%, Omnicell 2.35%, NV5 Global 2.29%, Establishment Labs 2.13%, Cerence 2.07%, MaxLinear 1.99%. 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.

