

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

December 31, 2020

Capital Market Overview

Equity markets extended their rally in the 4th quarter, with the S&P 500 Index returning 12.15%. This capped the end to a historic year in which the S&P advanced 18.40% despite the world suffering through a global pandemic. The biggest news in the quarter was the U.S. Food and Drug Administration's (FDA) approval of two separate vaccines, following very encouraging clinical results. This helped investors look beyond worsening COVID-19 trends and provided hope that an end to the pandemic could be in sight.

The Russell 3000 Index increased 14.68% in the quarter. Value stocks led the advance, as the Russell 3000 Value Index advanced 17.21% compared to the Russell 3000 Growth Index return of 12.41% during the period. Relative performance was inversely correlated by market cap in the quarter (i.e., small caps outperformed big caps). The Russell 1000 Index delivered a return of 13.69% compared to the Russell Mid Cap Index return of 19.91%. Smaller market cap indexes surged even more as the Russell 2000 Index returned 31.37% and the Russell Micro Cap Index returned 31.39%. Cyclically-sensitive sectors such as Energy, Financials, Industrials, and Materials performed best in the quarter. The more defensive areas like Telecom Services, Consumer Staples, Utilities, and Healthcare lagged. All sectors produced positive absolute results.

Performance Commentary

Gains were quite strong across the board in another memorable quarter for calendar 2020. With the approval of several vaccine candidates for COVID-19 in November and the U.S. elections concluding, cash-rich investors pushed markets to all-time highs. Small cap markets were particularly strong as vaccine news pointed towards further improvement in economic growth in 2021. During the quarter, the Fund generated a return of 30.54%, a result that outperformed the Morningstar U.S. Small Growth Index return of 28.12% and the Russell 2000 Growth Index return of 29.61%. For calendar year 2020, the Fund returned 47.69%, which compared favorably to the primary benchmark return of 43.52% for the Morningstar U.S. Small Growth Index and the Russell 2000 Growth Index return of 34.63%. Outperformance in the quarter was driven by solid returns in the Consumer Discretionary and Telecommunications sectors, with returns of 30.9% and 119.7%, respectively by the Fund.

Average Annualized Performance (%)

As of 12/31/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	47.69	23.88	21.84	17.22	10.90	11.14
Institutional Class - BUIOX ¹	47.96	24.07	22.03	17.39	11.07	11.31
Morningstar U.S. Small Growth Index	43.52	19.98	18.57	14.44	11.23	11.30

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:	\$119.69 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 included **8x8** and **Establishment Labs**. 8x8 is a cloud software provider of voice, video, chat, and contact center solutions for business customers across the globe. Transforming the global communications landscape and moving these services to the cloud represents a large addressable market with leading players such as Zoom and RingCentral growing rapidly in this environment and trading at very high valuations. 8x8's previous leadership had missed on some opportunities to match this growth, and, during the quarter, 8x8 appointed a new CEO who had been very instrumental in leading RingCentral over the past decade. The market approved of this management change in rewarding 8x8 with a higher valuation on the potential for growth rates to accelerate under new leadership.

Additionally, Establishment Labs was a strong contributor to quarterly gains as elective medical procedures have begun to rebound. Establishment Labs is a disruptor in the breast augmentation market, bringing innovation to the industry that has been absent of advances for the past 20 years. Its technology has resulted in an improved safety profile for breast implants, lowering the probability of re-operation from 15-20% to <1% with their implants. Establishment Labs is expected to enter the largest markets in the world for breast augmentation (China and the U.S.) in the next several years. Additionally, they are working on bringing to market minimally-invasive breast implants (an industry first) that would significantly reduce operation time, scarring, and recovery time.

The Fund ended the quarter with 65 holdings, adding five new positions and moving on from five in the period.

Outlook

2020 will forever live in our memories as investors, given all that we have experienced both personally and professionally in the past 12 months. As of this update, further fiscal stimulus is in the pipeline as the new administration takes over. Coupled with continued monetary policy support, the U.S. government continues to put record levels of money into the hands of U.S. households. 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.

As the vaccine rollout gains steam, we would expect headlines, including hospitalizations and deaths, to begin to improve. Those industries most impacted by COVID-19, including travel, hospitality, and retail, should begin to see traction back towards 2019 levels. However, given strong stock price gains in many sectors over the past nine months, we remain vigilant of valuation multiples both across our holdings and in the market generally.

Regardless of the macro noise, 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 portfolio 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 93%, 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 9/30/20 the Buffalo Emerging Opportunities Fund top 10 equity holdings were Open Lending Corp 3.17%, Cerence 2.92%, Mimecast 2.89%, 8x8 2.69%, Community Healthcare Trust 2.54%, Varonis Systems 2.48%, Air Transport Services Group 2.39%, Advanced Drainage Systems 2.22%, Lovesac 2.04%, Compass Diversified 1.96%. 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 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 Micro Cap 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.

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.

