

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

The Buffalo Mid Cap Fund (BUFMX) returned 4.61% in the 1st quarter, outperforming the Morningstar U.S. Mid Growth Index's return of -1.62%. Outperformance was driven by stock selection in most sectors with the largest impact from the Information Technology and Health Care sectors. The common thread driving stock selection was a focus on earnings acceleration potential as declining rates of COVID cases and increased vaccinations sparked an economic expansion that is expected to be durable. In addition, our valuation discipline paid off, as a significant number of stocks caught in the sell-off were among the most expensive.

Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.90%
Fund Assets:	\$190.72 Million	
Category:	Mid Cap Growth	
Benchmark:	Morningstar U.S. Mid Growth Index	

Management Team



Chris Carter, CFA

Co-Manager since 2017
M.B.A. – Univ. of WI-Madison
B.S. – Santa Clara Univ.



Josh West, CFA

Co-Manager since 2017
M.B.A. – Univ. of MO-Columbia
B.S. – Univ. of MO-Columbia

Average Annualized Performance (%)

As of 3/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFMX	65.92	20.43	17.12	11.96	9.40	9.85
Institutional Class - BUIMX ¹	66.18	20.60	17.28	12.12	9.56	10.01
Morningstar U.S. Mid Growth Index	73.26	22.37	20.59	14.32	11.16	10.47
Lipper Mid Cap Growth Index	72.37	20.03	19.39	13.27	10.74	9.96

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.

↑ Top Contributors

TripAdvisor was among the leading contributors for the portfolio in the quarter. While the company's current results remain impacted by COVID, the outlook for the future improved with the rollout of vaccines. In addition, TripAdvisor is starting a new subscription service that will provide travelers with discounts. This should address a key long-term weakness for the company by converting its large user base into sustainable growth.

Another top performer in the quarter was **Lyft**, which also benefited from vaccine rollout. The company released several positive updates during the quarter detailing improvements in ride volume. Lyft cut significant costs to preserve cash during the downturn, and they expect to maintain much of the expense savings even as the business grows once again. This should have the effect of driving the company to profitability quickly as business normalizes.

CBRE Group was another top contributor in the quarter. The company reported better than expected results across business lines and issued full year guidance that was ahead of expectations. The resilience of their outsourcing business has impressed investors, while the more cyclical sales and leasing advisory business also held up better than expected.

↓ Top Detractors

Verisk Analytics was the top detractor in the quarter. Disappointing quarterly results in addition to the underperformance of high quality, compounding growth companies drove underperformance. While the core insurance business performed better than expectations, their smaller energy and financials businesses continue to disappoint. We believe the risk/reward profile is favorable and that they will either improve the lagging businesses or divest them.

Guidewire Software was another detractor during the quarter. Shares were caught up in the growth selloff before they reported a somewhat mixed quarter. Headline numbers were good, but the cloud transition story continues to be messy. Their property and casualty (P&C) insurance customers are slow to move, but are still in the early innings of transitioning to cloud-based subscription deals.

Outlook

Economic growth is likely to be robust this year. Pent-up demand and easy comparisons from pandemic induced lockdowns will drive a rapid recovery in spending and hiring. On top of this, the new Biden administration has approved significant fiscal stimulus, and the Federal Reserve appears committed to an accommodative monetary policy until inflation picks up.

In the near term, growth will likely be better in cyclical companies that benefit from rapid economic growth and easy comparisons against pandemic depressed numbers. However, the style rotation this quarter has taken some of that into account, and valuations on some secular growth companies are starting to appear more reasonable. While we are mindful of macroeconomic conditions, we will continue to manage the portfolio from the bottom-up, investing in businesses with solid growth opportunities, durable competitive advantages, scalable business models, and good management teams, when they are trading at attractive valuations. Thank you for your continued support. ▲

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 Buffalo Mid Cap Fund top 10 equity holdings were MSCI 3.40%, Lyft 3.21%, IHS Markit 3.12%, CoStar Group 3.07%, Verisk Analytics 2.94%, Veeva Systems 2.77%, RealPage 2.65%, CBRE Group 2.37%, Ametek 2.30%, Bio-Techne Corp 2.12%. 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.

A basis point is one hundredth of a percentage point (0.01%). 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. Mid Growth Index measures the performance of U.S. mid-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 Lipper Mid Cap Growth Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Mid-Cap classification. One cannot invest directly in an index.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods.

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

