Buffalo Mid Cap Fund

QUARTERLY COMMENTARY

June 30, 2021

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

In the 2nd quarter, the Buffalo Mid Cap Fund (BUFGX) returned 5.60%, lagging the benchmark Morningstar U.S. Mid Growth Index's return of 11.33%. The Fund's underperformance was driven by stock selection in the Information Technology and Consumer Discretionary sectors.

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

[1]For 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:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.90%
Fund Assets:	$199.66 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.

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The quarter saw a reversal of 1st quarter's trends, when optimism was abounding from economic reopening and declining COVID cases. Instead, more concerning headlines drove sentiment in this period – renewed shutdowns were announced outside the U.S., the more contagious Delta variant continued to spread, and economic data was more mixed. As a result, more economically-sensitive companies underperformed while secular growth outperformed. Our opinion is that more attractive prospective investment returns are available in growth companies with greater exposure to the economic cycle. This is driven in part by a recovery towards pre-COVID trend growth combined with more reasonable valuation. Nevertheless, while this view buttressed returns in the previous quarter, it was a headwind in this quarter, as the market took a more restrained view of economic growth.

↑ Top Contributors

MSCI reported another strong quarter with results ahead of expectations and raised guidance for the rest of the year. Profitability, while already strong, would be even higher if they weren't investing to accelerate growth in Environmental/Social/Governance (ESG), climate, and thematic indices. Furthermore, with part of their index business being tied to market levels, strong equity markets bode well for future results.

Gartner reported a strong quarter with revenues rebounding and margins blowing away expectations. Current year guidance was raised by a substantial amount, and the trough in contract value growth appears to be behind them. Going forward, the company should continue to benefit from accelerating research growth and a return to in-person conferences.

IHS Markit was another top contributor in the quarter. Due to the company's pending merger with S&P Global, moves in the stock are largely driven by results and sentiment shifts at each company. During the quarter, IHS reported strong results from their transportation and financial services segments that were above previous expectations for stand-alone performance. In addition, S&P Global reported a strong 1st quarter that led them to increase full year guidance. Also, equity markets rose during the quarter, and bond issuance came in stronger than expected, causing expectations for future results to be lifted.

↓ Top Detractors

The top three detractors from Fund performance were TripAdvisor, F5 Networks, and Lyft. Two of these, TripAdvisor and Lyft, were top contributors last quarter. TripAdvisor shares underperformed in the quarter, coming off a significant rally last quarter related to optimism over a new subscription business, TripAdvisor Plus. It is still early days for the newly introduced TripAdvisor Plus, a product that started the year in beta testing. As the market swung from optimism to pessimism over the economic reopening, driving a robust travel recovery, TripAdvisor shares sold off. Underperformance was not caused by any fundamental reason. This was simply the result of a change in investor perception in the quarter.

Next, shares of F5 Networks were a negative contributor in the quarter, as the company reported softer growth in its software segment. Its software segment is expected to drive the bulk of company growth in the future, as it gradually shifts away from selling hardware appliances. However, the company experienced a surge in hardware sales at the expense of growth in software. The reopening of offices led to a rebound in IT infrastructure spending that is quick to deploy, such as hardware. While the overall net impact of this had a positive impact on earnings for the quarter, investors were hesitant to accept it as good news, since the more strategically-important software business underperformed expectations.

Finally, Lyft gave back some of its earlier year gains during the quarter. The performance in the quarter was mostly the result of renewed regulatory concerns, as one of President Biden's cabinet members suggested that drivers for gig-based platforms should be treated as employees rather than contractors. There is little legal standing for this interpretation in laws written today, which means that it would require a new law to be passed through a divided Senate. While the headline political risk is real, the likelihood of new legislation passing is low.

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Outlook

During the 2nd quarter, the prevailing market narrative shifted from expectations for a broad and robust recovery in growth to worries about the sustainability of future growth and a preference for secular growth businesses. Confidence in economic growth was high to start the year and encouraged by a Federal Reserve that appeared determined to support growth recovery and full employment. This confidence waned in this 2nd quarter, as inflation worries grew, employment data was mixed, and the Federal Reserve shifted towards a more hawkish inflation view, recognizing that recent reports of inflation may not be completely transitory. In addition, some Federal Reserve members anticipated removing some stimulus earlier than previously expected, in acknowledgment of increasing inflation risks. We expect this to be an ongoing narrative in the market as the Fed manages two opposing risks: (1) undershooting growth targets in the recovery which will lead to an underperforming economy with lower employment and slower growth and (2) inflation taking off as it did a generation ago, leading to headline growth that does not translate into improvements in standards of living.

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 Buffalo Mid Cap Fund top 10 equity holdings were Lyft 4.01%, IHS Markit 3.27%, MSCI 3.10%, TripAdvisor 2.81%, CBRE Group 2.70%, CoStar Group 2.65%, IAC InterActiveCorp 2.56%, Bio-Techne Corp 2.48%, Verisk Analytics 2.44%, Ametek 2.36%. 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. 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.