

Capital Market Overview

Equity markets sustained their momentum in the 3rd quarter, with the S&P 500 Index returning 8.93%. Macro data continued to improve, and companies broadly reported earnings that proved to be more resilient than expectations. While the U.S. experienced another spike in COVID-19 cases during the quarter and tragically surpassed 200,000 deaths, positive news on vaccines and therapy fronts continued to provide hope for investors.

The Russell 3000 Index increased 9.21% in the quarter. Growth continued to outperform value, as the Russell 3000 Growth Index advanced 12.86%, compared to the Russell 3000 Value Index return of 5.41%. Relative performance was correlated with market cap size in the quarter, with the large cap Russell 1000 Index delivering a return of 9.47%, compared to the Russell Mid Cap Index return of 7.46%, the smaller cap Russell 2000 Index return of 4.93%, and the Russell Micro Cap Index return of 3.69%. More cyclically-exposed Consumer Discretionary, Materials, and Industrial sectors performed best in the quarter. Energy was the sole declining sector, hurt by lingering weakness in oil demand.

Performance Commentary

The Buffalo Mid Cap Fund returned 7.26% during the quarter, but trailed the Morningstar U.S. Mid Growth Index's gain of 9.56%. The underperformance was largely the result of stock selection and an underweight position in the Information Technology sector. Across the entire portfolio, underexposure to non-earners and companies with sky-high valuation multiples, in our view, hurt relative performance. With interest rates expected to be "lower for longer", sales growth was rewarded over profitability and valuation discipline during the market rebound.

Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.90%
Fund Assets:	\$158.09 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
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Average Annualized Performance (%)

As of 9/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFMX</i>	17.87	13.93	11.48	10.88	8.60	8.77
Institutional Class - <i>BUIMX</i> ¹	18.06	14.12	11.66	11.05	8.77	8.94
Morningstar U.S. Mid Growth Index	32.62	19.80	17.20	15.09	10.97	9.82
Lipper Mid Cap Growth Index	23.13	16.07	15.38	13.44	10.24	9.14

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

CoStar Group was the top contributor to performance, with shares up around 19% in the quarter. The company reported 2nd quarter earnings that were much better than expectations, led by the Apartments.com business. Sales for their core CoStar Suite also recovered quicker than anticipated from coronavirus induced weakness.

Veeva Systems was another leading contributor, rising 20% in the quarter after reporting strong earnings. Their Vault product has strong momentum in the marketplace, and fears of declining CRM market share seem to have been addressed. They also announced a new consumer-facing application that could expand their addressable market.

IAA, Inc. was up 35% in the quarter. The salvage auto-auction company exceeded expectations, driven by strong revenue per unit sold. While units sold declined, volumes stabilized sooner than expected.

↓ Top Detractors

Hill-Rom was a leading detractor from portfolio performance for the quarter, with its stock declining 24%. While it reported results that exceeded consensus expectations, concern about the sustainability of its growth in future quarters led to a selloff. Management noted many one-time factors related to COVID-19 for the strong quarterly performance and provided guidance that led many to believe performance in the next quarter would be weaker.

RealPage also detracted from performance, with shares down 11% in the quarter despite reporting strong earnings and providing an optimistic outlook. Investors were likely concerned about the macroeconomic environment and the seemingly abrupt exit of the company's CFO.

Outlook

After a turbulent start to the year, the focus remains on the trajectory of the COVID-19 pandemic and the associated economic fallout. Unfortunately, the gradual reopening of the economy has led to a surge in virus cases. Despite this, we expect state and local governments to resist shutting down economies again with strict shelter in place orders. On the positive side, several vaccines appear to show promise in immunizing people from the virus. The availability of a vaccine or cure would, obviously, be a welcome development and lead to more rapid and broader economic growth. We are also paying attention to the upcoming elections, and, while more people are expecting a "blue wave" in November, it is not clear to us that this outcome is currently reflected in the share prices of some companies that could be affected by policy changes.

While the timing and trajectory are unclear, the pandemic will eventually end and the economy will recover. When that happens, economic growth should broaden and the scarcity value of growth in equity markets will diminish. The recent outperformance of "growth at any price" cannot continue forever, and a reversal in market leadership is likely to be painful for investors that ignored valuations. While we expect volatility to remain high, it will not change our investment philosophy. We will continue to invest in businesses with solid growth opportunities, durable competitive advantages, scalable business models, and good management teams, when they are trading at attractive valuations, in our opinion. 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 6/30/20 Buffalo Mid Cap Fund top 10 equity holdings were MSCI 3.61%, IHS Markit 3.39%, CoStar Group 3.28%, Verisk Analytics 2.93%, Veeva Systems 2.71%, Bio-Techne Corp 2.42%, RealPage 2.25%, Ametek 2.15%, MarketAxess 2.15%, Kansas City Southern 2.11%. 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 Micro Cap 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. 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 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.

