Buffalo Mid Cap 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% 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

The Buffalo Mid Cap Fund (BUFMX) produced a return of -1.50% in the quarter. This result was slightly behind the Morningstar U.S. Mid Growth Index's return of 0.20%. The Fund underperformed early in the period, as the Delta variant spread and interest rates fell, causing weakness in reopening beneficiaries and strength in high-multiple, long-duration growth companies. This was somewhat offset by outperformance later in the quarter, as COVID cases trended lower and economic optimism led to increasing interest rates.

Average Annualized Performance (%)

As of 9/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFMX*	31.17	18.85	16.50	14.40	10.14	9.81
Institutional Class - *BUIMX*[1]	31.34	19.04	16.68	14.57	10.31	9.97
Morningstar U.S. Mid Growth Index	31.01	21.76	21.55	17.91	12.47	10.81
Lipper Mid Cap Growth Index	29.93	18.48	19.47	16.71	11.73	10.10

[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%	0.88%
Fund Assets:		$194.97 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

↑ Top Contributors

MSCI shares benefited from another strong quarter. Index revenue came in ahead of expectations, and their ESG (Environmental, Sustainability, & Governance) and Climate offerings drove accelerating revenue growth. The strong revenue performance led the company to increase free cash flow guidance. We believe MSCI should benefit from the growth of international investing, increasing use of passive investments, and ESG-driven investing for years to come.

Palo Alto Networks shares advanced, driven by accelerating growth reported in the quarter and a better-than-expected outlook for fiscal year 2022. The company appears to be at the end of an investment cycle, and it has adapted its product portfolio to prosper from a network security market driven by cloud computing use cases. This pivot by the company to embrace cloud security should continue to support revenue growth, as investment levels normalize boost profit growth.

Gartner, a technology focused research and advisory company, reported a very strong quarter with significant upside across all metrics. Contract value growth accelerated sharply in both business segments. Expense growth remained controlled, and earnings and cash flow forecasts were materially increased after the quarter. While research and consulting are both growing nicely, their conferences business could provide further upside with a return to in-person events.

↓ Top Detractors

The top three detractors from Fund performance were Lyft, Vroom, and Vimeo.

First, Lyft shares were negatively impacted by renewed fears over COVID-19, driven by the Delta variant. Despite reporting results that exceeded expectations and a better-than-expected profit outlook, shares traded off, based on guidance for less robust sales growth.

Next, Vroom, an online dealership for used cars, was negatively impacted by a mixed outlook for the September quarter. Used car prices have seen unprecedented appreciation driven by scarce new car availability resulting from component shortages. Expectations for a return to normal price depreciation drove a decline in gross profit margin per unit and was a catalyst that sent shares lower over the quarter.

Finally, Vimeo, a recent spin-off from IAC that provides video software solutions for professionals and enterprises, traded lower during the quarter. COVID-19 was a boon for the Vimeo, with the company experiencing a large increase in subscribers as well as a boost in revenue per subscriber, driven by adoption of premium features. Over the next few quarters, Vimeo is going to anniversary its strongest growth quarters making for difficult growth comparisons. The company stated that it expects sales growth may temporarily fall below its long term target of at least 30% growth. The outlook disappointed investors.

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Outlook

Consensus thinking is coming around to the fact that inflation may not be completely transitory and the Federal Reserve will likely have to dial back its support for the economy. The current debate centers on whether or not the economy can continue to grow in the face of higher inflation and less fiscal stimulus. This can lead in two directions, stagflation or robust economic growth. Judging by the flattening yield curve and the outperformance of high-multiple, long-duration growth equities, stagflation appears to be the more popular view. We take the other view.

The Delta variant has clearly hampered the economic reopening, but we believe it has only delayed a more robust recovery. We don't foresee weak consumer demand and high unemployment as problems anytime soon. Consumer wallets are in good shape, helped by government support during the pandemic. To some extent, this has reduced incentives to work, at least at pre-COVID wage levels. Job growth has been disappointing recently, but with vaccination rates up, the possibility of a pharmaceutical treatment, declining COVID cases, and reduced unemployment benefits, we would expect this to improve. Improving labor supply, along with fewer factory and port closures, should alleviate widespread supply chain problems and boost economic growth.

We believe the portfolio is well-positioned for an environment of increased economic optimism and higher long-term interest rates. But this is a result of our bottom-up process, not the implementation of any top-down view. We are under-exposed to hyper-growth companies with sky high valuation multiples because we don't think they currently present us with an attractive risk/reward profile. While we are mindful of macroeconomic fluctuations, they do not drive our investment process. 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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As of 6/30/21 Buffalo Mid Cap Fund top 10 equity holdings were MSCI 3.77%, Lyft 3.67%, IHS Markit 3.63%, Bio-Techne Corp 2.79%, CBRE Group 2.79%, Veeva Systems 2.58%, CoStar Group 2.55%, AMETEK 2.36%, Verisk Analytics 2.30%, Gartner 2.12%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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. Cash flows 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.

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