

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

The Buffalo Mid Cap Growth Fund (BUFMX) returned 20.55% in the quarter, surpassing the benchmark Morningstar U.S. Mid Growth Index return of 19.38%. The Fund's outperformance was driven by favorable stock selection within the Healthcare sector.

Average Annualized Performance (%)

| As of 12/31/20 | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|--|-------|-------|-------|-------|-------|-----------------|
| Investor Class - BUFMX | 34.18 | 19.73 | 15.62 | 11.68 | 9.55 | 9.72 |
| Institutional Class - BUIMX ¹ | 34.42 | 19.91 | 15.80 | 11.84 | 9.72 | 9.89 |
| Morningstar U.S. Mid Growth Index | 46.17 | 24.40 | 20.83 | 15.59 | 11.96 | 10.71 |
| Lipper Mid Cap Growth Index | 35.98 | 20.63 | 18.62 | 13.91 | 11.29 | 10.00 |

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

The top contributors during the 4th quarter were **Lyft**, **RealPage**, and **MSCI Inc.**

Lyft shares climbed higher on a combination of factors including election results in California that denied the reclassification of contract drivers to employees. While revenue reported for the quarter was negatively impacted by a resurgence of COVID throughout the country, Lyft continued to cut costs and delivered better-than-expected results. The cost cuts are particularly important as revenue is expected to rebound in coming quarters, and incremental profits on those revenues will drive the company to profitability quicker than previously anticipated.

Fund Facts

| | Investor | Institutional |
|-----------------|-----------------------------------|---------------|
| Ticker: | BUFMX | BUIMX |
| Inception Date: | 5/19/95 | 7/1/19 |
| Expense Ratio: | 1.03% | 0.90% |
| Fund Assets: | \$184.72 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

RealPage shares received a boost in December with the announcement that it would be acquired by Thoma Bravo. Some have speculated it is possible the company could receive a competing offer, with the Thoma Bravo offer providing a 45-day window to 'go shop'.

MSCI, Inc. reported a strong 3rd quarter, driven by its index and Environmental, Social, and Governance (ESG) businesses. Retention rates also rebounded, providing confidence that COVID-driven cancellations in the 2nd quarter were indeed a one-time occurrence. Furthermore, its index business is aided by fees on higher market levels, and strong equity markets bode well for future results.

↓ Top Detractors

The biggest detractors in the period were **Splunk, Equinix, and Veeva Systems**.

Splunk delivered disappointing results and pulled long term guidance management they had provided earlier in the quarter. The company cited unprecedented scrutiny on larger value deals, where C-suite sign-offs were required for deals that previously required none.

Equinix shares were softer during the quarter, although it delivered results and guidance in-line with expectations. The rise in interest rates during the period likely had an impact, as real estate investment trust (REIT) shares are more sensitive to shifts in rates than other sectors. In this case, optimism about vaccine approvals has increased economic growth expectations and thus led to higher interest rates.

Veeva Systems, a provider of software to the life sciences industry, reported a strong quarter and provided 2021 guidance that was generally above expectations. However, their margin guidance disappointed some investors. In addition, the change in government has increased investor anxiety about potential regulatory changes that could affect Veeva's end markets.

Outlook

We completed a year in the markets without precedent. From one of the quickest and most significant drawdowns, with March marking the low, to finishing the year with strong positive returns. Within that is a market that has become bifurcated. Technology-driven and stay-at-home stocks were big winners in 2020. The valuations among those companies are drawing comparisons to the dot com bubble of 1999-2000. However, the balance of the market appears reasonably-priced based on prospects for a return to normal and growth in 2021.

We are optimistic that the COVID-19 virus will be brought under control, with the vaccines providing resilience to COVID for an increasing share of the population. The risk versus reward for owning companies whose prospects are tied to this recovery in activity far outweigh the attractiveness of those companies who were rewarded with expanding valuations, as investors sought companies relatively less impacted or even strengthened by COVID. We believe this distinction is the most important one facing investors in 2021 and have positioned the portfolio to benefit from the potential rebound in economic activity. ▲

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 Buffalo Mid Cap Fund top 10 equity holdings were Veeva Systems 3.35%, CoStar Group 3.30%, IHS Markit 3.20%, MSCI 3.18%, Verisk Analytics 3.08%, Ametek 2.22%, Bio-Rad Labs 2.14%, Bio-Techne Corp 2.09%, CBRE Group 2.08%, RealPage 2.05%. 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. 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.

