

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

As interest rates moved lower in the quarter, a rotation back into growth stocks quickly followed. Small cap stocks continued to advance in the 2nd quarter but not at the pace of larger cap indices. The Morningstar U.S. Small Growth Index generated the largest total returns in Consumer Staples, Real Estate, Information Technology, and Financials with all sectors except for Utilities and Energy experiencing a positive return.

The Buffalo Small Cap Fund generated a return of 8.45% during the 2nd quarter, outperforming the Morningstar U.S. Small Growth Index, which increased 4.79%. Strong stock selection in Consumer Discretionary, Health Care, and Information Technology were the biggest contributors to outperformance relative to the index. The Fund outperformed the index in every sector except in Consumer Staples and Telecommunication Services which underperformed slightly. During the quarter, stock selection drove the outperformance, with a slight detractor due to allocation effect.

Average Annualized Performance (%)

As of 6/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFSX	66.42	29.96	28.99	17.16	13.08	14.26
Institutional Class - BUISX ¹	66.62	30.16	29.19	17.33	13.25	14.43
Morningstar U.S. Small Growth Index	43.51	17.33	19.37	13.86	11.21	7.73
Lipper Small Cap Growth Fund Index	48.87	19.21	20.87	14.03	10.86	8.73

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.

Fund Facts

	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$1.28 Billion	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

Management Team



Jamie Cuellar, CFA

Co-Manager since 2015
M.B.A. – Southern Methodist
B.B.A. – Univ. of San Diego



Bob Male, CFA

Manager since Inception
M.B.A. – Southern Methodist
B.S. – University of Kansas

↑ Top Contributors

Everi Holdings develops game content and gaming machines and financial technology products (Fintech) for land-based and iGaming operators. The company reported strong 1st quarter revenue and EBITDA growth, exceeding consensus expectations. The company benefited from the continuation of healthy demand trends, as COVID restrictions have been lifted and people are returning to land-based casinos. Longer-term, we believe Everi will take market share in gaming equipment and benefit from the movement to cashless wagering with their mobile wallet solution.

Lovesac designs, manufactures, and sells high quality furniture. The company's product offering includes modular couches called "Sactionals," premium foam beanbag chairs called "Sacs," and associated home decor accessories. Lovesac continued to benefit from a strong housing market and reported an impressive 1st quarter, with 53% year-over-year revenue growth and better-than-expected profitability. Longer-term, we believe the company will increase share as they introduce new differentiated products and expand their omnichannel strategy to build brand awareness and touch more consumers.

↓ Top Detractors

Array Technologies, the producer of solar tracker systems that optimize the efficiency of solar panels for utilities, was the largest detractor from performance this quarter. The company was unable to affirm its guidance for the full year 2021 due to cost increases in steel and freight, as well as an ongoing review of open contracts to assess what costs they can pass on to customers, which negatively impacted the stock price. Although clearly a negative, the company believes the cost increases are temporary and the outlook for solar is very favorable, with the demand for Array's products remaining very strong. We remain positive on the shares and believe the company has a significant opportunity to further penetrate a fast-growing market.

Outlook

Looking forward into the 2nd half of 2021, we remain optimistic about small cap growth stocks but recognize the potential for volatility. As vaccination rates continue to improve, COVID restrictions have been lifted, and economic growth is beginning to accelerate, as pent-up demand is being realized. To complicate the improving economic picture, the country is experiencing a labor shortage, a highly infectious COVID delta variant, and supply chain issues, which could negatively-impact the growth narrative. Furthermore, higher input costs are increasing the threat of inflation, and there is an ongoing debate over its duration and economic impact leading to uncertainty over the timing of the removal of bond purchases and future interest rate increases. All of this has produced angst among investors, creating a rotation back into growth out of more cyclically-sensitive sectors. At this time, we are evaluating the impact of all of these factors on each company we hold in the portfolio.

Regarding the Fund positioning, we believe we have a good balance of growth and cyclical stocks with a tilt toward growth. We continue to manage the portfolio using valuation to both buy and sell stocks that we believe have the best risk/reward tradeoff. Furthermore, we will sell positions that have traded above a market cap that we believe no longer represents a small cap company. As always, we continue to invest in premier companies that could benefit from the long-term trends we have identified and establish positions only when the risk/reward is attractive. Thank you for your continued support as shareholders. ▴

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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537

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 Small Cap Fund top 10 equity holdings were Ligand Pharmaceuticals 2.13%, Cambium Networks 2.09%, GenMark Diagnostics 2.05%, Natera 1.91%, ICF Intl 1.86%, Kornit Digital 1.82%, Upwork 1.74%, Bandwidth 1.71%, Advanced Drainage Systems 1.62%, CareDx 1.62%. 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. Small Growth Index measures the performance of U.S. small-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 Small Cap Growth Fund Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. One cannot invest directly in an index. EBITDA stands earnings before interest, taxes, depreciation and amortization. EBITDA is one indicator of a company's financial performance and is used as a proxy for a company's current operating profitability.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.

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

