

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

March 31, 2024

Capital Market Commentary

Equity markets continued to move higher in the first quarter of the year as the S&P 500 Index gained 10.56% and closed at an all-time high. The stock market has been quite strong despite dramatic changes in expectations about the timing and size of interest rate cuts since the start of the year. Back in January the market was expecting an interest rate cut in March and perhaps six cuts in total for 2024. However, because of continuing economic strength and stickier inflation, that outlook has now shifted to a June or July rate cut start and maybe only two or three 0.25% cuts for the year. The yield of the 10-year U.S. Treasury note rose to 4.20% at quarter-end, an increase from 3.88% to start the year. The shift in interest rate expectations weighed on bonds during the period and the Bloomberg Aggregate Bond Index declined 0.80%.

Recapping broad-based index results, the Russell 3000 Index gained 10.02% during the period. Growth stocks outperformed value stocks as the Russell 3000 Growth Index advanced 11.23% compared to a gain of 8.62% for the Russell 3000 Value Index. Relative performance improved going up in market capitalization (size) during the quarter as large caps advanced more than small caps. Larger cap stocks produced a return of 10.30%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 5.18%. The smaller market cap Russell Microcap Index followed with an advance of 4.68% in the quarter.

Performance Commentary

The Buffalo Early Stage Growth Fund produced a return of 4.80% for the quarter compared to a return of 7.58% for Russell 2000 Growth Index. The index, made up of over 1,050 constituents, had a unique development in the quarter in that two holdings became some of the largest weightings in the history of the benchmark, and also put-up outsized returns. Super Micro Computer and MicroStrategy are seen as beneficiaries of artificial intelligence (AI) investments and a play on bitcoin, respectively. The fund did not hold either company. Super Micro Computer has a \$60 billion market capitalization and falls outside the spirit of running a small cap portfolio while MicroStrategy is a speculative play on the price of bitcoin and does not have a fundamental story behind it. These two companies contributed approximately 360 basis points of performance to the index in the quarter.

Average Annualized Performance (%)

As of 3/31/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	7.38	-7.24	7.79	7.19	15.61	8.41
Institutional Class - BUIOX ¹	7.45	-7.10	7.94	7.34	15.78	8.57
Russell 2000 Growth Index	20.35	-2.68	7.38	7.89	13.39	8.84

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.

We do not believe we will experience anything like this past quarter's occurrence especially as Russell moves to reconstitute their indices twice per year to eliminate the potential for what just transpired. Eliminating these two companies from the index would have resulted in the fund outperforming the benchmark by approximately 80 basis points during the quarter. The fund outperformed within the Health Care and Financial sectors in the quarter with the lone, large drag coming from the Technology sector related to the index constituents mentioned above.

Fund Facts

	Investor	Institutional
Ticker:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.50%	1.35%
Fund Assets:	\$78.20 Million	
Category:	Small Cap Growth	
Benchmark:	Russell 2000 Growth Index	

Management Team



Craig Richard, CFA

Co-Manager since 2013
M.B.A. – Univ. of Kansas
B.S. – Kansas State Univ.



Doug Cartwright, CFA

Co-Manager since 2015
M.B.A. – Univ. of WI-Madison
B.S. – Baylor University

Top 10 Holdings*

Compass Diversified Holdings	3.18%
Bowman Consulting Group, Ltd.	3.17%
Hamilton Lane Inc. Class A	3.11%
Transcat, Inc.	3.10%
Calix, Inc.	2.95%
ICF International, Inc.	2.86%
Varonis Systems, Inc.	2.75%
NV5 Global Inc	2.56%
Cadre Holdings, Inc.	2.54%
Federal Signal Corporation	2.52%
Top 10 Holdings Total	28.75%



↑ Top Contributors

A large contributor to the fund for the quarter was the **Wildan Group**. Wildan is an engineering and consulting firm specializing in energy efficiency projects. The company works on programs supported by state and local governments along with utility companies to both plan and implement building modifications to generate energy savings. Energy efficiency projects remain the most cost-effective way to generate more power and are less expensive than wind and solar projects. Given the likelihood of continued increased demand for power consumption driven by EVs, datacenters, AI and other items, Wildan should be well positioned going forward given this tailwind.

↓ Top Detractors

The largest detractor from performance in the quarter was **Calix**, a provider of hardware and software to rural broadband providers. While a record amount of federal subsidies and incentives are available for rural broadband providers to upgrade and expand their networks, the industry is on pause for the moment as the various federal programs are being vetted and evaluated. This has caused a bit of a lull in spending for Calix equipment and software. We believe industry activity will expand in time and Calix is best positioned to capture this. Additionally, Calix is early in its efforts to turn these hardware relationships into longer term revenue streams through associated software offerings to help these rural broadband providers better manage their businesses and subscriber bases.

Outlook

The employment environment remains strong while consumer sentiment is being pressured by stubborn inflation. The outlook for the Fed to cut rates has dampened materially since late 2023 as economic readings continue to run hotter than expected. Consensus is now forming around two rate cuts in calendar 2024 versus as many as six rate cuts just five months ago. While inflation is showing progress towards getting to the Fed's target of 2%, this does not take away from inflation seen across food, shelter and used vehicles amongst other categories where prices are 25+% higher than pre-Covid levels.

The previous 13 rate cut cycles dating back to 1957 have been very favorable to small cap stocks, with the median return in the first six months approximating 11%. With lowered borrowing costs and lowered discount rates applied to future cash flows, small cap stocks will see immediate benefits from rate cuts. Regardless of the Fed actions, valuation levels of small caps relative to large caps remain at historically attractive levels. Additionally, the performance gap between small cap stocks and large cap stocks remains wide relative to historical levels, and we believe this performance gap will compress over time.

Our job remains to find and hold attractive small cap companies that have not been fully appreciated by the market or are mispriced due to recent results or events. We believe less investor interest in our segment of the market creates an opportunity for us to uncover value over the long term. The fund typically invests at the smaller end of the small cap growth spectrum and the managers continue to seek companies with sustainable growth due to secular growth trends or innovative, disruptive products.

The Buffalo Early Stage Growth Fund is focused primarily on identifying innovation within U.S. companies with primarily North American revenue bases. With an active share of greater than 90%, a lower turnover strategy with 50-70 holdings, the Fund aims to continue to offer a distinct offering from the Index and category peers. ▲

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.

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 Nasdaq Composite Index is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. 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 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 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 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth or the Russell 2000 Growth indices. The Russell 3000 Value Index is an unmanaged index with a market-capitalization weighted equity based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. The Russell Midcap Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. One cannot invest directly in an index. Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index. Alpha is a risk-adjusted measure of the so-called active return on an investment. It is the return in excess of the compensation for the risk. An alpha of 1 means the investment's return on investment over a selected period of time was 1% better than the market during that same period; an alpha of -1 means the investment underperformed the market. The Bloomberg US Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. The Russell 2000 Growth Index is an unmanaged index that measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The price-to-earnings (P/E) ratio is a ratio for valuing a company that measures its current share price relative to its per-share earnings. Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index. Turnover is a measure of the fund's trading activity computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets. A turnover ratio of 100% or more does not necessarily suggest that all securities in the portfolio have been traded. In practical terms, the resulting percentage loosely represents the percentage of the portfolio's holdings that have changed over the past year. Benefits: A low turnover figure (20% to 30%) would indicate a buy-and-hold strategy. The Magnificent Seven is a term used to describe the technology-oriented, highly influential companies of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. Basis points (BPS) are one hundredth of a percentage point (0.01%). The Fund does not directly invest in Bitcoin. Bitcoin and other cryptocurrencies are a relatively new asset class and are subject to unique and substantial risks.

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.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 12/31/23. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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

