

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

March 31, 2025

Capital Market Commentary

It was a volatile quarter for capital markets as a flurry of headlines around potential policy changes from the Trump Administration fueled widespread uncertainty, weighing down sentiment and concerns about economic growth. The stock market, as measured by the S&P 500 Index, declined 4.27% and volatility spiked as investors reacted to aggressive policy rollouts. Policy shifts have limited the ability for corporations to make capital investment decisions and appear to be impacting consumer confidence, which has led to downward revisions of Wall Street analyst corporate earnings estimates for 2025.

The Federal Open Market Committee (FOMC) met in January and held interest rates steady. The market continues to anticipate one or two rate cuts in 2025. However, even though the Federal Reserve held the line on short-term rates, broad-based fixed income markets experienced gains for the quarter as the Barclays Aggregate Bond Index advanced 2.8%. The 10-year Treasury yield peaked at 4.79% in mid-January but declined 36 basis points from December 2024, ending the quarter at 4.21%.

Value equities outperformed growth stocks during the period. The Russell 3000 Growth Index declined 10.00% significantly underperforming the Russell 3000 Value Index return of +1.64%. The small cap Russell 2000 Index returned -9.48%, the Russell Midcap Index fell 7.12% while the large cap Russell 1000 Index produced a return of -4.49%.

Performance Commentary

The Buffalo Early Stage Growth Fund posted a negative return of 9.89% for the quarter compared to the Russell 2000 Growth Index return of negative 11.12%. Small cap growth stocks underperformed their large cap counterparts during the market pullback with the Russell 1000 Growth (large caps) declining 9.97% and the Russell Mid Cap Growth falling 7.12%. Over the past 10 years, the large cap growth index has an annualized return of 15.12% compared to the small cap growth index return of 6.14%.

Through March 31, 2025, the Russell 2000 Growth Index retreated ~20% from the highs established in late November 2024 from post the election rally. The pullback was multi-factored with the artificial intelligence theme losing momentum, consumer and business confidence waning and the federal government introducing uncertainty with Department of Government Efficiency (DOGE) headlines and pending tariff actions ahead of "Liberation Day" on April 2nd.

Information Technology and Consumer Discretionary were the largest decliners across benchmark sectors, declining 17.8% and 14.8%, respectively during the period. The fund's relative outperformance in the quarter was due primarily to superior stock selection within the Consumer Discretionary and Healthcare sectors. The largest detractor from performance for the fund was Consumer Staples.

Average Annualized Performance (%)

As of 3/31/25	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	-7.55	-5.22	9.45	6.42	10.35	7.58
Institutional Class - BUIOX ¹	-7.55	-5.13	9.59	6.56	10.50	7.73
Russell 2000 Growth Index	-4.86	0.78	10.78	6.14	9.51	8.14

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 Institutional 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:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.45%	1.35%
Fund Assets:	\$60.56 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	3.19%
Playa Hotels & Resorts N.V.	3.16%
Shift4 Payments, Inc.	3.14%
HealthStream, Inc.	3.06%
Federal Signal Corporation	2.79%
Transcat, Inc.	2.54%
Halozyme Therapeutics, Inc.	2.31%
Cadre Holdings, Inc.	2.31%
SunOpta, Inc.	2.30%
Champion Homes, Inc.	2.29%
Top 10 Holdings Total	27.08%



↑ Top Contributor

Halozyyme Therapeutics was one of the top individual contributors to performance for the quarter. Halozyyme owns a patented drug delivery technology that enables the subcutaneous transfer of several partner drugs. The benefit to patients is a much more rapid treatment session (i.e. 15 minutes versus the alternative of IV infusion of 2 hours). During an industry conference the company provided positive commentary on their 2025 outlook as well as increasing the outlook on their intermediate term (2028) guidance. Halozyyme's technology allows it to collect royalties from partner drugs over the patent life of that particular drug. We continue to view this more diversified model as attractive within small cap healthcare exposure where holdings are typically dependent on a single device, drug, or treatment offering.

↓ Top Detractor

One of the large detractors in the quarter was **SunOpta**. The company is a leading manufacturer of plant-based beverages for branded food companies and retail establishments (i.e. oat milk at Starbucks). Shares have pulled back on lighter financial guidance for 2025 and has struggled in this difficult market environment as a small market cap company (sub \$1 billion) with higher debt leverage. The management team has done a nice job of capturing market share and expanding production capabilities and is targeting \$125 million in earnings before interest, taxes, depreciation, and amortization (EBITDA) exiting this year. We continue to believe in the opportunity going forward for SunOpta and view the valuation at these levels as attractive.

Outlook

The markets have been dealing with USA's new tariff agenda announced on April 2nd, "Liberation Day." It appears clear that the primary target of the tariff agenda is China, and their rise in global trade prominence over the past 25 years. Our view is that modest tariffs, like those in place today during the 90 day pause, will likely remain in effect longer-term following country by country negotiations. With China, we believe there will be a push to try and bring certain industries back onshore that are deemed critical for the security of the country, including semiconductors and pharmaceuticals.

After the initial elevated sell-off and rise in volatility following "Liberation Day", we believe this administration is sensitive to assets prices and the consumer wealth effect and thus has shown a willingness to back off more draconian measures when the market dictates.

At the time of this writing mid-April, the small cap growth index has retreated nearly 25% from late November 2024 highs. Since 1948, the previous 24 bear markets have had an average decline of 24%. The bear markets from Covid-19 and the Global Financial Crisis (GFC) were more severe with ~40% and ~50% declines as extremes. With the pullback we have experienced, the valuations of the fund's holdings, and the belief that this administration is very sensitive to asset prices, our outlook is likely more positive than most investors.

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. The fund typically invests at the smaller end of the small cap growth spectrum and believes less investor interest in that segment of the market creates an opportunity for us to uncover value over the long term. The fund is focused primarily on identifying innovation within U.S. companies with North American revenue bases. The fund continues to be distinct from the index and category peers with an active share of greater than 90%, a long-term investment horizon, and 50-70 investment holdings. ▴

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. A yield curve is a line that plots the yields, or interest rates, of bonds that have equal credit quality but different maturity dates.

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 12/31/24. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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

