

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

September 30, 2024

Capital Market Commentary

Equity markets advanced in the third quarter as the economy continued to grow moderately while inflation pressures and labor markets cooled enough to trigger an interest rate cut. The Federal Reserve reduced the fed fund's rate by half a percentage point in September bringing the target to 4.75%-5.00%. This much anticipated pivot on interest rates also propelled the bond market during the quarter. Bond prices rose and yields fell in June and July as the outlook for rate cuts became clearer. The yield on the 10-year Treasury note fell from 4.48% at the beginning of July to 3.75% by the end of the quarter. The slope of the yield curve normalized as short term bond yields fell the most. There have been big changes in expectations about the timing and size of interest rate cuts throughout the year. In January the market was expecting as many as six rate cuts for 2024, however, that has now shifted to maybe just three.

The third quarter witnessed a rotation out of large technology stocks. Microsoft, Nvidia, Alphabet, and Amazon underperformed while value stocks and small cap companies advanced sharply during the period. The Russell 3000 Value Index gained 9.47% and significantly outperformed the Russell 3000 Growth Index return of 3.42% in the quarter. The small cap Russell 2000 Index produced a return of 9.27% compared to the large cap Russell 1000 Index return of 6.08%. Dividend-paying stocks also outperformed the broader market for the quarter.

In terms of sector leadership, Utilities and Real Estate were the top performers for the quarter, followed by Financials, Industrials and Materials. Technology, Communication Services lagged, and Energy was the lone negative returning sector for the period.

Performance Commentary

The Buffalo Early Stage Growth Fund produced a return of 7.99% for the quarter compared to the Russell 2000 Growth Index return of 8.41%. During the quarter, small caps gained ground on large caps, helping to partially offset a large performance gap from the first half of the calendar year. The gains for small caps came rather quickly in the first two weeks of July on economic data providing support for the market's preferred outcome of a soft or no landing scenario for the U.S. economy.

Outside of the Energy sector, every sector in the Index generated positive returns in the quarter with Financials leading the way, up 14.4% on average. From an attribution standpoint, the fund generated positive performance versus the index in the Consumer Discretionary sector where the portfolio's holdings returned 18.2% compared to the index return of 8.7% for the sector. Additionally, the fund is underweight the Energy sector which benefitted relative performance. The largest detractor from performance on a sector basis was Healthcare due to a few securities that experienced negative developments during the quarter. We were encouraged by the more even relative performance this quarter versus our benchmark after the rebalancing of the index that took place on June 28th. The rebalancing removed a few ultra large weightings (including Super Micro Computers) that were not at all representative of "small cap" but still resided in the index until the end of June.

Average Annualized Performance (%)

As of 9/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	20.28	-6.75	8.36	9.17	12.26	8.43
Institutional Class - BUIOX ¹	20.27	-6.65	8.49	9.32	12.42	8.58
Russell 2000 Growth Index	27.66	-0.35	8.82	8.95	11.09	8.88

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:	\$73.85 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*

Hamilton Lane, Inc.	3.34%
Willdan Group, Inc.	3.17%
Verra Mobility Corp.	3.03%
Compass Diversified Holdings	2.92%
Transcat, Inc.	2.77%
CyberArk Software, Ltd.	2.69%
Bowman Consulting Group, Ltd.	2.66%
HealthStream, Inc.	2.59%
OneSpaWorld Holdings, Ltd.	2.56%
Apogee Enterprises, Inc.	2.56%
Top 10 Holdings Total	28.29%



↑ Top Contributor

The largest contributor to performance for the quarter was **Wildan Group**, a provider of engineering and consulting services for energy efficiency solutions to government entities, utilities and large enterprises. Gains in the quarter were due to strong organic growth, improving profitability and a durable outlook of increasing demand for Wildan's services given the strains being put on the electrical grid by data center growth. We believe Wildan is well positioned as one of the leading consultants in the energy efficiency space as electricity demand growth is expected to stay elevated over the next several years.

↓ Top Detractor

The largest individual detractor from performance in the quarter was **Bowman Consulting Group**. Bowman is an engineering firm focused on providing services to select verticals including building infrastructure, transportation and utilities. During the quarter, project delays in multi-family and transportation pressured top-line results and also pressured margins given the overhead was in place for a higher revenue base. Bowman has executed well since its initial public offering (IPO) in May 2021 and we expect the company to continue to perform on its strategy of rolling up engineering firms in the middle market arena.

Outlook

The Fed finally began the much-anticipated rating cutting cycle in September and the market continues to expect another 0.5% cut in rates in the last two Fed meetings scheduled for this year. We are positive on the sustained economic strength in the U.S with employment and GDP continuing to show stability all while inflation is at or approaching the Fed's 2% target. Additionally, we are seeing money supply growth (M2) again. We continue to note that the level of price increases over the past four years in numerous categories (>25% in a number of cases) will likely continue to cause some caution on the part of the U.S. consumer in the near term.

We continue to believe small caps remain well positioned to potentially outperform their large cap counterparts after an extended period of underperformance dating back to 2014. The previous 13 rate cut cycles going back to 1957 have been very favorable to small cap performance, with the median return in the first six months after the first rate cut approximating 11%. With lowered borrowing costs and lower discount rates applied to future cash flows, small cap stocks should continue to see immediate benefits.

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:

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.

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 6/30/24. 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.

