

Buffalo Mid Cap Discovery Fund

QUARTERLY
COMMENTARY

December 31, 2024

Capital Markets Review

In the final quarter of 2024 investors processed hawkish comments from the Federal Reserve signaling fewer interest rate cuts in 2025. Bond prices fell and yields rose as the outlook for sustained inflation increased, making rate cuts less certain. The yield on the 10-year Treasury note increased from 3.75% at the beginning of October to 4.57% by the end of the quarter. The Treasury yield curve steepened (normalized) and ten-year Treasury notes have a higher yield than three-month Treasury bills for the first time since October 2022.

The broad equity market, as measured by the S&P 500, managed to advance 2.41% in the period, and there was a rotation back into mega cap growth stocks. Tesla, Nvidia, Amazon, Alphabet, and Apple outperformed while value stocks, as a group, declined. The Russell 3000 Growth Index gained 7.07% significantly outperforming the Russell 3000 Value Index return of -1.94%. In general, performance improved moving up in market capitalization (company size) during the period. The small cap Russell 2000 Index returned 0.33%, the Russell Midcap Index advanced 0.62% while the large cap Russell 1000 Index produced a return of 2.75%.

Performance Commentary

The Buffalo Mid Cap Discovery Fund declined 0.65% during the fourth quarter versus an increase of 8.14% for the Russell Midcap Growth Index. Outperformance in Consumer Discretionary and Staples was more than offset by underperformance in the Technology and Industrials sectors. It was a difficult quarter for the fund with investors bidding up the most expensive and speculative segments of the market. The fastest growing businesses—those expected to sustain 20%-plus revenue growth for the next two years—were by far the best performers, rising approximately 40% on a weighted-average basis. This performance was skewed by a small number of stocks, including two that accounted for nearly half of our underperformance versus the benchmark. The largest drag was not owning Palantir (PLTR), which is an example of the excesses we saw during the fourth quarter. Palantir shares rose 103% in the final three months of the year, trading to nearly 50x 2025 sales and 225x 2025 earnings. The company's margins are already at healthy levels, so investors need to make incredibly bullish assumptions for revenue growth to justify the current stock price, much less any future price appreciation. These types of speculative bets with no regard for valuation or downside risk—typically driven by momentum traders and retail investors—are simply out of bounds for our style of investing.

Average Annualized Performance (%)

As of 12/31/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFTX	5.44	-2.22	6.96	9.19	11.80	8.98
Institutional Class - BUITX¹	5.56	-2.08	7.11	9.35	11.96	9.15
Russell Midcap Growth Index	22.10	4.04	11.47	11.54	13.31	9.73
Morningstar Mid-Cap Growth Category	16.47	-0.12	9.35	10.06	11.88	-

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 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. Each Morningstar category average represents a universe of funds with similar objectives.

Fund Facts

	Investor	Institutional
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.01%	0.87%
Fund Assets:	\$661.39 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management



Dave Carlsen, CFA

Manager since 2004
B.B.A. – Univ. of Wisconsin-Madison



Josh West, CFA

Manager since 2024
B.S. – Univ. of Missouri-Columbia
M.B.A. – Univ. of Missouri-Columbia



Doug Cartwright, CFA

Manager since 2024
B.A. – Baylor University
M.B.A. – Univ. of Wisconsin

Top 10 Holdings*

MSCI Inc. Class A	3.75%
TransUnion	3.39%
IQVIA Holdings Inc	2.49%
AMETEK, Inc.	2.27%
CoStar Group, Inc.	2.06%
Veeva Systems Inc Class A	2.03%
Verisk Analytics, Inc.	1.86%
Bio-Techne Corporation	1.80%
lululemon athletica inc.	1.76%
Copart, Inc.	1.72%
Top 10 Holdings Total	23.11%



↑ Top Contributors

Lululemon (LULU) was the top contributor during the quarter with shares rising 40%. Lululemon is a global lifestyle brand that has expanded from its roots in women's athletic apparel to now offer men's apparel, loungewear, athletic footwear, outerwear, and accessories. Earnings for the third quarter and the outlook for the fourth quarter both came in ahead of expectations, while valuation for the stock had approached a 10-year low on concerns around slowing demand in the core North American market. We added to our position near the lows, believing the North America issues were fixable and international expansion could drive years of healthy growth. The company is now in a better inventory position, the 2025 pipeline has more innovation on tap, and demand in North America has already improved. We continue to hold a position in the company.

Hubspot (HUBS) was also a top contributor during the quarter with shares rising 31%. Hubspot is a software company that provides small- and medium-sized businesses with tools to support a number of critical functions, including marketing, customer service, sales, and operations. The company reported solid third-quarter results during what was a challenging macro environment for software companies. Revenues rose 20% and momentum into 2025 appears to be building behind product innovation and penetration of new artificial intelligence applications at existing clients. We added to our holdings entering the third quarter and continue to maintain a position in this best-of-breed software provider.

↓ Top Detractors

Monolithic Power Systems (MPWR) was the top detractor during the quarter. Monolithic Power designs and manufactures semiconductors used in power management applications. Shares declined 35% during the quarter following disappointing guidance for the company's enterprise segment. This segment is leveraged to fast-growing businesses, including datacenters and artificial intelligence. While the company has so far enjoyed sole-sourced supplier to NVDA's AI systems, it has cautioned throughout the ramp-up that they likely will eventually have to share this customer with a second or third source. News that third quarter revenue from its largest customer in this segment fell sequentially led investors to question where Monolithic's shares may go. We believe its A.I.-focused businesses will grow nicely in 2025, helped by the addition of new AI custom ASIC customers and expanding end markets.

Universal Display (OLED) was also a detractor during the quarter, declining 30% on the heels of a 5% reduction to 2024 revenue estimates. Universal Display is a leader in the development and commercialization of organic light emitting diode (OLED) technologies, which are capturing a growing share of the display market in mobile phones, televisions, monitors, tablets, and automobiles. OLED technology offers numerous advantages over traditional displays, including power efficiency, contrast ratio, and manufacturing cost. While there are near-term challenges from the broader economy and an extended handset cycle, we are optimistic about longer term demand and see a better product cycle unfolding in 2025 and 2026.

Outlook

We expect interest rates to remain higher for longer with the new administration pushing pro-growth policies that could stoke inflation and increase the Federal budget deficit. Against the backdrop of a tight labor market and rising wages, President Trump is advocating for an extension of individual tax cuts, regulatory reform, corporate tax cuts, mass deportations, and tariffs. It remains to be seen what will be enacted, but expectations for more Fed rate cuts have been pushed out. We still believe we are late in the economic cycle and the Federal government will struggle to make meaningful strides on deficit reduction. Against that backdrop, we are focused on high-quality, secular growth stocks with resilient demand. However, we do not advocate buying these stocks at any price. Our valuation discipline certainly hurt our relative performance in the most recent quarter, but we expect it will pay off through a full economic cycle. We believe our focus on innovative growth businesses with strong balance sheets, scalable business models, wide competitive moats, and reasonable valuations should continue to compound value over time. Thank you for your continued trust and support. ▀

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. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible. 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.

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.

Effective 7/29/24, the Buffalo Discovery Fund is the Buffalo Mid Cap Discovery Fund.

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 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 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 is a n unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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. The Conference Board Leading Economic Index, Composite Index of Leading Indicators, otherwise known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the direction of global economic movements in future months. 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. A basis point is one hundredth of a percentage point (0.01%). Yield is the income return on an investment. Refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. 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 yield curve is a visual representation of how much it costs to borrow money for different periods of time; it shows interest rates on U.S. Treasury debt at different maturities at a given point in time. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. EBITDA stands for 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. Price-Earnings Ratio or P/E Ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The Magnificent Seven is a term used to describe the technology-oriented, highly influential companies of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. A yield curve is a line that plots the yields, or interest rates, of bonds that have equal credit quality but different maturity dates. The price-to-sales ratio is a valuation ratio that compares a company's stock price to its revenues.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 9/30/24. 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.

