

## Performance 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.

The Buffalo Mid Cap Fund returned 6.02% in the first quarter but trailed the Russell Midcap Growth Index return of 9.50%. Underperformance was concentrated in the Consumer Discretionary (lululemon Athletica, Chewy), Information Technology (Calix, ON Semiconductor, Teradata), and Financial (MarketAxess, MSCI, Open Lending) sectors. The fund's underperformance can be attributed to two main causes. First, the fund experienced an unusually large number of holdings that issued negative outlooks for the year. We believe in most of these cases the stock reactions were overdone, and we expect them to recover and perform well going forward.

Second, our investing style has been generally out of favor so far in 2024. According to the investment bank Jefferies, momentum has been the top performing factor, and quality has been the worst performing factor. This is the exact opposite of our investment style. We don't chase stocks with strong recent performance, hoping that it can continue. We invest in high quality stocks as measured by return on invested capital (ROIC), return on assets (ROA), and return on equity (ROE) etc. In the first quarter, low quality stocks outperformed high quality stocks by a wide margin (8.4% according to Jefferies). This is not a dynamic that we expect to persist. Over our investing time horizon (3-5 years or more), high quality businesses have consistently outperformed low quality businesses.

## Average Annualized Performance (%)

As of 3/31/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
<b>Investor Class - BUFMX</b>	23.74	2.12	11.40	8.98	12.85	8.78
<b>Institutional Class - BUIMX<sup>1</sup></b>	23.85	2.27	11.56	9.13	13.02	8.94
Russell Midcap Growth Index	26.28	4.62	11.82	11.35	15.64	9.77
Lipper Mid Cap Growth Index	21.20	0.33	9.50	9.78	13.94	8.61

<sup>1</sup>For 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](http://buffalofunds.com).

## Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.88%
Fund Assets:	\$157.09 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

## Management Team



### Josh West, CFA

Co-Manager since 2017  
M.B.A. – Univ. of MO-Columbia  
B.S. – Univ. of MO-Columbia



### Doug Cartwright, CFA

Co-Manager since 2021  
M.B.A. – Univ. of WI-Madison  
B.S. – Baylor University

## Top 10 Holdings\*

MSCI Inc. Class A	4.06%
Gartner, Inc.	3.89%
CBRE Group, Inc. Class A	3.49%
IQVIA Holdings Inc	3.16%
CrowdStrike Holdings, Inc. Class A	3.08%
Verisk Analytics Inc	3.02%
CoStar Group, Inc.	3.00%
Copart, Inc.	2.73%
AMETEK, Inc.	2.54%
Veeva Systems Inc Class A	2.53%
<b>Top 10 Holdings Total</b>	<b>31.49%</b>



## ↑ Top Contributors

**Kinsale Capital Group (KNSL)** is a property and casualty insurer, focusing on excess and surplus (E&S) lines. Kinsale was the top contributor to the fund's return after reporting a strong quarter highlighted by robust underwriting margins and a slight acceleration in growth of premiums written. Looking forward, the company's technology platform and focus on small E&S policies should allow Kinsale to continue growing at an attractive rate without sacrificing on underwriting margins.

Cybersecurity firm, **CrowdStrike (CRWD)** was also a top contributor in the quarter. Despite weakness from other firms in their industry, CrowdStrike reported accelerating recurring revenue growth. CrowdStrike is well positioned to benefit from increasing spend on endpoint security and cloud workload protection for years to come.

**Veeva Systems (VEEV)** provides cloud-based software designed specifically for the life sciences industry. Veeva was a top contributor in the quarter after reporting billings and earnings ahead of investor expectations. We expect Veeva to benefit from growth in the life sciences industry, rising technology spend, and Veeva Vault's continuing industry outperformance.

## ↓ Top Detractors

**Calix, Inc. (CALX)** was the top detractor during the quarter with shares declining 24%. Calix is a telecom equipment supplier that sells primarily to broadband service providers in small- to medium-sized markets. The company stands to benefit from the federal infrastructure bill, which aims to extend broadband access into rural markets. However, fourth quarter results missed expectations with some key customers delaying purchases as they evaluate these new federal programs and apply for funds. Estimates for 2024 have moved sharply lower, but we believe this is largely a timing issue and sets up the company for a strong recovery once these federal programs are underway.

Athletic apparel maker **lululemon athletica (LULU)** was a drag on returns in the quarter. The company issued disappointing guidance and called out slower trends in January and February. We expect lululemon to continue growing faster than the athletic apparel industry for the foreseeable future and believe the recent selloff is overdone.

## Outlook

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 currently looks stickier than it did a few months ago, the good news is that the odds of a recession in the near term have declined.

We don't spend much time worrying about what the Federal Reserve will do, although we do think that if inflation is stickier than expected, businesses with pricing power should hold up better than most. Regardless of what happens with the economy or broader equity markets, we will strive to maximize risk-adjusted returns in the portfolio by investing in attractively valued businesses with solid growth opportunities, durable competitive advantages, scalable business models, and exceptional management teams.

Thank you for your continued 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:

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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](http://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 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 Lipper Mid Cap Growth Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Mid-Cap classification. 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 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 3000 Index is a market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market, encompassing the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S. The Russell 1000 Index is an unmanaged capitalization-weighted index of approximately 1,000 of the largest companies in the U.S. equity markets. 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. One cannot invest directly in an index. The Conference Board of Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term. A basis point is one hundredth of a percentage point (0.01%). Free 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. The Magnificent Seven is a term used to describe the technology-oriented, highly influential companies of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. Return on Invested Capital (ROIC) is a profitability ratio measured using net income divided by invested capital. Return on Assets (ROA) is a profitability ratio that measures how well a company is generating profits from its total assets. Return on Equity (ROE) is the measure of a company's net income divided by its shareholders' equity.

**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.**

\*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.

