

Buffalo Mid Cap Fund

QUARTERLY
COMMENTARY

September 30, 2023

Performance Commentary

Capital markets pulled back in the third quarter of 2023 as the S&P 500 Index declined 3.27% and the Barclay's Aggregate Bond Index fell 3.23%. Rising bond yields and expectations that the Federal Reserve will maintain interest rates "higher-for-longer" weighed on investor sentiment. Inflation is trending down; however, it remains above the Fed's target of 2% leading to the central bank's hawkish tilt. Until recently, markets had been forecasting numerous interest rate cuts in 2024, a scenario that now looks unlikely. The yield of the U.S. Treasury 10-year note finished the period at 4.57%, up from 3.9% to start the year. Performance results among eight of the ten economic sectors were negative during the period, but energy rallied over 12% as the price of oil surged 27% during the third quarter. Overall, economic growth appears to be slowing, but most economists are not calling for a recession in the near term.

Recapping broad-based index results, the Russell 3000 Index dropped 3.25%. Relative performance deteriorated going down in market capitalization (size) as small caps declined more than large caps in the quarter. Larger cap stocks produced a return of -3.15%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of -5.13%. The even smaller market cap Russell Microcap Index pulled back by -7.93% in the quarter.

The Buffalo Mid Cap Fund had a return of -5.71% in the third quarter. This result was slightly behind the -5.22% decline of the Russell Midcap Growth Index. The largest detractor to relative performance came from the fund's lack of exposure to the energy sector. This accounted for a 61 basis point drag, or more than all of the relative underperformance. We tend to avoid energy stocks, because those businesses are largely price-takers with their fates dictated by the macroeconomic environment. We prefer to own businesses with pricing power and the ability to grow at above market rates over a multi-year period and in a variety of economic backdrops.

Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.88%
Fund Assets:	\$136.38 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



Craig Richard, CFA

Co-Manager since 2021
M.B.A. – Univ. of Kansas
B.S. – Kansas State Univ.



Doug Cartwright, CFA

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

Average Annualized Performance (%)

As of 9/30/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFMX	17.94	3.51	7.25	7.93	9.63	8.03
Institutional Class - BUIMX ¹	18.07	3.62	7.40	8.09	9.79	8.19
Russell Midcap Growth Index	17.47	2.61	6.97	9.94	11.25	8.86
Lipper Mid Cap Growth Index	12.58	0.09	5.12	8.68	9.88	7.84

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 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.

↑ Top Contributors

Global Payments, a transaction processing company, was the top contributor to returns in the third quarter. The company surprised the street with revenue and earnings above expectations. The highlight of the quarter was merchant payment volume growth that outpaced peers, assuaging concerns about their competitive position. They also raised the low-end of 2023 guidance ranges for revenue and earnings per share, citing a generally stable macro environment. Looking forward, Global Payments should continue to benefit from the ongoing global shift from cash to credit and debit payments.

MSCI, a provider of index data and analytics tools to the investment industry, was among the top contributors to fund performance in the third quarter. The company reported revenue and earnings that were ahead of investor expectations. Investors were also relieved to see a rebound in results from their ESG and Climate businesses. We remain bullish on MSCI's opportunity to benefit from the growth of international



index investing, the growth of ESG driven investment, and an increase in general market levels, over time.

Aspen Technology sells industrial automation software to energy, chemicals, engineering & construction, and electricity transmission & distribution industries. Its shares contributed to fund performance in the quarter after the company reported an increase in annual contract value of 11.8% and issued 2024 guidance that was ahead of expectations. Going forward, Aspen's customers should continue to increase their spending on efficiency and sustainability, driving solid revenue and free cash flow growth at Aspen Technology.

↓ Top Detractors

Double Verify (DV) was the top detractor for the quarter. The company is a leading software platform for digital media measurement and analytics. Investors had grown increasingly bullish on the stock following the announcement that Meta Platforms—the parent company of Instagram and Facebook—would allow Double Verify to deploy its audience measurement and brand safety tools within the News Feed and Reels products. Online ad spending was rebounding, with the industry lapping changes to Apple's consumer privacy policies. Shares had soared 90% year-to-date heading into the release of second quarter results. The quarter, however, was simply in-line with guidance with revenue rising 22%. Management suggested that recent enterprise account wins would have longer implementation lead times, and that brought down expectations for third quarter. The fund continues to own shares of Double Verify. The company is executing well, bringing in new clients and expanding its product portfolio in digital media verticals such as social, streaming video, and retail. We expect 20%-plus growth will continue as consumer mindshare shifts from traditional media outlets to online platforms, and marketers are increasingly demanding independent analysis of advertising return on investment and brand safety.

Costar Group, the leading provider of data and analytics to the commercial real estate industry, was another detractor to performance this quarter. Although they reported a strong quarter in their core businesses, execution issues at LoopNet and disappointing volumes of commercial real estate transactions on their Ten-X platform led the company to bring down guidance for revenue growth. We continue to like the long-term opportunity to grow CoStar's core suite of corporate real estate products and the apartments.com platform. The management team has a tremendous track record of creating value, and we expect them to be successful with their investments in residential real estate. Even if they are unsuccessful, they can dial back on spending and highlight the underlying profitability of the rest of the business.

Outlook

In the first quarter of this year, investors were concerned that the Federal Reserve would push the economy into recession with their rapid interest rate increases. Last quarter, investors became convinced that the Federal Reserve would be able to tame inflation without killing economic expansion, also known as a "soft landing". This quarter, investors returned to concern over possible or probable recession again. We highlight this mainly to point out how fickle the financial markets are and how quickly the prevailing view can change. Economic data points continue to provide little directional clarity. Geo-political tensions are also rising, and domestic politics contribute to the uncertainty.

We do not know if there will be a recession this year, next year, or the year after, but we remain focused on investing in businesses that will be larger and more profitable many years from now and have the financial strength to weather a recession whenever one occurs. 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:

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.

As of 6/30/23 Buffalo Mid Cap Fund top 10 equity holdings were Gartner 3.94%, MSCI (A) 3.46%, CoStar Group 3.45%, AMETEK 3.12%, CBRE Group (A) 3.11%, IOVIA Holdings 3.06%, Verisk Analytics 2.94%, ON Semiconductor 2.79%, Copart 2.61%, Kinsale Capital Group 2.53%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. One cannot invest directly in an index. Environmental, Social, and Corporate Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company. 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.

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.

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

