

Performance Commentary

2023 concluded with capital markets moving higher in the final quarter of the year. The S&P 500 Index gained 11.69% and the Bloomberg Aggregate Bond Index advanced 6.82%. A big pivot in expectations for the Federal Reserve's monetary policy drove the market advance during the period, as investors now anticipate a decline in interest rates for 2024. The yield of the U.S. Treasury 10-year note finished the quarter at 3.88%, a significant drop from its peak of nearly 5% in mid-October.

Recapping broad-based index results, the Russell 3000 Index gained 12.07% during the period. Growth stocks outperformed value stocks as the Russell 3000 Growth Index advanced 14.09% compared to a gain of 9.83% for the Russell 3000 Value Index. In typical "risk-on" fashion, relative performance improved going down in market capitalization (size) during the quarter as small caps advanced more than large caps. Larger cap stocks produced a return of 11.96%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 14.03%. The even smaller market cap Russell Microcap Index rallied 16.06% in the quarter.

The stock market recorded impressive gains for 2023 with the S&P 500 Index advancing 26.29%. However, it was a "narrow" market as the "magnificent seven" technology and artificial intelligence (AI) stocks accounted for approximate 80% of the S&P 500's gains in 2023, versus a broad market advance where hundreds of stocks propel the index higher. In terms of economic sectors, technology, communication services, and consumer discretionary stocks were the brightest spots while the utilities and energy sectors declined in 2023.

The Buffalo Mid Cap Fund gained 14.22% in the fourth quarter compared to the Russell Midcap Growth Index return of 14.55%. Strong stock selection in the industrials, real estate, and information technology sectors mostly offset the drag from poor selection in health care, consumer, and finance. Our small cash position was also a modest drag on performance in the market rally.

Average Annualized Performance (%)

As of 12/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFMX	26.97	1.66	14.23	8.62	12.52	8.59
Institutional Class - BUIMX ¹	27.18	1.80	14.40	8.78	12.68	8.75
Russell Midcap Growth Index	25.87	1.31	13.81	10.57	14.68	9.43
Lipper Mid Cap Growth Index	20.33	-1.76	11.52	9.06	13.00	8.32

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

Gartner was the top contributor to fund results in the quarter. The company provides research and advisory services, mainly on technology related topics, to corporate clients. The stock advanced over 30% after reporting a beat and raise quarter, highlighted by stabilizing tech vendor spending and salesforce productivity improvements. While artificial intelligence is the current hot topic, we expect Gartner will continue to benefit from the increasing ubiquity and complexity of IT in all types of businesses.

Shares of cybersecurity firm **CrowdStrike Holdings** were up over 50% in the quarter. Investors were surprised by CrowdStrike's net new annual recurring revenue growth of 13%, compared to previous estimates of 6%. Investors were also pleased with the company's improving win rates and expansion into cloud security and identity protection. CrowdStrike should be well positioned to benefit from increasing spend on endpoint security and cloud workload protection for years to come.

Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.88%
Fund Assets:	\$150.90 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*

Gartner, Inc.	4.15%
MSCI Inc. Class A	4.07%
Verisk Analytics Inc	3.30%
CoStar Group, Inc.	3.20%
CBRE Group, Inc. Class A	3.06%
Kinsale Capital Group, Inc.	3.00%
ON Semiconductor Corporation	2.95%
IQVIA Holdings Inc	2.88%
Copart, Inc.	2.65%
AMETEK, Inc.	2.52%
Top 10 Holdings Total	31.78%

CBRE Group is the leading global provider of commercial real estate (CRE) services. Its shares benefited from the pullback in interest rates seen in the quarter. Higher interest rates have been a headwind to commercial real estate transactions. Also, CBRE and some others in the industry made comments about seeing some green shoots in capital markets activity. Looking through the cycles, CBRE should continue to benefit from firms outsourcing CRE functions, consolidation of CRE spend with fewer global providers, and increasing investor ownership in the CRE asset class.

↓ Top Detractors

Kinsale Capital Group is a property and casualty insurer, focusing on excess and surplus (E&S) lines. Gross premiums written grew 34% in the quarter, which disappointed investors who had become accustomed to growth in the 40% and 50% range. While the business will inevitably show signs of cyclicality, the company's technology platform and focus on small E&S policies will allow Kinsale to continue growing at an attractive rate without sacrificing on underwriting margins.

On Semiconductor, a supplier of semiconductors and sensors focused on automotive and industrial markets, was a drag on performance in the quarter. The company lowered guidance for silicon carbide revenue, citing weakness in demand from one top electric vehicle customer. We continue to expect electric vehicles to become a larger percentage of cars on the road over time, and On Semiconductor should benefit from that trend.

Outlook

In the first quarter of 2023, investors were concerned that the Federal Reserve would push the economy into recession with their rapid interest rate increases. In the second quarter, investors became convinced that the Federal Reserve would be able to tame inflation without killing economic expansion, also known as a "soft landing". In the third quarter, investors returned to fretting over a possible or probable recession again. In the fourth quarter, the Federal Reserve signaled a more dovish position and a likely peak in interest rates for this cycle. Investors cheered that outlook, and the prevailing view is again for the economy to have a soft landing. We highlight this mainly to point out how fickle the financial markets are and how quickly the prevailing view can change.

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:

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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 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.

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 9/30/23. 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.

