

# Buffalo Mid Cap Growth Fund

QUARTERLY  
COMMENTARY

December 31, 2024

## Capital Market 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 Growth Fund declined 0.20% during the fourth quarter versus gain of 8.14% for the Russell Midcap Growth Index. 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 at 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 |
|--|-------|-------|-------|-------|-------|-----------------|
| <b>Investor Class - BUFMX</b>                  | 6.79  | -0.70 | 8.53  | 8.72  | 10.06 | 8.51            |
| <b>Institutional Class - BUIMX<sup>1</sup></b> | 6.86  | -0.58 | 8.67  | 8.87  | 10.21 | 8.67            |
| Russell Midcap Growth Index                    | 22.10 | 4.04  | 11.47 | 11.54 | 13.31 | 9.95            |
| Lipper Mid Cap Growth Index                    | 10.73 | -2.20 | 7.38  | 9.34  | 11.10 | 8.42            |

<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:  | 0.97%                       | 0.87%         |
| Fund Assets:    | \$144.27 Million            |               |
| Category:       | Mid Cap Growth              |               |
| Benchmark:      | Russell Midcap Growth Index |               |

## Management Team



**Josh West, CFA**  
Manager since 2017  
M.B.A. – Univ. of MO-Columbia  
B.S. – Univ. of MO-Columbia



**Doug Cartwright, CFA**  
Manager since 2021  
M.B.A. – Univ. of WI-Madison  
B.S. – Baylor University



**Dave Carlsen, CFA**  
Manager since 2024  
B.B.A. – Univ. of WI-Madison

## Top 10 Holdings\*

|                              |               |
|------------------------------|---------------|
| CBRE Group, Inc.             | 4.73%         |
| Gartner, Inc.                | 4.43%         |
| MSCI, Inc.                   | 4.24%         |
| TransUnion                   | 3.45%         |
| Verisk Analytics, Inc.       | 3.43%         |
| IQVIA Holdings, Inc.         | 3.28%         |
| Kinsale Capital Group, Inc.  | 3.10%         |
| Copart, Inc.                 | 2.96%         |
| Veeva Systems, Inc.          | 2.80%         |
| AMETEK, Inc.                 | 2.69%         |
| <b>Top 10 Holdings Total</b> | <b>35.12%</b> |



## ↑ Top Contributors

**Lululemon** 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.

**Live Nation Entertainment** was also a top contributor to performance during the quarter with shares rising over 18%. The stock was a beneficiary of the election of Donald Trump. Investors believe that his administration will be less likely to aggressively pursue the current Department of Justice lawsuit. We have always felt that even under a "worse case" scenario of a forced split of the concert and ticketing businesses, the downside would be limited as Ticketmaster's asset light business would be rewarded a much higher multiple than where Live Nation currently trades. Regardless of the outcome of the DOJ case, we expect Live Nation to continue to benefit from the demographic driven shift in spending preferences from things to experiences.

## ↓ Top Detractors

**IQVIA Holdings, Inc.** was the top detractor during the quarter. IQVIA is a top tier contract research organization that provides outsourced late-stage clinical trials and technology services for pharmaceutical, device, and diagnostic firms. Trial delays and cancellations in the quarter coupled with news of softer R&D spending by large pharmaceutical companies led to disappointing results. We believe that IQVIA continues to be an underappreciated stock and will do well in the long run as outsourcing continues to grow and new drugs near the latter stages of the approval process.

**Mettler-Toledo International** was another detractor in the quarter. Mettler-Toledo is a leading manufacturer of weighing instruments for use in laboratory, industrial, logistics and food retailing applications. Prompted by President Trump's election victory, market concerns of additional Chinese tariffs and cuts to National Institutes of Health (NIH) funding weighed on stock prices for many companies in the life science tools group. Shipping delays also impacted earnings in the quarter, which further depressed the stock price. We believe that Mettler-Toledo will do well when their end markets eventually rebound.

## 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 though a full economic cycle. We believe our focus on growing 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:

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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.

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

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. 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. 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-Earnings Ratio or P/E Ratio is a ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-to-sales ratio is a valuation ratio that compares a company's stock price to its revenues.

**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 9/30/24. 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.

