

Buffalo Small Cap Growth Fund

QUARTERLY
COMMENTARY

March 31, 2025

Capital Market Overview

It was a volatile quarter for capital markets as a flurry of headlines around potential policy changes from the Trump Administration fueled widespread uncertainty, weighing down sentiment and concerns about economic growth. The stock market, as measured by the S&P 500 Index, declined 4.27% and volatility spiked as investors reacted to aggressive policy rollouts. Policy shifts have limited the ability for corporations to make capital investment decisions and appear to be impacting consumer confidence, which has led to downward revisions of Wall Street analyst corporate earnings estimates for 2025.

The Federal Open Market Committee (FOMC) met in January and held interest rates steady. The market continues to anticipate one or two rate cuts in 2025. However, even though the Federal Reserve held the line on short-term rates, broad-based fixed income markets experienced gains for the quarter as the Bloomberg Aggregate Bond Index advanced 2.8%. The 10-year Treasury yield peaked at 4.79% in mid-January but declined 36 basis points from December 2024, ending the quarter at 4.21%.

Value equities outperformed growth stocks during the period. The Russell 3000 Growth Index declined 10.00% significantly underperforming the Russell 3000 Value Index return of +1.64%. The small cap Russell 2000 Index returned -9.48%, the Russell Midcap Index fell 7.12% while the large cap Russell 1000 Index produced a return of -4.49%.

Performance Commentary

The Buffalo Small Cap Fund posted a negative return of 9.88% for the quarter compared to the Russell 2000 Growth Index return of -11.12%. Through March 31, 2025, the Russell 2000 Growth Index retreated ~20% from the highs established in late November 2024 from post the election rally. The pullback was multi-factored with the artificial intelligence theme losing momentum, consumer and business confidence waning and the federal government introducing uncertainty with Department of Government Efficiency (DOGE) headlines and pending tariff actions ahead of "Liberation Day" on April 2nd.

Average Annualized Performance (%)

As of 3/31/25	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFSX	-8.96	-5.93	8.83	7.26	8.49	10.30
Institutional Class - BUISX ¹	-8.96	-5.85	8.96	7.40	8.64	10.46
Russell 2000 Growth Index	-4.86	0.78	10.78	6.14	9.51	5.92
Lipper Small Cap Growth Fund Index	-4.60	0.50	12.49	8.02	10.22	7.05

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.

Information Technology and Consumer Discretionary were the largest decliners across benchmark sectors, declining 17.8% and 14.8%, respectively during the period. The fund's relative outperformance in the quarter was due to superior stock selection within Consumer Discretionary, Financials and Healthcare. The fund's Financials and Healthcare holdings delivered flat returns in a market correction environment. The largest detracting area for the fund was within the Industrials holdings. A mixture of pressure on government-related contracts (DOGE) and higher levels of business uncertainty created near-term issues for some of fund's investments in the sector.

Fund Facts

	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	0.97%	0.87%
Fund Assets:	\$505.72 Million	
Category:	Small Cap Growth	
Benchmark:	Russell 2000 Growth Index	

Management



Bob Male, CFA

Manager since Inception
M.B.A. – Southern Methodist
B.S. – University of Kansas



Craig Richard, CFA

Manager since 2023
M.B.A. – University of Kansas
B.S. – Kansas State University

Top 10 Holdings*

Shift4 Payments, Inc.	3.21%
Summit Materials, Inc.	3.10%
Vertex, Inc.	2.83%
Chart Industries, Inc.	2.48%
Ligand Pharmaceuticals, Inc.	2.44%
Hamilton Lane, Inc.	2.42%
Palomar Holdings, Inc.	2.31%
Champion Homes, Inc.	2.30%
John Bean Technologies Corporation	2.17%
ICF International, Inc.	1.99%
Top 10 Holdings Total	25.24%



↑ Top Contributors

The two largest contributors to the fund's performance were **Option Care Health** and **Palomar Holdings**. Option Care, a national provider of home and alternate site infusion services, benefitted from the healthcare cost containment trend. The company's services for acute and chronic conditions can be 40% to 70% cheaper than a typical outpatient hospital setting. In the quarter, Option Care pre-announced and provided 2025 guidance that was ahead of expectations. Although issues with Stelara, one of the company's administered drugs, will pressure growth and profitability in 2025, competitive gains by Option Care are helping to offset this one-time headwind. We remain positive on the long-term fundamentals of the company, aging population, and transition of care to lower cost settings, and believe Option Care's business model is very attractive with its low capital intensity and high free cash flow attributes.

Palomar is a specialty insurer serving both residential and commercial customers. The company offers five product categories including Earthquake, Inland Marine and Other Property, Casualty, Fronting, and Crop insurance. Palomar has both admitted and non-admitted insurance offerings using reinsurance to control volatility. The company reported a strong quarter with gross written premiums increasing 23.3% and an adjusted combined ratio of 72%. We remain favorable on the fundamentals of the company and expected Palomar to generate 20% plus top line growth with a combined ratio in the low 70% range in the near term.

↓ Top Detractor

The largest detractor from performance in the quarter was **Vertex**, a global provider of indirect tax solutions for enterprise and mid-market companies. As a result of increasing investments around its e-invoicing and AI opportunities, the company's EBITDA guidance for 2025 was below expectations, putting pressure on the stock. We continue to view the shares as a compelling investment and believe the company has a strong competitive position with a sticky customer base. Furthermore, revenue growth should accelerate as the company benefits from several Enterprise Resource Planning migrations/sun-setting of older products and as e-invoicing opportunities in international markets.

Three of the fund's holdings were acquired in 2024 and in the first quarter of this year, the AZEK Company announced its pending acquisition by an industry peer.

Outlook

The markets have been dealing with USA's new tariff agenda announced on April 2nd, "Liberation Day." It appears clear that the primary target of the tariff agenda is China, and their rise in global trade prominence over the past 25 years. Our view is that modest tariffs, like those in place today during the 90 day pause, will likely remain in effect longer-term following country by country negotiations. With China, we believe there will be a push to try and bring certain industries back onshore that are deemed critical for the security of the country, including semiconductors and pharmaceuticals.

After the initial elevated sell-off and rise in volatility following "Liberation Day", we believe this administration is sensitive to assets prices and the consumer wealth effect and thus has shown a willingness to back off more draconian measures when the market dictates.

At the time of this writing mid-April, the small cap growth index has retreated nearly 25% from late November 2024 highs. Since 1948, the previous 24 bear markets have had an average decline of 24%. The bear markets from Covid-19 and the Global Financial Crisis (GFC) were more severe with ~40% and ~50% declines as extremes. With the pullback we have experienced, the valuations of the fund's holdings, and the belief that this administration is very sensitive to asset prices, our outlook is likely more positive than most investors.

We will continue to seek high quality companies that meet our criteria including strong management teams, consistent free cash flow generation, scalable business models, and sustainable competitive advantages. We believe that such companies are well-positioned

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



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to weather economic headwinds and deliver sustainable returns, and this approach allows the portfolio to perform over full market cycles while being mindful of risk.

During the quarter we added four new positions to the fund and eliminated nine, finishing with 67 holdings. As always, thank you for your continued trust and interest in the Fund. ▀

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.

Effective 7/29/24, the Buffalo Small Cap Fund is the Buffalo Small Cap Growth 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Russell 2000 Growth Index is an unmanaged index that measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth Index is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Lipper Small Cap Growth Fund Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. One cannot invest directly in an index. A basis point (bps) is one hundredth of a percentage point (0.01%). 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 Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. 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. A yield curve is a line that plots the yields, or interest rates, of bonds that have equal credit quality but different maturity dates. 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.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 12/31/24. 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.

