Buffalo Small Cap Growth Fund

QUARTERLY COMMENTARY

June 30, 2024

Capital Market Overview

The broad-based equity market advanced in the second quarter (measured by the S&P 500 Index) as the economy continued to grow moderately while inflation and labor market measures eased enough throughout the period that investors became more confident of interest rate cuts. There have been big changes in expectations about the timing and size of interest rate cuts since the start of the year. In January the market was expecting perhaps as many as six rate cuts for 2024, however, that has now shifted to maybe only one or two cuts for the year, starting in September. As has been the case for some time now, however, there was a size bias in performance results during the quarter, which has particularly benefited a few mega-cap companies associated with artificial intelligence (AI). Large cap stocks continued to outperform small cap stocks and growth companies continued to outperform value companies by a wide margin.

Recapping index results, the Russell 3000 Index gained 3.22% during the period. The Russell 3000 Growth Index advanced 7.80% compared to a decline of -2.25% for the Russell 3000 Value Index. Larger cap stocks produced a return of 3.57%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index decline of -3.28%. In terms of sector leadership, Technology and Communication Services were the top performers for the quarter while a larger group of companies in the Industrials, Financials, Health Care, Consumer Discretionary, Energy, Materials and Real Estate sectors declined.

Performance Commentary

The Buffalo Small Cap Growth Fund delivered a return of -4.82% for the quarter, trailing the Russell 2000 Growth Index return of -2.92%. The first half of 2024 extended the elongated cycle of small caps underperforming large caps. The six-months ending June 30th represented one of the worst periods of small cap versus large cap relative performance as the Russell 2000 Growth advanced 4.44% compared to the Russell 1000 Growth up 20.70%. In fact, according to the investment bank Jeffries, the underperformance of small caps this year has been one of the worst relative stretches since 1973.

Average Annualized Performance (%)

As of 6/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFSX*	-3.44	-12.64	6.80	7.90	10.59	10.80
Institutional Class - *BUISX*[1]	-3.29	-12.53	6.95	8.05	10.75	10.96
Russell 2000 Growth Index	9.14	-4.86	6.17	7.39	11.59	6.17
Lipper Small Cap Growth Fund Index	10.27	-3.04	7.63	8.97	12.29	7.31

[1]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.

Consumer Staples was the only major sector to produce positive absolute performance for the Russell 2000 Growth Index in the quarter. Declining expectations for interest rate cuts and some signs of moderation in the economy led to broadly lower trends for small caps. The fund delivered outperformance in the Financials sector, but that was offset by underperformance in the Industrials and Consumer Staples sectors. The rebalancing/reconstitution of the Russell 2000 Growth Index in late June removed the ultra large weights that had grown significantly above "small cap" status in size.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	0.97%	0.87%
Fund Assets:	$628.47 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*

Summit Materials, Inc.	2.97%
ICF International, Inc.	2.54%
Palomar Holdings, Inc.	2.42%
Hamilton Lane Incorporated	2.14%
AZEK Co., Inc.	2.14%
DoubleVerify Holdings, Inc.	2.06%
Advanced Drainage Systems, Inc.	2.04%
Establishment Labs Holdings, Inc.	2.01%
Natera, Inc.	1.98%
Halozyme Therapeutics, Inc.	1.98%
Top 10 Holdings Total	**22.28%**

↑ Top Contributors

The fund's largest contributor to performance in the quarter was **TransMedics,** a commercial-stage medical technology company that has developed the Organ Care System (OCS) which transforms organ preservation for transplantation from a static state to a dynamic environment. The system enables new capabilities, including organ optimization and assessment. We believe the OCS is disrupting the decades-old standard of care (cold storage) and simultaneously increases the supply of viable organs for transplant for the treatment of end-stage heart, lung, and liver failure. The company continues to far exceed street expectations, growing revenue by over 100%, taking share from cold storage. The stock appreciated over 100% in the quarter.

↓ Top Detractors

The largest detractor from the fund's performance in the quarter was **DoubleVerify (DV),** which provides digital advertisers with measurement and analytics services to ensure advertisers reach their intended audience in the correct setting. The company reported solid quarterly results but lowered guidance for the second half of the year, which negatively impacted the stock. The lower guidance was a function of uneven spending from a select group of brand advertisers as management believes the issues are related to a drop in ad spending and not less frequent use of the company's solutions. Also negatively impacting guidance was and a budget shift towards connected TV (CTV) and social media where DoubleVerify has lower attach rates for its more premium products. We continue to remain confident in the long-term fundamentals as the company continues to benefit from further penetration of digital ad spend, as a percent of total media spend, and the increasing focus on brand safety and fraud prevention.

Outlook

As we enter the third quarter, we have witnessed disinflation with progress towards the Fed's stated goal of a 2% inflation target. This has led to the market expecting two rate cuts before year end starting with the mid-September meeting. While the taming of inflation is a welcome event, the level of price increases over the past four years in numerous categories (>25% in some cases) will likely continue to pressure parts of the U.S. consumer base in the near term.

That said, we believe small caps remain very well positioned to outperform their large cap counterparts after an extended period of underperformance dating back to 2014. A couple of drivers of this potential reversal in relative performance could include pending interest rate cuts. The previous 13 rate cut cycles dating back to 1957 have been very favorable to small cap performance, with the median return in the first six months after the first rate cut approximating 11%. With lowered borrowing costs and lower discount rates applied to future cash flows, small cap stocks should see immediate benefits from rate cuts.

Additionally, small caps are trading 20% below historical relative valuation multiples versus their large cap peers. We believe some revision towards the mean is due to take place if investor interest migrates back to the smaller cap segment of the market. To illustrate how quickly this can happen, softer inflation numbers on July 11th caused the Russell 2000 Growth Index to rally over 3%, beating the Russell 1000 Growth Index (large caps) by over 5% in a single trading day. We believe this performance gap will continue to compress over time.

As always, we continue to seek high quality companies that meet our investment criteria including strong management teams, consistent free cash flow generation, scalable business models, and sustainable competitive advantages. We believe that companies with these attributes are well-positioned to weather economic headwinds and deliver sustainable returns while being mindful of risk. During the second quarter we added six new positions to the fund and exited four, ending with 74 securities in the portfolio.

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.

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.

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 3/31/24. 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.