

Buffalo Small Cap Growth Fund

QUARTERLY
COMMENTARY

September 30, 2024

Capital Market Overview

Equity markets advanced in the third quarter as the economy continued to grow moderately while inflation pressures and labor markets cooled enough to trigger an interest rate cut. The Federal Reserve reduced the fed fund's rate by half a percentage point in September bringing the target to 4.75%-5.00%. This much anticipated pivot on interest rates also propelled the bond market during the quarter. Bond prices rose and yields fell in June and July as the outlook for rate cuts became clearer. The yield on the 10-year Treasury note fell from 4.48% at the beginning of July to 3.75% by the end of the quarter. The slope of the yield curve normalized as short term bond yields fell the most. There have been big changes in expectations about the timing and size of interest rate cuts throughout the year. In January the market was expecting as many as six rate cuts for 2024, however, that has now shifted to maybe just three.

The third quarter witnessed a rotation out of large technology stocks. Microsoft, Nvidia, Alphabet, and Amazon underperformed while value stocks and small cap companies advanced sharply during the period. The Russell 3000 Value Index gained 9.47% and significantly outperformed the Russell 3000 Growth Index return of 3.42% in the quarter. The small cap Russell 2000 Index produced a return of 9.27% compared to the large cap Russell 1000 Index return of 6.08%. Dividend-paying stocks also outperformed the broader market for the quarter.

In terms of sector leadership, Utilities and Real Estate were the top performers for the quarter, followed by Financials, Industrials and Materials. Technology, Communication Services lagged, and Energy was the lone negative returning sector for the period.

Performance Commentary

The Buffalo Small Cap Fund produced a return of 8.06% for the quarter compared to the Russell 2000 Growth Index return of 8.41%. During the quarter, small caps gained ground on large caps, helping to partially offset a large performance gap from the first half of the calendar year. The gains for small caps came rather quickly in the first two weeks of July on economic data providing support for the market's preferred outcome of a soft or no landing scenario for the U.S. economy.

Average Annualized Performance (%)

As of 9/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFSX	15.65	-8.50	9.31	9.54	10.12	11.02
Institutional Class - BUISX ¹	15.69	-8.41	9.44	9.68	10.27	11.18
Russell 2000 Growth Index	27.66	-0.35	8.82	8.95	11.09	6.44
Lipper Small Cap Growth Fund Index	26.89	0.09	10.27	10.48	11.79	7.57

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.

Outside of the Energy sector, every sector in the index generated positive returns in the quarter with Financials leading the way, up 14.4% on average. The fund posted strong performance in the Financials sector, generating a return of about 24.9%. The largest detractor by sector in the quarter was among the fund's Information Technology holdings. We were encouraged by the more even relative performance this quarter versus our benchmark after the rebalancing of the index that took place on June 28th. The rebalancing removed a few ultra large weightings (including Super Micro Computers) that were not at all representative of "small cap" but still resided in the index until the end of June.

Fund Facts

	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	0.97%	0.87%
Fund Assets:	\$642.66 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*

Halozyme Therapeutics, Inc.	2.86%
ICF International, Inc.	2.81%
Summit Materials, Inc.	2.74%
Hamilton Lane, Inc.	2.64%
Shift4 Payments, Inc.	2.57%
Baldwin Insurance Group, Inc.	2.30%
Advanced Drainage Systems, Inc.	2.14%
Palomar Holdings, Inc.	2.07%
Universal Display Corp	2.05%
Ollie's Bargain Outlet Holding	2.03%
Top 10 Holdings Total	24.22%



↑ Top Contributor

One of the largest contributors to performance for the quarter was **Baldwin Insurance Group, Inc.**, an insurance broker in the U.S. offering a range of insurance products and services to over 400,000 clients across all 50 states. The stock's recent outperformance was due to its strong double-digit organic revenue growth, expanding margin profile, and improving balance sheet leverage. Our outlook for Baldwin remains positive as the company continues to expand margins and approaches a period of improving free cash flow generation as the earnout from previous acquisitions comes to an end.

↓ Top Detractor

The largest individual detractor from performance in the quarter was **Progyny, Inc.**, a fertility benefits management company. Progyny has been a market leader in this emerging category for employee benefits, serving large employers with over 6 million members. During the quarter, the company announced its largest client, that accounted for over 10% of revenue, was leaving for a competing solution provider. We believe that the client was seeking a more modest benefit (from a cost standpoint per employee) and thus chose to move away from Progyny. This client loss does create near-term growth challenges, and we acknowledge there are capable competitors, however we continue to see opportunity for Progyny to capture market share in this underpenetrated category of employee benefits.

Outlook

The Fed finally began the much-anticipated rating cutting cycle in September and the market continues to expect another 0.5% cut in rates in the last two Fed meetings scheduled for this year. We are positive on the sustained economic strength in the U.S with employment and gross domestic product (GDP) continuing to show stability all while inflation is at or approaching the Fed's 2% target. Additionally, we are seeing money supply growth (M2) again. We continue to note that the level of price increases over the past four years in numerous categories (>25% in a number of cases) will likely continue to cause some caution on the part of the U.S. consumer in the near term.

We continue to believe small caps remain well positioned to outperform their large cap counterparts after an extended period of underperformance since 2014. The previous 13 rate cut cycles 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 could continue to see immediate benefits.

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 such companies are well-positioned 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 two new holdings to the fund and exited four, ending the quarter with 72 securities. Thank you for your continued trust and interest in the fund. ▀

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. A yield curve is a line that plots the yields, or interest rates, of bonds that have equal credit quality but different maturity dates.

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 6/30/24. 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.

