

Buffalo Small Cap Growth Fund

QUARTERLY
COMMENTARY

December 31, 2024

Capital Market Overview

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 Small Cap Growth Fund posted a return of -1.78% for the quarter compared to the Russell 2000 Growth Index return of 1.70%. Small cap growth stocks once again underperformed their large cap counterparts contributing to one of the largest performance gaps in history between the Russell 2000 Growth Index and the Russell 1000 Growth in a single calendar year. For 2024, the Russell 1000 Growth Index returned 33.36% while the Russell 2000 Growth returned 15.15%. Over the past 10-years, the large cap Russell 1000 Growth Index has delivered annualized return of 16.78%, doubling the small cap Russell 2000 Growth Index return of 8.09%.

Average Annualized Performance (%)

As of 12/31/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFSX	5.38	-8.03	6.29	8.80	9.99	10.83
Institutional Class - BUISX ¹	5.41	-7.94	6.42	8.94	10.14	10.99
Russell 2000 Growth Index	15.15	0.21	6.86	8.09	10.92	6.44
Lipper Small Cap Growth Fund Index	13.62	-0.41	8.58	9.72	11.46	7.52

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.

During the quarter, the market experienced a fair amount of volatility in small caps given the decisive election result that spurred some animal spirits by investors, especially in the first half of the quarter. Various inflation metrics ticked higher in the back half of the quarter prompting the Federal Reserve to communicate a reduced outlook for interest rate cuts into 2025.

Leading contributors to small cap index returns over the past quarter, and trailing 12 months, continued to include companies that we consider speculative, and trading at valuations that are not digestible for a fundamental investor. Many of these companies have heavy retail investor interest and are seeing 20% of their total shares trading on a daily basis versus a more typical 1%.

Industrials was one of the worst performing sectors for the portfolio during the period as the potential for sustained, higher interest rates impacted sentiment and the outlook for construction-oriented businesses. Additionally, the U.S. Presidential

Fund Facts

	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	0.97%	0.87%
Fund Assets:	\$593.31 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.	2.86%
ICF International, Inc.	2.75%
Hamilton Lane, Inc.	2.55%
Shift4 Payments, Inc.	2.53%
Palomar Holdings, Inc.	2.36%
Halozyme Therapeutics, Inc.	2.32%
Champion Homes, Inc.	2.29%
Ligand Pharmaceuticals, Inc.	2.11%
Advanced Drainage Systems, Inc.	2.05%
Baldwin Insurance Group, Inc.	2.01%
Top 10 Holdings Total	23.83%



election caused a pause in decision making by a lot of industrial clients for their September reporting periods. Meanwhile, Materials was the largest contributor to fund results as one investment position, Summit Materials, was acquired during the quarter. For the calendar year, the fund had three of its holdings acquired.

↑ Top Contributors

The two largest contributors to performance for the quarter were **Chart Industries** and **Summit Materials**, mentioned above. Chart is a leading provider of technology, equipment and services related to liquefied natural gas, hydrogen, bio-gas, and carbon capture. The company's operating segments include Cryo Tank Solutions, Heat Transfer Systems, Specialty Products and Repair, Service & Leasing. The company reported strong orders, record backlog and improved free cash flow. We remain positive on the long-term fundamentals of the company and believe Chart should continue to benefit from the growth of clean energy and the buildout of the required infrastructure.

Summit Materials, a leading vertically integrated materials-based company that supplies aggregates, cement, ready-mix concrete and asphalt in the United States, British Columbia, and Canada agreed to be acquired by Quikrete, a packaged concrete manufacturer. The stock advanced approximately 30% in the quarter on this news.

↓ Top Detractor

The largest detractor from 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. Revenue growth decelerated from the previous quarter as the market volume for transplants slowed, negatively impacting the stock. Furthermore, the company experienced headwinds from decreased fleet capacity as several of its planes were out of service for maintenance. As a result, fund management eliminated the position from the portfolio during the quarter on concerns over the competitive landscape moving forward.

Outlook

The interest rate cuts in the latter part of calendar 2024 have failed to flow through to consumer and commercial borrowers. U.S. 10-year Treasury yields moved considerably higher due to inflation readings inflecting higher since October. As it stands today, the rate cutting cycle initiated by the Fed is expected to be on pause for most of 2025. We have noted before that rate cutting cycles have historically been most favorable to small caps versus with the rationale being lower borrowing costs and lower discount rates applied to future cash flows are most impactful to smaller companies compared to their large cap peers. With a more tepid outlook for rate cuts slowing this catalyst, one offset is the domestic consumer and the domestic economy that continues to show stability. The favorable backdrop in the U.S. is more impactful to small caps given they typically have much less exposure to foreign countries (both in operations and in end market consumption) than large caps. Fundamentally, with a more stable interest rate outlook, management teams are more likely to move forward on budgetary decisions which should positively impact smaller companies.

We 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 to weather economic headwinds and deliver sustainable returns while being mindful of risk.

During the quarter we added four new positions to the fund and eliminated four, ending the year with 72 investment holdings. As always, 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 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.

