

Tickers: **BUFSX** | **BUISX**

### MORNINGSTAR RATING



Overall Morningstar Rating™ of BUFSX based on risk-adjusted returns among 545 Small Growth funds as of 9/30/2024.

### FUND MANAGEMENT



#### Bob Male, CFA

Manager since Inception  
37 Years Investment Experience

MBA - Southern Methodist  
B.S. - University of Kansas



#### Craig Richard, CFA

Manager since 2023  
21 Years Investment Experience

MBA - University of Kansas  
B.S. - Kansas State University

### ABOUT US

The Buffalo Funds are a family of 10 actively-managed, no-load mutual funds, which provide a variety of long-term investment options for investors. We believe that patient investing, backed by solid, intelligent research, can be the best way to achieve long-term financial returns.

### CONTACT US

800.49.BUFFALO  
buffalofunds.com

## 1 Would you please comment on the performance of small-cap stocks in the third quarter of 2024?

The third quarter of 2024 marked just the third time in the past 14 quarters in which small-cap stocks (Russell 2000 Index) outperformed large-cap stocks (Russell 1000 Index). During the period, the Russell 2000 Index returned over 300 basis points more than the Russell 1000 Index, with returns of 9.3% vs. 6.1%, respectively. We also saw a rotation out of the large technology and growth stocks which dominated performance in the first half of calendar 2024. Small-cap value stocks led the way during the quarter with the Russell 2000 Value Index's return of 10.2% outperforming the Russell 2000 Growth Index's return of 8.4% in the third quarter.

Small-cap outperformance was driven by the anticipation of the Federal Reserve interest rate cutting cycle to finally begin. Small-cap stocks are typically more affected by interest rate changes as they are more reliant on external financing to fund their growth and operations. In addition, their balance sheets can be weaker compared to their larger counterparts, which results in less financial cushion to absorb higher interest costs.

For the three months ended September 30, 2024, we are pleased that the Fund outperformed the Morningstar Small Growth Category average with returns of 8.06% vs 7.44%, respectively.

## 2 Would you please discuss your thoughts on Artificial Intelligence (AI) from a portfolio perspective?

AI has the potential to be a transformative technology impacting productivity across a wide swath of industries. The term has become omnipresent in the investment landscape, being mentioned in 42% of all earnings conference calls in the second quarter for constituents of the S&P 500 Index. To be fair, the amount of capital investment being dedicated to AI matches the hype. Hyperscalers, including Alphabet, Amazon, Meta, Microsoft and Oracle, are forecast to spend over \$250B in capital expenditures for AI annually by 2027, up from \$150B spent in 2023.

*Continued*

### PERFORMANCE (%) AS OF 9/30/2024

	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
<b>Investor Class - BUFSX</b>	<b>7.29</b>	<b>15.65</b>	<b>-8.50</b>	<b>9.31</b>	<b>9.54</b>	<b>11.02</b>
<b>Institutional Class - BUISX<sup>1</sup></b>	<b>7.31</b>	<b>15.69</b>	<b>-8.41</b>	<b>9.44</b>	<b>9.68</b>	<b>11.18</b>
Russell 2000 Growth Index	13.22	27.66	-0.35	8.82	8.95	6.44
Morningstar Small Growth Cat. Avg.	12.69	25.69	-1.41	10.04	9.93	-

Expense Ratio: BUFSX 0.97%, BUISX 0.87%

*Inception dates: BUFSX 4/14/1998, BUISX 7/1/2019. Average annual total return represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate and redemption value may be more or less than original cost. Fund performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by visiting buffalofunds.com. <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.*

Small-cap stocks often face several challenges when it comes to investing directly into AI. Developing and implementing AI technology can be extremely costly and small-cap companies may not have the large financing resources nor the specialized knowledge required to invest directly. However, we are finding other ways to invest indirectly into AI.

For example, earlier this year we purchased Sterling Infrastructure, which provides a range of infrastructure solutions. A material portion of the firm's resources are focused on large-scale development services for data centers, manufacturing, e-commerce distribution centers, and warehousing. With increasing demand in AI, Sterling should benefit from its expertise in developing the infrastructure necessary to accommodate these large data center developments.

### 3 Would you please discuss a portfolio company that was a significant contributor to the Fund's recent performance?

Hamilton Lane is a company that we have owned since its initial public offering in 2017. The company is a leading global investment manager specializing in private markets. Hamilton Lane is highly diversified across several businesses, providing tailored investment solutions for private equity, private credit, real assets and infrastructure. In addition, the company manages both discretionary and non-discretionary assets, with a focus on delivering customized investment programs and portfolios. Its innovative approach to private market investments, including the use of proprietary data and technology, has helped to drive growth throughout the years. In the second quarter of this year, the company generated management and advisory fees of \$140 million, an increase of 33% year-over-year. Furthermore, adjusted EBITDA grew 58% during the same period. We believe that the management team members are excellent stewards of capital, and we believe that the company will continue to be a reliable and growth-oriented investment. The stock was up 36.8% in 3Q24.

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 may be obtained by calling (800) 49-BUFFALO or visiting [buffalofunds.com](http://buffalofunds.com). Read them carefully before investing.

**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.**

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

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a 3-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all 3 rating periods. The Buffalo Small Cap Growth Fund (BUF SX) received 2 stars among 545 for the 3-year, 2 stars among 517 for the 5-year, and 2 stars among 398 Small Growth funds for the 10-year period ending 9/30/2024 based on risk-adjusted returns. © 2024 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

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 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 Value Index is an unmanaged index with a market-capitalization weighted equity based on the Russell 2000 Index, which measures how U.S. stocks in the equity value segment perform. The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values. The S&P 500 Index is a capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. One cannot invest directly in an index.

A basis point (BPS) is one hundredth of a percentage point (0.01%). 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.

Holdings in the Fund as a percentage of net assets as of 6/30/2024: Alphabet 0.00%, Amazon 0.00%, Meta Platforms 0.00%, Microsoft 0.00%, Oracle 0.00%, Sterling Infrastructure 0.88%, and Hamilton Lane 2.65%. Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security. Holdings for the quarter are not disclosed until 60 days after quarter end.

Kornitzer Capital Management is the adviser to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.