

Buffalo Small Cap Fund

QUARTERLY
COMMENTARY

December 31, 2023

Capital Market Overview

2023 concluded with capital markets moving higher in the final quarter of the year. The S&P 500 Index gained 11.69% and the Bloomberg Aggregate Bond Index advanced 6.82%. A big pivot in expectations for the Federal Reserve's monetary policy drove the market advance during the period, as investors now anticipate a decline in interest rates for 2024. The yield of the U.S. Treasury 10-year note finished the quarter at 3.88%, a significant drop from its peak of nearly 5% in mid-October.

Recapping broad-based index results, the Russell 3000 Index gained 12.07% during the period. Growth stocks outperformed value stocks as the Russell 3000 Growth Index advanced 14.09% compared to a gain of 9.83% for the Russell 3000 Value Index. In typical "risk-on" fashion, relative performance improved going down in market capitalization (size) during the quarter as small caps advanced more than large caps. Larger cap stocks produced a return of 11.96%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 14.03%. The even smaller market cap Russell Microcap Index rallied 16.06% in the quarter.

The stock market recorded impressive gains for 2023 with the S&P 500 Index advancing 26.29%. However, it was a "narrow" market as the "magnificent seven" technology and artificial intelligence (AI) stocks accounted for approximate 80% of the S&P 500's gains in 2023, versus a broad market advance where hundreds of stocks propel the index higher. In terms of economic sectors, technology, communication services, and consumer discretionary stocks were the brightest spots while the utilities and energy sectors declined in 2023.

Performance Commentary

The Buffalo Small Cap Fund produced a return of 7.79% for the quarter, a result that trailed the Russell 2000 Growth Index return of 12.75%. Weak stock selection within the Health Care sector which represented 20.4% of the index weighting was responsible for most of the relative underperformance. Helping offset a portion of underperformance was positive stock selection within both the Financials and Materials sectors.

Average Annualized Performance (%)

| As of 12/31/23 | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|--|-------|-------|-------|-------|-------|-----------------|
| Investor Class - BUFSX | 5.45 | -8.19 | 12.66 | 7.50 | 11.96 | 11.05 |
| Institutional Class - BUISX ¹ | 5.57 | -8.06 | 12.82 | 7.65 | 12.12 | 11.22 |
| Russell 2000 Growth Index | 18.66 | -3.50 | 9.22 | 7.16 | 12.07 | 6.12 |
| Lipper Small Cap Growth Fund Index | 18.36 | -1.11 | 11.65 | 8.54 | 12.91 | 7.29 |

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.

↓ Top Detractors

The fund's largest detractors from performance in the quarter were **Establishment Labs** and **Chart Industries**. Establishment Labs is a medical device company focused on bringing safer breast implants to the breast augmentation and reconstruction marketplaces. A softer consumer spending outlook in many of the company's international geographies caused a pause in growth and resulted in disappointing results for the second half of 2023. We remain optimistic on the long-term growth opportunity for the company as it is on the cusp of entering both the U.S. and Chinese markets which should effectively double its current market opportunity. Meanwhile, Chart Industries, which manufactures highly engineered equipment for the industrial gas, energy, and

Fund Facts

| | Investor | Institutional |
|-----------------|---------------------------|---------------|
| Ticker: | BUFSX | BUISX |
| Inception Date: | 4/14/98 | 7/1/19 |
| Expense Ratio: | 0.99% | 0.87% |
| Fund Assets: | \$712.76 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*

| | |
|--------------------------------|---------------|
| MGP Ingredients, Inc. | 2.33% |
| ICF International, Inc. | 2.30% |
| DoubleVerify Holdings, Inc. | 2.14% |
| PGT Innovations, Inc. | 2.14% |
| Calix, Inc. | 2.12% |
| Summit Materials, Inc. Class A | 2.03% |
| Hamilton Lane Inc. Class A | 1.94% |
| ChampionX Corporation | 1.92% |
| Chart Industries, Inc. | 1.85% |
| Halozyme Therapeutics, Inc. | 1.82% |
| Top 10 Holdings Total | 20.61% |



biomedical industries reported third quarter results that missed expectations due to supply chain issues and customer delays. However, orders and backlog were strong in the quarter and guidance for 2024 was positive. Additionally, assets sales announced in the quarter came in ahead of schedule. We remain positive about the long-term fundamentals of the company and believe the stock is attractively valued at current levels.

↑ Top Contributors

The fund's largest contributors to performance for the quarter was **PGT Innovations** and **DoubleVerify**. PGT Innovations is a leading manufacturer of residential impact resistant windows and doors. The company entered into an agreement to be acquired by Masonite International Corp causing the shares to move higher on the proposed announced acquisition. DoubleVerify provides digital advertisers with measurement and analytics services to ensure advertisers reach their intended audience in the right setting. The company reported strong earnings with results ahead of expectations led by growth in brand suitability solutions (ensuring advertisements appear alongside non-controversial content) while also beginning to gain more traction in international markets. We are confident in the long-term fundamentals of the company and the stock remains one of the fund's largest investment holdings.

Outlook

While the employment environment remains strong, excess household savings accumulated during the pandemic are being exhausted. In the fourth quarter, the Fed signaled a more dovish position and paused its aggressive interest rate hikes as inflation began to moderate and approached its 2% target. As a result, small cap stocks experienced a sharp rebound in the fourth quarter with the Russell 2000 Growth Index advancing 12.75% and the Russell Microcap Index surging 16.06% with lower market cap stocks and non-earners as the biggest drivers of performance.

As the economy slows and the Fed moves from a position of raising interest rates to lowering rates and halts quantitative tightening, we are becoming increasingly more positive on the outlook for small cap stocks. Valuation levels of small caps relative to large caps remain at historically attractive levels. Additionally, the performance gap between small cap stocks and large cap stocks remains wide relative to historical levels, and we believe this performance gap will compress. This creates an environment ripe for investment in small cap companies that demonstrate durable growth. 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 with manageable levels of risk. During the fourth quarter we added three new investments to the fund, exited seven positions, and ended the year with 72 holdings. 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.

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 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 9/30/23. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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

