

Capital Market Overview

The stock market extended year-to-date losses during the 2nd quarter. Inflation, rising interest rates, and economic uncertainty continued to be major headwinds for investors as recession talks gained traction. The S&P 500 Index fell -16.10% during the quarter, bringing the total return for the first half of the year to -19.96%. News headlines, which included energy shortages, the war in Ukraine, China's COVID lockdowns, and the potential for softer corporate earnings next quarter, added to the pessimistic market sentiment. However, the Federal Reserve's hawkish stance on inflation, expectations for additional interest rate increases, and a reduction in the size of its balance sheet, continued to signal confidence in the U.S. economy moving forward.

The broad-based Russell 3000 Index declined -16.70% in the quarter. Value stocks fell less than growth stocks as the Russell 3000 Value Index returned -12.41%, versus a return of -20.83% for the Russell 3000 Growth Index. Relative performance slightly favored market cap size as large caps outperformed small caps in the quarter. Larger cap stocks, as measured by the Russell 1000 Index, returned -16.67% compared to the smaller cap Russell 2000 Index return of -17.20% and the Russell Microcap Index return of -18.96%. There were no advancing economic sectors for the quarter, but Consumer Staples, Energy, Utilities, and Healthcare held up better on a relative basis. Consumer Discretionary, Information Technology and Communication Services areas lagged.

Performance Commentary

The Buffalo Dividend Focus Fund (BUFDX) posted a return of -11.52% in the quarter, outperforming the Morningstar U.S. Large-Mid Cap Index return of -16.88% and the Russell 1000 Index return of -16.67%. All sectors across the Fund generated negative absolute returns during the period, however, relative to the benchmark index, the Fund's exposure to Consumer Discretionary, Industrials, Information Technology, Materials, and Real Estate delivered constructive performance. Consumer Staples, Energy, Financials, Health Care, Telecommunication Services, and Utilities detracted from the relative performance.

Average Annualized Performance (%)

As of 6/30/22	1 YR	3 YR	5 YR	Since Inception
Investor Class - BUFDX	-6.46	10.87	10.29	12.02
Institutional Class - BUIDX ¹	-6.28	11.04	10.46	12.19
Russell 1000 Index	-13.04	10.17	11.00	12.87
Morningstar U.S. Large-Mid Cap Index	-13.24	10.09	11.01	12.85

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 Investor Class shares. Data represented reflects past performance and is no guarantee of future results. 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. Each Morningstar category average represents a universe of funds with similar objectives.

↑ Top Contributors

Specific securities that contributed the most to performance included Eli Lilly & Co. (LLY), Lamb Weston Holdings (LW), and Merck & Co. (MRK). Eli Lilly, a manufacturer and marketer of pharmaceutical products, climbed as investors reacted favorable to its robust new product cycle outlook over the next few years across large end markets such as diabetes, obesity, Alzheimer's, cancer, and immunology. Lamb Weston, a producer of frozen potato products, gained on strong quarterly results with margins expected to rise as price increases are implemented and the potato crop normalizes. Merck, a manufacturer and marketer of pharmaceutical products, advanced on solid quarterly results beating expectations (cancer drugs, anti-viral, and vaccines) while management also raised its financial guidance for the year.

Fund Facts

	Investor	Institutional
Ticker:	BUFDX	BUIDX
Inception Date:	12/3/12	7/1/19
Expense Ratio:	0.94%	0.79%
Fund Assets:	\$107.55 Million	
Category:	Large Cap Blend	
Benchmark:	Russell 1000 Index	

Management Team



Paul Dlugosch, CFA
Co-Manager since 2013
B.S. – University of Iowa



Jeff Sitzmann, CFA
Co-Manager since 2018
M.B.A. – Univ. of Chicago
B.B.A. – Univ. of Toledo



Jeff Deardorff, CFA
Co-Manager since 2018
B.S. – Kansas State Univ.

↓ Top Detractors

Apple Inc. (AAPL), Microsoft Corp. (MSFT), and HCA Healthcare Inc. (HCA) detracted from the Fund's performance in the quarter. Despite reporting record quarterly results, shares of Apple fell as management guided toward the impact of supply chain constraints that would curtail sales in the current quarter. Microsoft declined as currency headwinds resulted in a reduction of management's guidance for quarterly results. HCA Healthcare, which operates hospitals and provides healthcare services, slumped as quarterly results and outlook were weaker than expected due to higher labor costs and COVID patients needing less intensive services.

Outlook

The stock market traded off in the quarter as investors grew increasingly concerned about the economy as inflation rises, Federal Reserve (the "Fed") policy remains hawkish, geopolitical issues continue to be elevated, and COVID mutates. With inflation accelerating toward the 9% area, the Fed implemented two rate increases during the quarter to curb demand and slow the pace of rising prices. Stocks initially rose on the rate increase announcements only to decline as investors became concerned that the Fed's action will result in a recession. The Fed has indicated that inflation is its top priority and will raise rates even if it causes an economic slowdown. Stock market performance is likely to reflect how investors view how well the Fed can manage its goal of reducing inflation without tipping the economy into recession. This will not be an easy task. Although layoff announcements have ticked up, healthy employment reports and elevated job openings indicate the economy remains resilient. Investors also may start to look beyond current round increases and start to price in expectations for when the Fed will shift its policy. Prospects for passage of a scaled down Build Back Better plan (BBB) is another factor that could move markets in the near term.

Despite the uncertainty created by pandemic, Fed policy, and fiscal prospects, we remain focused on wide-moat, large-capitalization companies trading at reasonable valuations, in our view. As always, the Fund will continue to emphasize on competitively advantaged companies that can be purchased at a fair value, in our opinion. As stock market volatility spikes, we will look for opportunities to find companies that fit our investment criteria, as we continue to follow our process of finding new investment ideas and to be ready when market declines provide better entry points. ▀

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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537

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.

As of 3/31/22 the Buffalo Dividend Focus Fund top 10 equity holdings were Microsoft 4.92%, Apple 4.64%, Viper Energy Partners 3.79%, CVS Health 2.85%, S&P Global 2.50%, Visa 2.45%, UnitedHealth Group 2.44%, Horizon Therapeutics 2.22%, Bank of America 1.97%, Edison Intl 1.83%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

Mutual Fund investing involves risk. Principal loss is possible. The Fund invests in U.S. based companies with substantial interests outside of the U.S. which may involve additional risk such as greater volatility and political, economic and/or currency risks. This risk is greater in emerging markets. The Fund may invest in convertible securities which may be influenced by changing interest rates and the credit standing of the company. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. 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 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. The Morningstar U.S. Large-Mid Cap Index measures the performance of the U.S. equity market targeting the top 90% of stocks by market capitalization. One cannot invest directly in an index.

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

