

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

March 31, 2023

Capital Market Overview

Capital markets moved higher in the first quarter of 2023 as the S&P 500 Index gained 7.50% and the Bloomberg Aggregate Bond Index advanced 3.0%. Big swings in expectations for the Federal Reserve's monetary policy drove market volatility during the period. Initially investors were concerned with data showing stubbornly high inflation and the prospect of additional interest rate hikes. However, during the final days of the quarter bank failures from Silicon Valley Bank, Signature Bank, and Credit Suisse, dramatically changed market expectations towards monetary policy and the impact that a banking crisis could have on the broader economy. As a result, shorter term Treasury yields fell, and large cap growth stocks rallied in a flight to quality. The view was that growth companies would be the biggest beneficiaries of lower rates, a reversal of the headwinds faced throughout 2022. Technology stocks were by far the leading contributors to broad market performance during the quarter while value stocks and dividend payers lagged. Excluding the technology sector, the S&P 500 Index return would have only been 2.70% higher during the period.

Recapping quarterly results, the broad-based Russell 3000 Index advanced 7.18%. Growth stocks significantly outperformed value stocks to start out the year, as the Russell 3000 Value Index returned just 0.91% versus a return of 13.85% for the Russell 3000 Growth Index. Relative performance improved going up in market capitalization (size) as large caps advanced more than small caps in the quarter. Larger cap stocks returned 7.46%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 2.74%, while the Russell Microcap Index returned -2.83% in the quarter.

Performance Commentary

The Buffalo Early Stage Growth Fund generated a return of 7.19% for the quarter compared to the Russell 2000 Growth Index return of 6.07% during the period.

Average Annualized Performance (%)

As of 3/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	-14.23	16.53	8.19	10.04	10.87	8.46
Institutional Class - BUIOX ¹	-14.05	16.74	8.36	10.21	11.04	8.63
Russell 2000 Growth Index	-10.60	13.36	4.26	8.49	8.67	8.26
Morningstar U.S. Small Growth Index	-15.17	9.95	3.98	8.28	8.57	8.05

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. 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.

Small cap growth stocks rallied strong to begin the year, up approximately 15% after the month of January. The banking industry pressures in March pressured risk assets, including small caps, causing returns to moderate for the quarter.

The fund outperformed the benchmark return by 1.12% led by stock selection within the Healthcare and Consumer Discretionary sectors. This was partially offset by poor performing stock selection within the Information Technology and Industrials sectors.

Fund Facts

	Investor	Institutional
Ticker:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.46%	1.33%
Fund Assets:	\$81.94 Million	
Category:	Small Cap Growth	
Benchmark:	Russell 2000 Growth Index	

Management Team



Craig Richard, CFA

Co-Manager since 2013
M.B.A. – Univ. of Kansas
B.S. – Kansas State Univ.



Doug Cartwright, CFA

Co-Manager since 2015
M.B.A. – Univ. of WI-Madison
B.S. – Baylor University



↑ Top Contributors

In the quarter, **Playa** (PLYA), a leading owner/operator of all-inclusive resorts in Mexico and the Caribbean generated strong returns. Playa rallied on strong earnings and confidence in its outlook despite broader market concerns over a more cautious consumer. The company's all-inclusive resorts have a tailwind from the ongoing recovery in international-inbound travel to warm weather destinations in North America post Covid. Management also aggressively repurchased stock in the past several months and announced a new \$200 million share repurchase authorization. Bookings for the first half of 2023 are running 30% ahead of year ago bookings, showing current momentum in the business. We believe Playa provides a strong value proposition for vacationers given food/beverage/entertainment is included in the nightly room rate and therefore positions the company well in a potentially weaker economic environment.

↓ Top Detractors

In terms of negative contributors, **NV5 Global** (NVEE) was a significant detractor in the quarter. NV5 provides engineering and consulting services in the infrastructure, utility services, construction, real estate, and geospatial markets. Providing these services to primarily public sector entities has created a stable and growing business for NV5. After being a relative winner in 2022, the first quarter of 2023 saw the shares decline on weak fourth quarter results along with investor concern over exposure to a weakening commercial real estate market. Approximately 10% of NV5 revenues are related to commercial real estate transaction volumes (tied to appraisals, building surveying, etc.) and this business has experienced significant declines that is pressuring current top-line growth. We remain confident in NV5's long-term ability to create value for shareholders by continuing to grow their leading professional services organization despite some temporary headwinds in small pockets of their business.

Outlook

Financial conditions have continued to tighten this year. The Fed Funds target rate has risen to 4.75-5.00% this year, although only one more increase is anticipated at this point. Additionally, pressure on regional banks' deposit bases along with holdings has the potential to induce further credit tightening.

As an offset, the economy remains at full employment, personal balance sheets remain strong, and corporate margins remain at near record levels. Additionally, inflation readings have moderated and should continue to ease as we move throughout 2023. While we very well could see a more than modest economic downturn, there appears to continue to be a solid foundation on many fronts.

Regardless of the macroeconomic headwinds we face, our job remains to find attractive small cap companies that have not been fully appreciated by the market or are mispriced due to recent results or events. We believe less investor interest in our segment of the market creates opportunity for us to uncover value.

The fund typically invests at the smaller end of the small cap growth spectrum and the managers continue to seek companies with sustainable growth due to secular growth trends or innovative, disruptive products.

The Buffalo Early Stage Growth Fund is focused primarily on identifying innovation within U.S. companies with primarily North American revenue bases. With an active share of greater than 90%, a lower turnover strategy with 50-70 holdings, the fund will continue to offer a distinct offering from the Index and category peers. ▲

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.

As of 12/31/22 the Buffalo Early Stage Growth Fund top 10 equity holdings were Calix 3.10%, i3 Verticals 3.02%, NV5 Global 2.98%, Kinsale Capital Group 2.80%, Federal Signal Corp 2.79%, Transcat 2.64%, Bowman Consulting 2.52%, Compass Diversified 2.52%, Air Transport Services 2.50%, Absolute Software Corp 2.41%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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 Morningstar U.S. Small Growth Index measures the performance of U.S. small-cap stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. One cannot invest directly in an index. Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index. 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. A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. Alpha is a risk-adjusted measure of the so-called active return on an investment. It is the return in excess of the compensation for the risk. An alpha of 1 means the investment's return on investment over a selected period of time was 1% better than the market during that same period; an alpha of -1 means the investment underperformed the market. 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.

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.

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

