

Buffalo Early Stage Growth Fund

QUARTERLY
COMMENTARY

June 30, 2022

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 Early Stage Growth Fund (BUFOX) generated a return of -19.44% for the quarter, a result that was in-line with the Russell 2000 Growth Index return of -19.25% during the period.

Average Annualized Performance (%)

As of 6/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	-34.97	6.02	9.11	11.41	7.62	8.45
Institutional Class - BUIOX ¹	-34.88	6.18	9.27	11.58	7.78	8.61
Russell 2000 Growth Index	-33.43	1.40	4.80	9.30	6.80	8.01
Morningstar U.S. Small Growth Index	-36.23	-0.14	4.97	9.05	6.84	7.87

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.

Equities saw broad based declines across the market cap spectrum in the 2nd quarter, with year-to-date results for the broader market, as measured by the S&P 500 Index, seeing the worst declines in 50 years. After years of the Federal Reserve providing monetary support through both interest rate policy and asset purchases, persistent and rampant inflation generated an aggressive response from the Federal Reserve to attempt to drive inflation back to the 2% target. Small cap growth stocks, being further out on the risk spectrum, have seen the most material declines. The Russell 2000 Growth Index experienced a drawdown of 37% from November 2021 highs through June 30, 2022. In general, returns worsened moving down the market cap spectrum. Growth underperformed value in the small cap sector for the 7th consecutive quarter.

Fund Facts

	Investor	Institutional
Ticker:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.51%	1.36%
Fund Assets:	\$89.40 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



Two of the larger detractors from the Fund's performance in the quarter included **Open Lending** and **LoveSac**. Open Lending is a provider of automated decisioning technology for credit unions and banks, who are underwriting near prime auto loans. Investors lack of experience with Open Lending going through a consumer credit cycle that is deteriorating has pushed the shares down to multi-year lows. Credit unions and banks use the Open Lending platform to protect their credit risk, as the company has paired its underwriting technology with three insurance carriers that offer auto loan default coverage. Open Lending is not taking on balance sheet risk but does earn a profit share split with the insurance partners, so the performance (repayment) of these auto loans is important. To date, there have been no issues with loan performance; rather the lack of inventory of both new and used cars has pushed down volumes of loans coming through their platform, as the near-prime consumers has been priced out of the market. With a gradual easing of used car prices and a return of new vehicle production numbers, the environment for Open Lending should improve. The company provides a solution that benefits the consumer (lower rates), benefits the loan provider (default protection and increased loan volumes), and benefits the insurance carriers (high margin offering). We look forward to Open Lending proving their durability to investors in various credit cycles.

LoveSac, a provider of modular couches called Sactionals, has experienced 16 consecutive quarters of greater than 25% revenue growth. The shares have been under pressure as investors have rotated away from perceived COVID-19 beneficiaries including home goods manufacturers/retailers. LoveSac may well see some slowdown in demand and muted growth as it faces tougher comparisons, but the concept and word of mouth continue to grow. Inventory will never go bad as the Sactional consists of just two standard pieces (seats and sides) that can be designed in 100s of possible formations and these pieces have not changed in more than 10 years. LoveSac recently expanded its distribution into Best Buy (with recent innovation for surround sound in the couch) and we expect execution on this front. Gross margins have the potential to be 60% or higher and we believe that, at maturity, LoveSac will have 20% or higher EBITDA margins. As a result, we see the potential for \$150 million in EBITDA. With the current valuation of the company at less than \$500 million, we like the positioning of this differentiated home goods player longer term.

The Fund ended the quarter with 63 holdings.

Outlook

With the Russell 2000 Growth Index having already experienced a 37% drawdown from November 2021 levels, history (outside of the financial crisis era of 2008-09) would suggest most of the pain is behind us. In fact, data from previous six month sell-offs have seen the next six months generate positive returns in the mid-teens. With inflation still running at 8-9%, and the Federal Reserve trying to pull back on the reigns rather aggressively, the environment is something many current investors have never experienced.

Given expectations for a slowdown in economic growth, we would expect downward earnings revisions for the remainder of 2022 and into 2023 over the next several quarters. We would note that the economy is at full employment and personal balance sheets are strong. Additionally, corporate balance sheets and margin profiles are generally strong, providing a solid foundation with which to navigate a downturn.

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Regardless of the macroeconomic headwinds, 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 or 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, and a portfolio of 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 3/31/22 the Buffalo Early Stage Growth Fund top 10 equity holdings were NV5 Global 3.22%, i3 Verticals 2.52%, Kinsale Capital Group 2.49%, Compass Diversified 2.40%, Air Transport Services Group 2.35%, Transcat 2.20%, Establishment Labs 2.19%, Cadre Holdings 2.18%, Willdan Group 2.16%, Open Lending 2.09%. 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 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 a n unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. 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. 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.

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.

