

Capital Market Overview

The stock market extended year-to-date losses during the 3rd quarter and has now fallen for three consecutive quarters. The S&P 500 Index retreated by -4.88% from July 1st to September 30th bringing the YTD total return to -23.87%, which is bear market territory. Stubbornly-high inflation, aggressive interest rate increases, rising fear of a recession, and expectations for softer corporate earnings in the upcoming reporting period were the main headwinds. The Federal Reserve's hawkish stance on inflation resulted in two more oversized federal funds rate hikes during the quarter, bringing the target rate to 3.00%-3.25%. Federal Reserve officials also signaled for additional rate hikes moving forward and holding higher rates for as long as necessary to curb inflation, even if it leads to economic pain. Short-term Treasury yields (two-year notes) are higher than long-term yields (10-year notes) and the yield curve is now inverted by the most since 2000, an indication of a potential recession.

The broad-based Russell 3000 Index declined -4.46% in the quarter and has fallen -24.62% year-to-date. Value stocks fell more than growth stocks during the quarter as the Russell 3000 Value Index returned -5.56% versus a return of -3.37% for the Russell 3000 Growth Index. Relative performance improved going down in market cap size as small caps declined less than large caps in the quarter. Larger cap stocks, as measured by the Russell 1000 Index, returned -4.61% compared to the smaller cap Russell 2000 Index return of -2.19% and the Russell Microcap Index return of -0.48%.

Performance Commentary

The Buffalo Flexible Income Fund (BUFBX) returned -5.96% for the quarter, compared to a return of -4.46% for the Russell 3000 Index.

Average Annualized Performance (%)

As of 9/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFBX	1.76	6.77	6.27	6.60	5.89	7.10
Institutional Class - BUIBX ¹	1.85	6.91	6.42	6.75	6.04	7.25
Russell 3000 Index	-17.63	7.70	8.62	11.39	7.92	9.57
Morningstar Moderately Aggressive Target Risk Index	-19.38	2.21	3.74	6.53	-	-

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.

↑ Top Contributors

Partially offsetting the Fund's underperformance, the portfolio was overweight in Energy, the best performing benchmark sector. The top three contributors to the Fund's performance were energy-related companies **ConocoPhillips**, **Marathon Petroleum**, and **HF Sinclair**.

↓ Top Detractors

Three sectors primarily responsible for the Fund's relative underperformance were Health Care, Consumer Discretionary, and Information Technology. Underperformance within the Health Care sector was due to security selection, particularly from the global pharmaceutical company **GSK**, which declined 35% in the quarter due to renewed concerns around liability stemming from its Zantac medication (heartburn/ulcer).

Fund Facts

	Investor	Institutional
Ticker:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$427.67 Million	
Category:	Large Value	
Benchmark:	Russell 3000 Index	

Management Team



John Kornitzer

Manager since Inception
B.A. – St. Francis Univ. (PA)



Paul Dlugosch, CFA

Co-Manager since 2011
B.S. – University of Iowa

Underperformance within the Consumer Discretionary sector was due to a portfolio underweight, as Consumer Discretionary was the second best performing benchmark sector in the quarter, and security selection. **Lionsgate's** 2nd quarter financial results were in-line with expectations, but uncertainty around the strategic review of Starz and its competitive position have negatively-impacted its equity value. Underperformance within Technology was due security selection, specifically **Intel**. The company has been negatively-impacted by soft demand for PCs and enterprise servers, market share losses, and higher CapEx and operating expenses.

Outlook

We believe a lot of bad news has been priced into market valuations, but volatility could remain elevated. We believe the direction of the market will depend on inflation's trajectory, the Federal Reserve's actions to tame inflation, and the amount of economic damage caused by higher interest rates. The inflation picture continues to ebb and flow. We are seeing a decline in logistics costs, shipping rates, and some commodity prices, however component shortages continue to persist. Generally, it seems price increases are moderating but the sustainability of this moderation is questionable. While the Federal Reserve (the "Fed") has already increased interest rates by 300 basis points, market expectations forecast another 100 to 125 basis point increase in this tightening cycle. In response, there has been a growing chorus for the Fed to slow its pace of tightening and allow previous hikes to make their way through the economy. Meanwhile, global economies continue to slow, especially in Europe where energy prices remain high. While many companies have already lowered financial guidance for the year, we could be bracing for another earnings season of decreasing estimates.

Despite the uncertainty, we remain focused on wide moat, large capitalization dividend-paying 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. We will be ready to take advantage of opportunities created by stock market volatility using market declines as attractive entry points for long-term investors. ▀

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 6/30/22 the Buffalo Flexible Income Fund top 10 holdings were Microsoft 7.54%, Chevron 3.93%, Hess Corp 3.57%, ConocoPhillips 3.42%, Eli Lilly & Co 3.17%, Costco Wholesale 3.12%, Pfizer 3.08%, ExxonMobil 3.07%, APA Corp 3.03%, PepsiCo 2.90%. 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 Morningstar Moderately Aggressive Target Risk Index represents a portfolio of global equities, bonds, and traditional inflation hedges, and seeks approximately 80% exposure to global equity markets. One cannot invest directly in an index. Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. A basis point (BPS) is one hundredth of a percentage point (0.01%).

Mutual fund investing involves risk. Principal loss is possible. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in foreign securities include additional risk such as greater volatility, and political, economic, and currency risks, as well as difference in accounting methods.

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

