

Capital Market Overview

Capital markets rallied modestly in the 4th quarter as the S&P 500 Index gained 7.56%, the only positive quarter for 2022. Cooler inflation readings, resilient consumer spending, and better-than-expected corporate earnings buoyed markets during the first two months of the 4th quarter before pulling back in December. Much of the focus remains on the path of future interest rates, recession fears, and the economic and market impact those events may generate in 2023.

Despite the 4th quarter advance, the stock market recorded its worst calendar year since 2008, with a decline of -18.11% for the S&P 500 Index, and a loss of -32.54% for the growth-oriented and technology-heavy Nasdaq Composite Index. Large cap technology stocks and the more interest-rate sensitive assets suffered the most, while value stocks outperformed. In the end, nine of the S&P 500 Index's 11 economic sectors declined. Energy stocks were the bright spot, recording a gain of 65.72% for the sector while Utilities eked out a gain of 1.57% in 2022.

The damage wasn't isolated to the stock market as the investment-grade bond indices suffered double-digit losses for the year as well. In fact, a traditional balanced investment portfolio of 60% stocks and 40% bonds suffered the 4th worst drawdown in the past 100 years.

Recapping quarterly results, the broad-based Russell 3000 Index advanced 7.18% in the period. Value stocks significantly outperformed growth stocks to close out 2022, as the Russell 3000 Value Index returned 12.18% versus a return of just 2.31% for the Russell 3000 Growth Index. Relative performance was mixed going down in market cap size as small caps advanced less than large caps in the quarter, while mid cap stocks outperformed both large and small caps. Larger cap stocks returned 7.24%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 6.23%, while the Russell Midcap Index produced a return of 9.18% in the quarter.

Performance Commentary

The Buffalo Flexible Income Fund (BUF BX) returned 13.64% for the quarter compared to a return of 7.18% for the Russell 3000 Index.

The sectors primarily responsible for the Fund's relative outperformance were Energy, Health Care, and Technology. Energy was the strongest contributor to Fund results during the period due to a significant portfolio overweight to the strongest performing sector of the market during the period. **Hess, APA Corporation, Chevron, Exxon Mobil, ConocoPhillips, and Schlumberger** were the strongest contributors to portfolio results. Energy companies continued to benefit from higher oil and gas prices relative to prior years.

Average Annualized Performance (%)

As of 12/31/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUF BX	4.01	9.75	7.86	7.97	6.81	7.51
Institutional Class - BUI BX ¹	4.22	9.93	8.02	8.13	6.97	7.67
Russell 3000 Index	-19.21	7.07	8.79	12.13	8.66	9.75
Morningstar Moderately Aggressive Target Risk Index	-15.48	3.04	4.64	7.30	-	-

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.

Fund Facts

	Investor	Institutional
Ticker:	BUF BX	BUI BX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$4496.23 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

Health Care was another area of strength for portfolio results due to stock selection and a slight overweight allocation relative to the benchmark. **Gilead, Merck, Pfizer, and Eli Lilly** were the strongest contributors to Fund results within Health Care. Gilead benefited from a positive earnings release and better than expected guidance due to strong performance across multiple products. Merck also reported good earnings during the quarter driven by its flagship drug Keytruda as well as Gardasil and its animal health segment.

Outlook

We believe a lot of bad news has been priced into market valuations, but volatility could remain elevated. 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. We are seeing a decline in logistics costs, shipping rates, and most commodity prices, however component shortages/supply chain issues continue to persist. The Fed has increased interest rates by 425 basis points since the beginning of 2022, and market expectations forecast another 50 to 75 basis point increase in this tightening cycle. 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 an earnings season where companies' lower guidance for 2023.

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 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 9/30/22 the Buffalo Flexible Income Fund top 10 holdings were Microsoft 7.35%, Chevron 4.20%, ConocoPhillips 4.19%, Hess Corp 3.95%, Eli Lilly & Co 3.40%, ExxonMobil 3.37%, Costco Wholesale 3.31%, APA Corp 3.20%, PepsiCo 3.05%, Arthur J Gallagher & Co 3.00%. 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 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. 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.

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.

