# Buffalo 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% 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 Growth Fund returned 15.24% for the quarter, beating the benchmark Russell 3000 Growth Index return of 13.85%. Outperformance was driven by broad-based positive stock selection with noteworthy strength in the Industrial and Information Technology sectors. Here, record backlogs at many constituent companies support stable growth expectations for the near to intermediate term. In the midst of the growing uncertainty related to the regional banking crisis, these two sectors likely benefited from rotation away from Financials. Investors' burgeoning interest in Generative AI throughout the quarter also played a positive role for the Tech sector.

The fund's sector allocation impact was more mixed. Our overweight in Communication Services, one of the best performing sectors in the quarter, contributed positively while our underweight in Consumer Staples, a sector which trailed the broader benchmark return, also produced a positive allocation effect. Meanwhile, the Consumer Discretionary and Healthcare sectors were modest headwinds. In Consumer Discretionary, an underweight position in Tesla, which advanced +68% in the quarter, was the primary headwind. Finally, our overweight position in Health Care led to a modest sector allocation drag in an otherwise good quarter for the fund.

## Average Annualized Performance (%)

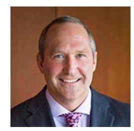
| *As of 3/31/23* | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|---|---|---|---|---|---|---|
| **Investor Class** - *BUFGX* | -12.55 | 13.84 | 9.91 | 11.52 | 10.37 | 10.01 |
| **Institutional Class** - *BUIGX*[1] | -12.44 | 14.02 | 10.08 | 11.69 | 10.53 | 10.18 |
| Russell 3000 Growth Index | -10.88 | 18.23 | 13.02 | 14.16 | 11.88 | 9.79 |
| Morningstar U.S. Growth Index | -17.46 | 14.02 | 11.39 | 13.31 | 11.13 | – |

*[1]For 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.*

## Fund Facts

| | *Investor* | *Institutional* |
|---|---|---|
| Ticker: | BUFGX | BIIGX |
| Inception Date: | 5/19/95 | 7/1/19 |
| Expense Ratio: | 0.92% | 0.77% |
| Fund Assets: | $144.59 Million | |
| Category: | Large Cap Growth | |
| Benchmark: | Russell 3000 Growth Index | |

## Management Team



**Dave Carlsen**, CFA

Co-Manager since 2007
B.B.A. – Univ. of WI-Madison

**Josh West**, CFA

Co-Manager since 2020
M.B.A. – Univ. of MO-Columbia
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## Top Contributors

**Microsoft (MSFT)** shares advanced over 20% as investors rotated to Generative AI beneficiaries and the relative safety of well-capitalized large cap technology as uncertainty and turmoil at regional banks led to elevated recession fears. Microsoft has been investing heavily in the development of AI-powered solutions across its various business segments, such as using AI to enhance productivity and efficiency in its Azure cloud infrastructure, Search and Office software suite. Microsoft should continue to grow their leading share in cloud computing, gaming and MS Office productivity applications.

**Meta Platforms (META)** shares gained 76% during the period as investors embraced renewed expense discipline and expectations for improving revenue growth following a somewhat painful prior year that witnessed a bad combination of slowing growth and accelerated investments. The investments were targeted at innovative technologies to address Apple's IOS privacy changes and short-form video capabilities to address competition from TikTok. Facebook is still a highly profitably digital advertising juggernaut with a favorable history of execution following transition years. We expect the recent investments will lead to improving engagement and revenue growth reacceleration.

## Top Detractors

**Azenta (AZTA)** was a top detractor during the quarter. Investors reacted negatively to 2023 guidance that projected a slower pace of margin expansion due to accelerated investments to build out their global sales infrastructure. Following the sale of its semiconductor business, Azenta is now a pure-play life sciences company with a cash-rich balance sheet. The company has carved out a clinical research niche by offering both cold storage repositories for biological tissue samples and genomic analysis services to leading biopharma companies who are increasingly outsourcing this capability to Azenta rather than build it in-house. Headwinds from currency (FX), China lockdowns, and COVID-related revenues have weighed on near-term results. However, the long-term trend towards biologics and cell and gene therapy have not slowed, and these new drugs require a materially different infrastructure for storage and shipping that is beneficial to the company.

**Schlumberger (SLB)** was also a negative contributor for the quarter. After the regional banking crisis, investors priced in a greater likelihood of recession which negatively impacted growth expectations in global energy markets. Schlumberger is an oilfield services company that supplies technology for reservoir characterization, drilling, production, and processing. The company generates attractive returns on capital and has a strong competitive position. Earnings estimates for the company are likely to move higher as the oil and gas industry stands to receive help from China's reopening, Europe's ban on Russian gas, and the U.S. government ultimately needing to refill the Strategic Petroleum Reserve.

## Outlook

We believe stock market multiples have largely adjusted to higher interest rates, but corporate earnings may still need to adjust downward to reflect a more difficult business environment. We expect companies will provide cautious earnings guidance due to slowing economic activity, higher funding costs and tightening credit conditions. On a positive note, we are seeing signs that the Federal Reserve's aggressive effort to combat inflation is working. Inflation has likely peaked and supply chains are loosening. If inflation continues to slow at the current pace, the Fed is likely nearing the end of its rate-raising cycle with perhaps one more 25 basis point increase at its May meeting.

Our strategy is to take a long-term risk aware view and build positions in premier growth companies as risk/reward improves. We are leaning into quality; dominant companies with strong balance sheets and moaty businesses generating attractive returns. We're also keeping a watchful eye for price dislocations where near-term uncertainty creates long-term opportunity. As we move through this more tumultuous part of the economic cycle, heightened investor fear and market volatility can lead to incredibly attractive stock opportunities for prepared investors with a long-term investment horizon. We believe investing in well-managed companies with durable competitive advantages trading at attractive valuations will continue to generate outsized multiyear returns. Thank you for your continued trust and support.


### 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. Investing in both actively and passively managed mutual funds involves risks and principal loss is possible.**

As of 12/31/22 the Buffalo Growth Fund top 10 equity holdings were Microsoft 12.25%, Apple 8.56%, Amazon 5.18%, Alphabet (C) 5.07%, Alphabet (A) 4.21%, Mastercard 4.19%, Visa 2.69%, UnitedHealth Group 2.47%, Schlumberger 2.26%, Thermo Fisher Scientific 2.16%. 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Morningstar U.S. Growth Index measures the performance of U.S. 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. 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. 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 small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods.**

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