

## 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 Growth Fund (BUEGX) declined -21.02% in the 2nd quarter, which was generally in-line with the Russell 3000 Growth Index's return of -20.83%. Positive stock selection in the Information Technology and Consumer Discretionary sectors was largely offset by an underweight position in Consumer Staples, which declined much less than the total Index. The Fund doesn't currently hold any Consumer Staples companies, given a lack of long-term secular growth in the sector. In short, it was an ugly quarter in the markets, and there weren't many places for a growth investor to hide.

## Average Annualized Performance (%)

As of 6/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
<b>Investor Class - BUEGX</b>	-22.16	6.21	10.23	11.93	8.77	9.89
<b>Institutional Class - BUIGX<sup>1</sup></b>	-22.05	6.37	10.39	12.09	8.93	10.05
Russell 3000 Growth Index	-19.78	11.84	13.63	14.41	10.40	9.60
Morningstar U.S. Growth Index	-28.42	8.96	12.70	13.62	9.74	-

<sup>1</sup>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 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](http://buffalofunds.com).

## ↑ Top Contributors

The top contributors in the quarter were two holdings that were added to the portfolio late in the period, **DoubleVerify Holdings** and **Azenta, Inc.** DoubleVerify is an advertising technology company that provides digital media measurement. They monitor and measure online advertising campaigns to assure that ads are being viewed by actual people (not bots or fraud), and that ads aren't being placed on sites or next to content that could be harmful to their brand. We expect DoubleVerify to benefit from digital continuing to gain share of ad budgets and an increasing focus on return on investment (ROI) and brand safety.

## Fund Facts

	Investor	Institutional
<b>Ticker:</b>	BUEGX	BUIGX
<b>Inception Date:</b>	5/19/95	7/1/19
<b>Expense Ratio:</b>	0.92%	0.77%
<b>Fund Assets:</b>	\$151.08 Million	
<b>Category:</b>	Large Cap Growth	
<b>Benchmark:</b>	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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Azenta (formerly Brooks Automation) is a life sciences company offering cold-chain sample management solutions and genomic services across areas such as drug development, clinical research, and advanced cell therapies for the industry's top pharmaceutical, biotech, academic, and healthcare institutions. We expect the company to continue growing rapidly, driven by growth in R&D outsourcing, increasing demand for cold storage, and growing markets for cell and gene therapies. Additionally, Azenta has a large cash position that provides some optionality from future acquisitions.

## ↓ Top Detractors

With almost everything trading lower in the quarter, the Fund's biggest detractors were among our largest positions. **Amazon.com** reported disappointing results in the quarter. Cost inflation hurt margins, and the company admitted to adding too much capacity in response to pandemic driven e-commerce demand. On the bright side, Amazon Web Services continues to grow rapidly. We find the current valuation compelling and continue to hold a large position in the stock.

Despite outperforming the market, **Microsoft** was the second largest detractor in the period, due to its large position size. The company is a prime beneficiary of workplace digital transformation and the move from on-premise IT infrastructure to the cloud. As the world economy continues to emerge from the pandemic, Microsoft is well-positioned to gain share of rising IT budgets.

## Outlook

Financial conditions have tightened substantially this year. The Federal Funds rate has risen from 0.0-0.25% to 1.5-1.75% and is expected to rise another 75 basis points in July. 10-year Treasury yields have increased from 1.5% to 3.0%, and mortgage rates have risen considerably as well. Decelerating economic growth and higher interest rates have driven severe multiple compression, especially in growth stocks, with a bear market beginning on June 13.

Tighter monetary policy is beginning to have an impact on demand, which will help tame inflation. Given the current strength of the job market and consumer balance sheets, the Federal Reserve should be able to focus on getting inflation under control without worrying about the other half of its dual mandate (full employment) for the foreseeable future. As of this writing, the consensus in the market seems to be that inflation is currently peaking and will moderate from here. Current concerns are that the Federal Reserve will make a policy mistake by raising rates beyond neutral in a recessionary environment.

While it is impossible to pinpoint a market bottom, bear markets and recessions have historically been a good time to invest in equity markets for long-term investors. We are excited about the valuations being offered by the market on strong, growing businesses that we have considered too expensive in the past. While we are mindful of macroeconomic fluctuations, they do not drive our investment process. We will continue to invest in businesses with solid growth opportunities, durable competitive advantages, scalable business models, and good management teams, when they are trading at attractive valuations, in our opinion.

Thank you for your continued 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](http://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 3/31/22 the Buffalo Growth Fund top 10 equity holdings were Microsoft 12.59%, Apple 8.46%, Amazon 6.88%, Alphabet (C) 5.46%, Alphabet (A) 4.55%, S&P Global 3.10%, Mastercard 2.95%, Meta Platforms 2.42%, Visa 1.97%, Open Lending Corp 1.76%. 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 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.

**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.

