Buffalo 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 Growth Fund (BUFGX) 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
Investor Class - *BUFGX*	-22.16	6.21	10.23	11.93	8.77	9.89
Institutional Class - *BUIGX*[1]	-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	-

[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.

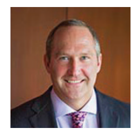
↑ Top Contributors

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*
Ticker:	BUFGX	BIIGX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.92%	0.77%
Fund Assets:	$151.08 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
B.S. – Univ. of MO-Columbia

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.

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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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