

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 Growth Fund (BUFGX) declined -6.78% during the quarter, trailing the benchmark Russell 3000 Growth Index return of -3.37%. An overweight position in the Communication Service sector, namely large cap digital advertising related stocks, was the primary headwind in the quarter. An underweight position in Tesla, which advanced 18.2% in the quarter also detracted from relative results.

Average Annualized Performance (%)

As of 9/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFGX	-27.98	3.85	7.99	10.45	8.05	9.51
Institutional Class - BUIGX¹	-27.89	4.00	8.15	10.62	8.21	9.68
Russell 3000 Growth Index	-23.01	10.16	11.57	13.36	9.87	9.37
Morningstar U.S. Growth Index	-32.18	7.91	10.66	12.43	9.09	-

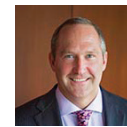
¹For performance prior to 7/1/19 (Inception Date of Institutional Class), performance of the Investor Class shares is used and includes expenses not applicable and lower than those of Institutional Class shares. Data represented reflects past performance and is no guarantee of future results. The investment 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.

Two of our top contributors were purchases made in the previous quarter, as market volatility and falling prices presented attractive price/growth opportunities in ideas where we had previously held off due to high valuation. We are also finding new opportunities in smaller capitalization companies where valuation multiples are generally more attractive. In our opinion, smaller market cap companies have been the first to discount a higher rate environment and generally have less exposure to currency headwinds and international markets where economic conditions have deteriorated the most.

Fund Facts

	Investor	Institutional
Ticker:	BUFGX	BUIGX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.92%	0.77%
Fund Assets:	\$135.70 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

↑ Top Contributors

Progyny, Inc. (PGNY), a leading fertility benefits management company, gained 27.6% in the quarter. The company has continued to grow rapidly as more employers offer the benefit to gain an edge in the war for talent, improve employee retention, and control medical costs. In our view, they have a long runway for growth, with a total addressable market (TAM) that is only 3-4% penetrated.

Double Verify Holdings (DV) gained 20.1% in the quarter after they beat and raised earnings expectations. Producing and guiding to accelerating revenue growth was a rare occurrence in this uncertain macro environment. 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 the ads are not being placed on sites or next to content that could be harmful to their brand. We expect the company to grow faster than peers and benefit as digital advertising continues to take share from offline advertising.

↓ Top Detractors

Microsoft (MSFT) shares declined 9.1% in the quarter on continued weakness across the technology and software sector owing to the Fed's ongoing effort to raise short term interest rates, and to a lesser effect, the pressure on the company's top-line from the strength of the U.S dollar, which diluted international revenues. Microsoft's fundamentals remain positive as they continued to take share in cloud hosting/software stack and their core Microsoft Office productivity and gaming franchises, which remain the global leaders in their respective categories.

Alphabet (GOOG-GOGL) shares declined 12.2% in the quarter as advertisers' spending slowed. Google is the market share leader in internet driven paid advertising and paid search. While digital advertising continues to take share, the company is not immune to overall advertising spend which has moderated in the near term as global growth expectations recede.

Outlook

Stock market multiples have largely adjusted to rising interest rates, but earnings still need to adjust downward. We expect companies to provide cautious earnings guidance due to slowing economic activity, currency headwinds, increased promotional activity, and inflationary cost pressures. On a positive note, we are seeing signs that the Federal Reserve's aggressive efforts to combat inflation is working. We have seen prices peak for gasoline, shipping containers, used cars, and numerous commodities. Unfortunately, however, it typically takes several quarters before this cost relief flows through to consumer prices. With headline inflation expected to remain elevated and labor markets tight, it seems unlikely the Fed will waver from its plan for more interest rate hikes.

Our strategy is to take a long-term, risk aware view and build positions in premier growth companies as risk/reward improves. Recessions don't last forever – the average recession since 1950 has lasted 10 months with the longest at 18 months – and stocks are beginning to discount the downturn. We expect interest rates will remain elevated for some time, so we are leaning into dominant companies with strong balance sheets generating attractive returns on capital investment. As we move through this more tumultuous part of the economic cycle, we're seeking opportunities where heightened investor fear and market volatility leads to stock price over-reactions. We believe investing in well-managed companies with durable competitive advantages trading at attractive valuations will continue to generate outsized multi-year 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 6/30/22 the Buffalo Growth Fund top 10 equity holdings were Microsoft 13.56%, Apple 7.98%, Amazon 5.80%, Alphabet (C) 5.53%, Alphabet (A) 4.61%, Mastercard 3.36%, S&P Global 2.75%, Meta Platforms 2.27%, Visa 2.26%, UnitedHealth Group 2.12%. 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.

