Buffalo Growth Fund

QUARTERLY
COMMENTARY

December 31, 2022

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.

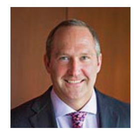
The damage wasn't isolated to the stock market as the investment-grade bond indices suffered double-digit losses for the year as well. In fact, a traditional balanced investment portfolio of 60% stocks and 40% bonds suffered the 4th worst drawdown in the past 100 years.

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.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFGX	BIIGX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.92%	0.77%
Fund Assets:	$133.10 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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Performance Commentary

The Buffalo Growth Fund (BUFGX) returned 3.06% for the quarter, beating the Russell 3000 Growth Index's return of 2.31%. Strong stock selection across all sectors, with the exception of Industrials, contributed to performance. The portfolio benefited from strong returns in a number of Fund holdings, but the largest contribution to relative performance came from not owning Tesla, which is a large weight in the index and declined nearly 54% in the quarter. This was somewhat offset by a lack of exposure to consumer staples, aerospace & defense, and machinery companies that performed well in the period.

Average Annualized Performance (%)

As of 12/31/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFGX*	-31.13	2.45	7.35	10.76	8.58	9.54
Institutional Class - *BUIGX*[1]	-31.03	2.59	7.51	10.92	8.74	9.71
Russell 3000 Growth Index	-28.97	7.32	10.45	13.75	10.10	9.37
Morningstar U.S. Growth Index	-36.70	4.55	9.21	12.65	9.18	-

[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 to fund performance during the period were Mastercard, Schlumberger, and Fair Isaac.

Mastercard was the top contributor to performance in the quarter. The company reported strong financial results. Improving cross-border travel and resilient consumer spending drove better than expected revenues. We believe the company is well positioned to benefit from the global economy's continued shift away from paper currency and the growth of ecommerce.

Schlumberger, an oilfield services company that provides technology for reservoir characterization, drilling, production, and processing, was another contributor to performance results in the quarter. The company reported better than expected revenues and earnings, driven by international well construction. Schlumberger also hosted a well-received investor day, highlighting multi-year growth opportunities and a shareholder friendly capital allocation policy. We expect Schlumberger to continue to benefit from years of underinvestment in global energy production.

Fair Isaac reported strong 4th quarter earnings and issued 2023 guidance well ahead of investor expectations. Much of the upside to revenues is being driven by pricing. We believe that the company has a strong competitive position and that after years of forgoing price increases for their FICO scores, they have an opportunity to increase prices in excess of inflation for the foreseeable future.

↓ Top Detractors

Top detractors for the quarter included Amazon.com and Apple.

Amazon.com reported disappointing quarterly results as revenues were in-line with expectations, but operating income disappointed driven by margin contraction at Amazon Web Services. Decelerating revenue growth and a weak 4th quarter guide also weighed on the stock. While the near-term may be bumpy, we believe the company will continue to dominate ecommerce, benefit from growth in the public cloud, and continue to rapidly grow advertising revenues over the long-term.

Apple reported solid results that were in sharp contrast to results at other large tech companies. However, lockdowns in China drove production shortfalls, leading many investors to reduce their expectation for growth in the coming quarters. We view near-term production shortfalls as a non-issue and expect Apple to continue to grow services revenue by monetizing their massive ecosystem of over one billion iPhone users.

Outlook

As mentioned above, the 4th quarter was the only quarter of 2022 where equity markets delivered positive returns. Market narratives continue to focus on the interest rate cycle and the Federal Reserve's (the "Fed") efforts to tame inflation. The 10-year Treasury yield ended the year at 3.88%, moving up just eight basis points during the quarter compared to a cumulative increase of 230 basis points through the first three quarters of the year. Cooler readings on inflation suggest the Fed's interest rate hikes are having their intended impact on demand, and we suspect that future rate hikes will be more modest in size.

The good news is that inflation is now moderating, even with the economy at full employment. We have seen prices peak for gasoline, ocean freight, used cars, and various commodities. Growth in home prices and rents has slowed, the U.S. dollar has weakened, and small business hiring plans are waning. The Fed's work might not be complete, but they have done a lot and it appears to be working.

The bad news is that Fed policy works with a lag, and we have yet to feel the full impact of the tightening cycle. Lately, Fed officials have been reiterating their desire to keep interest rates higher for longer, to make sure that inflation doesn't get a chance to reaccelerate. This raises the risk that they are behind the curve and will be overly restrictive for too long. If this plays out, it will weigh on consumer spending, economic growth, and could lead to job losses and recession.

While it is very difficult to forecast what will happen with the economy, it is just as challenging to forecast what the stock market will do over the next year. History tells us that the market tends to bottom before the economic data does. We also believe that the stock prices of good businesses are being offered at more attractive valuations than they were a year ago. We think this bodes well for future returns over a multi-year time horizon. Regardless of what happens with the economy or broader equity markets, we will strive to maximize risk adjusted returns in the portfolio by investing in attractively valued businesses with solid growth opportunities, durable competitive advantages, scalable business models, and exceptional management teams.

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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As of 9/30/22 the Buffalo Growth Fund top 10 equity holdings were Microsoft 13.70%, Apple 8.99%, Amazon 6.87%, Alphabet (C) 5.42%, Alphabet (A) 4.51%, Mastercard 3.38%, UnitedHealth Group 2.32%, Visa 2.27%, Meta Platforms 2.13%, S&P Global 2.00%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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 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.