

## Capital Market Overview

The equity market, as measured by the S&P 500 Index, suffered its second quarterly decline since the onset of the COVID-19 pandemic, over two years ago, producing a return of -4.60% during the January-March period. Weak capital market performance can be largely attributed to the Federal Reserve's decision to raise interest rates and reduce the size of its balance sheet, also known as quantitative tightening. Other headwinds, including the war in Ukraine, significant inflation, and persistent supply chain bottlenecks, only added to the backdrop of uncertainty for domestic and global markets.

The broad-based Russell 3000 Index fell -5.28% in the quarter. Value stocks outperformed growth stocks by a large amount, as the Russell 3000 Value Index returned -0.85% compared to a decline of -9.25% for the Russell 3000 Growth Index. Large cap stocks fell less than smaller cap stocks during the quarter, as the Russell 1000 Index declined -5.13%, followed by a return of -5.68% for the Russell Midcap Index, and -7.53% for the small cap Russell 2000 Index. Energy stocks surged during the period on rising oil prices while the more defensive Utilities and Telecommunication Services sectors were also modestly positive. The Consumer Discretionary and Technology areas of the market were the largest underperformers due to inflation and rising rates.

## Performance Commentary

The Buffalo Mid Cap Fund (BUFMX) declined 10.14% in the 1st quarter of 2022. While negative, this result compares favorably against the Morningstar U.S. Mid Growth Index return of -16.01% and the Russell Midcap Growth Index return of -12.58%. Outperformance was driven by the Fund's underweight position to richly-priced, speculative growth stocks. That segment of the market underperformed as investors continued to anticipate higher interest rates related to expectations for persistent inflation. Additionally, Russia's invasion of Ukraine created new fears of economic slowdown and inflation related to materials unavailability and/or increased pricing. Ultimately, investor concerns seem to have shifted from simple multiple compression to questions of economic growth stability.

## Average Annualized Performance (%)

As of 3/31/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
<b>Investor Class - BUFMX</b>	-1.55	16.63	13.94	11.11	9.12	9.26
<b>Institutional Class - BUIMX<sup>1</sup></b>	-1.34	16.81	14.12	11.28	9.28	9.42
Russell Midcap Growth Index	-0.89	14.81	15.10	13.52	10.41	9.99
Morningstar U.S. Mid Growth Index	-1.85	16.62	16.79	13.82	10.64	-
Lipper Mid Cap Growth Index	-4.51	14.17	14.72	12.61	9.96	9.20

<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).

## Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.88%
Fund Assets:	\$179.80 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

## Management Team



### Josh West, CFA

Co-Manager since 2017  
M.B.A. – Univ. of MO-Columbia  
B.S. – Univ. of MO-Columbia



### Craig Richard, CFA

Co-Manager since 2013  
M.B.A. – Univ. of Kansas  
B.S. – Kansas State Univ.



### Doug Cartwright, CFA

Co-Manager since 2015  
M.B.A. – Univ. of WI-Madison  
B.S. – Baylor University



## ↑ Top Contributors

EOG Resources was the top contributor for the quarter as profitability expectations improved dramatically -- 2022 EBITDA expectations increased 26% during the quarter as crude oil moved from \$76 to \$100 in the quarter. Schlumberger was the next best contributor as higher oil prices should lead to higher capital spending amongst oil and gas operators. Palo Alto Networks was the third largest contributor in the quarter, in part because of the Fund's larger than average position size. Revenue growth accelerated compared to 2021 as demand grew for the company's security products, and Palo Alto continued to have success selling best-in-class security solutions in Zero Trust, SASE, and Cloud.

## ↓ Top Detractors

EPAM Systems was the largest detractor from performance in the quarter. The Russian invasion of Ukraine was especially impactful to EPAM as 21% of its employees are located in Ukraine and 15% are located in Russia. Additionally, another 16% are located in Belarus. Disruption in Ukraine cut productivity by nearly half. Further, EPAM announced in March that it would discontinue providing services to Russian customers, and, subsequent to the end of the quarter, it announced it would exit Russia entirely.

Trex Co was the second largest detractor, as higher energy costs threaten to pressure margins, and investors are tentative about whether demand for decking and other products that benefited from COVID can sustain, as the world re-opens and a possible recession looms. It would appear that management shares these concerns, as it issued disappointing guidance with modest volume growth and lower than expected margins.

## Outlook

The Federal Reserve (the "Fed") made a hawkish pivot in mid-December with Chairman Jerome Powell highlighting the underlying strength of the U.S. economy and noting that inflation was running hotter than previously anticipated. The market is now expecting a series of interest rate hikes in the year ahead, and ultimately a reduction in the size of the Fed's balance sheet. These moves have the potential to increase both short and long-term interest rates, and this has negatively impacted equity valuations as of late, particularly in the more speculative areas of the market.

Additionally, we believe investors have become increasingly tentative as they have largely moved past the fears of simple multiple compression and have begun to anticipate lower, or even negative, economic growth. Ultimately, the point of increasing interest rates is to slow the economy down thereby quelling price inflation. Historically, the Fed has gone too far and thrown the economy into recession.

Further, the Russian invasion of Ukraine has created new fears about global political instability and war. Much of the world has imposed significant economic sanctions on Russia, threatening the availability of certain commodities including oil, natural gas, wheat, corn, nickel, and palladium, causing prices to spike. This has only added to global inflation concerns. The war and the associated economic sanctions have also destroyed the economies of Ukraine and Russia, possibly inhibiting global growth.

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.**

As of 12/31/21 Buffalo Mid Cap Fund top 10 equity holdings were MSCI 4.06%, IHS Markit 3.94%, CBRE Group 3.50%, Verisk Analytics 2.98%, Bio-Techne Corp 2.95%, Gartner 2.90%, Palo Alto Networks 2.77%, AMETEK 2.57%, CoStar Group 2.41%, Lyft 2.27%. 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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 Morningstar U.S. Mid Growth Index measures the performance of U.S. mid-cap 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. The Lipper Mid Cap Growth Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Mid-Cap classification. One cannot invest directly in an index. Cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows. EBITDA stands for earnings before interest, taxes, depreciation and amortization and is one indicator of a company's financial performance, often used as a proxy for a company's current operating profitability.

**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.

