

## Capital Market Overview

Capital markets moved higher in the first quarter of 2023 as the S&P 500 Index gained 7.50% and the Bloomberg Aggregate Bond Index advanced 3.0%. Big swings in expectations for the Federal Reserve's monetary policy drove market volatility during the period. Initially investors were concerned with data showing stubbornly high inflation and the prospect of additional interest rate hikes. However, during the final days of the quarter bank failures from Silicon Valley Bank, Signature Bank, and Credit Suisse, dramatically changed market expectations towards monetary policy and the impact that a banking crisis could have on the broader economy. As a result, shorter term Treasury yields fell, and large cap growth stocks rallied in a flight to quality. The view was that growth companies would be the biggest beneficiaries of lower rates, a reversal of the headwinds faced throughout 2022. Technology stocks were by far the leading contributors to broad market performance during the quarter while value stocks and dividend payers lagged. Excluding the technology sector, the S&P 500 Index return would have only been 2.70% during the period.

Recapping quarterly results, the broad-based Russell 3000 Index advanced 7.18%. Growth stocks significantly outperformed value stocks to start out the year, as the Russell 3000 Value Index returned just 0.91% versus a return of 13.85% for the Russell 3000 Growth Index. Relative performance improved going up in market capitalization (size) as large caps advanced more than small caps in the quarter. Larger cap stocks returned 7.46%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 2.74%, while the Russell Microcap Index returned -2.83% in the quarter.

## Performance Commentary

The Buffalo Mid Cap Fund increased 8.80% in the first quarter, slightly behind the Russell Midcap Growth Index's increase of 9.14%. Strong stock selection in the financial sector was offset by weaker stock selection in health care, information technology, and industrials. Overall, portfolio allocation had a minor negative impact on results. Markets got off to a fast start, with the index up 8.73% in January, likely due to investor excitement about the possibility that inflation might be easing. Since then, investor sobriety has returned. Focus shifted to what lower inflation may be symptomatic of, such as a potential recession, and markets have since cooled.

## Fund Facts

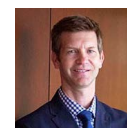
	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$139.23 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

## 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 2021  
M.B.A. – Univ. of Kansas  
B.S. – Kansas State Univ.



### Doug Cartwright, CFA

Co-Manager since 2021  
M.B.A. – Univ. of WI-Madison  
B.S. – Baylor University

## Average Annualized Performance (%)

As of 3/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFMX	-12.58	12.61	8.49	9.13	8.95	8.12
Institutional Class - BUIMX <sup>1</sup>	-12.46	12.80	8.66	9.29	9.12	8.28
Russell Midcap Growth Index	-8.52	15.20	9.07	11.17	10.10	9.05
Morningstar U.S. Mid Growth Index	-11.66	14.53	9.70	11.22	9.80	8.71
Lipper Mid Cap Growth Index	-12.73	12.83	7.58	10.03	8.89	8.06

<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 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](http://buffalofunds.com).

## ↑ Top Contributors

Top contributors for the quarter included **Palo Alto Networks, Inc.** and **MSCI Inc.** Palo Alto's next generation security software products performed extremely well. The company reported strong financial results for its 2nd fiscal quarter, with revenue, billings, margins, and free cash flow all exceeding investor expectations. The company also increased its guidance for billings, earnings, and free cash flow. Additionally, the company announced that it believes it now meets the criteria for inclusion in the S&P 500 Index. This led to double digit performance on the day of the earnings report.

MSCI also reported a strong quarter, with revenue, EBITDA, and earnings all exceeding investor expectations. Recurring subscription growth, Environmental, Social and Governance (ESG) products, and Index sales all performed well, but were slightly offset by a decline in customer retention, which tends to happen in periods when markets are weaker. The strong start for equity markets in 2023 likely helped sentiment as well.

## ↓ Top Detractors

The fund's top detractors were **Azenta, Inc.** and **CoStar Group, Inc.** For Azenta, weakness in Life Sciences Products due, in part, to a less than expected contribution from recently acquired B Medical, led to a revenue miss for its first fiscal quarter of 2023. As a result, growth declined sequentially from 12% to 7%. Operating margin declined compared with the same quarter last year related to higher sales, general, and administrative expenses, leading to investor disappointment in margins.

CoStar's stock performance was impacted by feared weakness in commercial real estate, the potential of a Move Inc. acquisition from News Corp. (since ruled out), and conservative guidance calling for a significant reduction in profitability as the company continues to invest for long-term growth.

## Outlook

Financial conditions have continued to tighten this year. The Fed Funds target rate has risen from 4.25-4.50% to 4.75-5.00% this year, though only one more raise is anticipated at this point. 10-year Treasury yields decreased 33 bps in the quarter and the yield curve inversion (short-term yields are greater than long-term yields) signals greater expectations of declining economic growth.

While these are undoubtedly challenging economic times, our mandate remains unchanged. We continue to look for 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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*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 12/31/22 Buffalo Mid Cap Fund top 10 equity holdings were Gartner 4.23%, MSCI 3.84%, AMETEK 3.55%, CoStar Group 3.35%, CBRE Group 3.32%, Verisk Analytics 3.05%, Palo Alto Networks 2.57%, Copart 2.33%, Global Payments 2.33%, Bio-Techne 2.20%. 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 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. 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. A basis point 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. The Bloomberg US Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. Free cash flow is the money a company has left from revenue after paying all its financial obligations. EBITDA is net income (earnings) with interest, taxes, depreciation, and amortization added back.

**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.

