Buffalo Mid Cap 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 Mid Cap Fund (BUFMX) declined 21.67% in the 2nd quarter. This result was slightly behind the Russell Midcap Growth Index's return of -21.07%. Positive stock selection in Information Technology was offset by poor stock selection in Industrials and a lack of exposure to Consumer Staples, which declined much less than the Index. The Fund doesn't currently own 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 - *BUFMX*	-26.97	5.22	8.03	9.33	6.77	7.85
Institutional Class - *BUIMX*[1]	-26.88	5.37	8.19	9.50	6.93	8.01
Russell Midcap Growth Index	-29.57	4.25	8.88	11.50	8.21	8.61
Morningstar U.S. Mid Growth Index	-30.65	5.24	10.19	11.80	8.29	–
Lipper Mid Cap Growth Index	-29.60	3.31	8.20	10.69	7.58	7.83

[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.

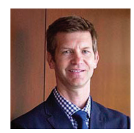
Fund Facts

	Investor	Institutional
Ticker:	BUFMX	BUIMX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.88%
Fund Assets:	$137.97 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management Team

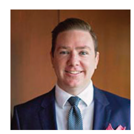
Josh West, CFA

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

BUFFALO FUNDS

↑ Top Contributors

The top contributors in the quarter were both stocks that weren't owned for the entire period. First, a new position, DoubleVerify was purchased late in the quarter. 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.

TripAdvisor was also a top contributor. Although the stock declined 34% in the quarter, we sold it in April when it was up 2.5%. We lost confidence in management's strategy and decided to allocate the funds to higher conviction ideas.

Kinsale Capital Group, a specialty property and casualty insurer specializing in excess and surplus lines (E&S), was another top contributor in the quarter. The company benefited from a growing E&S market and continued hard market conditions that have allowed for elevated pricing.

↓ Top Detractors

Lyft, Inc. was the top detractor during the quarter. Despite a better than expected 1st quarter, the company's guidance for the remainder of the year was very disappointing. Revenue guidance was positive, but margins are expected to decline meaningfully. Lyft is increasing spending to attract drivers to their platform, which is calling into question the long-term economics of the business. We acknowledge the uncertainty about future margins but view the risk/reward as favorable at the current valuation.

Expedia Group was another detractor in the quarter. Expedia is an online travel agency (OTA) with brands that include Expedia, Hotels.com, Vrbo, and Travelocity. There has been a strong recovery in demand for consumer travel coming out of the COVID pandemic, but investors are increasingly concerned that fundamentals have peaked ahead of a potential recession, and that Expedia has ceded some market share in hotels to Booking.com. However, we believe the company is well positioned to benefit from a multi-year recovery in services spending that should continue to play out, and that share loss concerns have been overstated due to the divestment of a subsidiary in Europe. We view the valuation as compelling given the recent pullback.

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% due to inflation fears, causing mortgage rates to rise considerably as well. Decelerating economic growth and higher interest rates have driven severe multiple compression, especially in growth stocks, with a bear market beginning in June.

Tighter monetary policy is beginning to have an impact on demand, which will help tame inflation, but also slow growth. 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, worsening the slowdown.

While it is impossible to pinpoint a market bottom in real time, 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 what we believe to be attractive valuations.

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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537