

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 Small Cap Fund (BUIFX) declined -15.79% for the quarter, underperforming the Morningstar U.S. Small Growth Index's return of -13.37%. Relative weakness in the Technology sector was responsible for most of the underperformance. Although the portfolio performed relatively well in software where we believed valuations were most extended, the communications equipment, IT services, and semiconductor industries all underperformed the Index and drove the underperformance in that sector.

Average Annualized Performance (%)

As of 3/31/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUIFX	-16.93	19.34	17.54	13.51	10.00	12.52
Institutional Class - BUISX ¹	-16.79	19.52	17.72	13.68	10.17	12.69
Russell 2000 Growth Index	-14.33	9.88	10.33	11.21	8.81	6.58
Morningstar U.S. Small Growth Index	-13.87	9.56	11.63	11.49	9.12	-
Lipper Small Cap Growth Fund Index	-6.60	13.90	14.61	12.55	9.33	7.90

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.

↑ Top Contributors

Contributors to results that somewhat offset negative performance included **HealthEquity** and **TransMedics Group**. HealthEquity uses a technology-enabled platform that provides solutions for managing healthcare savings accounts (HSAs), health reimbursement arrangements (HRAs), flexible spending accounts (FSAs), COBRA, commuter benefits, and employer-sponsored programs. The company is experiencing strong growth in HSA accounts, and interchange fees are increasing as consumers begin to increase healthcare spending after a lull during COVID. The company continues to be a share gainer in HSAs and is a beneficiary of higher interest rates, as the company retains part of the yield generated from customer deposits into HSAs.

Fund Facts

	Investor	Institutional
Ticker:	BUIFX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$979.06 Million	
Category:	Small Cap Growth	
Benchmark:	Russell 2000 Growth Index	

Management Team



Jamie Cuellar, CFA
Co-Manager since 2015
M.B.A. – Southern Methodist
B.B.A. – Univ. of San Diego



Bob Male, CFA
Manager since Inception
M.B.A. – Southern Methodist
B.S. – University of Kansas

TransMedics Group is a commercial-stage medical technology company that developed the Organ Care System ("OCS") to replace a decades-old standard of care (cold storage) used in organ transplantation. The OCS transforms organ preservation from a static state to a dynamic environment that enables new capabilities, including organ optimization and assessment, which increases the supply of viable organs for transplant. The company recently reported a strong quarter driven by a very good uptake for heart and liver indications.

↓ Top Detractors

The two largest detractors from performance at the security level in the quarter were **Calix** and **Vicor**. Calix, a leading provider of broadband access communication systems and software to communication service providers (CSPs), was one of the Fund's best performing stocks in 2021 but shares sold off in Q1, as the market punished last year's winners early in the quarter. Despite the pullback, we believe the company is in the early stages of a multi-year cyclical upturn and therefore have added to the investment position on the share price weakness.

Within semiconductors, Vicor, which designs, develops, manufactures and markets modular power components and complete power systems, experienced weakness in the quarter due to supply chain issues and competitive concerns. We continue to hold a small position in the company and believe the stock may become more timely in the back half of the year once additional manufacturing capacity comes online.

Within IT services, two "adtech" investments, **DoubleVerify** and **Digital Turbine**, declined due to concerns about the ad cycle given the macroeconomic environment. There is also investor concern that there has been an oversupply of "adtech" companies coming to market after an active IPO and de-SPAC calendar in 2021. DoubleVerify and Digital Turbine are growing faster than peers, enjoy strong profitability, and have unique competitive positions and remain portfolio positions.

Energy, while not a large part of the small cap marketplace, also contributed to relative underperformance during the period. Energy significantly outperformed, producing a sector return of nearly +14% versus a decline of -13.37% for the full benchmark. The high cyclicality, poor cash flow characteristics, combined with a lack of favorable long-term trend drivers (all features we typically avoid through our investment approach) makes most Energy companies unattractive in our view, and therefore our underweight position was a drag on relative performance.

Outlook

Inflation is running at levels not seen in decades and is the Federal Reserve primary concern. Factors fueling inflation include a tight labor market, supply chain disruptions, Russian sanctions due to the war, and a strong demand backdrop. As the Federal Reserve (the "Fed") continues to raise interest rates and begins quantitative tightening, inflation levels will hopefully move lower and economic growth could moderate. Furthermore, any easing in supply chain disruptions should contribute to lower inflation levels as well.

Small cap growth stocks are discounting higher interest rates and valuation levels in certain parts of the market are becoming more attractive. As the supply chain disruptions ease and labor productivity and participation rates continue to improve, a rotation back into attractively-priced, well-managed small cap growth stocks should occur.

The hawkish Fed policy and geo-political uncertainty has increased investor angst, which is creating attractive opportunities for long-term investors. While the Buffalo Small Cap Fund historically underperforms during market rotations away from growth towards value and during macro risk-off markets, as stock pickers, we find resolve in environments like these where growth has been mispriced, by our analysis. As always, we will continue to look for companies that are well-managed with scalable attractive business models that benefit from long-term trends. We are well positioned to take advantage of the movement back into small cap growth stocks and are looking forward to moving past some of these issues caused by the pandemic. We continue to appreciate your interest in the Fund. ▲

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.

As of 12/31/21 Buffalo Small Cap Fund top 10 equity holdings were Calix 2.50%, ICF Intl 2.40%, Tenable Holdings 2.17%, MaxLinear 2.17%, DoubleVerify Holdings 1.93%, MasTec 1.90%, Halozyme Therapeutics 1.89%, Syneos Health 1.89%, Everi Holdings 1.87%, Advanced Drain Systems 1.87%. 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. Small Growth Index measures the performance of U.S. small-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 Small Cap Growth Fund Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. One cannot invest directly in an index. Gross domestic product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. IPO stands for initial public offering. SPAC stands for special purpose acquisition company.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.

