

# Buffalo Small Cap Fund

QUARTERLY  
COMMENTARY

March 31, 2023

## 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 Small Cap Fund advanced 5.90% in the first quarter, a result that was roughly in-line with the Russell 2000 Growth Index return of 6.07%. Weak stock selection within Industrials and Information Technology, two of the largest allocations in the benchmark, weighed on performance. However, strong stock selection within Health Care, the benchmark's largest weight, and Consumer Discretionary helped offset relative underperformance for the quarter.

## Average Annualized Performance (%)

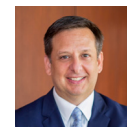
As of 3/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFSX	-11.98	17.31	10.91	10.51	10.59	11.42
Institutional Class - BUISX <sup>1</sup>	-11.92	17.46	11.06	10.67	10.75	11.58
Russell 2000 Growth Index	-10.60	13.36	4.26	8.49	8.67	5.83
Morningstar U.S. Small Growth Index	-15.17	9.95	3.98	8.28	8.57	5.63
Lipper Small Cap Growth Fund Index	-11.10	16.41	7.58	9.93	9.20	7.07

<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:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$850.30 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



## ↑ Top Contributors

The fund's largest contributors to performance for the quarter were Double Verify Holdings, Inc. and Natera, Inc. Double Verify, a software platform for digital media measurement and analytics, shared strong results with their first quarter earnings beat across the board demonstrating platform strength and resilience against a challenging macro backdrop. Natera, a diagnostics company focusing on developmental and commercialization of testing services for women's health, oncology and organ health, experienced strong performance with the announcement of Medicare extending coverage of Natera's Signatera MRD Test for breast cancer.

## ↓ Top Detractors

The largest detractor from performance at the security level for the quarter was Clearfield, Inc., a company that designs, manufactures, and distributes fiber optic management, protection, and delivery products for communications networks. Broad-based investor concerns weighed on the stock throughout the quarter on fears of capital spending reductions occurring at broadband service providers because of increasing interest rates effects on cost of capital. Additionally, the company's first quarter earnings guided lower revenue and margin growth in the near term as the decline in their backlog suggested customers' returning to normalized order levels and subsequently working through inflated inventory levels.

## Outlook

As we look ahead to remainder of the year, inflation continues to be of concern for investors despite the efforts from the Federal Reserve as they have raised interest rates an additional 50 basis points (bps) since the start of the year. Inflation has been decelerating but it is still far from the Fed's target of 2%. Furthermore, tighter credit standards as a result of the March banking crisis is clouding the economic picture. However, there are a few offsetting factors that point to a soft landing including a strong labor market, consumer resilience, and a stable housing market.

With that being said, we note that small cap company valuations have further re-rated this past quarter as expectations have been reset by management. With the increase in volatility, we are taking advantage of compelling valuations and well-capitalized small cap companies with attractive business models and good fundamentals. Portfolio positioning will continue to be fairly defensive as we remain cautious on the ever-changing macro environment. 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](http://buffalofunds.com). Read carefully before investing.*

**Earnings growth is not representative of the Fund's future performance.**

As of 12/31/22 the Buffalo Small Cap Fund top 10 equity holdings were TransMedics Group 2.86%, ICF Intl 2.55%, Calix 2.51%, Privia Health Group 2.26%, Halozyme Therapeutics 2.16%, MGP Ingredients 2.11%, Establishment Labs 2.03%, ChampionX 2.00%, Castle Biosciences 1.98%, NV5 Global 1.89%. 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. 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. 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. 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.

**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.

