

Capital Market Overview

Capital markets rallied modestly in the 4th quarter as the S&P 500 Index gained 7.56%, the only positive quarter for 2022. Cooler inflation readings, resilient consumer spending, and better-than-expected corporate earnings buoyed markets during the first two months of the 4th quarter before pulling back in December. Much of the focus remains on the path of future interest rates, recession fears, and the economic and market impact those events may generate in 2023.

Despite the 4th quarter advance, the stock market recorded its worst calendar year since 2008, with a decline of -18.11% for the S&P 500 Index, and a loss of -32.54% for the growth-oriented and technology-heavy Nasdaq Composite Index. Large cap technology stocks and the more interest-rate sensitive assets suffered the most, while value stocks outperformed. In the end, nine of the S&P 500 Index's 11 economic sectors declined. Energy stocks were the bright spot, recording a gain of 65.72% for the sector while Utilities eked out a gain of 1.57% in 2022.

The damage wasn't isolated to the stock market as the investment-grade bond indices suffered double-digit losses for the year as well. In fact, a traditional balanced investment portfolio of 60% stocks and 40% bonds suffered the 4th worst drawdown in the past 100 years.

Recapping quarterly results, the broad-based Russell 3000 Index advanced 7.18% in the period. Value stocks significantly outperformed growth stocks to close out 2022, as the Russell 3000 Value Index returned 12.18% versus a return of just 2.31% for the Russell 3000 Growth Index. Relative performance was mixed going down in market cap size as small caps advanced less than large caps in the quarter, while mid cap stocks outperformed both large and small caps. Larger cap stocks returned 7.24%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 6.23%, while the Russell Midcap Index produced a return of 9.18% in the quarter.

Performance Commentary

The Buffalo Small Cap Fund (BUIFX) produced a return of -0.67% for the quarter, a result that trailed the Russell 2000 Growth Index return of 4.13%. Disappointing stock selection was responsible for most of the relative underperformance, but the Fund's sector allocation impact also weighed on results due to our typical underweight in Energy and Consumer Staples, two of the strongest performing benchmark sectors during the quarter.

Average Annualized Performance (%)

As of 12/31/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUIFX	-30.01	6.88	10.15	10.91	8.96	11.28
Institutional Class - BUIFX ¹	-29.88	7.04	10.31	11.08	9.12	11.45
Russell 2000 Growth Index	-26.36	0.65	3.51	9.20	7.26	5.64
Morningstar U.S. Small Growth Index	-33.31	-1.78	2.66	8.42	6.76	-
Lipper Small Cap Growth Fund Index	-26.54	3.92	7.09	10.45	7.59	6.87

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.

Fund Facts

	Investor	Institutional
Ticker:	BUIFX	BUIFX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$803.58 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

The Fund's results in the Technology area and Industrials were the largest detractors from performance results from a sector breakdown perspective. Within Technology, the portfolio experienced weakness among IT Service holdings including **DoubleVerify** and **Grid Dynamics**. Stock selection in Software also lagged on declines by **BigCommerce Holdings** and **Varonis Systems, Inc.** Performance within the portfolio's Industrials exposure weighed on overall results due to declines from **Advanced Drainage Systems** and **PGT Innovations**. Both stocks performed poorly as higher interest rates are beginning to impact the companies' construction markets.

↑ Top Contributors

Partially offsetting the lagging areas above was stronger stock selection within Health Care, particularly among the portfolio's health care equipment and biotechnology companies. **TransMedics Group** was once again a top contributor to Fund performance as shares advanced nearly 50% during the period. The company's innovative Organ Containment System ("OCS") and National OCS Program ("NOP") continued to see rapid uptake translating to accelerating revenue growth of about 378% year-over-year.

Establishment Labs Holdings, Inc. and **Inspire Medical Systems, Inc.** that also operate in the health care equipment area were strong performers in the quarter. Within biotechnology, **Halozyme Therapeutics** advanced over 40%.

↓ Top Detractors

Overall, the largest detractors from performance results during the quarter were **Privia Health** and **Palomar Holdings**. Privia, a technology-driven platform that enables medical groups, health plans, and health systems transition to value-based care arrangements, performed poorly during the quarter due to sector rotation within Health Care. Also, Privia's multiple compressed during the period as investor speculation of an imminent buyout of the company waned. Palomar, a specialty insurance company, underperformed during the quarter as its reinsurance costs could potentially increase due to Hurricane Ian in Florida. Additionally, the company's 3rd quarter earnings were negatively impacted by higher attritional losses. Our view of both companies remains favorable.

Outlook

The direction of the market overall will likely continue to depend on inflation's trajectory and the amount of economic damage caused by higher interest rates. The inflation picture continues to ebb and flow. While we are seeing a decline in logistics costs, shipping rates, and some commodity prices, component shortages continue to persist. Generally, it seems price increases are moderating but the sustainability of this moderation is questionable.

While the Federal Reserve has already increased interest rates by 425 basis points, market expectations forecast another 50 to 75 basis point increase in this tightening cycle. In response, there has been a growing chorus for the Federal Reserve to slow its pace of tightening and allow previous hikes to make their way through the economy. Meanwhile, global economies continue to slow, especially in Europe where energy prices remain high. While many companies have already lowered financial guidance for the year, we could be in store for another earnings season of decreasing estimates which may possibly bring more market volatility.

Throughout 2022, small cap stocks re-rated for the prospect of a significant slowdown in economic growth in 2023. As a result, we are taking advantage of stocks that are oversold by our analysis. At the same time, we are being cautious with unfamiliar management teams and their ability to navigate a less predictable economy and market volatility. Portfolio positioning is fairly defensive within Technology, with a focus on a steadier IT Services industry and the Communications Equipment industry, which has unique demand drivers due to government subsidies.



Buffalo Small Cap Fund

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The portfolio continues to be underweight Semiconductors and Software relative to the benchmark. We've added slightly to Energy sector exposure with higher quality energy-related companies, but the portfolio remains underweight relative to the benchmark. Larger positions within the Fund continue to be companies with recurring revenue streams, or those with strong demand and good visibility into future earnings.

As always, we believe all of our investments could benefit from long-term growth trends and trade at attractive valuations - the cornerstone of our investment process. We 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. Read carefully before investing.

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

As of 9/30/22 the Buffalo Small Cap Fund top 10 equity holdings were Calix 3.12%, ICF Intl 3.02%, Privia Health Group 2.57%, MGP Ingredients 2.43%, DoubleVerify 2.28%, HealthEquity 2.24%, Halozyme Therapeutics 2.19%, Evolent Health 2.07%, TransMedics Group 2.03%, NV5 Global 2.03%. 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.

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.

