

Capital Market Overview

Equity markets advanced in the third quarter as the economy continued to grow moderately while inflation pressures and labor markets cooled enough to trigger an interest rate cut. The Federal Reserve reduced the fed fund's rate by half a percentage point in September bringing the target to 4.75%-5.00%. This much anticipated pivot on interest rates also propelled the bond market during the quarter. Bond prices rose and yields fell in June and July as the outlook for rate cuts became clearer. The yield on the 10-year Treasury note fell from 4.48% at the beginning of July to 3.75% by the end of the quarter. The slope of the yield curve normalized as short term bond yields fell the most. There have been big changes in expectations about the timing and size of interest rate cuts throughout the year. In January the market was expecting as many as six rate cuts for 2024, however, that has now shifted to maybe just three.

The third quarter witnessed a rotation out of large technology stocks. Microsoft, Nvidia, Alphabet, and Amazon underperformed while value stocks and small cap companies advanced sharply during the period. The Russell 3000 Value Index gained 9.47% and significantly outperformed the Russell 3000 Growth Index return of 3.42% in the quarter. The small cap Russell 2000 Index produced a return of 9.27% compared to the large cap Russell 1000 Index return of 6.08%. Dividend-paying stocks also outperformed the broader market for the quarter.

In terms of sector leadership, Utilities and Real Estate were the top performers for the quarter, followed by Financials, Industrials and Materials. Technology, Communication Services lagged, and Energy was the lone negative returning sector for the period.

Performance Commentary

The Buffalo Flexible Income Fund produced a return of 3.07% for quarter compared to a return of 6.23% for the Russell 3000 Index. The energy and industrials sectors were the biggest detractors from the fund's relative results due to the sector allocation effect and security selection. The fund was overweight energy, which was the worst performing sector during the quarter. Conversely, the fund was underweight the industrials sector, which was one of the better performing sectors in the quarter.

Average Annualized Performance (%)

As of 9/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFBX</i>	19.90	12.27	11.10	7.98	9.15	7.78
Institutional Class - <i>BUIBX</i> ¹	20.09	12.42	11.25	8.13	9.31	7.94
Russell 3000 Index	35.19	10.29	15.26	12.83	13.80	10.69

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.

The biggest contributors to the fund during the quarter were **IBM, Allstate** and **General Mills** while the top three detractors were **Qualcomm, APA,** and **Microsoft**. IBM's advance was driven by positive quarterly results, including revenue strength in its software segment and improved margins during the quarter. IBM raised its revenue forecast for 2024, driven by the software segment, as well an increased margin and free cash flow (FCF) forecast for the full year. Allstate reported good quarterly results driven by higher premiums and lower personal auto and catastrophe losses. Although General Mills reported disappointing second quarter financial results, the company subsequently reported improved results (volumes) at an investor conference during the third quarter. The improved volume trends were due to stronger at home consumption trends.

Fund Facts

	Investor	Institutional
Ticker:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$490.25 Billion	
Category:	Large Value	
Benchmark:	Russell 3000 Index	

Management Team



John Kornitzer

Manager since Inception
B.A. – St. Francis Univ. (PA)



Paul Dlugosch, CFA

Co-Manager since 2011
B.S. – University of Iowa

Top 10 Holdings*

Microsoft Corporation	10.40%
Eli Lilly and Company	6.53%
Costco Wholesale Corporation	5.25%
Chevron Corporation	4.03%
Exxon Mobil Corporation	3.91%
ConocoPhillips	3.89%
Hess Corporation	3.80%
Arthur J. Gallagher & Co.	3.74%
QUALCOMM, Inc.	3.49%
Allstate Corporation	3.12%
Top 10 Holdings Total	48.17%

On the downside, Qualcomm was negatively impacted due to expected headwinds on shipping 4G chips to Huawei associated with US government sanctions. Although APA reported better than expected earnings for the second quarter (driven by better production volume growth), the stock was negatively impacted by declining oil prices during the period. Microsoft declined due to some soft metrics within the company's earnings release. Azure growth came in at the low end of guidance, and AI capacity headwinds as well as weakness in some international markets (Europe) weighed on the stock. Additionally, financial guidance was slightly below some analyst expectations while capex guidance was raised resulting in less potential free cash flow moving forward.

Outlook

Economic growth has slowed, and this trend seems likely to persist into the second half of the year. Consumer confidence has moved lower with interest rates and inflation weighing on demand for durable goods and housing. Restaurants are broadly reporting declines in same-store traffic and increased use of promotions. Software companies continue to speak to elongated sales cycles. There are certainly pockets of strength in areas such as manufacturing, travel, cybersecurity, and—of course—artificial intelligence, but generally it seems we are in the later stages of the economic expansion cycle. The upcoming Presidential election, the ongoing war between Russia and Ukraine, and a projected \$2 trillion Federal deficit compound macroeconomic uncertainty. The Federal Reserve has firepower to stimulate the economy when needed, which provides an important backstop to investor psychology. As always, we remain focused on wide moat, large capitalization dividend-paying companies trading at reasonable valuations, according to our analysis. ▾

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

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.

Effective 7/29/24, the Buffalo Flexible Income Fund is the Buffalo Flexible Allocation Fund.

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 Russell 3000 Index measures the performance of the 3,000 largest publicly held companies incorporated in the U.S. based on market capitalization. A basis point (BPS) is one hundredth of a percentage point (0.01%). Free cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows.

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 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 1000 Index is an unmanaged capitalization-weighted index of approximately 1,000 of the largest companies in the U.S. equity markets. 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. The Magnificent Seven is a term used to describe the technology-oriented, highly influential companies of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. The Conference Board Leading Economic Index, Composite Index of Leading Indicators, otherwise known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the direction of global economic movements in future months. The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth or the Russell 2000 Growth indices. The Russell 3000 Value Index is an unmanaged index with a market-capitalization weighted equity based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. It is not possible to invest directly in an index. Capital Expenditure (Capex) is how much a company invests in existing and new fixed assets to maintain or grow its business. A yield curve is a line that plots the yields, or interest rates, of bonds that have equal credit quality but different maturity dates.

Mutual fund investing involves risk. Principal loss is possible. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in foreign securities include additional risk such as greater volatility, and political, economic, and currency risks, as well as difference in accounting methods.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 6/30/24. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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