

Capital Market Overview

The broad-based equity market advanced in the second quarter (measured by the S&P 500 Index) as the economy continued to grow moderately while inflation and labor market measures eased enough throughout the period that investors became more confident of interest rate cuts. There have been big changes in expectations about the timing and size of interest rate cuts since the start of the year. In January the market was expecting perhaps as many as six rate cuts for 2024, however, that has now shifted to maybe only one or two cuts for the year, starting in September. As has been the case for some time now, however, there was a size bias in performance results during the quarter, which has particularly benefited a few mega-cap companies associated with artificial intelligence (AI). Large cap stocks continued to outperform small cap stocks and growth companies continued to outperform value companies by a wide margin.

Recapping index results, the Russell 3000 Index gained 3.22% during the period. The Russell 3000 Growth Index advanced 7.80% compared to a decline of -2.25% for the Russell 3000 Value Index. Larger cap stocks produced a return of 3.57%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index decline of -3.28%. In terms of sector leadership, Technology and Communication Services were the top performers for the quarter while a larger group of companies in the Industrials, Financials, Health Care, Consumer Discretionary, Energy, Materials and Real Estate sectors declined.

Performance Commentary

The Buffalo Flexible Income Fund produced a return of 0.46% for the quarter compared to a return of 3.22% for the Russell 3000 Index. The energy and information technology sectors were the largest detractors from the fund's relative performance during the quarter due to both sector allocation impact and security selection. The fund was overweight energy, which was one of the worst performing sectors during the quarter, and conversely, the fund was underweight information technology, which was one of the best performing sectors in the quarter.

Average Annualized Performance (%)

As of 6/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUF BX</i>	16.74	10.92	10.68	7.60	9.84	7.74
Institutional Class - <i>BUI BX</i> ¹	16.92	11.09	10.83	7.75	10.00	7.90
Russell 3000 Index	23.13	8.05	14.14	12.15	14.49	10.56

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

The largest contributors to fund results during the quarter were **Eli Lilly**, **Costco** and **Microsoft**. Eli Lilly continued to benefit from the success of its GLP-1 weight loss drugs. Additionally, the company received U.S. Food & Drug Administration (FDA) approval for its sleep apnea drug, creating another significant revenue opportunity. Costco reported positive quarterly results and indicated that it would likely increase membership fees (although the timing of the increase was not provided). The company also stated that its membership renewal rate of 93% remained strong. Microsoft reported positive earnings and margin expansion during the quarter driven by strong Azure growth. The company also appears poised to benefit from the ongoing excitement around artificial intelligence (AI).

Fund Facts

	Investor	Institutional
Ticker:	BUF BX	BUI BX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$485.11 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	9.89%
Eli Lilly and Company	5.57%
Costco Wholesale Corporation	4.49%
ConocoPhillips	4.29%
Chevron Corporation	4.03%
Exxon Mobil Corporation	3.92%
Hess Corporation	3.90%
Arthur J. Gallagher & Co.	3.58%
Allstate Corporation	3.36%
QUALCOMM Incorporated	3.05%
Top 10 Holdings Total	46.09%

↓ Top Detractors

The biggest detractors from performance during the quarter were the energy-related companies of **ConocoPhillips**, **APA Corporation**, and **Schlumberger**. ConocoPhillips reported earnings that were in-line with analyst estimates but near-term results will likely be negatively impacted by the decline in oil prices during the quarter. APA negatively revised annual guidance during the quarter due to lower volume production and higher capex. APA was also impacted by the decline in oil prices during the quarter. Related to the deteriorating energy industry trends above, Schlumberger reported slower revenue and earnings growth and lower free cash flow (FCF) compared to prior estimates during the quarter.

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. We expect the Federal Reserve will begin cutting short-term interest rates later this year and, at the very least, become less restrictive with monetary policy. 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:

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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.

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.

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 3/31/24. 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.

