

Buffalo Flexible Income Fund

QUARTERLY
COMMENTARY

September 30, 2023

Performance Commentary

Capital markets pulled back in the third quarter of 2023 as the S&P 500 Index declined 3.27% and the Barclay's Aggregate Bond Index fell 3.23%. Rising bond yields and expectations that the Federal Reserve will maintain interest rates "higher for longer" weighed on investors sentiment. Inflation is trending down; however, it remains above the Fed's target of 2% leading to the central bank's hawkish tilt. Until recently, markets had been forecasting numerous interest rate cuts in 2024, a scenario that now looks unlikely. The yield of the U.S. Treasury 10-year note finished the period at 4.57%, up from 3.9% to start the year. Performance among eight of the ten economic sectors was negative during the period, but energy rallied over 12% as the price of oil surged 28% during the third quarter. Overall, economic growth appears to be slowing, but most economists are not calling for a recession in the near term.

Recapping broad-based index results, the Russell 3000 Index dropped 3.25%. Relative performance deteriorated going down in market capitalization (size) as small caps declined more than large caps in the quarter. Larger cap stocks produced a return of -3.15%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of -5.13%. The even smaller market cap Russell Microcap Index pulled back by -7.93% in the quarter.

Average Annualized Performance (%)

As of 9/30/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFBX	15.98	15.01	7.17	7.06	7.80	7.39
Institutional Class - BUIBX ¹	16.15	15.18	7.32	7.22	7.96	7.55
Russell 3000 Index	20.46	9.38	9.14	11.28	11.05	9.93

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 Investor 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 Buffalo Flexible Income Fund produced a return of 0.32%, a result that outperformed the primary prospectus benchmark, Russell 3000 Index, return of -3.25%. The energy sector was primarily responsible for the fund's relative outperformance. A portfolio overweight allocation to the energy sector drove the outperformance as it was, by far, the best performing benchmark sector for the quarter. Specific investments within energy that contributed to the outperformance included APA Corp, Hess and Marathon. The group benefitted from higher oil prices during the quarter. Overall, the top three contributors to the fund's performance during the quarter were **APA Corp**, **ConocoPhillips**, and **ELI Lilly**. APA and ConocoPhillips, energy-related businesses, benefited from higher oil prices, while the health care company, Eli Lilly, benefitted from the success of its weight loss drug.

↓ Top Detractors

Partially offsetting the positives results from above, the top detractors from fund results during the period were **Microsoft**, **General Mills** and **Delek Logistics**. Microsoft's valuation multiple was negatively impacted by the increase in interest rates, in our view. We believe the underlying fundamentals for the company remain strong as it is a beneficiary of artificial intelligence (AI), and it received a favorable legal decision related to its acquisition of Activision. Meanwhile General Mills declined due to a negative earnings revision and lower organic revenue forecast. Delek Logistics, an energy logistics, pipeline, transportation, and warehousing company, reported earnings in-line with expectations but has been slow to disclose its strategic sum of the parts process which weighed on investor enthusiasm for the stock during the period.

Fund Facts

	Investor	Institutional
Ticker:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$452.45 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



Outlook

Looking ahead we believe inflation is decelerating but the combination of a tight labor market, the Fed's "quantitative tightening," and a rising debt-to-GDP ratio will likely keep interest rates elevated for some time. Consumers are dealing with high interest rates, elevated inflation, decelerating wage gains, and will soon have to begin repaying student loan payments. We expect cautious guidance from many companies this earnings season.

Despite the uncertainty, we remain focused on wide moat, large capitalization dividend-paying companies trading at reasonable valuations, in our view. As always, the fund will continue to emphasize competitively advantaged companies that can be purchased at a fair value. We will be ready to take advantage of opportunities created by stock market volatility using market declines as attractive entry points for long-term investors. ▀

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 6/30/23 the Buffalo Flexible Income Fund top 10 holdings were Microsoft 8.58%, Hess Corp 4.32%, Chevron 4.31%, Eli Lilly & Co 4.11%, ExxonMobil 3.88%, ConocoPhillips 3.75%, Costco 3.54%, Arthur J Gallagher & Co 3.37%, PepsiCo 3.25%, APA Corp 2.99%. 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 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%).

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 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. It is not possible to invest directly in an index.

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.

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

