

Buffalo Flexible Income Fund

QUARTERLY
COMMENTARY

December 31, 2023

Capital Market Overview

2023 concluded with capital markets moving higher in the final quarter of the year. The S&P 500 Index gained 11.69% and the Barclay's Aggregate Bond Index advanced 6.82%. A big pivot in expectations for the Federal Reserve's monetary policy drove the market advance during the period, as investors now anticipate a decline in interest rates for 2024. The yield of the U.S. Treasury 10-year note finished the quarter at 3.88%, a significant drop from its peak of nearly 5% in mid-October.

Recapping broad-based index results, the Russell 3000 Index gained 12.07% during the period. Growth stocks outperformed value stocks as the Russell 3000 Growth Index advanced 14.09% compared to a gain of 9.83% for the Russell 3000 Value Index. In typical "risk-on" fashion, relative performance improved going down in market capitalization (size) during the quarter as small caps advanced more than large caps. Larger cap stocks produced a return of 11.96%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 14.03%. The even smaller market cap Russell Microcap Index rallied 16.06% in the quarter.

The stock market recorded impressive gains for 2023 with the S&P 500 Index advancing 26.29%. However, it was a "narrow" market as the "magnificent seven" technology and artificial intelligence (AI) stocks accounted for approximate 80% of the S&P 500's gains in 2023, versus a broad market advance where hundreds of stocks propel the index higher. In terms of economic sectors, technology, communication services, and consumer discretionary stocks were the brightest spots while the utilities and energy sectors declined in 2023.

Performance Commentary

The Buffalo Flexible Income Fund produced a return of 5.26% compared to the primary prospectus benchmark, Russell 3000 Index, return of 12.07%. The energy sector was primarily responsible for the underperformance relative to the benchmark. The fund was overweight the worst performing sector of the market during the quarter. Specific energy companies in the portfolio that contributed to the underperformance included Exxon, Chevron, APA, Hess and Schlumberger. Share prices for all of these were down between 5%-14% during the quarter. The primary driver behind the decline in the energy valuations was the decline in oil prices, which fell from roughly \$85 at the end of September to roughly \$71 at year-end. Accordingly, the stock price of energy companies fell, as their near-term profits are likely to contract despite no adverse material stock specific information related to any of these companies during the quarter.

Average Annualized Performance (%)

As of 12/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFBX</i>	7.43	13.25	11.02	7.08	9.85	7.51
Institutional Class - <i>BUIBX</i> ¹	7.53	13.43	11.17	7.23	10.01	7.67
Russell 3000 Index	25.96	8.54	15.16	11.48	13.84	10.27

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:	BUFBX	BUIBX
Inception Date:	8/12/94	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	\$461.32 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	8.03%
Hess Corporation	4.90%
Eli Lilly and Company	4.75%
Chevron Corporation	4.66%
ConocoPhillips	4.37%
Exxon Mobil Corporation	4.29%
Costco Wholesale Corporation	3.75%
APA Corporation	3.63%
Arthur J. Gallagher & Co.	3.53%
PepsiCo, Inc.	3.00%
Top 10 Holdings Total	44.91%



↑ Top Contributors

The top three contributors to the fund during the quarter were **Microsoft, Qualcomm** and **Allstate**. Microsoft reported strong earnings results driven by continued growth in Office and Azure. Additionally, the company's guidance was better than expected and was driven by continued positive business momentum. Qualcomm reported better than expected earnings and provided better than expected guidance. Additionally, the company indicated that handset channel inventory levels were back to more normalized levels. Meanwhile, Allstate benefitted from a strong pricing environment as well as lower loss ratios.

Outlook

The economy is slowing to a more sustainable level of growth as consumers have spent much of the excess savings accumulated during the pandemic. With demand moderating and the job market beginning to loosen, we believe inflationary pressures will continue to moderate. The Fed's aggressive tightening cycle appears to be getting the job done on inflation, and a disaster scenario of stubbornly high inflation coupled with a consumer-led recession appears to be off the table. Moreover, the Fed now has firepower to stimulate when needed.

Following the sharp rally to close out 2023, the market seems likely to consolidate its gains in the near term. Numerous forward-looking indicators suggest the economy will soften in 2024, including an inverted Treasury yield curve, a decline in the Conference Board Leading Economic Index, and the National Federation of Independent Businesses' (NFIB) hiring plans survey. And while the Fed can cut short-term interest rates to stimulate demand, we do not expect another round of stimulus checks given the Federal government is already running an unsustainable \$2 trillion annual deficit. Against this backdrop, expect management teams to offer cautious forward-looking guidance.

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:

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.

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 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.

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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 9/30/23. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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

