Buffalo Growth Fund

QUARTERLY
COMMENTARY

September 30, 2023

Capital Market Review

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 27% 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.

Performance Commentary

The Buffalo Growth Fund posted a return of -3.88% for the quarter, modestly underperforming the benchmark Russell 3000 Growth Index return of -3.34%. Compared to the benchmark, positive relative performance within the Communications Services, Consumer and Energy sectors was more than offset by negative relative performance in the Health Care sector. Stock selection was the main culprit within Health Care. In short, the Fund didn't own Eli Lilly which is one of two companies supplying GLP-1's, the exciting class of drugs that help patients lose weight by moderating the desire to eat. The promise of effective weight loss drugs also negatively affected sentiment toward medical device companies, an overweight industry position for the Fund.

Average Annualized Performance (%)

As of 9/30/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFGX*	29.95	5.81	8.81	10.92	11.23	10.18
Institutional Class - *BUIGX*[1]	30.09	5.95	8.96	11.08	11.39	10.34
Russell 3000 Growth Index	26.63	7.54	11.70	13.94	13.35	9.93

[1]For 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.

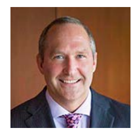
↑ Top Contributors

Schlumberger (SLB) gained over 19% in the quarter, rebounding from weakness the quarter before which saw energy shares trade down on fears the regional banking crisis would tip the economy into a recession. Instead, the economy remained resilient. Schlumberger is an oilfield services company that supplies technology for reservoir characterization, drilling, production, and processing. The company generates attractive returns on capital and has a strong competitive position. We believe earnings estimates for the company are likely to move higher based on continued strength in offshore and international markets and stable to rising oil prices.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFGX	BIIGX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.92%	0.77%
Fund Assets:	$147.76 Million	
Category:	Large Cap Growth	
Benchmark:	Russell 3000 Growth Index	

Management Team



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Alphabet Inc. (GOOG) shares were up over 9% in the quarter following a positive second quarter earnings report that topped consensus across the board. Healthy revenue trends in Search and Google Cloud and an operating margin 160 basis points better than consensus was a welcome surprise. Relative to the benchmark, we hold an overweight position in Alphabet and believe the company is positioned to benefit from the ongoing migration of advertising dollars to online and mobile channels as well as growth in cloud computing.

Top Detractors

Apple (AAPL) shares fell over 11% in the quarter after guiding to weaker than expected sales for the September quarter driven by moderating developed markets iPhone growth and greater than predicted foreign exchange headwinds. We hold an underweight position in Apple, Inc, relative to the benchmark, but it is a sizeable position for the fund on an absolute basis. Thus, the stock was one of our largest detractors from a contribution standpoint but was positive with respect to relative performance vs the benchmark. We continue to like Apple for their opportunity to expand the installed base of devices and increase the mix of highly profitable and recurring services revenue.

Microsoft (MSFT) was also a top detractor in the period. After impressive performance in the first half of 2023 driven by its attractive position in generative AI, shares took a breather, down a bit over 7% for the quarter. Microsoft has been investing heavily in the development of AI-powered solutions across its various business segments, such as using AI to enhance productivity and efficiency in its Azure cloud infrastructure, Search and Office software suite. We hold an overweight position in Microsoft and believe it should continue to grow its leading share in cloud computing, gaming and MS Office productivity applications.

Outlook

Despite the recent market pullback, equities have generally performed well year to date, aided by resilient consumer spending and moderating inflationary pressures. Employment remains very robust despite tighter monetary policy, allowing the Fed to focus entirely on inflation within its dual mandate of price stability and full employment. Inflation is moderating but progress is slowing. Fed Chairman Powell has indicated that one more rate hike is possible this year, but interest rates are sufficiently restrictive to get the job done over time.

The most concerning issues today include the ongoing dysfunction in Washington. Federal debt as a percentage of GDP has risen sharply to 120%, double the level of 20 years ago. The combination of rising debt-to-GDP and rising interest burden could push long-term rates even higher, increasing the risk that something in the economy breaks and we end up in a hard recession. Industries that require financing are already under pressure, including housing and big-ticket durables. We expect generally cautious guidance from most companies this earnings season but seek pockets of growth that can help companies outperform. Security software and AI are two areas we expect to be resilient within this gradually contracting macro environment.

Our strategy is to take a long-term risk aware view and build positions in premier growth companies as risk/reward improves. We are leaning into quality; dominant companies with strong balance sheets and moaty businesses generating attractive returns. We're also keeping a watchful eye for price dislocations where near-term uncertainty creates long-term opportunity. As we move through this more tumultuous part of the economic cycle, heightened investor fear and market volatility can lead to incredibly attractive stock opportunities for prepared investors with a long-term investment horizon. We believe investing in well-managed companies with durable competitive advantages trading at attractive valuations will continue to generate outsized multiyear returns. Thank you for your continued trust and 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. Investing in both actively and passively managed mutual funds involves risks and principal loss is possible.

As of 6/30/23 the Buffalo Growth Fund top 10 equity holdings were Microsoft 12.82%, Apple 10.68%, Alphabet 9.01%, Amazon 5.93%, Mastercard (A) 3.59%, Visa (A) 2.57%, Adobe 2.47%, Booking Holdings 2.41%, NVIDIA 2.40%, DoubleVerify Holdings 2.22%. 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. 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 Conference Board of Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term. 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. A basis point is one hundredth of a percentage point (0.01%).

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods.

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