

Capital Market Overview

Equity markets continued to move higher in the 1st quarter of 2021, with the S&P 500 Index returning 6.17%. The period was marked by outperformance of value stocks as the market rotation that began in the last quarter of 2020 became even more pronounced. The vaccination rollout, combined with prospects for more fiscal stimulus, bolstered optimism towards companies that could benefit from the economy reopening. Additionally, an 80+ basis point move higher in the 10-Year U.S. Treasury yield during the quarter left sentiment towards growth stocks relatively more subdued.

The broad market Russell 3000 Index advanced 6.35% in the quarter. Value outperformed growth for the second straight quarter, with the Russell 3000 Value Index up 11.89% compared to the Russell 3000 Growth Index returning 1.19%. Relative performance was inversely-correlated with market cap size in the quarter, with the Russell Micro Cap Index up 23.89%, the small cap Russell 2000 Index up 12.70%, the Russell Midcap Index up 8.14%, and the large cap Russell 1000 Index returning 5.91%. The more cyclically-sensitive Energy, Financial, and Industrial sectors performed best in the quarter. Consumer Staples, Information Technology, and Utilities were the bottom three performing sectors. All sectors produced positive returns.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) gained 2.70% during the quarter, outperforming the Morningstar U.S. Mid Growth Index's decline of 1.62%. The Fund outperformed the Index in all of the major sectors that comprise the bulk of the benchmark – Consumer Discretionary, Healthcare, Technology, and Industrials – but lagged slightly in Financials and Telecommunications Services. Stock selection drove all of the outperformance while sector allocation was a slight drag on relative performance. The overall rotation to “value” from “growth” led to a decline in the Index in traditional growth areas of Consumer Discretionary, Healthcare, and Technology. Despite this backdrop, the Fund managed to post positive returns in all of these sectors, as our valuation discipline and focus on downside protection kept us out of most of the high growth stocks that were hit hard by the rotation.

Average Annualized Performance (%)

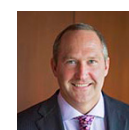
As of 3/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFTX	67.49	18.64	17.86	14.82	12.03	10.66
Institutional Class - BUITX ¹	67.75	18.83	18.05	15.00	12.20	10.83
Morningstar U.S. Mid Growth Index	73.26	22.37	20.59	14.32	11.16	9.80
Morningstar Mid-Cap Growth Category	81.95	20.29	19.16	13.38	10.47	8.62

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. Each Morningstar category average represents a universe of funds with similar objectives.

Fund Facts

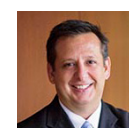
	Investor	Institutional
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$1.78 Billion	
Category:	Mid Cap Growth	
Benchmark:	Morningstar U.S. Mid Growth Index	

Management Team



Dave Carlsen, CFA

Co-Manager since 2004
B.B.A. – Univ. of Wisconsin-Madison



Jamie Cuellar, CFA

Co-Manager since 2020
M.B.A. – Southern Methodist
B.B.A. – Univ. of San Diego



Ken Laudan

Co-Manager since 2020
B.S. – Kansas State Univ.

↑ Top Contributors

The top contributor for the portfolio in the 1st quarter was **Ligand Pharmaceutical**, which gained 53%. A highly shorted stock coming into the quarter, Ligand surged on a short squeeze alongside other highly shorted stocks as it was disclosed that troubled hedge fund Melvin Capital owned put options on Ligand as well as other companies like GameStop and Bed Bath & Beyond. We had been quite surprised that the short interest remained stubbornly high throughout 2020 despite strong fundamentals that even improved during the COVID outbreak, as Ligand's product Captisol is in Gilead's drug Remdisivir to improve its tolerability, which led to a windfall in revenues and cash flow for Ligand. We believe there is additional upside potential to come from Ligand as its lead drug discovery platform, OmniAb, continued to see licensees get closer to commercialization, which could generate high margin royalty revenue for Ligand.

Generac was the next largest contributor during the quarter. Generac continues to gain investor attention as demand for its home standby generators likely increased massively during the Texas power crisis in February 2021. When combined with rolling blackouts in California, increased frequency and intensity of hurricanes, and their entry into the home battery backup market, it is easy to see why demand for Generac's products has increased immensely and the stock has responded.

↓ Top Detractors

Tenable, a security software company, was the largest detractor to performance in the quarter. The stock rallied in the December 2020 quarter as the high profile SolarWinds hack caused investors to bid up many cybersecurity stocks in anticipation of an acceleration in revenue growth. When the company gave 2021 revenue guidance that assumed no incremental increase in revenues due to the hack, it was considered a disappointment by investors and the stock gave back all of the December gains. We believe management is smartly setting guidance that allows for them to beat consensus and potentially raise guidance through the year, and the pull back in the stock is an opportunity for long term investors.

Outlook

The outlook remains generally positive as robust monetary and fiscal stimulus provides an inviting backdrop for investors. While a quick rise in interest rates has given some pause on growth stocks and facilitated a catchup trade for value stocks, we do not believe the prospect of a low single digit yield on a ten-year government bond is going to provide a suitable enough return for investors to begin to abandon equities.

2021 should continue to benefit from a recovering economy with above average gross domestic product (GDP) growth, but as we return to pre-COVID economic levels, we believe economic growth likely gets stymied, as higher federal debt levels and higher taxes eventually slow the economy, which may again put premium multiples on companies that can grow faster than the market. While there is also chatter about inflation ruining the party, we believe we are still a ways away from seeing enough inflation sustaining at a level that gets the Federal Reserve concerned enough to take action on interest rates. Meanwhile COVID variants and the durability of responses to vaccinations remain a wildcard, but the rapid dissemination of vaccines by the new administration is definitely a positive for economic recovery and a return to normalcy. Higher tax rates will be required to pay for additional fiscal stimulus and could take a small bite out of earnings growth, but we do not believe there is enough political capital or will to raise taxes high enough to choke the market.

We continue to tighten up the portfolio and focus on our favorite ideas – there are now 82 positions in the Fund. We have continued the process we started last year in getting a little more cyclical exposure in the portfolio and remain ever mindful of valuations as there are still signs of excess in areas like high growth software. We have also steadily added companies at the lower end of the market cap range as smaller companies generally outperform coming out of periods of recession. They are also trading at attractive valuation and have solid operating leverage. As always, we continue to focus on premier, innovative companies that benefit from long-term trends and trade at attractive valuations, and we appreciate your continued 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 risk and principal loss is possible.

As of 12/31/20 the Buffalo Discovery Fund top 10 equity holdings were Natera 2.15%, Penn National Gaming 2.11%, Take-Two Interactive 1.78%, IHS Markit 1.78%, Bandwidth 1.77%, IAA 1.74%, Global Payments 1.71%, Upwork 1.71%, Expedia 1.70%, MSCI 1.65%. 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. A basis point 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 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 Value Index is based on the Russell 3000 Index, of companies with lower price-to-book ratios and lower expected growth rates which measures how U.S. stocks in the equity value segment perform. 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 Russell Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Russell 1000 Index is a subset of the Russell 3000 Index and measures the performance of the 1,000 largest publicly-held companies incorporated in the U.S. based on market capitalization. The Morningstar U.S. Mid Growth Index measures the performance of U.S. mid-cap stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. One cannot invest directly in an index. 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.

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.

