Buffalo Discovery Fund

QUARTERLY COMMENTARY

March 31, 2022

Capital Market Overview

The equity market, as measured by the S&P 500 Index, suffered its second quarterly decline since the onset of the COVID-19 pandemic, over two years ago, producing a return of -4.60% during the January–March period. Weak capital market performance can be largely attributed to the Federal Reserve's decision to raise interest rates and reduce the size of its balance sheet, also known as quantitative tightening. Other headwinds, including the war in Ukraine, significant inflation, and persistent supply chain bottlenecks, only added to the backdrop of uncertainty for domestic and global markets.

The broad-based Russell 3000 Index fell -5.28% in the quarter. Value stocks outperformed growth stocks by a large amount, as the Russell 3000 Value Index returned -0.85% compared to a decline of -9.25% for the Russell 3000 Growth Index. Large cap stocks fell less than smaller cap stocks during the quarter, as the Russell 1000 Index declined -5.13%, followed by a return of -5.68% for the Russell Midcap Index, and -7.53% for the small cap Russell 2000 Index. Energy stocks surged during the period on rising oil prices while the more defensive Utilities and Telecommunication Services sectors were also modestly positive. The Consumer Discretionary and Technology areas of the market were the largest underperformers due to inflation and rising rates.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) declined 12.42% during the quarter versus a decline of 16.01% for the Morningstar U.S. Mid Growth Index. Outperformance was realized in the Technology, Consumer Discretionary, and Financials sectors, while Health Care was a laggard. For a second consecutive quarter, the Fund benefited from its relative underweight to high-priced, speculative growth companies. These types of stocks often struggle when interest rates move higher, and during the quarter, the yield of the 10-year U.S. Treasury Bond rose an astounding 80 basis points. Investors are grappling with a number of issues: inflation at a 40-year high, expectations for slower economic growth, and fallout from the war in Ukraine. It remains to be seen whether the Federal Reserve can choke off inflation without sending the economy into a recession. Yet, through all this uncertainty, management of the Buffalo Discovery Fund remains focused on its core mission: to invest in disruptive growth companies that use innovation to create competitive advantage, all while maintaining a consistent discipline around valuation and risk. We believe this is a strategy that has the best probability to deliver attractive risk-adjusted returns over time.

Average Annualized Performance (%)

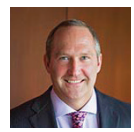
As of 3/31/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	-4.58	13.04	13.34	13.05	11.37	9.88
Institutional Class - *BUITX*[1]	-4.46	13.21	13.51	13.22	11.54	10.04
Russell Midcap Growth Index	-0.89	14.81	15.10	13.52	10.41	9.75
Morningstar U.S. Mid Growth Index	-1.85	16.62	16.79	13.82	10.64	–
Morningstar Mid-Cap Growth Category	-4.00	15.34	14.79	12.63	9.86	7.96

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

Fund Facts

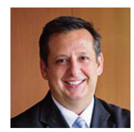
	Investor	*Institutional*
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	$1.46 Billion	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management Team



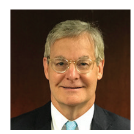
Dave Carlsen, CFA

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

HealthEquity (HQY) was the largest contributor to portfolio results during the quarter. HealthEquity offers a digital platform that allows consumers and employers to manage health savings accounts and other benefits programs, including flexible savings accounts, health reimbursement arrangements, and the administration of COBRA benefits. The company is seeing double-digit growth in accounts and interchange fees behind the tailwinds of an economic recovery and the increased use of tax-advantaged health savings plans. HealthEquity also benefits from rising interest rates, which increase the yield the company is able to generate on customer deposits.

Cleveland Cliffs (CLF) was another strong contributor for the quarter. Cleveland Cliffs is a vertically-integrated U.S. steel manufacturer with innovative products and manufacturing processes. Earnings expectations have steadily increased over the past six months as the company implemented new supply contracts at higher prices. In addition, the stock saw a sharp move to the upside following Russia's invasion of Ukraine. Those two countries have historically supplied approximately two-thirds of the world's pig iron, and Cleveland Cliffs captures the benefit of higher commodity prices through its mining operations.

↓ Top Detractors

Natera (NTRA) was the largest detractor from portfolio results during the quarter. The company's proprietary molecular and bioinformatics technology is currently used for prenatal testing, cancer screening, and assessing rejection risks in organ transplant recipients. Shares moved lower after a short-selling firm published a negative report on the company. The management team hosted a call with investors to rebut the short report, and the company has not changed its expectation for 25% revenue growth in 2022. We have reviewed the short report and believe the selloff is greatly overdone.

Bandwidth (BAND) was also a detractor during the quarter. Bandwidth operates a cloud-based communications platform that allows enterprises to embed voice, video, and messaging features into their existing business software. The company's network was overwhelmed by hackers in a coordinated attack during the fall of 2021. The company also experienced an increase in customer churn due to the attack, and management had been overly optimistic in its initial assessment of when those customers would return.

Outlook

The market's rotation into quality and stability accelerated during the quarter. This move was initially driven by a more hawkish Federal Reserve, but picked up steam following Russia's invasion of Ukraine. Looking ahead, economic growth will almost certainly slow in the coming quarters, yet some of the factors driving inflation remain persistent. Those include tight labor markets, COVID-related supply chains disruptions, bans on Russian commodities, and a shortage of affordable housing. The Federal Reserve (the "Fed") simply does not have the tools to tackle many of these issues. While the rate of inflation could peak in the first half of 2022, it will not be anywhere close to the Fed's official 2% target, in our view. We expect the Fed's tightening cycle to last. Against that backdrop, we continue to focus on companies with scale advantages and pricing power, as they are best positioned to maintain profit margins, reinvest in their businesses, grow earnings, and take market share.

Buffalo Discovery Fund

QUARTERLY
COMMENTARY

March 31, 2022

Sentiment around equities has clearly become more pessimistic since the Fed made its “hawkish pivot” in mid-December, but these types of markets often create opportunities for long-term investors. The positive news is that consumer and corporate balance sheets are in excellent shape, unemployment is back to pre-pandemic levels, COVID vaccines are widely available, and the labor participation rate is showing sequential improvement. Valuations for growth stocks have become somewhat less frothy, as well. Many of 2021’s high-flying, speculative growth stocks have fallen 50% or more over the past six months. To the extent we can find innovative, well-managed companies with durable competitive advantages that we believe will evolve into profitable industry leaders, we will certainly look to take advantage of the recent sell-off. 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:

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. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible.

As of 12/31/21 the Buffalo Discovery Fund top 10 equity holdings were IHS Markit 2.41%, MSCI 2.31%, Tenable Holdings 2.25%, Builders FirstSource 2.04%, AMETEK 1.92%, Martin Marietta Materials 1.89%, Keysight Technologies 1.87%, Avantor 1.83%, Copart 1.82%, ICON 1.82%. 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 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 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 Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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 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. A basis point is one hundredth of a percentage point (0.01%). Yield is the income return on an investment. Refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment’s cost, its current market value or its face value.

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.