Buffalo Discovery Fund

QUARTERLY COMMENTARY

March 31, 2023

Capital Market Overview

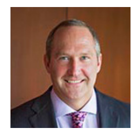
Capital markets moved higher in the first quarter of 2023 as the S&P 500 Index gained 7.50% and the Bloomberg Aggregate Bond Index advanced 3.0%. Big swings in expectations for the Federal Reserve's monetary policy drove market volatility during the period. Initially investors were concerned with data showing stubbornly high inflation and the prospect of additional interest rate hikes. However, during the final days of the quarter bank failures from Silicon Valley Bank, Signature Bank, and Credit Suisse, dramatically changed market expectations towards monetary policy and the impact that a banking crisis could have on the broader economy. As a result, shorter term Treasury yields fell, and large cap growth stocks rallied in a flight to quality. The view was that growth companies would be the biggest beneficiaries of lower rates, a reversal of the headwinds faced throughout 2022. Technology stocks were by far the leading contributors to broad market performance during the quarter while value stocks and dividend payers lagged. Excluding the technology sector, the S&P 500 Index return would have only been 2.70% during the period.

Recapping quarterly results, the broad-based Russell 3000 Index advanced 7.18%. Growth stocks significantly outperformed value stocks to start out the year, as the Russell 3000 Value Index returned just 0.91% versus a return of 13.85% for the Russell 3000 Growth Index. Relative performance improved going up in market capitalization (size) as large caps advanced more than small caps in the quarter. Larger cap stocks returned 7.46%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 2.74%, while the Russell Microcap Index returned -2.83% in the quarter.

Fund Facts

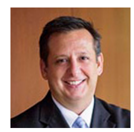
	Investor	*Institutional*
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.00%	0.86%
Fund Assets:	$910.40 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

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

Performance Commentary

The Buffalo Discovery Fund gained 10.36% for the quarter versus an increase of 9.14% for the Russell Midcap Growth Index. Outperformance in the Consumer, Energy and Financials sectors was partly offset by modest underperformance in Communication Services. The 10-year Treasury yield declined for the first time in more than a year as tighter credit conditions, moderating inflationary pressures, and slower consumer spending growth all suggest the Fed tightening cycle could be nearing its end. This backdrop of declining interest rates and expectations of slower economic expansion led to outperformance from growth stocks and rate-sensitive consumer cyclicals.

The Discovery Fund's exposure to quality growth stocks was clearly beneficial in the first quarter of 2023. That was a welcome change from 2022, when the sharpest rise in interest rates in decades led to substantial underperformance for growth stocks and a rotation into defensive sectors such as energy, utilities, and consumer staples.

Average Annualized Performance (%)

As of 3/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	-10.12	12.83	7.45	10.94	11.41	8.88
Institutional Class - *BUITX*[1]	-9.94	13.01	7.62	11.11	11.58	9.04
Russell Midcap Growth Index	-8.52	15.20	9.07	11.17	10.10	8.84
Morningstar U.S. Mid Growth Index	-11.66	14.53	9.70	11.22	9.80	–
Morningstar Mid-Cap Growth Category	-11.88	14.81	7.72	9.64	8.45	6.97

[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.

We clearly expect the Fed to remain vigilant on inflation and are cognizant of the well-telegraphed recession that could be in front of us, but are also optimistic the market has taken much of its needed medicine and that companies gaining market share through disruptive innovation and durable competitive advantage will continue to outperform as the macro backdrop stabilizes.

↑ Top Contributors

National Instruments Corporation (NATI) was the largest contributor to performance during the quarter. National Instruments is a leader in software-enabled testing and measurement systems used in engineering applications. Acquisition rumors led to a 38% increase in the share price during the first quarter, and management subsequently announced that it would be acquired by Emerson Electric.

Universal Display Corporation (OLED) was another top contributor for the quarter. Universal Display is a leader in the development and commercialization of organic light-emitting diode technologies used in display and solid-state lighting applications. 2022 was a challenging year for the industry due to weakness in TV and smartphone sales, but investors are increasingly confident the display market is nearing a bottom. Manufacturers are beginning to add capacity as Universal Display gains share in products such as laptops and monitors, and phosphorescent blue diodes—a product in development for many years—are finally coming to market. We believe these events should reaccelerate growth for the company as the year unfolds.

↓ Top Detractors

Calix Inc. (CALX) was the top detractor for the quarter. The company is a leading supplier of cloud services and software solutions to telecom networks and broadband service providers. Fundamentals have been healthy with both revenue and earnings consistently beating expectations, but investors have become more cautious on the spending environment for telecom equipment given persistent demand weakness at industry bellwethers AT&T and Verizon. We reduced our position in late-2022 when the stock was approaching all-time highs but continue to believe this is a well-run business with meaningful growth opportunities in cloud services.

Azenta (AZTA) was also a detractor during the quarter. Following the sale of its semiconductor business, Azenta is now a pure-play life sciences company with a cash-rich balance sheet. Investors reacted negatively to 2023 guidance that projected a slower pace of margin expansion due to investments in their global sales infrastructure. Headwinds from currency, China lockdowns, and declining COVID-related revenues have also weighed on recent results. However, the long-term trend towards cell and gene therapy and biologics has not slowed. These new drugs require a materially different infrastructure for storage and shipping of biological materials, and AZTA has carved out a clinical research niche by offering both cold storage repositories for tissue samples and genomic analysis services to leading biopharma companies.

Outlook

We are anticipating a period of slower economic expansion in 2023 – and possibly recession – driven by higher interest rates and decelerating growth in both jobs and wages. However, when major companies such as Home Depot include recession scenarios in their forward guidance, we have to believe this negative outcome is largely anticipated by investors. We look for the Federal Reserve to keep interest rates elevated given tight labor markets and accelerating economic growth in China as that country reopens following a late 2022 COVID surge. The Fed's aggressive tightening policy appears to be working, though, and inflation is steadily drifting lower.

It can seem counterintuitive, but periods of weaker economic expansion are often great times to invest in innovative growth stocks. Valuations are more reasonable, companies tend to get smarter on expenses, modest increases in revenue can still drive expense leverage and outsized relative earnings growth, and these periods typically end with the Federal Reserve cutting interest rates to reaccelerate the economy, and that is good for growth stock valuation multiples. Investors certainly digested a lot of bad news in 2022: the launch of a war in Ukraine, decades-high inflation, the lapping of more than $1 trillion of stimulus payments, a strong U.S. dollar, and ongoing supply chain disruption. Putting these headwinds in the rear-view mirror ultimately creates a much more favorable outlook for long-term equity investors.

Our strategy is to take a long-term, risk-aware view and build positions in innovation-focused growth companies at attractive prices. Our investment time horizon is a competitive advantage, and we remain focused on dominant franchises with strong balance sheets and scalable business models. We believe this should lead to the compounding of attractive returns over time. 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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As of 12/31/22 the Buffalo Discovery Fund top 10 equity holdings were Calix 2.47%, MSCI 2.46%, CoStar Group 2.27%, Copart 2.11%, Natera 1.87%, AMETEK 1.85%, Schlumberger 1.83%, Azenta 1.77%, Aptiv 1.76%, Boston Scientific 1.76%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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 Nasdaq Composite Index is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. 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 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 Russel Microcap Index is a n unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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. A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. 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.