Buffalo Discovery Fund

QUARTERLY
COMMENTARY

June 30, 2020

Capital Market Overview

Equity markets rebounded sharply in the 2nd quarter following steep losses in the previous period. The S&P 500 Index produced a return of 20.54%, marking the best quarterly performance results in 20 years. Stimulus efforts by the Federal Reserve (the "Fed") and the U.S. Treasury Department to limit COVID-related economic damage helped equity markets find a floor in late March. Declining COVID-19 case counts, optimism about treatment and potential vaccines, along with better-than-expected economic data also contributed to improved investor sentiment during the period. Although confirmed virus cases began spiking again in the final days of June, it was not enough to undo the best quarterly market results since the dot-com boom.

The broad market Russell 3000 Index advanced 22.03% in the quarter, and Growth outperformed Value as the Russell 3000 Growth Index moved up 27.99% during the period, compared to the Russell 3000 Value Index's advance of 14.55%. Relative performance was inversely-correlated by market cap as the Russell Micro Cap Index advanced 30.54%, well above the large cap Russell 1000 Index's return of 21.82%. Meanwhile the small cap Russell 2000 Index and the Russell Mid Cap Index were up 25.42% and 24.61%, respectively. The best performing sectors were Technology, Consumer Discretionary, and Energy while the less cyclically exposed, more defensive areas like Utilities, Telecommunication, and Consumer Staples lagged in the quarter.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) rose 23.84% for the quarter but underperformed the Morningstar U.S. Mid Growth Index's return of 34.66%. Index results were largely driven by Technology stocks, as the sector meaningfully outperformed all other benchmark sectors and drove almost half of the Index's return, and represented a third of the Index's weight. The Healthcare and Consumer Discretionary sectors also rebounded strongly, posting greater than 30% returns.

Some of the Fund's relative underperformance during the period is explained by the 1st quarter's outperformance, as the Fund's holdings declined less than the Index and therefore experienced less of a rebound during the 2nd quarter. Furthermore, it was difficult to keep pace with the Index in the Technology sector as it was largely driven by meaningful appreciation of already expensive high growth software stocks, many of which do not meet our valuation parameters. While we did have some high growth software stocks in the portfolio, we did not have enough of them to maintain pace with the Index. The Fund also underperformed in Healthcare mainly due to an underweight in biotechnology and a decline in eHealth, as explained below.

Average Annualized Performance (%)

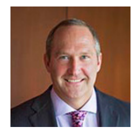
As of 6/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	5.25	11.34	9.84	14.74	11.33	9.37
Institutional Class - *BUITX*[1]	5.41	11.50	10.01	14.92	11.50	9.53
Morningstar U.S. Mid Growth Index	17.32	17.81	12.98	15.45	10.89	8.77
Morningstar Mid-Cap Growth Category	9.65	12.58	9.92	13.57	9.51	7.15

[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:	1.02%	0.87%
Fund Assets:	$1.56 Billion	
Category:	Mid Cap Growth	
Benchmark:	Morningstar U.S. Mid Growth Index	

Management Team



Dave Carlsen, CFA

Co-Manager since 2004
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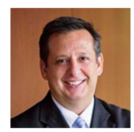

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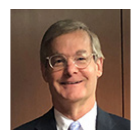

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BUFFALO FUNDS

↑ Top Contributors

Etsy was the best performing position during the quarter, with a gain of almost 200%. With the spread of COVID-19, the shift to e-commerce is clearly a trend that has witnessed increased momentum, and Etsy, as a leading online arts and crafts marketplace, benefited disproportionally. The company did an excellent job during the pandemic of driving new customers to the platform and becoming the "go to" site for handmade masks and Personal Protective Equipment (PPE) for consumers.

As discussed above, high growth software stocks led the market in the 2nd quarter. For example, **Twilio** was a top performer for the Fund in the period gaining just over 140%. Despite having some exposure to weaker industries like travel, which concerned some investors early in the quarter, Twilio's communication volumes have been excellent during the pandemic, led by messaging and video. The company remains the leader in Communications Platform as a Service (CPaaS), which we believe, is still in the early stages of growth.

↓ Top Detractors

eHealth was the largest underperformer for the portfolio in the period. Investors grew concerned about the company's increase in churn rates and the effect on the lifetime value of customer contracts, which ultimately impact the company's revenues. We believe eHealth will likely show better than expected revenue growth in the near term and the increased churn will moderate over time. Additionally, as more companies in the same industry come public (which is currently happening), investors will better understand eHealth's operating model and take comfort in their operating metrics, potentially improving the stock's valuation multiple.

Outlook

The 1st half of 2020 has been an extremely volatile period for the market, and given the market's quick rebound despite a slower economy and continued COVID-19 concerns, heightened volatility may remain the norm for the rest of the year. In the near term, investors will likely continue to focus on the trajectory of COVID-19 cases, the progression of additional treatments and vaccines, and ongoing company commentary on business trends. While COVID-19 cases have increased in some highly populated states like California, Florida and Texas, which will restrain economic growth, we believe there will be a meaningful amount of data on vaccine and treatment options over the next few months that could be quite positive for those willing to look beyond near term case numbers. Furthermore, fiscal and monetary policy remain extremely accommodative and will likely remain so at least through the next Presidential election. While the election remains a wildcard, the market has taken Biden's early lead in stride, contrary to prevailing wisdom that the market would suffer if Biden was elected. However, it is uncertain as to whether the market has fully vetted many of Biden's policy positions, and the election is still four months away with plenty of time for lead changes to occur.

Due to a reduction in growth opportunities given a weaker economy, we are mindful that investors may have bid up certain high growth stocks to unsustainable valuations, and we continue to focus on the downside risk relative to upside opportunity for stocks in the portfolio. The disparity in returns between growth and value has been extreme this year, and at some point, there could be a meaningful reversion to the mean, likely triggered by successful clinical results from a potential vaccine. This rotation can sometimes be painful for growth investors as there will likely be selling of growth stocks to fund value stocks with higher operating leverage. However, our process remains the same regardless of the whims of the market: we continue to invest in innovative companies benefiting from long term trends, and, in our opinion, are trading at attractive valuations.

Lastly, the portfolio has experienced increased turnover this year due to the increased market volatility, positioning around COVID-19, and the addition of two new portfolio managers to the management team. Throughout the 2nd quarter, we have been adding new ideas into the portfolio while exiting positions with limited upside or unfavorable fundamentals. In the short term, this has increased the number of stocks in the portfolio to 96. We will look to reduce this number over time as we continue to add to positions with higher conviction while selling those with less upside opportunity. We remain thankful for your continued confidence in the Buffalo Discovery Fund and remain committed to providing superior long-term investment results for you, our shareholders.

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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