Buffalo Discovery Fund

QUARTERLY COMMENTARY

June 30, 2021

Capital Market Overview

Equity markets moved higher for the fifth consecutive quarter, as the S&P 500 Index returned 8.55%, raising the year-to-date return to 15.25%. The COVID-19 vaccine rollout has helped fuel an economic comeback while corporate earnings are improving. The vaccine adoption around the world is encouraging, and over 50% of the U.S. population is now vaccinated. Capital markets continued to be supported by significant spending from Congress and aggressive monetary policy from the Federal Reserve (the Fed). The 2nd quarter was marked by outperformance of growth stocks, overcoming investor concerns of rising inflation and potential interest rate hikes in the prior quarter. Hawkish comments from the Fed replaced inflation worries with concerns about the magnitude and duration of the economic recovery. Long duration growth companies were beneficiaries as yields on the 10-Year and 30-Year Treasuries declined during the period after climbing for the previous four months.

The broad market Russell 3000 Index advanced 8.24% in the quarter. Growth stocks outperformed Value stocks, as the Russell 3000 Growth Index surged 11.38% compared to the Russell 3000 Value Index gain of 5.16%. Relative performance was correlated with market cap size in the quarter, as the large cap Russell 1000 Index returned 8.54%, the Russell Midcap Index advanced 7.50%, the small cap Russell 2000 Index returned 4.29%, and the Russell Microcap Index finished 4.14% higher.

All economic sectors produced positive returns during the period with the exception of Telecom Services. Real Estate, Information Technology, and Energy led the advance followed by Financials and Health Care. More defensive areas, such as Telecom Services, Utilities, and Consumer Staples, trailed on a relative basis.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) gained 5.49% during the quarter versus the Morningstar U.S. Mid Growth Index gain of 11.33%. The Fund was not as aggressively positioned in the high-multiple, more speculative oriented cohort of stocks within the Information Technology, Consumer Discretionary, and Health Care sectors. This cohort, initially under pressure due to high valuations and broadening growth, dramatically reversed course mid-quarter and surged higher, when an uptick in the Delta variant arose, incrementally more hawkish Fed commentary was given, and the ongoing supply constraints combined to throw cold water on the reopening/recovery trade. The Fund continues to invest in disruptive and innovative growth companies with relatively-attractive valuations, a strategy we believe should be a key driver of above-index risk-adjusted returns over the long term.

Average Annualized Performance (%)

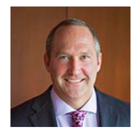
As of 6/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	42.66	19.31	18.86	15.10	13.04	10.81
Institutional Class - *BUITX*[1]	42.88	19.50	19.04	15.27	13.21	10.98
Morningstar U.S. Mid Growth Index	43.24	24.79	22.48	15.33	12.32	10.26
Morningstar Mid-Cap Growth Category	48.17	21.26	20.18	14.07	11.40	9.51

[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

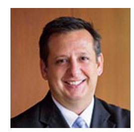
	Investor	Institutional
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$1.81 Billion	
Category:	Mid Cap Growth	
Benchmark:	Morningstar U.S. Mid Growth Index	

Management Team



Dave Carlsen, CFA

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



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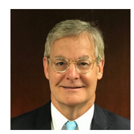

Ken Laudan

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

BUFFALO FUNDS

↑ Top Contributors

Generac was the 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.

MSCI, an index and ETF provider, rallied as strong flows to passive products and its leverage to a rising market and asset-based fees supported continued strong growth prospects. Additionally, prior investments in building out a core competency in Environmental/Social/Governance (ESG) ratings is proving successful, with strong uptake and a bright future for this large new growth segment. Overall, retention rates continue to rebound, providing confidence that COVID-driven cancellations were indeed a one-time occurrence.

↓ Top Detractors

Ligand Pharmaceuticals was one of the biggest detractors during the quarter but the stock was still up over 30% YTD ending June 30, 2021, following its top contributor status in the previous quarter. The pullback followed lower-than-expected sales of Ligand's Captisol product, used in Gilead's antiviral drug for the treatment of COVID-19, as weather effects caused about $12 million of revenue to shift from the 1st quarter 2021 to the 2nd quarter 2021. Lower hospitalization will eventually lead to lower Captisol revenues, but we believe there is additional upside to come from Ligand, as its lead drug discovery platform, OmniAb, continues to see licensees get closer to commercialization, which could generate sustained high margin royalty revenue for Ligand.

Penn National Gaming, Inc. was also a detractor during the quarter following a strong run since the pandemic lows in 2020. Profit taking was driven by fears of peaking growth rates, as we begin to lap the easy comparisons of last year. The company is an owner and manager of gaming and racing properties, sports betting operations, and video gaming terminals, including 41 properties in 19 states. Additionally, the company recently purchased a 36% equity interest in Barstool Sports, Inc., a leading digital sports, entertainment, and media platform that transformed their secular growth opportunity. The combination of the Barstool's audience, brand, and marketing engine along with Penn's large geographic footprint create an unrivaled omni-channel offering that we believe could produce more durable growth than investors currently anticipate.

Outlook

The market environment remains constructive for equity investing. Interest rates and inflation remain relatively low by historical standards, providing a healthy backdrop for corporate earnings growth and investors' allocation to equities. Vaccines are available for those who want them, which is contributing to increased mobility, improved business and consumer confidence, and rapidly-improving economic activity. Supply constraints, labor shortages, shipping bottlenecks, and a slow return to work are causing transitory inflation and holding back the economy in the near-term, but as these things ease, robust corporate earnings growth is poised to follow suit, in our opinion.

As we get deeper into recovery, concerns about high debt levels, rising tax rates, decelerating growth, virus mutations, vaccine hesitancy, and a more hawkish Fed could begin to affect equity valuations. Inflation, and the Fed response to it, will be of vigorous interest throughout the remainder of the year. In its latest public messaging, we think the Fed has already passed the threshold from dovish to hawkish regarding its messaging on inflation. As the drum-beat for Fed tapering grows louder, we think the market could transition incrementally away from speculative and early cycle stocks and rotate increasingly to growth and quality, as tapering begins to reduce liquidity, while peaking growth rates cause investors to be more discerning about cyclically-oriented equities.

We continue to seek opportunities where thoughtful management teams are in a favorable position to use innovation for market advantage, durable growth, and sustained shareholder value creation. We remain ever mindful of valuations, as there are still signs of excess in areas like high growth software. We continue to tighten up the portfolio and focus on our favorite ideas – there are now 79 positions in the Fund, down from 81 in the prior quarter. Finally, we welcomed three new small/mid cap equity analysts to the team, who will help broaden and deepen our research into attractively-priced, financially-strong, well-managed companies which could benefit from innovative strategies and disruptive megatrends, in our opinion. Thank you for 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 3/31/21 the Buffalo Discovery Fund top 10 equity holdings were Expedia 2.24%, Ligand Pharmaceuticals 2.12%, Kansas City Southern 2.07%, Generac Holdings 1.99%, IHS Markit 1.94%, Darden Restaurants 1.88%, Universal Display Corp 1.80%, Upwork 1.77%, Keysight Technologies 1.72%, MasTec 1.69%. 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 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 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 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 Russell Microcap Index measures the performance of 2,000 small cap and micro cap companies. 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.