Buffalo Discovery Fund

QUARTERLY
COMMENTARY

June 30, 2022

Capital Market Overview

The stock market extended year-to-date losses during the 2nd quarter. Inflation, rising interest rates, and economic uncertainty continued to be major headwinds for investors as recession talks gained traction. The S&P 500 Index fell -16.10% during the quarter, bringing the total return for the first half of the year to -19.96%. News headlines, which included energy shortages, the war in Ukraine, China's COVID lockdowns, and the potential for softer corporate earnings next quarter, added to the pessimistic market sentiment. However, the Federal Reserve's hawkish stance on inflation, expectations for additional interest rate increases, and a reduction in the size of its balance sheet, continued to signal confidence in the U.S. economy moving forward.

The broad-based Russell 3000 Index declined -16.70% in the quarter. Value stocks fell less than growth stocks as the Russell 3000 Value Index returned -12.41%, versus a return of -20.83% for the Russell 3000 Growth Index. Relative performance slightly favored market cap size as large caps outperformed small caps in the quarter. Larger cap stocks, as measured by the Russell 1000 Index, returned -16.67% compared to the smaller cap Russell 2000 Index return of -17.20% and the Russell Microcap Index return of -18.96%. There were no advancing economic sectors for the quarter, but Consumer Staples, Energy, Utilities, and Healthcare held up better on a relative basis. Consumer Discretionary, Information Technology and Communication Services areas lagged.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) declined 21.37% for the quarter versus a decline of 21.07% for the Russell Midcap Growth Index. The Fund's outperformance in the Healthcare and Industrials sectors was offset by lack of exposure to the Energy sector and underperformance in Consumer Discretionary. Consumer Discretionary stocks broadly moved lower as investors became increasingly concerned about the prospect of a recession. Ten-year Treasury yields moved up another 65 basis points this quarter, and the combination of rising financing costs and high inflation are beginning to squeeze discretionary spending budgets. Meanwhile, energy stocks were boosted by the prospect of a more prolonged war in Ukraine, rising travel demand, and realization that reductions to domestic refining capacity that took place during the pandemic will not be easy to replace. Our focus on innovative growth companies generally keeps us out of cyclical commodity investments such as oil exploration and refining, which contributed to relative underperformance this quarter.

Average Annualized Performance (%)

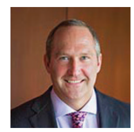
As of 6/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	-28.87	2.22	6.97	10.93	8.97	8.52
Institutional Class - *BUITX*[1]	-28.77	2.37	7.13	11.10	9.13	8.68
Russell Midcap Growth Index	-29.57	4.25	8.88	11.50	8.21	8.41
Morningstar U.S. Mid Growth Index	-30.65	5.24	10.19	11.80	8.29	–
Morningstar Mid-Cap Growth Category	-28.58	5.04	8.69	10.82	7.66	6.70

[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

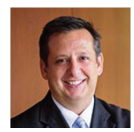
	Investor	*Institutional*
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	$1.07 Billion	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management Team



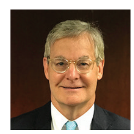
Dave Carlsen, CFA

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.

BUFFALO FUNDS

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To say that markets have been turbulent is an understatement: war, inflation, rising interest rates, supply chain disruption, ongoing COVID lockdowns in China, natural gas shortages in Europe… it has certainly been a challenging environment for investors. We remain focused on our 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. This is a strategy that we believe will deliver attractive risk-adjusted returns over time, and we are encouraged that growth companies are now trading at more appealing valuations.

↑ Top Contributors

agilon health (AGL) was the largest contributor to performance during the quarter. agilon health partners with physician groups to provide data-driven solutions that lead to better health outcomes at lower costs for their Medicare patients. We had fortuitous timing, initiating a position during the 2nd quarter with the stock down more than 50% from its 52-week high. We like that the company has above-average revenue visibility, given the contracted, recession-resistant nature of its business. We also see a substantial opportunity for growth as the healthcare industry moves towards value-based care.

Veeva Systems (VEEV) was another positive contributor for the quarter. The company provides cloud-based software solutions to the life sciences industry, including platforms for the management of drug trials, clinical data, and customer relationships. Veeva was another recent addition to the portfolio, and we initiated a position in this high-quality industry leader after the stock had sold off more than 40% from its recent 52-week high. While overall economic growth is slowing, the fundamentals supporting the pharmaceutical and life sciences industries remain healthy in our view.

↓ Top Detractors

Expedia (EXPE) was the leading detractor to fund performance for the quarter. Expedia is an online travel agency (OTA) with brands that include Expedia, Hotels.com, Vrbo, and Travelocity. There has been a strong recovery in demand for consumer travel coming out of the COVID pandemic, but investors are increasingly concerned that fundamentals have peaked ahead of a potential recession, and that Expedia has ceded some market share in hotels to Booking.com. However, we believe the company is well positioned to benefit from a multi-year recovery in services spending that we expect to play out, and that share loss concerns have been overstated due to the divestment of a subsidiary in Europe. We view the company's current valuation compelling given the recent pullback.

TaskUs (TASK) was also a detractor during the quarter. TaskUs is a Business Process Outsourcing (BPO) company that primarily provides outsourced services to technology companies. The company reported better-than-expected results for the March quarter but failed to raise full-year estimates due to an offshore transition from its largest customer. This lowered revenues in the near term and the stock was punished by the market. However, we believe TaskUs' offering can help companies looking to lower their costs and should eventually garner more attention due to the weaker macroeconomic environment. We believe the stock is undervalued these levels and the company's shares remain in the portfolio.

Outlook

It was another challenging quarter for growth stocks as the market focused on playing defense against a backdrop of high inflation and rising interest rates. The Technology and Consumer Discretionary sectors each declined more than 20%, and there was dramatic outperformance from Consumer Staples, Energy, and Utilities. Unfortunately, we feel there is clearly downside risk to earnings estimates over the next two to three quarters.

Demand for consumer goods has slowed, cost pressures tied to wages and transportation remain elevated, and companies with bloated inventories will need to slow production and take markdowns. All of this will weigh on the minds of companies looking to make decisions around hiring and capital investment.

The good news is that tighter monetary policy is clearly having an impact on demand, and this should ultimately help to tame inflation. Demand for durable goods is normalizing at lower levels, ocean freight prices are falling, oil prices are back to pre-war levels, and growth in home price appreciation has slowed. A tech industry that saw equity valuations explode during the pandemic is now announcing layoffs. This is painful medicine in the short term, but something that needs to occur to bring down inflation and set the stage for a return to healthy, sustainable economic growth. Investor expectations have clearly moved lower, and a higher likelihood of recession is increasingly factored into stock prices. 80% of NYSE-listed stocks are now down at least 20% over the past eight months, a phenomenon typically seen ahead of recessions. We still believe a deep recession is unlikely given strong consumer and corporate balance sheets, as well as a strong labor market.

It will take time for these deflationary factors to flow through to consumer prices, but we believe the slowdown will allow the Federal Reserve to ease its tightening campaign later this year. If that scenario plays out, it should be good for equity valuations, and the pullback in stocks has given long-term investors an opportunity to buy great growth companies at reasonable prices. We are increasingly finding innovative, well-managed companies with durable competitive advantages trading at attractive valuations and believe investments we are making in today's turbulent market will generate healthy multi-year returns. As always, 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. 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.

As of 3/31/22 the Buffalo Discovery Fund top 10 equity holdings were MSCI 2.28%, Tenable Holdings 2.11%, S&P Global 2.10%, AMETEK 1.84%, Martin Marietta Materials 1.81%, MGM Resorts Intl 1.79%, MasTec 1.79%, HealthEquity 1.76%, Generac Holdings 1.75%, Horizon Therapeutics 1.72%. 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 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.

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.