

Capital Market Overview

After shrugging off volatility in November, equity markets finished the quarter significantly higher, as the S&P 500 Index returned 11.03%, adding to the market's 2021 calendar year return of 28.71%. Global growth pushed ahead in the face of threats from the spread of a new COVID variant, while persistent inflation and increasingly hawkish commentary from the Federal Reserve (the "Fed") drove interest rates higher during the period.

The Russell 3000 Index advanced 9.28% in the final quarter of 2021. Among larger cap stocks, Growth outperformed Value stocks as the Russell 3000 Growth Index returned 10.89% versus a gain of 7.54% for the Russell 3000 Value Index. Interestingly, however, this was not the case for mid cap or small cap stocks where Growth underperformed Value significantly. Relative performance was correlated with market cap size as large caps outperformed small caps in the quarter. The large cap Russell 1000 Index returned 9.78% compared to the Russell Midcap Index return of 6.44% and then just 2.14% for the smaller market cap Russell 2000 Index. The smallest market cap companies that comprise the Russell Microcap Index declined -2.66% in the period. Real Estate, Materials, Consumer Staples, and Technology were the top performing sectors for the quarter while Telecom, Financials, and Consumer Discretionary lagged.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) gained 3.93% during the quarter versus a 4.76% gain for the Morningstar U.S. Mid Growth Index. The Fund saw outperformance in the Industrials and Consumer Staples sectors but lagged in Financials and Consumer Discretionary. The Financials sector experienced double-digit benchmark returns during the quarter as investors sought out cyclicals with interest rate sensitivity. This is an area where we have historically had limited exposure given our focus on innovative growth companies. On the other hand, the Fund benefited from its relative underweight of richly-priced, speculative growth stocks. That segment of the market underperformed as investors began to anticipate higher interest rates against a backdrop of healthy consumer balance sheets and persistent inflation, the latter driven by strong demand for goods and services, tight labor markets, and ongoing supply chain disruption. The Fed is signaling that it is just beginning to unwind years of quantitative easing that pushed down long-term interest rates and drove equity valuations to historically high levels. Going forward, the Fund remains focused on investing in disruptive and innovative growth companies, but with a consistent discipline around valuation and risk. We believe this strategy will drive attractive risk-adjusted returns over the long term.

Average Annualized Performance (%)

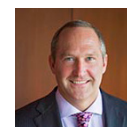
As of 12/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFTX	11.90	25.38	18.24	16.65	12.56	10.71
Institutional Class - BUITX ¹	12.07	25.57	18.41	16.83	12.73	11.19
Morningstar U.S. Mid Growth Index	14.97	31.72	22.70	17.49	12.32	10.25
Morningstar Mid-Cap Growth Category	13.05	27.47	19.37	15.66	11.13	8.75

¹For 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:	\$1.76 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



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

Builders FirstSource (BLDR) was the largest contributor during the quarter, with a 65% gain. Fundamentals for the housing industry remain strong, with demand exceeding supply and home values rising. During the quarter, management announced an accretive acquisition (a \$1 billion share repurchase plan) and laid out bullish long-term sales and margin targets at its Investor Day presentation. Builders FirstSource is a unique company, which has been gaining market share in a growing industry with unmatched local scale and product development capabilities that are difficult to replicate.

Arista Networks (ANET) was another strong contributor during the quarter, with the shares climbing 67%. Arista is a leading supplier of switching and routing platforms, and the company raised its earnings expectations for the year against a backdrop of strong demand from its cloud and data center customers. The company has benefited from a strong capital expenditures (CapEx) cycle, but is also gaining share as it pushes into new markets.

↓ Top Detractors

HealthEquity (HQY) was the largest detractor during the quarter, with shares declining 32%. HealthEquity provides 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. While the company saw double-digit account growth, the upside was offset by weakness in COBRA benefits (a function of strong job growth) as well as weaker interchange revenue and a slower-than-expected return of their commuter business due to COVID. We believe yield has likely bottomed, as interest rates will likely rise in 2022 and the company should see a reduced negative impact from COVID going forward.

Penn National Gaming (PENN) was also a detractor during the quarter. The company's 3rd quarter was pressured by the Delta variant and hurricanes, as well as increased investments in their digital offering for online sports betting and gaming. Valuation multiples on sports betting operations have also compressed because of the challenging competitive environment. However, we remain positive on the long-term outlook for the company, which generates substantial free cash flow and has substantial growth opportunities in its online gaming platform and early stage media opportunities in Barstool Sports and theScore in Canada. The combination of PENN's large geographic footprint and these sports brands creates an unrivaled omni-channel offering with compelling customer economics that we believe could produce more durable growth than investors currently anticipate.

Outlook

The Fed made a hawkish pivot in mid-December with Chairman Jerome Powell highlighting the underlying strength of the U.S. economy and noting that inflation was running hotter than previously anticipated. The market is now expecting a series of interest rate hikes this year and ultimately a reduction in the size of the Fed's balance sheet. These moves have the potential to increase both short- and long-term interest rates, and this has negatively-impacted equity valuations as of late, particularly in the more speculative areas of the market. The rotation to quality and stability is well underway. Formerly hot initial public offerings (IPOs) have deflated, demand for blank-check companies has dried up, and 40% of NASDAQ listings have now declined more than 50% from their 52-week highs. Frothy valuations can still be found in places like software, biotech, and e-commerce, but investors are moving quickly to discount a more hawkish Fed.

Fortunately, consumer balance sheets are in excellent shape and corporate balance sheet leverage is approaching a seven-year low. Unemployment is back to pre-pandemic levels, wages are rising, and vaccines are available for those who want them. We are anticipating another year of healthy earnings growth, particularly for companies with scale advantages and pricing power. These advantages will be necessary to navigate through a period of persistent supply chain bottlenecks, tight labor markets, and rising input costs. We believe focusing on quality companies at reasonable valuations remains critically important as we move later into the economic recovery, and we will continue to invest behind thoughtful management teams that use innovation to drive market advantage, durable growth, and sustained shareholder value creation. 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 9/30/21 the Buffalo Discovery Fund top 10 equity holdings were IHS Markit 2.34%, MSCI 2.27%, Generac Holdings 1.97%, Expedia Group 1.93%, Tenable Holdings 1.87%, Natera 1.81%, Keysight Technologies 1.78%, Avantor 1.76%, Verisk Analytics 1.72%, ICON 1.70%. 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 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. 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.

