Buffalo Early Stage Growth Fund

QUARTERLY COMMENTARY

December 31, 2021

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 Early Stage Growth Fund (BUFOX) generated a return of -2.70% for the quarter, trailing the Morningstar U.S. Small Growth Index return of -0.65%. On a calendar year 2021 basis, the Fund returned 7.79%, a result that compared favorably to the primary benchmark return of -1.00%.

The broader equity markets have more recently experienced declines due to increased expectations that the Fed will reverse its monetary policy in the coming quarters in order to stem rising inflation. The related change in interest rates has led to an increase in equity risk premiums and discount rates, and, as a result, many small cap growth stocks have already seen meaningful pullbacks. Small cap growth stocks began weakening in early November 2021, ending the quarter 11-12% below November highs. As of the time of this writing in mid-January, small cap growth stocks as measured by the Russell 2000 Growth Index now sit 20% below their 52 week high. This does not tell the entire story as it is not uncommon to see securities that have sold off 50% or more from their previous highs. The market, despite the recent surge in SARS-CoV-2 cases tied to the Omicron variant, has become less concerned with the virus and reopening, shifting its focus towards inflation, interest rates, and, most importantly, the Fed's response.

The Fund's underperformance in the quarter was tied to laggards in the Consumer and Financials sectors. The Industrials sector was a strong performer for the Fund in the quarter.

Average Annualized Performance (%)

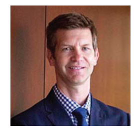
As of 12/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFOX*	7.79	28.74	21.12	17.18	10.58	10.95
Institutional Class - *BUIOX*[1]	7.94	28.93	21.30	17.35	10.75	11.11
Morningstar U.S. Small Growth Index	-1.00	21.93	16.18	14.44	10.45	10.57

[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.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.51%	1.36%
Fund Assets:	$132.43 Million	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

Management Team



Craig Richard, CFA

Co-Manager since 2013
M.B.A. – Univ. of Kansas
B.S. – Kansas State Univ.

Doug Cartwright, CFA

Co-Manager since 2015
M.B.A. – Univ. of WI-Madison
B.S. – Baylor University

BUFFALO FUNDS

The two largest detractors in the quarter were Paya Holdings and Open Lending. Paya is a payments processor that has a focus on processing debit/credit card transactions for government agencies, utilities, non-profits, healthcare, and business to business payments. While Paya has likely grown a bit slower in 2021 than they would have hoped, the company has still been able to hit their initial guidance heading into the year, despite ongoing sales disruptions tied to the pandemic, along with challenges in its healthcare vertical with elective procedures under pressure (due to the Delta variant). Paya has also been hit by the general weakness in payment related names for much of 2021, as the universe saw valuation multiples contract significantly. In Paya's case, forward EBITDA multiples collapsed from the high teens to 11-12 times. We continue to expect consistent execution from Paya and would expect valuation multiples to have limited downside from current levels.

Open Lending makes the list for a second consecutive quarter as a leading detractor for the Fund. As a reminder, the company provides real-time decision automation tools for auto lenders to near-prime consumers. First, the good news: Open Lending has two new car manufacturers, and their captive finance units have an active pipeline of three additional major auto manufacturers. These large finance departments will use the Open Lending platform for both new and used car financing through their domestic dealerships. However, the stock has performed poorly over the past several months as used car prices have risen dramatically. Limited inventory has pushed away the near prime buyer who can't pay high prices because of credit or choose not to pay high prices combined with a general lack of availability. This has obviously pressured Open Lending's loan growth, which is further compounded by previous quarter delays in bringing on additional car manufacturers and their finance units to the platform. Auto manufacturers have been more focused on building higher margin (and higher priced) trucks and SUVs due to limited semiconductor availability rather than more modest priced vehicles that near-prime consumers can qualify for. Thus, the car manufacturers currently evaluating Open Lending's platform have been more focused on addressing supply chain and manufacturing challenges than improving lending capabilities to near-prime consumers at this time. We continue to favor the company longer term given a long runway for potential growth, as Open Lending currently processes less than 2% of the over 10 million car loans made annually to the near prime consumer group. We believe new car volumes and used car prices should begin to normalize in 2022.

The Fund ended the quarter with 68 holdings.

Outlook

The market now believes that the Federal Reserve will raise rates and apply the brakes to inflation and economic growth. The broader market is struggling to digest this after a decade of easy monetary policy.

In the small cap growth universe, we have already seen some drastic price declines as we highlighted earlier. We are cognizant of the impact of rising rates, the lack of fiscal stimulus, and declines in valuation multiples. However, we still believe that record strength in personal balance sheets and a strong economy provide a positive backdrop for many companies across multiple sectors and industries. These pullbacks should provide us with opportunities to invest in companies that have attractive business models but have been too richly valued in the past.

Regardless of the macroeconomic headwinds we face, our job remains to find attractive small cap companies that have not been fully appreciated by the market or are mispriced due to recent results or events. We believe less investor interest in our segment of the market creates opportunity for us to uncover value.

The Fund typically invests at the smaller end of the small cap growth spectrum, and the managers continue to seek companies with sustainable growth due to secular growth trends or innovative or disruptive products.

The Buffalo Early Stage Growth Fund is focused primarily on identifying innovation within U.S. companies with primarily North American revenue bases. With an active share of greater than 90% and a lower turnover strategy with 50-70 holdings, the Fund will continue to offer a distinct offering from the Index and category peers.

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