Buffalo Small Cap 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

Small Cap Growth continued to lag the overall market during the quarter as the omicron variant of COVID-19 continued to weigh on investor sentiment, with the market recovering slightly towards the end of the quarter. Gross Domestic Product (GDP) expectations for 2021 and 2022 continued to decline due to the lingering effects of the pandemic and a disrupted supply chain. Small Cap Growth was once again the weakest part of the market, ending the year basically unchanged.

There was a meaningful disparity in sector returns in the index this quarter as growth sectors like Technology and Healthcare declined while more cyclical areas like Industrials, Materials, and Financials advanced.

The Buffalo Small Cap Fund declined -3.28% for the quarter, underperforming the Morningstar U.S. Small Growth Index's return of -0.65%. Overall, we believe the Fund's underperformance was largely due to being too growth focused, maintaining a smaller market cap profile, and being poorly positioned for a resurgence in COVID.

Average Annualized Performance (%)

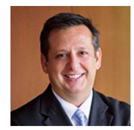
As of 12/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFSX*	4.85	34.97	24.10	17.05	11.56	13.80
Institutional Class - *BUISX*[1]	4.97	35.16	24.28	17.22	11.72	13.65
Morningstar U.S. Small Growth Index	-1.00	21.93	16.18	14.44	10.45	7.32
Lipper Small Cap Growth Fund Index	11.22	25.91	19.06	15.51	10.51	8.57

[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

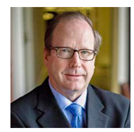
	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	$1.16 Billion	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

Management Team



Jamie Cuellar, CFA

Co-Manager since 2015
M.B.A. – Southern Methodist
B.B.A. – Univ. of San Diego



Bob Male, CFA

Manager since Inception
M.B.A. – Southern Methodist
B.S. – University of Kansas

The Fund outperformed in Technology as it avoided a meaningful decline in overvalued software companies that corrected on signs of interest rate increases. However, the Fund experienced relative weakness in Financials, Consumer Discretionary, and Healthcare sectors. Financials underperformed due to weakness from fintech names like Open Lending, Paya, and HealthEquity. These stocks struggled due to softer volumes and/or pricing disruptions caused by a delayed reopening from COVID. Consumer Discretionary was impacted by a fundamental disappointment in Genius Sports described below, as well as disappointing returns in the leisure space, as gaming stocks languished when the omicron variant appeared. While Healthcare had good relative performance in pharma and biotech, returns lagged due to weakness in diagnostics and med tech, due largely to utilization concerns from COVID and provider staffing worries.

↑ Top Contributors

MaxLinear (MXL) was the largest positive contributor during the quarter. A provider of communications semiconductors, MaxLinear continued to enjoy market share gains while also operating in the sweet spot of their cycle, as demand for communications semiconductors continued to outstrip supply. The company has shown impressive operating margin expansion this year, as operating margins have expanded over nine (9) percentage points this year to almost 27%.

↓ Top Detractors

Genius Sports (GENI) was the largest detractor from performance for the quarter. In what should be a duopoly between Genius and Sportradar Group of providing real time sports data as well as marketing services to the high growth sports betting industry, Genius and Sportradar have behaved somewhat irrationally. The companies have bid up the costs of exclusive rights to provide this data to their customers to levels where they are unlikely to get an adequate return, hoping to instead also provide marketing services, which is a more competitive and lower multiple business. Furthermore, the company dramatically reduced their expected operating leverage in 2022, opting to operate at cash flow break even instead of letting margins expand. Since our original investment thesis in the company has not played out, we have exited the position.

Castle Biosciences (CSTL) was another meaningful underperformer during the quarter. A high growth oncogenomic diagnostics company specializing in dermatology, Castle's stock suffered as investors grew concerned about the resurgence of COVID and the potential impact of patients reducing physician visits, thereby reducing skin cancer diagnoses and reducing demand for Castle's products. However, we prefer to take the longer-term view and we don't think COVID has cured cancer. There will likely be a resurgence in melanoma diagnoses once patients start returning to normal physician visits, which will ultimately benefit the company. Castle also likely underperformed this year as investors rotated away from companies that are not currently profitable. Castle has recently doubled its sales force, which reduced its profitability in the short-term, but should ultimately accelerate its revenue growth and valuation long-term. This potential acceleration in addition to a couple of reimbursement catalysts and new product introductions in the near-term keep us excited about the future of the company.

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Outlook

The outlook for small caps has improved recently as 2021's underperformance by small cap growth and low sentiment for growth stocks has made valuations in the group fairly attractive. While the omicron variant has increased near term economic uncertainty, so far the variant looks to have mainly mild to moderate symptoms, and its rapid transmission rate will likely make it a relatively short- term phenomenon.

We continue to believe that we are likely at the peak of supply chain issues, and most companies should start to see conditions ease in the second half of 2022, which would create a nice revenue growth and margin expansion opportunity in 2023, as supplies improve and cost pressures ease. An easing supply chain could also potentially reduce the concern that investors currently have over increased inflation, and stocks could potentially move in anticipation of these benefits.

The specter of higher interest rates remains a headwind for long duration, high growth equities, and we continue to pay close attention to valuations. A Federal Reserve slip-up, greater-than-anticipated inflation, and a more dangerous COVID variant remain key risks for the market. We do not believe the Fed will raise interest rates in such a manner as to choke economic growth, and we believe that each successive variant will have increasingly marginal impact to the economy, as COVID moves from pandemic to endemic and as vaccination rates increase and new therapies emerge. Therefore, we remain fairly constructive on the economy, the market, and small cap growth stocks. As always, we will continue to look for companies that could benefit from long-term trends and appreciate your continued interest in the Fund.

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