Buffalo Discovery Fund

QUARTERLY COMMENTARY

March 31, 2024

Capital Markets Review

Equity markets continued to move higher in the first quarter of the year as the S&P 500 Index gained 10.56% and closed at an all-time high. The stock market has been quite strong despite dramatic changes in expectations about the timing and size of interest rate cuts since the start of the year. Back in January the market was expecting an interest rate cut in March and perhaps six cuts in total for 2024. However, because of continuing economic strength and stickier inflation, that outlook has now shifted to a June or July rate cut start and maybe only two or three 0.25% cuts for the year. The yield of the 10-year U.S. Treasury note rose to 4.20% at quarter-end, an increase from 3.88% to start the year. The shift in interest rate expectations weighed on bonds during the period and the Bloomberg Aggregate Bond Index declined 0.80%.

Recapping broad-based index results, the Russell 3000 Index gained 10.02% during the period. Growth stocks outperformed value stocks as the Russell 3000 Growth Index advanced 11.23% compared to a gain of 8.62% for the Russell 3000 Value Index. Relative performance improved going up in market capitalization (size) during the quarter as large caps advanced more than small caps. Larger cap stocks produced a return of 10.30%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 5.18%. The smaller market cap Russell Microcap Index followed with an advance of 4.68% in the quarter.

Performance Commentary

Healthy economic growth drove performance for stocks during the first quarter. The Buffalo Discovery Fund rose 6.29% versus an increase of 9.50% for the Russell Midcap Growth Index. Fund performance lagged in the Financials and Consumer Discretionary sectors, which more than offset outperformance within Healthcare and Communication Services. As an innovation-focused fund, portfolio holdings in the Financials sector are largely in areas such as digital payment technologies, market exchanges, and information services. Those businesses trailed the performance of insurance and private equity, areas where we have limited exposure. Stock selection in Consumer Discretionary was also a drag during the quarter with some portfolio companies calling out weaker consumer spending in early 2024. With economic growth decelerating, investors heavily favored factors like momentum and earnings surprise over quality and valuation. The market's best performance came from fast growing businesses (e.g., cybersecurity, online gambling, artificial intelligence) and industries with relative stability (e.g., digital media subscriptions, insurance, healthcare services, domestic infrastructure spending).

Average Annualized Performance (%)

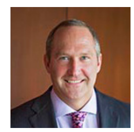
As of 3/31/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	19.72	0.89	9.22	10.07	14.82	9.33
Institutional Class - *BUITX*[1]	19.85	1.03	9.38	10.24	14.99	9.49
Russell Midcap Growth Index	26.28	4.62	11.82	11.35	15.64	9.55
Morningstar Mid-Cap Growth Category	23.04	1.14	10.63	10.12	14.27	7.64

[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:	$834.16 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management



Dave Carlsen, CFA

Manager since 2004
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Top 10 Holdings*

MSCI Inc. Class A	3.12%
IQVIA Holdings Inc	2.68%
Martin Marietta Materials, Inc.	2.25%
DoubleVerify Holdings, Inc.	2.24%
Ingersoll Rand Inc.	2.05%
CoStar Group, Inc.	2.04%
AMETEK, Inc.	2.03%
TransUnion	1.91%
CrowdStrike Holdings, Inc.	1.68%
Copart, Inc.	1.66%
Top 10 Holdings Total	**21.67%**

↑ Top Contributors

Natera (NTRA) was the largest contributor to performance with shares rising 46% during the quarter. Natera conducts medical diagnostic tests using a proprietary cell-free DNA technology. These tests are used in oncology to screen for residual cancer cells in the bloodstream, as well as things like genetic prenatal testing. The company's tests saw solid adoption in the most recent quarter with revenues growing more than 30%. In addition, the company recently secured Medicare coverage for two new cancer indications. All of this is supportive of another year of 30% revenue growth and margin expansion.

Ingersoll Rand (IR) was another contributor to performance with shares climbing 23% during the quarter. Ingersoll Rand is a global manufacturer of compressors, pumps, vacuums, and blowers serving more than a dozen industrial end markets. The company typically has the #1 or #2 market share position in its core categories and acquires adjacent businesses to augment its growth. Earnings estimates moved higher following the release of fourth quarter results, driven by upside from recent acquisitions and margin expansion. The company's outlook for 2024 sales and margins also came in above consensus, and it subsequently announced the acquisition of Dover Corp. Strength in the core business and integration of recent deals should support another year of double-digit earnings growth, in our opinion.

↓ Top Detractors

Calix, Inc. (CALX) was the top detractor during the quarter with shares declining 24%. Calix is a telecom equipment supplier that sells primarily to broadband service providers in small- to medium-sized markets. The company stands to benefit from the federal infrastructure bill, which aims to extend broadband access into rural markets. However, fourth quarter results missed expectations with some key customers delaying purchases as they evaluate these new federal programs and apply for funds. Estimates for 2024 have moved sharply lower, but we believe this is largely a timing issue and that Calix sets up well for a strong recovery once these federal programs are underway.

Aptiv (APTV) was another detractor for the quarter with shares down 11%. Aptiv is a supplier to the automotive industry with products that support electrical architectures, safety/perception systems, mobile connectivity, and in-vehicle software. These are some of the fastest growing segments within the auto industry. However, earnings estimates have been pressured by slowing production growth in Europe and Asia, as well as moderating demand for electric vehicles in North America. This is on top of numerous challenges faced over the past year, including supply chain shortages, raw materials inflation, foreign exchange headwinds, and a UAW strike. Investors have clearly grown weary of bad news, but we see substantial value at current levels. Aptiv continues to win market share, and margins should get a boost from pricing actions and cost reduction. The company has capacity to repurchase $3 billion of stock over the next two years, and it is looking to scale back investment in its money-losing autonomous driving joint venture. With earnings growing at an 18-20% pace over the next few years and returns on capital improving, shares look undervalued for this leader in automotive innovation.

Outlook

The economy has been surprisingly robust, supported by solid job growth and healthy (but decelerating) wage gains. The upside from jobs has surprised investors and runs contrary to leading economic indicators that had suggested slower growth ahead. Elevated levels of immigration, infrastructure spending, investments in A.I., and inventory rebuilding appear to be driving upside versus prior forecasts. This bodes well for economic expansion but lowers the odds of rate cuts and makes it more difficult for the Fed to tame inflation. With consumer spending growth now normalizing in the 3% to 4% range, inflation is a thorny issue. It appears consumers are becoming more selective in their purchases, which was a consistent theme from management teams on recent earnings calls.

In this environment, we remain biased to stable-growth franchises and businesses with secular tailwinds that are taking market share. However, the market seems to want those businesses, too. Growth, momentum, and earnings surprise were among the strongest factors driving performance in the first quarter. Meanwhile, factors such as earnings quality and valuation greatly underperformed. We remain committed to our valuation discipline and do not plan on chasing crowded, expensive stocks. Given the wide valuation gap between secular growth and quality, expect us to selectively add to great companies on weakness and trim stocks that have surpassed our price targets. We recognize these valuation disparities can run further and longer than one initially imagines, so we will move methodically and patiently with a keen focus on company fundamentals and risk mitigation.

We do not have a rising economic tide to lift all boats, but we are still finding high-quality companies benefiting from disruptive innovation and secular tailwinds. Innovative growth businesses with strong balance sheets, scalable business models, and wide competitive moats – whether they manufacture medical devices, cybersecurity software, or innovative consumer products – are likely to outperform in a slower growth environment. This long-term, risk-aware view has served us well and we believe it will lead to a continued compounding of attractive returns over time. 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:

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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 Nasdaq Composite Index is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. 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 Russell Midcap Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The Conference Board Leading Economic Index, Composite Index of Leading Indicators, otherwise known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the direction of global economic movements in future months. 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. A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. The Bloomberg US Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The yield curve is a visual representation of how much it costs to borrow money for different periods of time; it shows interest rates on U.S. Treasury debt at different maturities at a given point in time. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBITDA is one indicator of a company's financial performance and is used as a proxy for a company's current operating profitability. Price-Earnings Ratio or P/E Ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The Magnificent Seven is a term used to describe the technology-oriented, highly influential companies of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 12/31/23. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.