Buffalo Discovery Fund

QUARTERLY
COMMENTARY

June 30, 2024

Capital Markets Review

The broad-based equity market advanced in the second quarter (measured by the S&P 500 Index) as the economy continued to grow moderately while inflation and labor market measures eased enough throughout the period that investors became more confident of interest rate cuts. There have been big changes in expectations about the timing and size of interest rate cuts since the start of the year. In January the market was expecting perhaps as many as six rate cuts for 2024, however, that has now shifted to maybe only one or two cuts for the year, starting in September. As has been the case for some time now, however, there was a size bias in performance results during the quarter, which has particularly benefited a few mega-cap companies associated with artificial intelligence (AI). Large cap stocks continued to outperform small cap stocks and growth companies continued to outperform value companies by a wide margin.

Recapping broad-based index results, the Russell 3000 Index gained 3.22% during the period. The Russell 3000 Growth Index advanced 7.80% compared to a decline of -2.25% for the Russell 3000 Value Index. Larger cap stocks produced a return of 3.57%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index decline of -3.28%. In terms of sector leadership, Technology and Communication Services were the top performers for the quarter while a larger group of companies in the Industrials, Financials, Health Care, Consumer Discretionary, Energy, Materials and Real Estate sectors declined.

Performance Commentary

The Buffalo Discovery Fund declined 5.57% versus a 3.21% decline for the Russell Midcap Growth Index. Fund performance lagged in Industrials, Financials, and Energy, which more than offset outperformance within Healthcare, Materials, and Communication Services. Investors continued to crowd into a narrow group of momentum-driven stocks during the quarter. This is normal late-cycle behavior as earnings growth moderates and upward estimate revisions become scarce, however valuations for this subsegment of the market are looking stretched and leave little room for error.

Reviewing the first half of the year, we clearly underestimated the value investors would put on growth and momentum compared to other factors such as quality and valuation. We expect our valuation discipline and long-term focus to pay off over time, but it has been challenging in the short run. The majority of this quarter's underperformance came from a handful of companies exposed to cyclical headwinds including DoubleVerify, CoStar Group, Progeny, and Builder's FirstSource. All of these companies are leaders within their respective industries, and we expect they will all continue to take market share over the coming years. Patience will be rewarded, in our opinion, because buying quality growth businesses at reasonable prices has historically proven to be a winning strategy.

Average Annualized Performance (%)

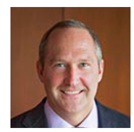
As of 6/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	8.18	-2.77	6.66	8.94	13.02	8.96
Institutional Class - *BUITX*[1]	8.29	-2.63	6.81	9.10	13.18	9.12
Russell Midcap Growth Index	15.05	-0.08	9.93	10.51	13.95	9.29
Morningstar Mid-Cap Growth Category	12.49	-2.38	8.61	9.42	12.75	7.39

[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:	$736.17 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management



Dave Carlsen, CFA

Manager since 2004
B.B.A. – Univ. of Wisconsin-Madison

Josh West, CFA

Manager since 2024
B.S. – Univ. of Missouri-Columbia
M.B.A. – Univ. of Missouri-Columbia

Doug Cartwright, CFA

Manager since 2024
B.A. – Baylor University
M.B.A. – Univ. of Wisconsin

Top 10 Holdings*

MSCI Inc.	3.15%
IQVIA Holdings Inc	2.99%
CoStar Group, Inc.	2.30%
TransUnion	2.26%
Ingersoll Rand Inc.	2.21%
AMETEK, Inc.	2.11%
DoubleVerify Holdings, Inc.	2.08%
Copart, Inc.	2.00%
Martin Marietta Materials, Inc.	1.98%
Aptiv PLC	1.96%
Top 10 Holdings Total	**23.03%**

↑ Top Contributors

Chewy, Inc. (CHWY) was the largest contributor to performance with shares rising 52% during the quarter. Chewy is the largest pet specialty retailer and pet pharmacy in the U.S. with more than $11 billion in revenue and 20 million active customers. Our investment in the stock was a well-timed new position for the fund, purchased near the start of the second quarter. Shares climbed after the company reported healthy first-quarter results with sales and gross margin both topping expectations. The company spoke to stabilizing pet adoption trends and announced a $500 million share repurchase program. We like the stability of the pet category, expect additional margin improvement, and believe Chewy will continue to gain share as the industry moves online.

Universal Display Corp. (OLED) was another contributor to performance with shares climbing 25% during the quarter. The compnay is a leader in the research, development and commercialization of organic light-emitting diode technologies for use in displays and solid-state lighting applications. Earnings estimates moved higher during the quarter on a stronger outlook for smartphone sales in both 2024 and 2025. In addition, investors are beginning to factor in revenues from commercialization of its phosphorus Blue technology. This is an innovative technology with superior power efficiency that will also enable smaller, lighter mobile devices. Blue is in the early stages of its rollout, and we expect healthy growth in the coming years.

↓ Top Detractors

DoubleVerify Holdings (DV) was the top detractor during the quarter. The company is a leading software platform for digital media measurement and analytics. Shares moved sharply lower after management reduced guidance on its first-quarter earnings call due to slower spending from some of its largest retail and consumer products customers. The company also noted ad budgets shifting towards connected TV and social media platforms where it currently earns less revenue than the open web. Earlier this year, DoubleVerify deployed its audience measurement and brand safety tools within Meta's Feed and Reels products, but this opportunity will take time to fully realize. We continue to maintain an investment position in the company, but we underestimated the cyclical headwinds, DoubleVerify continues to grow rapidly and has substantial opportunity in nascent digital media verticals such as social, streaming video, and retail. As consumer mindshare shifts from traditional media outlets to these online platforms, marketers are increasingly demanding independent analysis of advertising Return on Investment (ROI) and brand safety.

CoStar Group, Inc. (CSGP) was another detractor for the quarter with shares down 23%. The company is a leading provider of online real estate information, analytics, and marketplaces in the U.S. and U.K. CoStar has historically focused on commercial real estate markets but has more recently moved into multifamily and residential housing. Shares have been under pressure due to a modest reduction in revenue guidance for its core commercial real estate products, as well as continued weakness in existing home sales. Management is investing aggressively in its residential real estate business, which is currently unprofitable and depressing earnings. The core business remains very well positioned and the shares now trade at a compelling sum-of-parts valuation. 2024 is expected to be the peak year for losses in the residential segment and we expect a strong earnings recovery in the coming years.

Outlook

Economic growth has slowed, and this trend seems likely to persist into the second half of the year. Consumer confidence has moved lower with interest rates and inflation weighing on demand for durable goods and housing. Restaurants are broadly reporting declines in same-store traffic and increased use of promotions. Software companies continue to speak to elongated sales cycles. There are certainly pockets of strength in areas such as manufacturing, travel, cybersecurity, and—of course—artificial intelligence, but generally it seems we are late in the expansion cycle. The upcoming Presidential election, the ongoing war between Russia and Ukraine, and a projected $2.0 trillion Federal deficit compound this uncertainty.

Against a backdrop of slower growth, we expect the Federal Reserve will begin cutting short-term interest rates later this year and, at the very least, become less restrictive with monetary policy. We are not in the business of making short-term macro calls but believe an accommodative Fed policy could serve to broaden market leadership.

In this environment, we stay biased to quality growth franchises and businesses with secular tailwinds that are taking market share. Growth, momentum, and earnings surprise have been the strongest factors driving performance in the first half of 2024, while factors such as earnings quality and valuation have underperformed. We remain committed to our valuation discipline and do not plan to chase 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 are likely to outperform over time. 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 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.

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 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 3/31/24. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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

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