Buffalo Mid Cap Discovery Fund

QUARTERLY COMMENTARY

September 30, 2024

Capital Markets Review

Equity markets advanced in the third quarter as the economy continued to grow moderately while inflation pressures and labor markets cooled enough to trigger an interest rate cut. The Federal Reserve reduced the fed fund's rate by half a percentage point in September bringing the target to 4.75%-5.00%. This much anticipated pivot on interest rates also propelled the bond market during the quarter. Bond prices rose and yields fell in June and July as the outlook for rate cuts became clearer. The yield on the 10-year Treasury note fell from 4.48% at the beginning of July to 3.75% by the end of the quarter. The slope of the yield curve normalized as short term bond yields fell the most. There have been big changes in expectations about the timing and size of interest rate cuts throughout the year. In January the market was expecting as many as six rate cuts for 2024, however, that has now shifted to maybe just three.

The third quarter witnessed a rotation out of large technology stocks. Microsoft, Nvidia, Alphabet, and Amazon underperformed while value stocks and small cap companies advanced sharply during the period. The Russell 3000 Value Index gained 9.47% and significantly outperformed the Russell 3000 Growth Index return of 3.42% in the quarter. The small cap Russell 2000 Index produced a return of 9.27% compared to the large cap Russell 1000 Index return of 6.08%. Dividend-paying stocks also outperformed the broader market for the quarter.

In terms of sector leadership, Utilities and Real Estate were the top performers for the quarter, followed by Financials, Industrials and Materials. Technology, Communication Services lagged, and Energy was the lone negative returning sector for the period.

Performance Commentary

The Buffalo Mid Cap Discovery Fund produced a return of 5.73% during the third quarter versus an increase of 6.54% for the Russell Midcap Growth Index. Our focus on high quality businesses with strong balance sheets was a headwind during a period marked by a cyclical rotation into low-P/E (price/earnings) stocks, companies the highest quintile of cyclical beta, and those with leveraged balance sheets. The fund's largest contribution came from the Financials sector, while portfolio results lagged in Consumer Discretionary and Healthcare. Rate-sensitive industries such as REITs, financials, and housing outperformed defensive sectors like Consumer Staples and Healthcare.

Overall, it was a strong quarter for stocks as investors anticipated the 50 basis point cut to the Fed Funds rate and the eventual beginning of a new easing cycle. Yields on 10-year Treasuries declined 60 basis points during the quarter, while the two- versus ten-year Treasury spread moved from -30 basis points (i.e., inverted yield curve signaling recession) to +15 basis points (a rising curve signaling stability). Fed Chairman Powell commented that inflation is on a sustainable path towards its 2% target, and investor sentiment shifted toward the "Goldilocks" scenario of stable economic growth with acceptable levels of inflation. Core inflation currently stands at +3.2%. That includes

Average Annualized Performance (%)

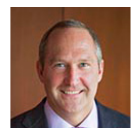
As of 9/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	21.93	-0.74	8.01	9.87	12.24	9.11
Institutional Class - *BUITX*[1]	22.04	-0.60	8.17	10.03	12.40	9.28
Russell Midcap Growth Index	29.33	2.32	11.48	11.30	13.21	9.48
Morningstar Mid-Cap Growth Category	26.45	-0.04	10.48	10.35	12.05	–

[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%	0.87%
Fund Assets:	$728.27 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.	3.07%
IQVIA Holdings, Inc.	2.61%
TransUnion	2.38%
AMETEK, Inc.	2.18%
CoStar Group, Inc.	2.00%
Aptiv PLC	1.96%
Verisk Analytics, Inc.	1.85%
Copart, Inc.	1.76%
Veeva Systems, Inc.	1.75%
Pinterest, Inc.	1.66%
Top 10 Holdings Total	**21.22%**

goods inflation running below the Fed's 2% target and services inflation that is back to pre-pandemic levels excluding housing. Inflation has proven stickier than anticipated throughout the post-pandemic recovery, but the recent slowdown in job creation has given the Fed confidence to, at a minimum, begin removing its restrictive policy stance. We expect the Fed to remain highly sensitive to any potential reacceleration in inflation, so future rate cuts will need to be justified by economic data.

↑ Top Contributors

TransUnion (TRU) was the largest contributor to performance this quarter, rising more than 40%. The company is a leading global information services provider of credit risk assessment and fraud prevention solutions. In addition to reporting better than expected earnings, its shares benefited throughout the quarter as investors began to anticipate lower rates would lead to improvement in borrowing and lending activity. TransUnion reported seeing positive trends in consumer credit continuing into the third quarter and early signs of an uptick in loan originations and refinancing activity. As interest rates normalize, TransUnion should continue to benefit from increased demand for credit products like mortgages, auto loans and credit cards.

MSCI Inc. (MSCI) was another leading contributor to fund performance in the third quarter. MSCI is a provider of index data and analytics tools to the investment industry. The company reported revenue and earnings that were ahead of investor expectations. Record assets under management (AUM) levels drove strong growth in asset-based fees, and analytics continued to increase at a double-digit pace. We remain bullish on MSCI's opportunity to benefit from the growth of passive investing internationally, the growth of Environmental, Social, and Governance (ESG) driven investing, and an increase in general market levels over time.

↓ Top Detractors

Progeny (PGNY) was the top detractor from portfolio results during the quarter. The fertility benefits provider reported disappointing results driven by lower-than-expected utilization as fewer covered employees sought out fertility treatments. More concerning was the announcement that their largest customer would cancel service at the end of the year. Despite this substantial headwind, management expects to grow covered lives next year, with new clients more than offsetting the loss. Meanwhile, infertility continues to become more prevalent, women continue to delay having children until later in life, and employers continue to add fertility benefits to attract talent and manage health care costs. This gives us confidence in Progyny's long-term outlook.

DexCom, Inc. (DXCM) was another detractor from performance results for the quarter. DexCom is a leading manufacturer of continuous glucose monitors (CGM) used by individuals with diabetes. The company cut its full-year revenue guidance, citing a slower-than-anticipated ramp in international markets and competitive pressure in the durable medical equipment channel. While the global CGM market is growing more than 20% annually, management's guidance suggests that competitor Abbott (ABT) has the lead in fast-growing segments like basal and type-two insulin-intensive. DexCom is investing in its sales force to build relationships in these emerging channels and markets, but we have reduced our expectations for growth over the near term. The company's investments will take time to bear fruit, but we continue to see this as an attractive growth industry dominated by two rational competitors.

Outlook

It isn't surprising the Fed is beginning to unwind its restrictive policy stance, which we discussed in last quarter's outlook. Economic growth is slowing and labor markets are beginning to loosen, making it reasonable for the Fed to shift to a neutral policy stance. Getting to neutral would imply one or two additional cuts of 25 basis points, after which we expect the Fed to become data dependent regarding future actions. Interestingly, 10-year Treasury yields have jumped 30 basis points since the Fed announced the cuts on September 30. There is clearly some concern the Fed is cutting too quickly against a backdrop of historically tight labor markets and two Presidential candidates offering up policies that would further increase Federal deficits. Inflation and economic growth have both been more persistent than experts had predicted a year ago, so we expect the Fed to move prudently as it aims to balance its dual mandate of maximum employment and stable prices.

The market rotated into low-P/E cyclicals this past quarter, but we don't plan on chasing growth-challenged businesses on the premise that we are somehow entering a new economic cycle. Consumers have piled on substantial debt since the pandemic, and debt service as a share of disposable income is back to pre-pandemic levels. Consumer confidence registered its sharpest decline in almost three years during the month of September, as survey participants cite concerns about job availability and income prospects. We have yet to experience a recession, which is typically the base from which new economic cycles are built. We still expect secular growth franchises to outperform in a late-cycle economy. Lower interest rates will help to broaden market leadership, with higher equity valuations benefiting reasonably priced growth stocks. Innovative growth businesses with strong balance sheets, scalable business models, wide competitive moats, and reasonable valuations should continue to compound value 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.

Effective 7/29/24, the Buffalo Discovery Fund is the Buffalo Mid Cap Discovery Fund.

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. A yield curve is a line that plots the yields, or interest rates, of bonds that have equal credit quality but different maturity dates.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 6/30/24. 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.