Buffalo Discovery Fund

QUARTERLY
COMMENTARY

December 31, 2023

Capital Markets Review

2023 concluded with capital markets moving higher in the final quarter of the year. The S&P 500 Index gained 11.69% and the Barclay's Aggregate Bond Index advanced 6.82%. A big pivot in expectations for the Federal Reserve's monetary policy drove the market advance during the period, as investors now anticipate a decline in interest rates for 2024. The yield of the U.S. Treasury 10-year note finished the quarter at 3.88%, a significant drop from its peak of nearly 5% in mid-October.

Recapping broad-based index results, the Russell 3000 Index gained 12.07% during the period. Growth stocks outperformed value stocks as the Russell 3000 Growth Index advanced 14.09% compared to a gain of 9.83% for the Russell 3000 Value Index. In typical "risk-on" fashion, relative performance improved going down in market capitalization (size) during the quarter as small caps advanced more than large caps. Larger cap stocks produced a return of 11.96%, as measured by the Russell 1000 Index, compared to the smaller cap Russell 2000 Index return of 14.03%. The even smaller market cap Russell Microcap Index rallied 16.06% in the quarter.

The stock market recorded impressive gains for 2023 with the S&P 500 Index advancing 26.29%. However, it was a "narrow" market as the "magnificent seven" technology and artificial intelligence (AI) stocks accounted for approximate 80% of the S&P 500's gains in 2023, versus a broad market advance where hundreds of stocks propel the index higher. In terms of economic sectors, technology, communication services, and consumer discretionary stocks were the brightest spots while the utilities and energy sectors declined in 2023.

Performance Commentary

The Buffalo Discovery Fund rose 14.89% for the quarter versus an advance of 14.55% for the Russell Midcap Growth Index. Outperformance was driven by our holdings in the Financials, Communication Services, and Materials sectors. Stocks reacted positively to improving inflation data, resilient consumer spending, and a significant decline in the 10-year Treasury yield. The positive news flow culminated with Federal Reserve Chairman Powell's dovish speech in mid-December that suggested the hiking cycle is finished and cuts to short-term interest rates are on the way in 2024.

Average Annualized Performance (%)

As of 12/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFTX*	24.30	-0.26	11.81	9.72	14.54	9.14
Institutional Class - *BUITX*[1]	24.50	-0.11	11.98	9.89	14.71	9.31
Russell Midcap Growth Index	25.87	1.31	13.81	10.57	14.68	9.22
Morningstar Mid-Cap Growth Category	21.37	-0.86	12.46	9.23	13.22	7.30

[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.

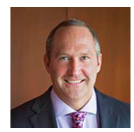
The rally was broad-based except for the energy sector, which gave back nearly all its strong third quarter performance gains. Consumer Staples were also a relative laggard versus the broader market during the quarter, marking that sector's third consecutive quarter of underperformance. Staples stocks continue to be weighed down by weak grocery volumes and shoppers trading down to private label products.

It was clearly a "risk-on" quarter and a strong end to the year for stocks. While the economy is clearly slowing, investors were encouraged that inflation is progressing towards the Fed's 2% target while consumer spending continues to increase, supported by low unemployment and rising wages. A deep recession appears

Fund Facts

	Investor	*Institutional*
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.01%	0.86%
Fund Assets:	$852.11 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management



Dave Carlsen, CFA

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

Top 10 Holdings*

MSCI Inc. Class A	3.03%
IQVIA Holdings Inc	2.45%
Boston Scientific Corporation	2.04%
Ingersoll Rand Inc.	2.04%
Martin Marietta Materials, Inc.	1.99%
Copart, Inc.	1.98%
AMETEK, Inc.	1.96%
CoStar Group, Inc.	1.93%
DoubleVerify Holdings, Inc.	1.83%
Schlumberger N.V.	1.81%
Top 10 Holdings Total	**21.06%**

increasingly unlikely as the Fed stands ready to cut interest rates whenever it believes economic stimulus is needed. Plenty of macro risks remain, however, and valuations in certain segments of the market are beginning to look frothy. Through all the noise and uncertainty, the Discovery Fund remains focused on its core mission: to invest in high-quality, disruptive growth companies that use innovation to gain share and create competitive advantage, all while maintaining a consistent discipline around valuation and risk. We believe this is a strategy that will continue to deliver attractive risk-adjusted returns over time.

↑ Top Contributors

CrowdStrike (CRWD) was the largest contributor to performance with shares climbing more than 50% during the quarter. CrowdStrike provides businesses with cloud-based cybersecurity solutions, and investors reacted positively to strong quarterly results and a promising outlook. The company beat consensus expectations for revenue and EBITDA, spoke to an improving new-business win rate, and was encouraged by recent product launches in cloud security and identity protection. This allowed management to raise its full-year sales and earnings guidance despite a challenging economic environment. Cybersecurity is an industry with secular growth tailwinds, and we believe CrowdStrike should continue to gain market share.

Expedia (EXPE) was another top contributor with shares rising 47% during the quarter. The company is an online travel platform with brands that include Expedia, Vrbo, and Hotels.com. Third quarter results were modestly ahead of consensus and the company made two announcements that received an enthusiastic response from investors. First, the company announced it had finally completed a multiyear effort to put its tech stack on a common platform and migrate it to the cloud. Second, the company surprised investors with a $5 billion share repurchase announcement. At the time of the announcement, the repurchase plan accounted for 40% of the company's market cap. Despite the 50% move in its share price, Expedia continues trades at just 14x earnings and benefits from rising penetration of online travel spending.

↓ Top Detractors

Aptiv (APTV) was the top detractor for the quarter. The company is a supplier to the automotive industry with products that support electrical architectures, safety/perception systems, mobile connectivity, and in-vehicle software. Shares declined 9% during the quarter, driven by earnings guidance that came in below consensus estimates. Investors are concerned that weakness will drag into 2024 due to weakening global economies and moderating demand for electric vehicles. While there are certainly near-term concerns around the macro environment, Aptiv continues to gain market share and its products will launch on several new platforms in 2024. The company has a strong balance sheet, and we believe share repurchases are likely to increase given the current equity valuation.

Schlumberger (SLB) was also a detractor during the quarter with shares declining 9%. Schlumberger is engaged in energy exploration and production, as well as supplying technology solutions to improve well utilization rates and reduce carbon emissions. Guidance for organic revenue growth of just 3% for the fourth quarter was a modest disappointment for investors, but the bigger culprit was oil prices. WTI crude declined roughly 20% during the quarter to around $72 barrel as global economies are slowing, the war in Gaza has not spread beyond that region, and U.S. oil production is projected to hit a record high in 2024. In spite of the weakness during the period we continue to maintain our position to the company.

Outlook

The economy is slowing to a more sustainable level of growth as consumers have spent much of the excess savings accumulated during the pandemic. With demand moderating and the job market beginning to loosen, we believe inflationary pressures will continue to moderate. The Fed's aggressive tightening cycle appears to be getting the job done on inflation, and a disaster scenario of stubbornly high inflation coupled with a consumer-led recession appears to be off the table. Moreover, the Fed now has firepower to stimulate when needed.

While the market has moved sharply higher, certain parts of the economy remain weak. Businesses that pulled forward a lot of demand during the years of COVID and 0% interest rates have been experiencing softening demand for more than a year now. Consumer categories like home furnishings, leisure goods, and consumer electronics have given back the bulk of their COVID gains over the past two years. Existing home sales are at a ten-year low. Businesses that stockpiled inventory during the supply chain crisis are now cutting orders, and sales cycles for enterprise technology spending have lengthened as CFO's look to conserve cash.

Following the sharp rally to close out 2023, the market seems likely to consolidate its gains in the near term. Numerous forward-looking indicators suggest the economy will soften in 2024, including an inverted Treasury yield curve, a decline in the Conference Board Leading Economic Index, and the National Federation of Independent Businesses' (NFIB) hiring plans survey. And while the Fed can cut short-term interest rates to stimulate demand, we do not expect another round of stimulus checks given the Federal government is already running an unsustainable $2 trillion annual deficit. Against this backdrop, expect management teams to offer cautious forward-looking guidance.

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 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 Russell 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 9/30/23. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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