

Capital Market Overview

Equity markets sustained their momentum in the 3rd quarter, with the S&P 500 Index returning 8.93%. Macro data continued to improve, and companies broadly reported earnings that proved to be more resilient than expectations. While the U.S. experienced another spike in COVID-19 cases during the quarter and tragically surpassed 200,000 deaths, positive news on vaccines and therapy fronts continued to provide hope for investors.

The Russell 3000 Index increased 9.21% in the quarter. Growth continued to outperform value, as the Russell 3000 Growth Index advanced 12.86%, compared to the Russell 3000 Value Index return of 5.41%. Relative performance was correlated with market cap size in the quarter, with the large cap Russell 1000 Index delivering a return of 9.47%, compared to the Russell Mid Cap Index return of 7.46%, the smaller cap Russell 2000 Index return of 4.93%, and the Russell Micro Cap Index return of 3.69%. More cyclically-exposed Consumer Discretionary, Materials, and Industrial sectors performed best in the quarter. Energy was the sole declining sector, hurt by lingering weakness in oil demand.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) outperformed in the 3rd quarter gaining 10.11% versus the Morningstar U.S. Mid Cap Growth Index's gain of 9.56%. The Fund outperformed the benchmark with help from positive stock selection in the Health Care and Consumer Discretionary sectors, where two of our top performers, **Penn National Gaming** and **Immunomedics**, made meaningful contributions. Meanwhile, negative stock selection within the Information Technology sector was a modest headwind, as richly-valued, high-growth software stocks, in which the portfolio is underweight, led returns. Furthermore, the Fund did not own two of the benchmark's more significant quarterly performers that were relatively large positions in the index, Square and Zoom Video Communications, which were up nearly 55% and 85% respectively.

Average Annualized Performance (%)

As of 9/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFTX	16.76	12.86	13.89	14.41	11.48	9.78
Institutional Class - BUITX ¹	16.96	13.04	14.06	14.58	11.65	9.95
Morningstar U.S. Mid Growth Index	32.62	19.80	17.20	15.09	10.97	9.16
Morningstar Mid-Cap Growth Category	24.49	14.68	14.28	13.22	9.74	7.58

¹For 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:	1.02%	0.87%
Fund Assets:	\$1.62 Billion	
Category:	Mid Cap Growth	
Benchmark:	Morningstar U.S. Mid Growth Index	

Management Team



Dave Carlsen, CFA

Co-Manager since 2004
B.B.A. – University of WI-Madison



Jamie Cuellar, CFA

Co-Manager since 2020
M.B.A. – Southern Methodist
B.B.A. – Univ. of San Diego



Ken Laudan

Co-Manager since 2020
B.S. – Kansas State Univ.



↑ Top Contributors

Penn National Gaming (PENN) owns, manages, or has ownership interests in 41 gaming properties in 19 states and is an exclusive gaming partner with Barstool Sports, a leading digital sports, entertainment, and media platform. The Barstool Sports partnership positions the company to be a leader in the emerging sports betting marketplace where recent liberalization of casino regulations has opened a large new disruptive growth opportunity for mobile gaming and sports betting in certain states. This opportunity comes at an excellent time, where regional casinos have consolidated into fewer, more rational owners focused on maximizing returns. Furthermore, regional casino volumes have recovered at a faster-than-expected rate from pandemic lows, with the company pre-announcing better-than-expected revenue growth and profitability for the September quarter.

Immunomedics (IMMU), a leader in next generation antibody-drug conjugate technology for the treatment of hard-to-treat cancers, announced in mid-September that it had agreed to be acquired by Gilead for \$88 per share, which represented a substantial 108% premium to IMMU's previous closing price.

↓ Top Detractors

Ciena Corporation (CIEN) shares sold off after issuing lower-than-expected guidance for the rest of the calendar year, as the economic impact of the COVID-19 pandemic and diminished physical network and evaluation lab access is causing a slower rollout of optical technologies by large U.S. carriers and in India. Demand for communications bandwidth and next generation optical technologies remain secular growth opportunities, and CIEN's broad-based new customer wins for its market-leading WaveLogic optical systems position the company to excel both secularly and when near-term industry spending resumes.

eHealth (EHTH) operates a direct-to-consumer, online health insurance marketplace that offers consumers a broad choice of insurance solutions from over 180 health insurance carriers. Its shares weakened in the quarter as investors grew concerned about a higher-than-expected level of customer churn and the potential negative effect on customer acquisition costs and the lifetime value of customer contracts. The company has prioritized growing enrollment over retention the last couple of years, but has recently taken corrective action to improve retention. Despite the higher churn, the company raised its full year guidance for sales and profitability and raised its expected five-year annual revenue growth rate to 27% from 23% previously. The company remains a prime beneficiary of the secular shift from offline agent assisted sales to online digital sales channels, where broader choice and the option to get coverage entirely through an online experience can potentially cut out the middle-man and lead to lower costs for the consumer and disruptive share gain for the company.

Outlook

The first nine months of 2020 have been an extremely volatile period for the market, and given the market's quick rebound, despite a slower economy, lower earnings, political uncertainty and continued COVID-19 concerns, means a lot rests on the trajectory of earnings recovery in 2021. Volatility is likely to remain in place at least through the early November election, but it should ease once we get a clearer picture of fiscal stimulus plans and the policy biases of the next administration. Investors will then likely continue to focus on the trajectory of COVID-19 cases, the progression of additional treatments and vaccines, and ongoing company commentary on business trends.

We believe there will be a meaningful amount of data on vaccine and treatment options over the next few months that could be quite positive for those willing to look beyond near-term case numbers. Furthermore, regardless of who will be in the Oval Office, fiscal and monetary policy remain extremely accommodative worldwide with activity levels rebounding across countries and sectors. The economy is mending. Consumer and business confidence is rising too, as the world has found innovative ways to adapt, progress, and grow despite the 100-year pandemic in our midst.

While the election remains a wildcard, the market has taken Biden's early lead and greater chances of a Democratic sweep in stride, contrary to prevailing wisdom that the market would suffer. Due to a reduction in growth opportunities in the last 6-9 nine months, we are mindful that investors may have bid up certain high growth stocks to unsustainable valuations, and we continue to focus on the downside risk relative to upside opportunity for stocks in the portfolio. The disparity in returns between Growth and Value has been extreme this year, and at some point, there could be a meaningful reversion to the mean, likely triggered by lower political uncertainty post-election and successful clinical results from a potential vaccine. Going forward, we think lower political uncertainty and a probable COVID-19 vaccine could steepen the yield curve and should be good for more economically-sensitive areas at the expense of over-priced growth stocks, and we are adjusting the portfolio accordingly.

We stand poised to capitalize when and where we see an opportunity to improve risk-adjusted return potential within the portfolio. Economic conditions may ebb and flow, but our focus is steady: to invest in attractively-priced, financially-strong, well-managed companies whose innovative strategies should fuel secular growth opportunities. We seek those opportunities where thoughtful management teams are in a favorable position to use innovation for market advantage, durable growth, and sustained shareholder value creation. Successful innovation may often lead to share gains in large existing markets, or the creation of large new market opportunities, a strategy which we believe is less dependent on the overall macro environment for growth. ▀

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

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.

As of 6/30/20 the Buffalo Discovery Fund top 10 equity holdings were IHS Markit 1.72%, Global Payments 1.69%, CoStar Group 1.65%, Ligand Pharmaceuticals 1.56%, Take-Two Interactive 1.56%, MSCI 1.55%, Verisk Analytics 1.53%, Etsy 1.49%, Moody's 1.47%, MasTec 1.46%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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 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 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 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 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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 Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. The Morningstar U.S. Mid Growth Index measures the performance of U.S. mid-cap stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. One cannot invest directly in an index. Duration is a measure of the sensitivity of the price of a fixed income investment to a change in interest rates.

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.

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

