

Capital Market Overview

Equity markets rebounded sharply in the 2nd quarter following steep losses in the previous period. The S&P 500 Index produced a return of 20.54%, marking the best quarterly performance results in 20 years. Stimulus efforts by the Federal Reserve (the "Fed") and the U.S. Treasury Department to limit COVID-related economic damage helped equity markets find a floor in late March. Declining COVID-19 case counts, optimism about treatment and potential vaccines, along with better-than-expected economic data also contributed to improved investor sentiment during the period. Although confirmed virus cases began spiking again in the final days of June, it was not enough to undo the best quarterly market results since the dot-com boom.

The broad market Russell 3000 Index advanced 22.03% in the quarter, and Growth outperformed Value as the Russell 3000 Growth Index moved up 27.99% during the period, compared to the Russell 3000 Value Index's advance of 14.55%. Relative performance was inversely-correlated by market cap as the Russell Micro Cap Index advanced 30.54%, well above the large cap Russell 1000 Index's return of 21.82%. Meanwhile the small cap Russell 2000 Index and the Russell Mid Cap Index were up 25.42% and 24.61%, respectively. The best performing sectors were Technology, Consumer Discretionary, and Energy while the less cyclically exposed, more defensive areas like Utilities, Telecommunication, and Consumer Staples lagged in the quarter.

Performance Commentary

The Buffalo Emerging Opportunities Fund (BUFOX) generated a return of 40.64% in the quarter compared to the Morningstar U.S. Small Growth Index return of 32.84% and the Russell 2000 Growth Index return of 30.58%.

These unprecedented times produced a historic market rally in the 2nd quarter, following the sell-off during the 1st quarter. The Russell 2000 Growth Index troughed in late March, declining 43% from its previous high, but has since posted a rebound of 65% at the time of this writing. After all that has been experienced in the 1st half of 2020, the Index is nearly flat year-to-date and just about 5% shy of all-time highs.

Average Annualized Performance (%)

As of 6/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFOX	12.76	13.53	10.54	15.95	9.08	9.17
Institutional Class - BUIOX ¹	12.94	13.70	10.70	16.13	9.24	9.34
Morningstar U.S. Small Growth Index	8.79	11.67	9.51	14.09	9.47	9.49

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.

Fund Facts

	Investor	Institutional
Ticker:	BUFOX	BUIOX
Inception Date:	5/21/04	7/1/19
Expense Ratio:	1.49%	1.34%
Fund Assets:	\$89.04 Million	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

Management Team



Craig Richard, CFA

Co-Manager since 2013
M.B.A. – Univ. of Kansas
B.S. – Kansas State Univ.



Doug Cartwright, CFA

Co-Manager since 2015
M.B.A. – Univ. of Wisconsin
– Madison
B.S. – Baylor University

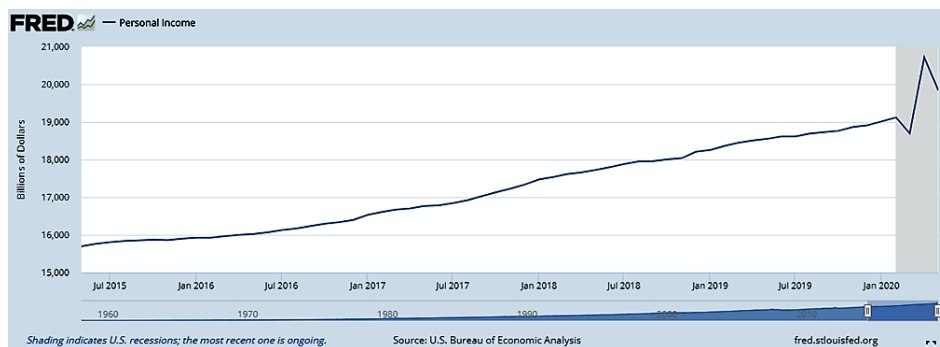
The Fund's outperformance in the quarter was driven by solid returns versus the benchmark in the Consumer Discretionary, Financials, and Information Technology sectors. Outsized gains were produced in several positions including **Cerence** and **Lovesac**.

Cerence, the dominant provider of artificial intelligence (AI) for the global car industry, returned 165% on investors comfort in a rebound in global new car sales. Additionally, car sales could benefit from individual preference to avoid mass transportation. Cerence has a greater than 50% market share in AI software in cars and appears poised to grow with both the penetration of consumer facing software in more brands and models of cars, along with increasing sophistication and offerings that allows Cerence to potentially realize more revenue per vehicle.

Shares of Lovesac advanced 376% in the quarter as investors were pleasantly surprised by the level of sales growth from the furniture brand. With 90 stores closed, the company drove strong sales growth through an e-commerce only model. The sectional, a sustainable modular couch, allows consumers to switch arrangements, replace covers, and replace pieces without purchasing a new couch every five years or so. The company's brand awareness continues to grow, and partnerships with larger retail stores could provide more runway for growth.

Outlook

While there remains uncertainty and controversy around COVID-19, there can be no argument about the scale and breadth of the Federal government's fiscal response. Through a plethora of corporate lending programs, the well-publicized stimulus checks to individuals, enhanced unemployment benefits, and the payroll protection program, the Federal government has used its seemingly unending balance sheet to provide more stable economic footing. The graphic below shows that personal income in the U.S. has spiked since March 2020. This can be attributed to continued employment of most of the population, enhanced unemployment benefits for the unemployed, stimulus checks, and small business owners who received payroll protection program (PPP) forgivable loans. The PPP forgivable loans will likely end up being pure profit for a number of those business owners that were not adversely impacted by the pandemic.



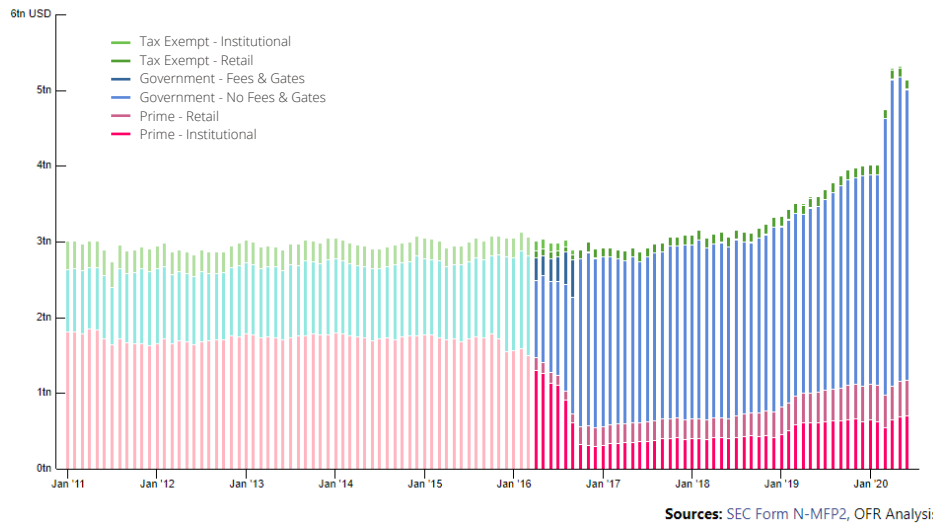
As we look to the future, Congress is discussing another round of stimulus as enhanced unemployment benefits are scheduled to wind down at the end of July. This could involve another round of stimulus checks and continued enhanced unemployment benefits among other programs designed to boost the economy.

On the COVID-19 front, the market has seemed to dismiss the risks of the second wave and potential for restricted business activities after things came back online throughout May and June. We believe the most relevant data point to watch is hospitalizations related to COVID-19. The number hovers around 60,000, which is in-line with the late April peak levels but is much higher than the drop in mid-June to 27,000.



Despite the rise in the stock market off the March lows, plenty of money remains on the sideline. As seen in the graphic below, total assets in money market funds are at all-time highs, an increase of 70% from the average levels seen over the past 10 years. There appears to be plenty of dry powder should the market pull back or if those currently on the sideline choose to put capital back into equities.

Total investments by each category of U.S. MMF



Pile on the November elections and investors have several things to contemplate. Regardless, our job continues to be finding attractive small cap companies that have not been fully appreciated by the market or are mispriced due to recent results or events. We believe less investor interest in our segment of the market creates opportunity for us to uncover value. Given the volatility seen in the first half of 2020, this is perhaps even more true today.

The Fund typically invests at the smaller end of the small cap growth spectrum, and the managers continue to seek companies with sustainable growth due to secular growth trends or innovative or disruptive products. The Buffalo Emerging Opportunities Fund is focused primarily on identifying innovation within U.S. companies with primarily North American revenue bases. The Fund ended the quarter with 62 holdings, and management added six new positions and eliminated two holdings in the quarter. With an active share of greater than 95%, the Fund will continue to offer a distinct offering from the Index and category peers. ▴



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.

As of 3/31/20 the Buffalo Emerging Opportunities Fund top 10 equity holdings were 8x8 3.57%, Mimecast 3.04%, Cerence 2.88%, LHC Group 2.74%, Hamilton Lane 2.59%, Community Healthcare Trust 2.59%, Kinsale Capital Group 2.52%, i3 Verticals 2.32%, Air Transport Services Group 2.26%, Varonis Systems 2.06%. 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 Micro Cap Index measures the performance of 2,000 small cap and micro cap companies. 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 Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Morningstar U.S. Small Growth Index measures the performance of U.S. small-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. The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Microcap Growth Index measures the performance of those Russell Microcap companies with higher price-to-book ratios and higher forecasted growth values, and it is represented by the smallest 1,000 securities in the small-cap Russell 2000 Index plus the next 1,000 securities. One cannot invest directly in an index. Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark 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.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets.

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

