

Capital Market Overview

The combination of a U.S. Federal Reserve (Fed) interest rate cut, an improving economic outlook, and easing trade tensions, sent equity markets sharply higher in the 4th quarter. The S&P 500 Index advanced 9.10% during the period, which brought the full-year (2019) gain to 31.49%. The Fed cut interest rates three times in 2019, erasing the brief yield curve inversion and assuaging fears of a recession. The economy continued to add new jobs at a strong pace and unemployment declined to 3.5%. Consumer spending remained healthy, and there is optimism for better business investment following the announced "phase one" trade deal with China.

Similar to the S&P 500 Index, the broad-based Russell 3000 Index returned 9.04% during the quarter. Growth outperformed value, as the Russell 3000 Growth Index returned 10.62% compared to a return of 7.41% for the Russell 3000 Value Index. Smaller companies outperformed larger companies, as one would expect in a "risk-on" period. The Russell Microcap Index surged 13.45% and the Russell 2000 Index advanced 9.94%. Large company benchmarks such as the Russell 1000 Index advanced 9.04% while the Russell Midcap Index produced a return of 7.06%. Technology and Health Care were the best performing sectors in the quarter, while more defensive areas of the market lagged such as Real Estate and Utilities. Higher long-term interest rates weighed on high-quality bond proxies – the safe haven 10-year U.S. Treasury Bond produced a return of -1.74% during the quarter.

Performance Commentary

The Buffalo Emerging Opportunities Fund posted a return of 12.61% for the quarter ending December 31, 2019. This compares favorably to the Morningstar U.S. Small Growth Index's return of 9.11%. The strong quarter capped off a solid 2019 as the Fund posted a gain of 34.03% versus the Index's return of 27.60%.

Smaller companies (as measured by market capitalization) within the small cap universe outperformed larger market cap companies in the 4th quarter. This was a reversal from the past several quarters and served as a tailwind for the Fund's performance. However, the major driver of outperformance was due to portfolio results in the Technology sector, which produced a return of 27.04% in the quarter compared to the Index's return of 7.76% for the sector. The Fund remains overweight Technology and Industrials and underweight Health Care due to a continued underweighting of the biotechnology industry.

Average Annualized Performance (%)

| As of 12/31/19 | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|------------------------------------------|-------|-------|-------|-------|-------|-----------------|
| Investor Class - BUFOX | 34.03 | 17.86 | 10.49 | 15.45 | 8.71 | 9.14 |
| Institutional Class - BUIOX ¹ | 34.20 | 18.03 | 10.65 | 15.62 | 8.87 | 9.30 |
| Morningstar U.S. Small Growth Index | 27.60 | 14.21 | 10.26 | 13.42 | 8.99 | 9.51 |

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 Institutional 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: | \$93.17 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

A leading contributor during the period was a newer Technology holding, **Cerence, Inc.** Cerence was a recent spin-off from parent company Nuance Communications. As a stand-alone company, Cerence can focus its resources on its attractive positioning in the artificial intelligence market for automobiles globally. Serving over 60 auto manufacturers, Cerence provides software for vehicle intelligence systems along with a cloud offering for virtual assistance (news, weather, directions, etc.). With a commanding market share at the early stages of technology penetration in the automobile, Cerence has a nice secular tailwind behind them. Additionally, Cerence generates very healthy profit and cash flow margins. Growing investor awareness of the company following the spin-off helped drive healthy returns in the quarter.

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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Outlook

Overall, 2019 produced one of the strongest equity market returns in recent memory. Domestic growth indices across the board posted 20%+ returns and recovered from the pullback experienced in late 2018. Improved investor sentiment in 2019 likely contributed as optimism regarding the potential for a U.S./China trade deal combined with accommodating central bank monetary policy to prop up financial markets. As we have mentioned before, small cap companies generally have less exposure to international markets than their larger company peers, and we believe this will continue to be relatively positive for small caps given the current stability seen in the U.S. economy. The Buffalo Emerging Opportunities Fund is focused primarily on identifying innovation within U.S. companies with primarily North American revenue bases. The U.S. presidential election provides a potential wild card given the range of political, regulatory, and economic positions held by various democratic candidates.

We believe less investor interest in the smaller market cap segment of the investment landscape creates opportunities for us to uncover value. The Fund typically invests at the smaller end of the small cap growth spectrum, and Fund management continues to seek companies with sustainable growth due to secular trends or innovative and disruptive products. As always, we will pay close attention to the valuations of our holdings and will utilize market volatility to trim or add to holdings as risk/reward profiles improve or degrade. The Fund ended the quarter with 66 holdings, down slightly from 67 as of the previous update.

We will continue to look for prudent ways to deploy cash and will remain focused on the long-term, aiming to be shrewd when the market environment presents opportunity and more cautious when it does not. With an active share of greater than 95% at the end of the period, the Fund continued to be a distinct offering compared to the Index and category peers. ▲

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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.

As of 9/30/19 the Buffalo Emerging Opportunities Fund top 10 equity holdings were Kornit Digital 3.48%, Kinsale Capital Group 3.19%, Hamilton Lane 3.18%, Community Healthcare Trust 3.16%, 7x7 2.92%, CyberArk Software 2.25%, Mimecast 2.21%, Playa Hotels & Resorts 2.18%, Envestnet 2.12%, Air Transport Services Group 2.09%. 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. 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 1000 Index is a subset of the Russell 3000 Index, which 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 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. 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.

