

Emerging Opportunities Fund

PM Commentary as of September 30, 2017



Average Annualized Performance (%)

As of 9/30/17	1 YR	3 YR	5 YR	10 YR	Since Inception
Buffalo Emerging Opportunities Fund	26.85	11.59	13.14	8.01	8.57
Russell 2000 Growth Index	20.98	12.17	14.28	8.47	9.57

Expense ratio 1.49%. Inception date 5/21/2004. 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.

CAPITAL MARKET OVERVIEW

Equity markets continued their winning streak in the 3rd quarter of 2017 with the S&P 500 Index posting its 8th consecutive quarterly gain. Investors have been encouraged by the synchronized upswing in global economic growth. For the first time since 2007, all 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) are on pace to grow this year, with the growth rates expected to accelerate in 33 of those countries. This economic backdrop, in conjunction with strong corporate earnings and a renewed focus on tax reform, helped the reflation trade regain momentum in the quarter.

The reflation trade, also known as the "Trump trade" pushed shares of banks, industrials, and smaller companies higher while expectations of another interest rate increase by the Federal Reserve drove relative weakness in Treasury bonds and their stock market proxies, such as utility companies. The U.S. dollar also strengthened during the period against most major foreign currencies. Furthermore, strong demand and slowing production of oil in the U.S. drove West Texas Intermediate crude prices up 12.2% in the period.

The Russell 3000 Index, a broad market performance benchmark, produced a total return of 4.57% during the quarter. Growth stocks outperformed value stocks, as the Russell 3000 Growth Index advanced 5.93% compared to a gain of 3.27% for the Russell 3000 Value Index. Shares of smaller-capitalized companies generally outperformed larger companies during the quarter. The Russell Microcap Index and the smaller-cap Russell 2000 Index climbed 6.65% and 5.67% respectively during the period, while the Russell Midcap Index advanced by 3.47% and the larger-cap Russell 1000 Index increased by 4.48%. Technology and energy were the best performing sectors, while consumer staples and consumer discretionary sectors lagged.

PERFORMANCE COMMENTARY

The Buffalo Emerging Opportunities Fund (Fund) posted a return of 6.82% in the quarter which outperformed the Russell 2000 Growth Index (Index) return of 6.22%. Every major sector of the Index posted positive returns in the quarter, straddling the overall Index return of the quarter. The three largest sector weightings in the Index, Healthcare, Information Technology and Industrials, saw gains of 7.22%, 6.33% and 7.16%, respectively.

Year to date, the Fund has posted a return of 25.53% compared to the Index return of 16.81%. The two leading sectors within the Index have been Healthcare and Information Technology, which have produced returns of 33.95% and 19.21% respectively. This continues the reversal from the end of calendar 2016 when Financials and Industrials led the way, coming out of the presidential election. Investors have returned to Information Technology and Healthcare sectors where innovation drives revenue growth.

PORTFOLIO MANAGEMENT TEAM



Craig Richard, CFA

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



Doug Cartwright, CFA

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

The Fund's outperformance during the period was led by the Information Technology sector where the portfolio delivered a 15.25% return on average compared to the Index return of 6.33%. The top contributor for the Fund during the quarter was **Exa Corporation**. Exa has developed simulation software for the automotive and aerospace industries and recently extended into the energy sector for simulating the drilling of shale oil wells. The software simulates testing for aerodynamics, thermal effects, and noise, among other things, for transportation industry customers. On September 28th, European-based Dassault Systems announced their intent to acquire Exa for \$24.25 per share. This marked the first buyout announcement of one of the Fund's holdings this year compared to 2016, in which five holdings were acquired.

We continue to believe that in the latter innings of an economic expansion, larger firms will look for different avenues to grow their revenues and acquiring smaller, faster-growing companies is often a strategy. One of the Fund's holdings being acquired can provide a boost to returns given the takeout premium typically involved. In the case of Exa, the announced acquisition price was a 43% premium to the previous day's closing price.

Zagg Inc. also contributed to the Fund's returns in the quarter. Zagg is the leading provider of cell phone and tablet accessories, primarily screen protectors and portable battery chargers, under brand names such as InvisibleShield and Mophie. Zagg commands close to 50% market share in the categories in which it competes and is expected to potentially benefit from the strong Apple iPhone refresh cycle. With smartphone prices nearing \$1,000 in some cases, we believe people will continue to look for ways to protect their investment in these devices.

OUTLOOK

The market has delivered strong results so far this year with a number of the major indices posting double digit returns. The march higher continued in a very even fashion across the indices in the 3rd quarter. Growth has outperformed value significantly, with the Russell 2000 Growth Index outperforming the Russell 2000 Value Index by over 10%.

We believe this is an indication of investors continuing to seek out stories with revenue growth opportunities, as we continue in a stable economic environment with a market 8+ years into the recovery. Continued economic growth, a stable geopolitical environment, and a clearer picture on tax reform could be a catalyst to close out a strong year for the markets.

The Buffalo Emerging Opportunities Fund is focused primarily on identifying innovation within U.S. companies with North American revenue bases. U.S. consumer confidence and small business confidence remained near all-time highs at the end of the period, which could bode well for smaller, U.S.-centric companies that are a focus of the Fund. We remain aware of valuations and fundamentals and continue to monitor the risk/reward profile of our holdings. As a result, we often make changes, based on market moves intra quarter, that provide either an opportunity to trim or add to positions, based on the inefficiencies that exist at the smaller end of the market capitalization spectrum.

We ended the quarter with 60 holdings, adding six holdings while moving on from eight. We continue to look for prudent ways to deploy cash, and we remain long-term focused, aiming to be shrewd when the market environment presents opportunity and more cautious when it does not. ◀

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 prospectus contains this and other important information about the investment company, and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read it carefully before investing.

As of 6/30/2017 the Buffalo Emerging Opportunities Fund's top ten equity holdings were: Kornit Digital Ltd. 2.80%, Motorcar Parts of America, Inc. 2.59%, 8x8, Inc. 2.46%, CommerceHub, Inc. 2.29%, Instructure, Inc. 2.27%, Omnicell, Inc. 2.21%, Varonis Systems, Inc. 2.18%, Del Taco Restaurants, Inc. 2.12%, Nautilus, Inc. 2.10%, & MGP Ingredients, Inc. 2.08%.

Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.

The opinions expressed are those of the Portfolio Manager(s) 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 free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. Treasury bonds are debt obligations issued by the United States government. 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 a small-cap and micro-cap stock market index of the smallest 2,000 companies in the Russell 3000E Index incorporated in the U.S. based on market capitalization. The Russell 2000 Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index based on market capitalization. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. 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 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 2000 Value Index is based on the Russell 2000 Index, of small-cap companies with lower price-to-book ratios and lower expected growth rates which measures how U.S. stocks in the small-cap equity value segment perform. You cannot invest directly in an index. Market capitalization is the total value of the shares outstanding of a publicly traded company.

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.