Buffalo Small Cap Fund

QUARTERLY COMMENTARY

March 31, 2021

Capital Market Overview

Equity markets continued to move higher in the 1st quarter of 2021, with the S&P 500 Index returning 6.17%. The period was marked by outperformance of value stocks as the market rotation that began in the last quarter of 2020 became even more pronounced. The vaccination rollout, combined with prospects for more fiscal stimulus, bolstered optimism towards companies that could benefit from the economy reopening. Additionally, an 80+ basis point move higher in the 10-Year U.S. Treasury yield during the quarter left sentiment towards growth stocks relatively more subdued.

The broad market Russell 3000 Index advanced 6.35% in the quarter. Value outperformed growth for the second straight quarter, with the Russell 3000 Value Index up 11.89% compared to the Russell 3000 Growth Index returning 1.19%. Relative performance was inversely-correlated with market cap size in the quarter, with the Russell Micro Cap Index up 23.89%, the small cap Russell 2000 Index up 12.70%, the Russell Midcap Index up 8.14%, and the large cap Russell 1000 Index returning 5.91%. The more cyclically-sensitive Energy, Financial, and Industrial sectors performed best in the quarter. Consumer Staples, Information Technology, and Utilities were the bottom three performing sectors. All sectors produced positive returns.

Performance Commentary

It was a tough period for small cap growth as the rotation into value continued across the market cap spectrum. The Russell 2000 Index experienced the best returns from the more cyclical Energy, Industrials, Materials, and Consumer Discretionary sectors, with negative returns posted in traditional growth havens Health Care and Information Technology.

Despite the rotation into value, the Buffalo Small Cap Fund (BUFSX) gained 6.29% during the quarter, outperforming the Morningstar U.S. Small Growth Index's decline of 0.42%. Stock selection in Health Care drove the majority of the outperformance due to better relative performance in biotechnology, pharmaceuticals, and life sciences tools. The success in Health Care was fairly broad based as four of the Fund's top 10 contributors were Health Care positions. Technology, Industrials, and Consumer Discretionary were also solid relative contributors and offset slight underperformance in Financials. As usual, stock selection drove outperformance with minimal sector allocation impact. Mergers and acquisitions were also a source of upside as the Fund held shares of **Genmark Diagnostics**, which received a buyout offer from Roche during the quarter.

Average Annualized Performance (%)

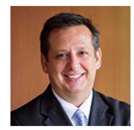
As of 3/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFSX*	120.78	31.91	27.45	16.01	11.73	14.02
Institutional Class - *BUISX*[1]	121.14	32.10	27.63	16.18	11.90	14.19
Morningstar U.S. Small Growth Index	81.92	18.48	19.43	13.36	10.25	7.59
Lipper Small Cap Growth Fund Index	89.96	20.17	20.49	13.47	9.97	8.58

[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.

Fund Facts

	Investor	Institutional
Ticker:	BUFSX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$1.13 Billion	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

Management Team



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BUFFALO FUNDS

↑ Top Contributors

Cambium Networks was the largest relative performer during the quarter. The maker of wireless access solutions for communications networks continued to show solid growth, as the spending environment for their solutions remained robust due to recent spectrum auctions and new product introductions by the company. We continue to be excited about the outlook for communications equipment spending, especially in fixed wireless access, due to greatly improved technology and a superior cost profile especially for rural customers where fiber is less economical.

Ligand Pharmaceuticals was also a large contributor during the quarter. This producer of drug delivery and discovery platforms for biotech and pharma customers has been a multi-year holding for the Fund, and we had recently been perplexed by the stock's rising short interest and poor performance despite continued solid execution and increasing estimates. As it turns out, Ligand was one of the stocks targeted by troubled hedge fund, Melvin Capital, in addition to other stocks like GameStop, iRobot, and Bed Bath & Beyond. As GameStop shares went higher as a result of a large short squeeze and word of Melvin's other short positions got out, Ligand also rose on a short squeeze and settled at around $150 a share from its prior levels in the $80-100 range. We continue to believe the company's OmniAb antibody discovery platform is not being valued correctly by the market and should see excellent growth over the next few years.

↓ Top Detractors

Array Technologies was the largest underperformer this quarter. The producer of solar tracker systems that optimize the efficiency of solar panels for utilities modulated its expectations for international markets, largely due to a lingering impact from COVID, as entry into some markets remains difficult. We continue to believe there is a sizable opportunity for the company to further penetrate international markets with their differentiated product in a high growth industry and therefore remain positive on the shares.

Outlook

The outlook for the Fund remains generally positive, as robust monetary and fiscal stimulus provides an inviting backdrop for investors. While a quick rise in interest rates has given some pause on growth stocks and facilitated a catchup trade for value stocks, we do not believe the prospect of a low single digit yield on a 10-year government bond is going to provide a suitable enough return for investors to begin to abandon equities. 2021 should continue to benefit from a recovering economy with above average gross domestic product (GDP) growth, but as we return to pre-COVID levels, we believe economic growth likely gets stymied, as higher federal debt levels and higher taxes eventually slow the economy, which may again command premium multiples on companies that can grow faster than the market. While there is also chatter about increases in inflation ruining the party, we believe we are still a ways away from seeing enough inflation sustaining at a level that gets the Federal Reserve concerned enough to take action on interest rates. Meanwhile, COVID variants and the durability of responses to vaccinations remain a wildcard, but the rapid dissemination of vaccines by the new administration is definitely a positive for economic recovery and a return to normalcy. Higher tax rates will be required to pay for the additional fiscal stimulus and could take a small bite out of earnings growth, but we do not believe there is enough political capital or will to raise taxes high enough to choke the market.

We continue to believe that we are in the early stages of a small cap outperformance cycle, beginning with the market lows in March 2020, as small caps have historically outperformed coming out of recessionary periods and periods of market dislocation. The past 7 small cap leadership cycles have averaged 6 years in length and have driven significant outperformance relative to large caps, according to data from Jefferies.

We continue to follow our discipline of selling stocks that have become too large in market cap (generally in the $10-12 billion range) and trimming or selling positions where we feel the downside risk greatly exceeds our upside opportunity. Over the past few quarters, we have increased portfolio holdings in cyclical growth companies, a move that helped our relative performance during the market rotation to value and cyclicals. In March, we witnessed an acceleration in the move to value at the expense of growth and are starting to see more compelling valuations in high secular growth companies that had previously become rather expensive. We also are starting to see some attractive valuations in companies that were perceived to be COVID beneficiaries but have recently sold off on fears of tough comparisons over the next few quarters. As usual, we continue to look for ways to optimize the portfolio, and we remain engaged with evaluating new companies. We appreciate your continued support as shareholders.

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.

As of 12/31/20 Buffalo Small Cap Fund top 10 equity holdings were Natera 2.98%, CareDx 2.38%, Kornit Digital 1.93%, Penn National Gaming 1.90%, Bandwidth 1.85%, Upwork 1.84%, Halozyme Therapeutics 1.84%, Lovesac 1.83%, Air Transport Services Group 1.74%, Guess? 1.73%. 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 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 Micro Cap Index measures the performance 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 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 and measures the performance of the 1,000 largest publicly-held companies incorporated in the U.S. based on market capitalization. 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 Lipper Small Cap Growth Fund Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. One cannot invest directly in an index. A basis point (bps) is one hundredth of a percentage point (0.01%).

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.