

## 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 Small Cap Fund (BUFEX) generated a return of 9.91% during the 3rd quarter, outperforming the Morningstar U.S. Small Growth Index, which increased 7.35% during same time period. Strong stock selection in Information Technology, Consumer Discretionary, Telecommunication Services, and Financials were the biggest contributors to outperformance relative to the Index. Meanwhile, negative stock selection in the Health Care sector was a slight offset to performance. Although small caps rebounded stronger and outperformed large cap growth in the 2nd quarter, all cap ranges generated positive returns in the 3rd quarter, with larger cap indices performing the best.

## Average Annualized Performance (%)

As of 9/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFEX	43.10	20.42	18.90	13.93	10.33	12.67
Institutional Class - BUISX <sup>1</sup>	43.31	20.61	19.08	14.11	10.50	12.51
Morningstar U.S. Small Growth Index	22.23	12.35	13.79	13.39	9.56	6.61
Lipper Small Cap Growth Fund Index	20.08	13.77	14.15	13.07	9.00	7.51

<sup>1</sup>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 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](http://buffalofunds.com).

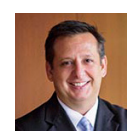
## ↑ Top Contributors

Penn National Gaming was the best performing stock for the Fund in the 3rd quarter, producing a return of over 140%. The company is an owner and manager of gaming and racing properties, sports betting operations, and video gaming terminals, including 41 properties in 19 states. Additionally, the company recently purchased a 36% equity interest in Barstool Sports, a leading digital sports, entertainment, and media platform. The combination of Barstool's audience, brand, and marketing engine, along with Penn's large geographic footprint, create an unrivaled omni-channel offering, in our opinion. The company launched an online sports betting app called Barstool Sports in the 3rd quarter with great success. Penn's stock performance in the quarter was driven by better-than-expected pre-announced 3rd quarter margins and revenue growth, as well as the large opportunity in the company's omni-channel offering created by the Barstool Sports partnership.

## Fund Facts

	Investor	Institutional
Ticker:	BUFEX	BUISX
Inception Date:	4/14/98	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$684.74 Million	
Category:	Small Cap Growth	
Benchmark:	Morningstar U.S. Small Growth Index	

## Management Team



**Jamie Cuellar, CFA**

Co-Manager since 2015  
M.B.A. – Southern Methodist  
B.B.A. – Univ. of San Diego



**Bob Male, CFA**

Manager since Inception  
M.B.A. – Southern Methodist  
B.S. – University of Kansas



**Alex Hancock, CFA**

Co-Manager since 2017  
B.A. – Dartmouth College

**Livongo Health** continued to move higher and was another strong contributor to performance, returning just over 83% in the quarter. The company is a leading provider of technology solutions for remote monitoring of patients with chronic medical conditions. In the current environment of COVID-19 quarantines, demand for the company's solutions remains solid. Strong operating performance along with increased investor willingness to pay higher multiples for companies with solutions that benefit from the pandemic, helped drive the stock to all-time highs in the quarter. During the quarter Livongo and Teladoc Health announced plans to merge, and we exited the position, as the combined company graduated beyond the portfolio's capitalization range.

## ↓ Top Detractors

**PaySign** was the largest detractor from Fund performance during the quarter. The company is a vertically-integrated prepaid debit card and payment provider, mainly serving plasma donation centers and pharmaceutical customers. The company reported 2nd quarter results that were negatively-impacted by increased consumer stimulus, reducing the incentive for plasma donations as well as tightened budgets negatively impacting the company's Pharma unit. We believe the weakness is temporary and PaySign's operating environment should improve as stimulus declines and doctor visits increase. The company's main competitor, Wirecard, remains weakened due to suspected fraud which should allow PaySign to continue to take market share.

## Outlook

Like the March and June quarters, small cap stocks experienced elevated volatility in the September quarter. The Fund returned nearly 10% between the months of July and August but declined slightly in the month of September as the overall market sold off. Looking forward, we believe volatility is likely to remain in place in the near term through the November election, but many factors point to optimism for small caps and the overall markets this quarter and beyond.

Given the market's rapid recovery from March lows, future returns depend significantly on the trajectory of corporate earnings into 2021. While "work from home" companies and sectors with exposure to housing have fared well this year, we believe that many companies have adapted their businesses and are poised to report encouraging results in this environment of improving business spending and consumer confidence. While the rate of job gains has slowed in recent months, the September unemployment rate in the U.S. declined to 7.9% (down from 14.7% in April), and we are optimistic the job market will continue to mend in coming months. Positive information flow on additional COVID-19 treatment options, vaccine progress and testing capacity could continue to allow the market to grind higher allowing investors to look beyond near-term infection numbers. Positive vaccine data could help the stock market rerate, and value companies that have not participated in the rally, could begin to outperform the growth leaders, which have been pushed to relatively high valuation levels.

While the Democratic party appears poised to make significant gains in the November election, the ultimate outcome remains uncertain. If the Democratic party wins control of all three branches of government, stocks could see some pressure due to the potential for higher tax rates, increased regulation, and potential pricing pressure in some health care companies. At the same time, if a Biden administration seeks to rein in the business models of large cap technology stocks, some small cap technology stocks, especially in the internet arena, could potentially benefit if the large caps lose their dominance. Finally, regardless of which party wins the presidency, fiscal and monetary policy remain extremely accommodative worldwide. We believe that the Federal Reserve and Congress' aggressive policy response to the virus earlier in 2020 helped to prevent a deeper recession, and while further stimulus before the election is uncertain, we believe it is likely that we will see an agreement that will benefit consumers before year-end, which could be beneficial to some stocks in the Fund.

Within the framework above, we are cautiously optimistic about the prospects for our small cap growth stocks in coming months but believe the factors above will likely drive significant volatility. We finished the September quarter with 77 holdings, up slightly from 75 at the end of the June quarter. We are continuing to manage the Fund actively to try to position it for continued outperformance by allocating capital to opportunities that we believe have the best risk/reward tradeoffs. As always, we will look to reduce or sell those holdings that either have traded above a market cap that we believe is no longer reflective of a small cap company (typically around \$10–12 billion) or are considered to be fully valued, and replace them with small cap stocks with a better risk/reward opportunity.

We also continue to invest in companies whose organic growth has been pressured in the near-term by pandemic-driven slowdown but whose business models and balance sheets are strong. We believe many of these businesses can use the downturn as an opportunity to operate more efficiently, gain market share, and find new opportunities for growth. We expect many of these holdings to emerge from the downturn with stronger, higher-margin businesses when the U.S. economy returns to more normalized levels. These are also the companies that could lead the market upward if an effective vaccine gains widespread distribution in the near-term, and we have made some adjustments to our portfolio for this possibility. Our time-tested strategy of investing in premier companies, which could benefit from long-term trends and trade at attractive valuations, remains the cornerstone of our work. We appreciate your continued confidence in our efforts. ▲

## 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](http://buffalofunds.com). Read carefully before investing.*

### Earnings growth is not representative of the Fund's future performance.

As of 6/30/20 Buffalo Small Cap Fund top 10 equity holdings were Natera 2.85%, Livongo Health 2.83%, Lovesac 2.80%, CareDx 2.62%, Bandwidth 2.52%, Ligand Pharmaceuticals 2.48%, Kornit Digital 2.22%, CyrusOne 2.01%, Halozyme Therapeutics 1.99%, Air Transport Services Group 1.93%. 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. 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.

**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.

