Small Cap 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 Small Cap Fund	22.08	9.29	11.26	7.13	11.52
Russell 2000 Growth Index	20.98	12.17	14.28	8.47	6.02

Expense ratio 1.02%. Inception Date 4/14/1998. 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.

PORTFOLIO MANAGEMENT TEAM



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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 Small Cap Fund gained 5.02% during the quarter, underperforming its benchmark, the Russell 2000 Growth Index, which gained 6.22%. The Index enjoyed good breadth of returns across industries but was largely driven by gains in technology, healthcare, and industrials. While the Fund outperformed in technology and telecom services, it failed to keep up with the strong returns posted in industrials and financials. In spite of the relative underperformance during the most recent quarter, the Fund maintained a lead over its benchmark on a year-to-date basis.

Exact Sciences was the largest contributor for the Fund gaining 33.05% during the quarter. The company continued to see solid success with their colorectal cancer screening product, Cologuard. This product is now widely covered by most commercial insurers as an appropriate screening product, and the company continues to add more prescribing doctors and new patients boosting the company's revenues.

Dave and Buster's was the Fund's largest detractor during the period. The restaurant and amusement chain had been outperforming most of its peers in what has been a difficult consumer environment. However, the stock weakened this quarter as investors became concerned about moderating same store sales growth and tougher year-over-year comparisons.

CyberArk was also an underperformer for the quarter. A market leader in Privileged Account Management security software, CyberArk experienced software license growth that was weaker than expected, mainly in Europe. New government-mandated cybersecurity initiatives in Europe may be slowing their revenue growth in the near term as companies evaluate their best options to achieve compliance.

OUTLOOK

We believe the outlook for smaller-capitalization companies in the U.S. remains constructive. If the current administration is able to achieve tax reform and lower the corporate tax rate, smaller companies, whose revenues are more concentrated in the U.S., would be outsized beneficiaries. The market has started to bid small cap companies up in anticipation of this. While valuations have increased for small cap stocks, earnings growth has been solid, and the favorable interest rate environment continues to favor investment in risk assets.

The bigger risks to small cap companies continue to be a policy misstep by central banks, failure to achieve lower tax rates, and relatively high valuations. We remain focused on trimming or selling those positions with limited upside while finding new ideas that can potentially benefit from long-term trends and trade at attractive valuations by our analysis.

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 6/30/17 the Buffalo Small Cap Fund's top ten equity holdings were: Supernus Pharmaceuticals, Inc. 2.28%, Dave & Buster's Entertainment, Inc. 2.17%, Bio-Techne Corp. 2.12%, Nevro Corporation 2.04%, Cavium, Inc. 1.99%, Catalent, Inc. 1.98%, Five9, Inc. 1.97%, HealthEquity, Inc. 1.97%, Monolithic Power Systems, Inc. 1.96%, & WageWorks, Inc. 1.94%.

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

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 3000 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. 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 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 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. You can not invest directly in an index.

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

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. The Fund may invest in U.S. based companies with substantial interests outside of the U.S. which may involve additional risk such as greater volatility and political, economic and/or currency risks. This risk is greater in emerging markets.

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