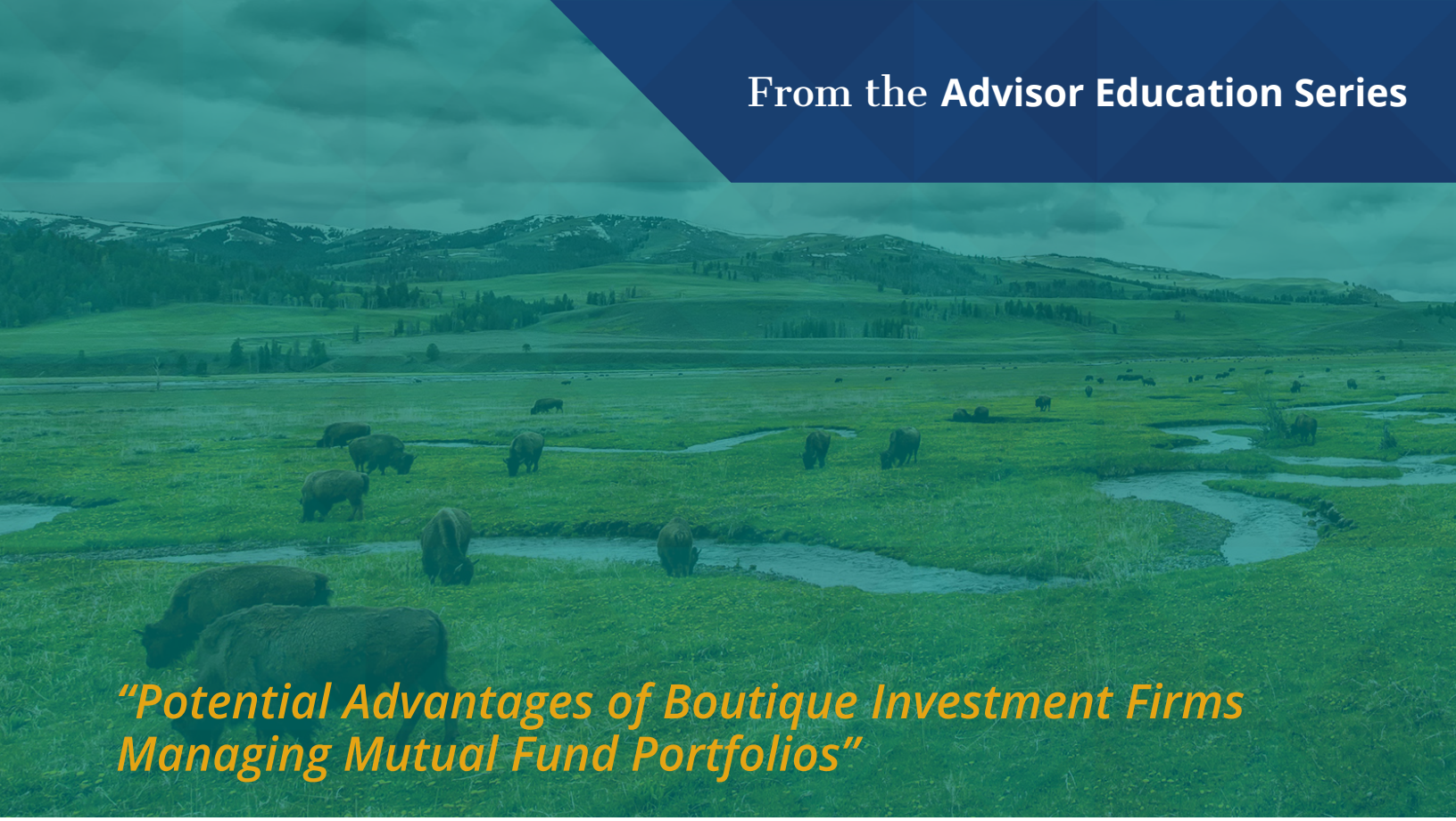


"Potential Advantages of Boutique Investment Firms Managing Mutual Fund Portfolios"

The term "investment boutique" can describe a relatively wide range of asset management firms, but the general consensus is that investment boutiques are smaller, independently-operated firms that manage less than $10 billion in assets under management (AUM) with specialization or expertise in a particular segment or area of investing.

Many investment professionals refer to boutique managers as single-strategy firms, for example "bond shops" or "small cap specialists". However, many boutique firms have multiple investment strategies, including both domestic and international equity, fixed income, and blended approaches, and they are often supported by institutional-caliber compliance and operations teams.

CHARACTERISTICS OF BOUTIQUES

- Unique Story
- Simple Org Structure
- Streamlined Management
- Highly Agile
- Asset Managers Not Gatherers
- Low Staff Turnover
- Employee Ownership
- Vested Interests
- Accessible Portfolio Managers

Although the specifics of boutique managers vary from firm to firm, they generally share several common characteristics that we believe are important to consider when selecting asset managers.

Boutique management firms are built on the passionate belief that they can deliver solid and consistent risk-adjusted performance over the long term by employing distinct, well-defined, and repeatable investment processes.

The best boutique firms reflect their managers' passion for investing through a disciplined process grounded in quality research.

However, it all starts with a unique story...

A UNIQUE STORY

Many boutique managers have developed a unique philosophy or differentiated investment process that was created internally and organically through a founder's personal investment experience and dedication to an approach that became successful over time.

Frequently these firms have a unique story and can trace their roots back to a founder's basement that grew into a small, nondescript office space next to a laundry mat once they got their first employee, and then eventually into something notable.

Some investment boutiques remain 1st generation owned and operated businesses, where the founder is personally responsible for at least some part of asset management, and who continue to take great pride in their business and reputation.

Many firms also have 2nd generation family members carrying on the legacy of the founding principal.

APART FROM THE HERD

The Buffalo Funds were launched in 1994 by John Kornitzer as a way to provide managed investment vehicles for the private accounts of his clients at Kornitzer Capital Management (KCM).

Prior to founding KCM, John managed assets for Employers Reinsurance Corp. and General Electric Investment Corp. His experience also includes 11 years on Wall Street at Merrill Lynch, Pierce, Fenner & Smith and Butcher & Singer's.

John and his team developed a long-term growth investment strategy, with a top-down / bottom-up approach, and based on analysis of 25+ proprietary trends.

Origin of the Fund Name
The Buffalo Funds name originated with the idea of the American buffalo, which provided food, clothing, and shelter for Native Americans throughout the Midwest for thousands of years. The buffalo is also the Official State Animal of Kansas, headquarters of the Buffalo Funds.

BUFFALO FUNDS

SIMPLE ORG STRUCTURE, STREAMLINED MANAGEMENT, HIGHLY AGILE

Boutiques often have simple, horizontal organizational structures without layers upon layers of management. Typically, their founders were drawn to the business through their love of investing and have little desire to build empires or manage people.

Boutiques often outsource certain back office functions such as accounting and operations thereby keeping the inevitable routine chores of running a business to minimum in order to maintain a primary focus on investment management for most of the staff.

Boutique managers can often make quick decisions without bureaucratic restraints that may impede action and implementation at larger firms. In a 2014 survey by WealthManagement.com, 80% of respondents saw boutique firms as highly agile, compared to just 35% for large firms, while 56% of advisors using boutiques considered agility to be an important criterion when selecting an asset management firm.

Big firms tend to get a line of thinking that permeates throughout the institution; boutiques can often be more creative and indiviaul in their approach, avoiding the herd mentality.

BUFFALO'S TEAM-BASED APPROACH

The Buffalo Funds team-based, idea-sharing management style ensures collaborative decision-making and continuity within our investment process. Our portfolio managers and analysts work as a team to achieve consistent, long-term investment returns.

We believe in organically developing and promoting our investment professionals, ensuring our founding investment principles are carried forward.

BUFFALO® FUNDS

ASSET MANAGERS, NOT GATHERERS

Size and agility are also key reasons why investors seek out the investment products of relatively smaller boutique managers.

Asset bloat is real-life problem for portfolio managers of multi-billion dollar funds. Making portfolio changes in a gigantic fund is akin to turning a battleship in a bathtub.

Boutique managers tend to be “asset managers” as opposed to “asset gatherers”. In most cases, these managers are willing to (and do) limit growth in assets, preferring to concentrate on investment performance rather than the size of their asset base.

Smaller funds retain the nimbleness to take concentrated positions, construct high-conviction portfolios, and move in and out positions without moving the market for those securities.

The smaller-sized boutique manager possesses an inherent competitive advantage over larger institutions in terms of trade volume, which can be especially critical at inflection points in the market.

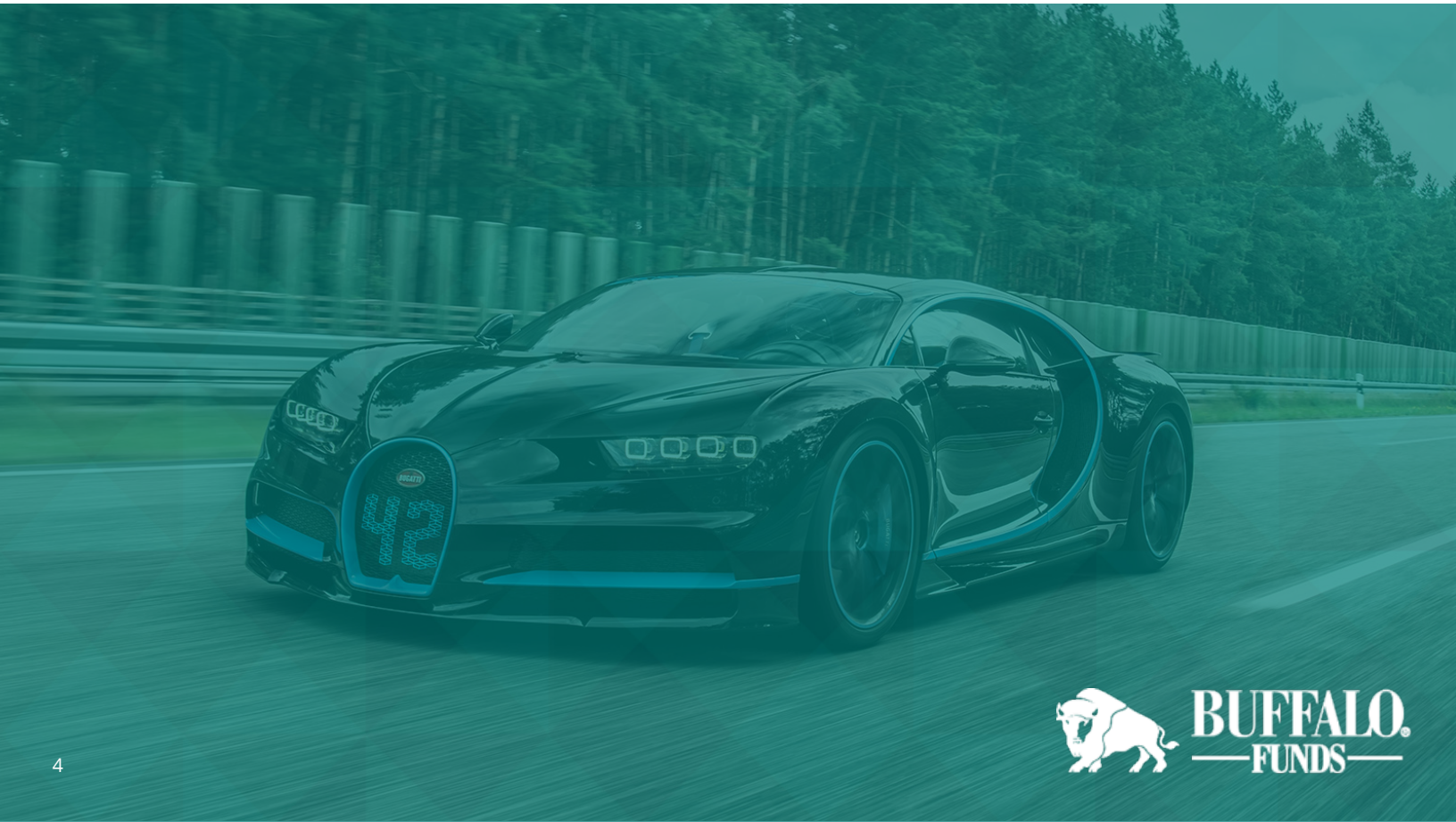
SMALL BUT POWERFUL

Agility is essential for boutique firms because their asset pools are affected by volatility, negative performance, or excessive risk more quickly.

The Buffalo Funds maintains a conservative approach to investing, choosing to limit forego some potential upside returns in favor of minimizing downside returns.

Several of our funds have reached in excess of $1 billion, and we have closed those funds when we felt they might become too large to effectively manage with the degree of agility we prefer.

We believe our lean organizational structure and manageable asset levels makes us the Bugatti of the investment world -- designed for high performance and developed to be able to respond rapidly to changing market conditions and new opportunities.



14+ YEARS

Our portfolio managers have been with our firm on average over 14 years, with several managers still with the firm since its founding in 1994. In fact the average tenure of all staff at the firm is over 11 years.

Like many boutique firms, we also have a 2nd generation managing assets, providing for a continuity of business and carrying on the investment philosophy that has made the company so successful.

Firm tenure combined with an average of over 21 years professional investment management ensures our team has the experience to provide consistent, time-tested returns.

LOW STAFF TURNOVER

Those who use boutiques are likely to name manager tenure among the top reasons for their investment selection choice.

Founders often view their employees as extended family and get to know their people. They take significant gratification in being able to provide a quality of life and work environment for their staff.

Boutiques tend to hire investment personnel with prior industry experience and are not generally prepared to train junior analysts and/or new graduates in large numbers, which promotes lower churn among the investment team and a more stable long-term culture.

Low staff turnover promotes a culture of long-tenured portfolio managers that are able to maintain consistent execution of an investment strategy over long periods of time.

BUFFALO® FUNDS

EMPLOYEE OWNERSHIP

Many investment professionals who work for boutique investment firms are employee-owners that have obtained an ownership stake in the business.

Key personnel often have strong incentives to remain with their firms and have a vested interest in the success of the firm and its product offerings over the long haul.

Many have a significant portion of their personal net worth invested in the portfolios they manage which helps align the interests of money managers and their clients.

As independent, employee-owned companies, many boutiques find this ownership structure enables superior client service and advisor continuity.

VESTED INTERESTS

At the Buffalo Funds, our company-sponsored retirement plan invests solely in the Buffalo Funds. Due to the long tenure at the firm, many portfolio managers have hundreds of thousands of dollars, even millions, invested in the funds they manage.

As listed in our Statement of Additional Information as of 3/31/17, the portfolio managers collectively held over $5 million in individual accounts invested solely in Buffalo Funds assets.

The portfolio managers have a fiduciary duty to place the interests of shareholders before their own interests. While they have a vested interest in the success of the funds they manage, they adhere to the Buffalo Funds Code of Ethics to prevent any conflicts of interest in personal ownership of the Funds.

BUFFALO FUNDS

ONE-ON-ONE WITH THE PM

We provide advisors the rare opportunity to speak one-on-one with our portfolio managers and hear their investment philosophy first-hand.

Contact us at advisors@buffalofunds.com to request a call with any of the 16 Buffalo Funds portfolio managers.

PORTFOLIO MANAGER ACCESSIBILITY

One of the potential advantages to working with boutique fund managers is the increased accessibility to key decision makers. This is an often-overlooked benefit, as many advisors wish to hear directly about the money manager's investment philosophy but are unable to reach these contacts at large global investment firms.

Since portfolio managers at boutique firms tend to work closely with sales and marketing teams, with staff often working from nearby or adjacent offices, many boutique managers will offer their time to speak directly with advisors, providing a first-hand tour of their portfolios.

Understanding drivers of fund performance through conversations with investment team members is an important component to building long-lasting business relationships in the industry.

BUFFALO FUNDS

"Potential Advantages of Boutique Investment Firms Managing Mutual Fund Portfolios"

CLOSING THOUGHTS

A boutique mutual fund management firm can have many advantages over larger asset management firms, including possible outperformance, more alignment of the interests of investors and money managers, and more differentiation and discipline in investment processes.

While it may be true that larger asset management companies might benefit from economies of scale in distribution, compliance, and technology, the cost advantages they gain often don't translate into performance advantages for investors.

We believe the boutique model offers an attractive alternative to large firms and should be a factor investors examine when making investment decisions.

The sharp focus on a particular slice of the financial markets, coupled with disciplined, time-tested investment strategies managed by stable, long-tenured investment teams, working in close collaboration together, may help advisors provide their clients with compelling results over time.

INTERESTED IN MORE INFORMATION? 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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