Buffalo Flexible Income Fund

Quarterly Commentary as of 12/31/16

Average Annualized Performance (as of 12/31/16) Expense Ratio: 1.01%	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**	**Since Inception** (8/12/94)
Buffalo Flexible Income Fund	9.90%	3.73%	7.51%	5.95%	6.70%	7.19%
S&P 500 Index	11.96%	8.87%	14.66%	6.95%	6.69%	9.40%
BofA Merrill Lynch HY Master II Index	17.49%	4.72%	7.35%	7.34%	8.18%	7.67%
Lipper Mixed Asset Allocation Moderate Funds Index	7.48%	3.95%	7.58%	4.43%	5.22%	6.82%

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 and quarter end may be obtained by visiting the Funds' website at www.buffalofunds.com.

Capital Market Overview

Capital markets got off to a volatile start in 2016 with the Russell 3000 Index dropping over 11% and West Texas Intermediate (WTI) Crude Oil down almost 30% by mid-February. Concerns about soft Chinese economic growth contributed to equity market weakness early in the year, and the energy complex was struggling to resolve its oversupplied condition. Meanwhile, perceived "safe-haven" assets performed strongly as U.S. 10-year Treasury notes advanced and gold appreciated over 15% during the same time frame. Economic concerns and a falling stock market led the Federal Reserve to adopt a less aggressive stance toward interest rate increases, and falling crude production eventually calmed fears of oversupply. These drivers led to a rebound in prices of both equities and crude oil and began a period of steadily rising prices and declining volatility that would continue from mid-February through the end of the year with only minor interruption. Interestingly, perceived "safe-haven" assets continued to perform strongly as gold and U.S. Treasuries rallied alongside equities into the summer and largely held those gains into the fall. The fourth quarter of 2016 began with this uneasy disequilibrium still largely intact, but sentiment changed dramatically with Donald Trump's surprise election victory on November 8th. The election outcome created expectations of pro-growth policies and deregulation that drove accelerating gains in stock prices, higher interest rates and associated declines in the prices of both Treasury bonds and gold, all of which generally persisted through the end of 2016.

The Russell 3000 Index returned 12.74% for the full year. The Russell 3000 Value Index outperformed the Russell 3000 Growth Index by 11.01% during the year, and smaller-capitalization indices such as the Russell Microcap Index, the Russell 2000 Index and the Russell Midcap Index outperformed the large-capitalization Russell 1000 Index by 8.31%, 9.25% and 1.74%, respectively. Much of the outperformance of value stocks can be attributed to the strong performance of the energy sector. Outperformance of small-capitalization stocks was reflective of investor aversion to greater international exposure of larger companies in the face of a rising dollar, as well as increasingly optimistic expectations for the domestic economy and for a lower U.S. corporate tax rate following the election. For the year, Energy and Materials were the best performing sectors in the Russell 3000 Index as expectations for infrastructure investment and increasing investor risk appetite following the election contributed to the reversal of prior-year underperformance that was already underway. Health Care was the worst performing sector for the year, as concerns about political backlash against rising drug prices contributed to declines in Pharmaceutical & Biotech stocks.

For the fourth quarter, the Russell 3000 Index returned 4.21%. The Russell 3000 Value Index outperformed the Russell 3000

Growth Index by 6.04% during the quarter while smaller-capitalization indices such as the Russell Microcap Index and the Russell 2000 Index outperformed the large-capitalization Russell 1000 Index by 6.22% and 5.00%, respectively. The Russell Midcap Index of mid-sized companies underperformed the Russell 1000 Index by 0.62% in the fourth quarter and was the lone exception to the trend of small outperforming large. Outperformance of more cyclically sensitive value stocks and small-capitalization stocks reflected some of the same drivers that were in place earlier in the year, as well as increasingly optimistic expectations for economic growth, higher interest rates and expectations of a lower corporate tax rate in the U.S. following the election. Financial Services was the best performing sector in the fourth quarter, benefiting from higher interest rates and expectations for a less adversarial regulatory regime under the new Republican administration. The flip-side of greater risk appetite was less demand for stable, "bond-like" equities which was reflected in the lower-risk Consumer Staples sector performing poorly during the quarter. Political risk continued to put pressure on the Health Care sector, as uncertainty regarding potential for drug price regulation and repeal of the Affordable Care Act contributed to Health Care being the worst performing sector during the quarter.

Performance Commentary

The Buffalo Flexible Income Fund produced a return 4.33% for the quarter and outperformed the S&P 500 Index return of 3.82% and the BofA Merrill Lynch High Yield Master II Index return of 1.88%. The fund's peer group index, the Lipper Mixed Asset Allocation Moderate Funds Index, produced a return of 0.70% for the quarter.

The equity portion of the portfolio outperformed the S&P 500 Index with a total return of 1.09% for the quarter. The relative outperformance was primarily driven by the fund's investments within the energy and consumer discretionary sectors. The relative outperformance within the energy sector was driven by sector allocation as the fund was significantly overweight one of the better performing sectors in the S&P 500 Index. The outperformance within the consumer discretionary sector was driven by security selection, specifically the performance of Lions Gate Entertainment. The top three contributors to the fund's equity performance during the quarter were HollyFrontier, Lions Gate Entertainment and BB&T Corporation while the top three detractors were Proctor & Gamble, GlaxoSmithKline and Pitney Bowes.

The fixed income portion of the fund generated a return of 2.17% and outperformed the BofA Merrill Lynch High Yield Master II Index return of 1.88%. The outperformance was driven primarily by the consumer discretionary sector and to a lesser degree telecom. As was the case in the equity portion of the portfolio, Lions Gate Entertainment was the significant driver of performance within consumer discretionary. Security selection was also the driver of outperformance within the telecom sector and Neustar was the biggest contributor as the company agreed to be acquired during the quarter. The top three contributors to the fund's fixed income performance during the quarter were Lions Gate Entertainment, Neustar, and Bankrate while the top three detractors were Valeant, Community Health Systems, and Medicines Company.

Outlook

We expect the market to experience continued volatility in the coming quarters as the Federal Reserve contemplates potential increases interest rates along with a focus on the ability of the Trump administration to enact infrastructure spending, deregulation, and corporate tax reform. Prospective tailwinds for the economy include further job growth, wage increases, lower tax rates, and simply more optimism from both businesses and consumers; all of which could lead to higher Gross Domestic Product (GDP) growth. On the other hand, potential headwinds include a continued strengthening of the U.S. dollar, further increases in interest rates, and valuation metrics that are above historical market averages leading us to believe that the stock market may have a hard time achieving further multiple expansion. We continue to search for new investment opportunities across the yield spectrum. Within the equity universe we continue to focus most of our attention on large cap, wide moat potential dividend payers. Within fixed income, we are focused on high yield bonds, convertible bonds and banks loans. More recently we have been finding better value in shorter duration high yield bonds but continue to believe that bank loans should provide value if the Federal Reserve continues to increase interest rates. Bank loans are one of the few asset classes that may increase in value as the Fed Fund rate increases. Within the convertible bond space, we are looking at both "busted converts" and converts with equity upside potential.

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 it must be obtained by calling 1-800-49-BUFFALO or visiting www.buffalofunds.com. Read it carefully before investing.

As of 9/30/16 the Buffalo Flexible Income Fund's top ten holdings were: Lions Gate Entertainment, Inc. (1.25%, 4/15/18) 3.58%, Proctor & Gamble Co. 3.04%, General Electric Co. 2.88%, AT&T, Inc. 2.83%, Microsoft Corporation 2.74%, Intel Corporation 2.69%, Bankrate, Inc. (6.125%, 8/15/18) 2.66%, Exxon Mobil Corporation 2.59%, GlaxoSmithKline PLC 2.56%, Verizon Communications, Inc. 2.43%.

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. The BofA Merrill Lynch High Yield Master II Index is an unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. It includes zero-coupon bonds and payment-in-kind (PIK) bonds. The Lipper Mixed-Asset Target Allocation Moderate Funds Index is an unmanaged index considered representative of mixed-asset target allocation moderate funds tracked by Lipper, which would combine the 30 biggest funds, based on asset size, that belong to this asset category. The U.S. 10-year Treasury note is a debt obligation issued by the United States government that matures in 10 years. The Russell 3000 Index measures the performance of the 3,000 largest publically held companies incorporated in the U.S. based on market capitalization. The Russell 3000 Value Index is a market-capitalization weighted equity based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. The Russell 3000 Growth Index includes companies that display signs of above average growth. The Russell Microcap Index is a capitalization weighted index of 2,000 small cap and micro cap companies. 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 publically-held companies incorporated in the U.S. based on market capitalization. You cannot invest directly in an index.

Duration is a measure of the sensitivity of the price of a fixed income investment to a change in interest rates.

Mutual Fund Investing Involves Risk. Principal loss is possible. The Flexible Income Fund invests in lower-rated and non-rated securities which presents a greater risk of loss to principal and interest than higher-rated securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility. Investments in international and foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. MLPs are subject to certain risks inherent in the structure of MLPs, including complex tax structure risks, limited ability for election or removal of management, limited voting rights, potential dependence on parent companies or sponsors for revenues to satisfy obligations, and potential conflicts of interest between partners, members and affiliates.

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