Buffalo Large Cap Fund

Quarterly Commentary as 12/31/16

Average Annualized Performance (as of 12/31/16) Expense Ratio: 0.95%	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**	**Since Inception** (5/19/95)
Buffalo Large Cap Fund	6.90%	8.90%	14.99%	7.66%	6.24%	8.99%
Russell 1000 Growth Index	0.54%	5.42%	12.96%	6.73%	5.14%	7.12%

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 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.

The Russell 1000 Growth Index appreciated 1.01% in the fourth quarter of calendar 2016 outperforming the Buffalo Large Cap Fund which returned -0.62%. Sector allocation was a modest negative in the quarter fueled by an overweight of healthcare. Stock selection was largely responsible for the relative underperformance and was attributable to our healthcare holdings, specifically biotechnology.

Top contributors in the period were Micron Technologies, Harman International and Marriott International. Micron offers semiconductor memory products. We added the stock to the portfolio late in 2015 anticipating overcapacity issues would resolve and pricing would stabilize, both of which have come to pass. The company solidly beat its guidance and communicated an upbeat forecast in its most recent quarterly report. Harman International's stock appreciated upon the announcement that Samsung Electronics would acquire the company in an all cash deal at $112 per share, a 29% premium. Marriott International's equity ascended in anticipation of better than originally expected synergies in connection with its acquisition of Starwood Hotels, a deal which closed in the third quarter of calendar year 2016.

Top detractors in the period were Amazon, Alnylam Pharmaceuticals and Cerner. Amazon's third quarter earnings' report fell short of expectations due to higher spending. The fourth quarter outlook also fell short of expectations. The stock sold off after the report, but we believe the long term prospects of the company remain bright. Alnylam, a biotechnology company, halted development of a drug in a late stage clinical trial. While Alnylam has a prolific pipeline, this setback was meaningful and warranted a pullback in the stock. Cerner provides information technology software tools to hospitals. Cerner's growth has slowed this past year. In addition, President-elect Trump has affirmed he will repeal Obamacare leaving many hospitals uncertain of their future and reluctant to invest. As a result the near term prospects for Cerner's business are challenged. Yet over the intermediate to long term, we believe the Cerner's growth profile is attractive and the company's products will prove critical to hospitals in managing costs and improving health outcomes.

The fund ended the calendar year with 44 holdings representing 43 companies, as we hold both the Class A and Class C shares of Alphabet (formerly Google). We exited one positions in the fourth quarter, and added three new stocks to the Fund, two industrial holdings and one information technology stock.

The U.S. economy ended 2016 on a strong note, with real gross domestic product growth strengthening, unemployment below 5% and consumer confidence reaching a multi-year high. Donald Trump's cabinet nominees and White House staff appointments are decidedly pro-business, with many having been drawn from the corporate sector as opposed to government service. Enthusiasm over corporate tax reform, decreased regulation, repatriation, investment in infrastructure and defense are just some of the themes driving the market higher. As interest rates increased in the fourth quarter, capital rotated out of fixed income into equities. With several more rate hikes planned in 2017, we expect this rotation to continue.

This setup bodes well for U.S. equity markets looking forward. Nevertheless we believe that change will take time. The S&P 500 Index appreciated almost 5% from 11/08/16, the date of the U.S. presidential election, through year end 2016. We are being thoughtful about the future and considering which policies and legislation will be enacted over the next few years and the impact those changes will have on our universe of stocks that can be beneficiaries of the Buffalo Secular Growth Trends. While we strive to invest in companies that will thrive in any political environment, we also acknowledge that a significant change in leadership has occurred and aim to better position the portfolio to benefit from this change, while being mindful of valuations. Consequently we await a pullback to solidify this repositioning, and believe this opportunity will occur as the current state of euphoria gives way to the uncertainty inherent in the political process.

As of 9/30/16 the Buffalo Large Cap Fund's top ten equity holdings were: Amazon.com, Inc. 6.21%, Facebook Inc. 3.99%, Alphabet Inc. Class A 3.69%, Microsoft Corporation 3.58%, Apple, Inc. 3.49%, CVS Health Corporation 2.99%, Priceline Group, Inc. 2.56%, CME Group, Inc. 2.55%, Micron Technology, Inc. 2.54%, Schlumberger NV 2.52%.

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

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. The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. 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. You cannot invest directly in an index.