Buffalo Discovery Fund

Quarterly Commentary as of 12/31/16

Average Annualized Performance (as of 12/31/16) Expense Ratio: 1.02%	1 year	3 years	5 years	10 years	Since Inception (4/16/01)
Buffalo Discovery Fund	5.56%	7.27%	15.09%	9.82%	8.42%
Russell Midcap Growth Index	7.33%	6.23%	13.51%	7.83%	7.79%

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 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 Discovery Fund returned -0.42% in the fourth quarter of 2016 and finished up +5.56% for the calendar year. This compares to the Russell Mid Cap Growth Index return of +0.46% for the quarter and +7.33% for the year. The fund experienced a headwind in the quarter and year from our overweight position in Health Care where political backlash, as mentioned above, created a challenging environment for our positioning in the sector.

In the final quarter of calendar 2016 the fund experienced relatively strong contributions from the Energy, Information Technology, Industrials and Consumer Discretionary sectors which all achieved returns above that of the fund and the Benchmark. These more economically sensitive sectors were spurred by the promise of improved growth prospects and easier business conditions under the incoming Trump administration. Quarterly results were particularly strong in the Information Technology and Energy sectors which benefitted from strong stock selection and overweight positioning relative to the benchmark. Exceptional stock contributors from these sectors included Akamai Technologies, Inc., and FMC Technologies, Inc. Akamai's strong performance was driven by better than expected results in the digital content management business which helps businesses secure and manage online service offerings. Meanwhile FMC Technologies, which provides oil service equipment, benefited from multiple expansion after the Organization of the Petroleum Exporting Countries (OPEC) announced official production cuts, removing more than 1 million barrels per day from an oversupplied market.

The fund's Health Care and Financials sectors lagged in the quarter relative to the overall fund return and the Benchmark return. Within the Financials sector, heavily regulated subsectors and interest rate sensitive stocks did the best after Trump's presidential victory. Beneficiaries included many banks, asset managers and insurance companies, areas where we find little evidence of innovative strategies driving disruptive growth. We are underweight these subsectors within the Financials sector and suffered poor selection effect relative to the benchmark as a result. Health Care, which has benefitted the fund in the prior three calendar years suffered from poor selection and sector allocation effect in the quarter due to our overweight position in the midst of heavy bipartisan political posturing toward drug price control and growing likelihood of repeal or modification of the Affordable Care Act. We continue to find and invest in the disruptive innovators in the sector and believe it will remain fertile ground for shareholder value creation in the future through the development and advancement of new efficacious products and services that will gain share within large health care sub segments or create new market opportunities. Our largest individual stock detractors were Nevro Corp., and Cerner Corp. Nevro Corp. offers high frequency spinal cord stimulation (SCS) devices that treat back and leg pain more effectively than competing low frequency SCS devices. As a result it has rapidly gained nearly 15% market share and remains well positioned for further gains, in our opinion. The stock pulled back during the quarter after the company announced a lawsuit against an incumbent that is developing a competing high frequency device that NVRO believes infringes on its intellectual property. While we are confident in the company's IP and long term product and market positioning, the announcement elevated fears of competition and the potential for higher than expected legal expenses in the near term. Cerner reported weaker than expected quarterly results and guided the outlook down relative to expectations as they experience a more cautious near term spending environment in the health care IT market. We believe the firm's sticky client book, top-tier product portfolio, and strong reputation within the healthcare IT market should drive above average long-term growth and profitability as the digitization of health care processes continues.

Outlook

We see a number of tailwinds for investors in 2017 and beyond. The new administration is expected to be noticeably more business-friendly. Pro-growth policies and other reforms outlined by President-elect Trump centering around corporate tax reform and eliminating much of the regulation enacted over the past several years has been well received by many industries.

Additionally, permitting U.S. companies to repatriate cash held overseas with minimal or no tax consequences could allow nearly $2.5 trillion to return to the U.S. with the potential to be invested back into the U.S. economy. Another prospective major tailwind for the U.S. economy is President-elect Trump's proposed $550 billion infrastructure investment plan to improve the transportation network throughout the U.S.

All of these initiatives are powerful forces encouraging businesses to spend and invest, but they are major secular changes that won't happen overnight and could take years to unfold. Nevertheless we welcome the shift toward a more pro-growth, business friendly environment.

We stand poised to capitalize when and where we see an opportunity to improve risk-adjusted expected returns within the portfolio. Economic conditions may ebb and flow, but our focus remains steadfast on investing in what we believe to be attractively priced, financially strong, well-managed companies whose innovative strategies should fuel secular growth opportunities. We seek those opportunities where thoughtful management teams are in a favorable position to use innovation for market advantage and sustained value creation. Successful innovation may often lead to share gains in large existing markets, or the creation of large new market opportunities, a strategy which we believe is less dependent on the overall macro environment for growth.

As of 9/30/16 the Buffalo Discovery Fund's top ten equity holdings were: Alphabet, Inc. 2.50%, Cepheid, Inc. 1.93%, IHS Markit, Ltd. 1.84%, Cerner Corporation 1.77%, Garmin Ltd. 1.76%, Facebook, Inc. 1.74%, Harman International Industries, Inc. 1.72%, S&P Global, Inc. 1.72%, Republic Services, Inc. 1.70%, Align Technology, Inc. 1.70%.

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 Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth rates. You can not invest directly in an index.