

Flexible Income Fund

PM Commentary as of March 31, 2018



CAPITAL MARKET OVERVIEW

The long streak of low volatility and positive stock market returns ended in the 1st quarter of 2018. Strong gains in January were erased in February and March, leaving the S&P 500 Index down 0.76% for the quarter. Volatility as measured by the Cboe Volatility Index (VIX) was up about 80% in the 1st quarter after falling for the last three years. Investor worries about increasing interest rates, possible trade wars, and threatened government action against large technology companies offset generally strong economic data and corporate earnings growth.

PORTFOLIO MANAGEMENT TEAM



John Kornitzer
Co-Manager since Inception
B.A. – St. Francis College



Paul Dlugosch, CFA
Co-Manager since 2007
B.S. – University of Iowa

PERFORMANCE COMMENTARY

The Buffalo Flexible Income Fund delivered a return of -3.45% for the quarter. During the period, the S&P 500 Index returned -0.76% and the ICE BofA Merrill Lynch High Yield Master II Index returned -0.91%.

The equity portion of the portfolio produced a return of -3.45% compared to -0.76% for the S&P 500 Index. The primary sectors that led to the underperformance during the period were Consumer Discretionary and Consumer Staples. The underperformance in Consumer Discretionary was mostly due to a decline in shares of **Lions Gate Entertainment**, which was the biggest detractor, as it lowered its medium-term earnings guidance to mid/upper single digits versus low double digits previously, reflecting lower film segment earnings and higher programming spend at Starz. Meanwhile the underperformance within the Consumer Staples sector was mostly due to the size of our investments there as the Fund was overweight the worst performing benchmark sector during the quarter.

Average Annualized Performance (%)

As of 3/31/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Flexible Income Fund	7.57	5.30	5.74	6.48	8.75	7.20
ICE BofA ML Combined Index	9.87	8.54	9.99	8.94	9.37	8.87
S&P 500 Index (60%)	13.99	10.78	13.31	9.49	10.10	9.76
ICE BofA ML HY Master II Index (40%)	3.69	5.18	5.01	8.12	8.27	7.53
Lipper Mixed-Asset Allocation Moderate Funds Index	7.60	5.22	6.58	5.59	6.79	6.96

Expense ratio 1.01%. Inception Date 8/12/1994. 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.

The top contributors to the Fund in the quarter were **Intel**, **Boeing**, and **GlaxoSmithKline** while the top detractors in the quarter were Lions Gate Entertainment, **General Electric**, and **General Mills**. In spite of the setback during the period, the equity component of the Fund continues to focus on large cap dividend payers, which we believe possess significant competitive advantages over the long term.

The fixed income portion of the Buffalo Flexible Income Fund generated a return of -3.34% for the quarter which underperformed the ICE Bank of America Merrill Lynch Master II Index return of -0.91%. Underperformance within the Consumer Discretionary segment was responsible for the entire shortfall relative to the fixed income benchmark during the quarter. The Fund was significantly overweight the Consumer Sector and a decline in our investments in fixed income securities issued by Lions Gate Entertainment, as explained above, negatively impacted performance.

The top contributors to the Fund's fixed income portfolio included **Approach Resources, Medicines Company, and Everi Payments** while the top detractors were Lions Gate Entertainment and **Nuance Communications**.

OUTLOOK

We believe the market could continue to experience increased volatility in the coming quarters as the Federal Reserve continues with its desire to normalize interest rates and as investors contemplate potential trade wars and threatened government action on large technology companies. 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.

Despite the expectation of more volatility, we continue to focus on wide moat, large-capitalization companies that are trading at reasonable valuations, in our view. As always, the Fund will continue to focus on competitively advantaged companies that can be purchased at a fair price, in our opinion. As the stock market has continued to climb, it is getting harder to find companies that fit our investment criteria, but we continue to follow our process of finding new investment ideas and are ready when market declines provide better opportunities.

Within the fixed income portion of the fund, we continue to focus on higher quality, below investment grade credit securities. With credit yield spreads near cycle lows, in our view, we are being selective and disciplined with purchases, as we do not anticipate much price appreciation within fixed income markets, in general. ◀

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 12/31/17 the Buffalo Flexible Income Fund's top ten holdings were: Lions Gate Entertainment 4.48%, AT&T 3.07%, Boeing 3.05%, Bankrate 2.94%, HollyFrontier 2.88%, Intel 2.79%, Microsoft 2.78%, Exxon Mobil 2.73%, General Electric 2.64%, Verizon 2.61%. 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.

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

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 ICE BofA ML Combined Index is an unmanaged, blended index consisting of 60% of the S&P 500 Index and 40% of the ICE Bank of America Merrill Lynch U.S. High Yield Master II Index. The ICE 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 Chicago Board of Options Exchange Volatility (CBOE) Index measures the market expectations of near-term volatility conveyed by S&P 500 stock index option prices. One cannot invest directly in an index.

Treasury bonds are debt obligations issued by the United States government. Below investment grade refers to higher-yielding, higher-risk debt securities commonly known as "junk bonds". These lower-rated bonds have a greater degree of default risk. A yield spread is the difference between yields on differing debt instruments of varying credit ratings, commonly U.S. Treasuries, calculated by deducting the yield of one instrument from another.

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.

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