

Flexible Income Fund

PM Commentary as of September 30, 2017



Average Annualized Performance (%)

As of 9/30/17	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo Flexible Income Fund	11.96	4.55	6.92	5.69	9.07	7.27
BofA ML Combined Index	14.79	8.83	11.08	7.55	9.74	8.92
S&P 500 Index (60%)	18.61	10.81	14.22	7.44	10.04	9.71
BofA ML HY Master II Index (40%)	9.06	5.87	6.38	7.72	9.29	7.73
Lipper Mixed-Asset Allocation Moderate Funds Index	10.65	5.72	7.53	4.71	6.95	7.02

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.

CAPITAL MARKET OVERVIEW

Equity markets continued their winning streak in the 3rd quarter of 2017 with the S&P 500 Index posting its 8th consecutive quarterly gain. Investors have been encouraged by the synchronized upswing in global economic growth. For the first time since 2007, all 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) are on pace to grow this year, with the growth rates expected to accelerate in 33 of those countries. This economic backdrop, in conjunction with strong corporate earnings and a renewed focus on tax reform, helped the reflation trade regain momentum in the quarter.

The reflation trade, also known as the "Trump trade" pushed shares of banks, industrials, and smaller companies higher, while expectations of another interest rate increase by the Federal Reserve drove relative weakness in Treasury bonds and their stock market proxies, such as utility companies. The U.S. dollar also strengthened during the period against most major foreign currencies. Furthermore, strong demand and slowing production of oil in the U.S. drove West Texas Intermediate crude prices up 12.2% in the period.

The Russell 3000 Index, a broad market performance benchmark, produced a total return of 4.57% during the quarter. Growth stocks outperformed value stocks, as the Russell 3000 Growth Index advanced 5.93% compared to a gain of 3.27% for the Russell 3000 Value Index. Shares of smaller-capitalized companies generally outperformed larger companies during the quarter. The Russell Microcap Index and the smaller-cap Russell 2000 Index climbed 6.65% and 5.67% respectively during the period, while the Russell Midcap Index advanced by 3.47%, and the larger-cap Russell 1000 Index increased by 4.48%. Technology and energy were the best performing sectors, while consumer staples and consumer discretionary sectors lagged.

PERFORMANCE COMMENTARY

The Buffalo Flexible Income Fund produced a return 5.57% for the quarter and outperformed the S&P 500 Index return of 4.48% and the Bank of America Merrill Lynch High Yield Master II Index return of 2.04%. The fund's peer group index, the Lipper Mixed Asset Allocation Moderate Funds Index, produced a return of 3.06% for the quarter.

The equity portion of the portfolio outperformed the S&P 500 Index with a total return of 6.54% for the quarter. The relative outperformance was primarily driven by the energy and consumer discretionary sectors. The outperformance

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within energy was driven by sector allocation as the fund was significantly overweight a sector that outperformed the benchmark. Security selection was also constructive, and specific energy securities that provided positive relative performance included **HollyFrontier**, **Royal Dutch Shell**, and **ConocoPhillips**. Generally, all three companies benefited from a rebound in crude oil prices during the quarter, which rose into the \$50 range at the end of the period from the low-mid \$40 area at the beginning of the quarter. HollyFrontier also benefited from improved refining margins.

The relative outperformance within consumer discretionary was due to security selection. **Lions Gate Entertainment** advanced approximately 20% in the quarter on a positive earnings report. Other characteristics propelling the company's shares included its discounted valuation, appealing free cash flow generation potential, and its position in the media value chain (content manufacturer).

The top three contributors to the fund's performance during the quarter were **Boeing**, **HollyFrontier**, and **Lions Gate Entertainment** while the top three detractors were **General Electric**, **GlaxoSmithKline**, and **Pitney Bowes**.

The fixed income portion of the fund generated a return of 2.84% and outperformed the Bank of America Merrill Lynch High Yield Master II Index return of 2.04%. Relative outperformance was led by the consumer discretionary and health care sectors. Within the consumer discretionary sector the primary driver of outperformance was the portfolio's Lions Gate Entertainment convertible bond investment which advanced on positive news from the company as discussed above. The health care segment outperformance was driven by both sector allocation and security selection. **Valeant Pharmaceuticals**, which refinanced some of their capital structure during the quarter and consequently some of the unsecured notes, rallied in price.

The top individual contributors to the fund's fixed income performance included Lions Gate Entertainment 1.25% convertible notes, Valeant 6.375% senior notes, and **BankRate's** 6.125% senior notes. The largest relative detractors to the fixed income return were **Nuance Communications** 1.5% convertible bonds, **Consolidated Communications** 6.5% senior notes, and **Medicines Company** 2.50% convertible notes.

OUTLOOK

We believe the market could experience more volatility in the coming quarters, as the Federal Reserve continues with its desire to normalize interest rates, along with a focus on the likelihood 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, possible headwinds include potential strengthening of the U.S. dollar, further increases in interest rates, and stock price 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.

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 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 at cycle lows, in our opinion, 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 6/30/17 the Buffalo Flexible Income Fund's top ten holdings were: Lions Gate Entertainment, Inc. (1.250%, 4/15/18) 4.17%, Proctor & Gamble Co. 3.27%, Bankrate, Inc. (6.125%, 8/15/18) 2.97%, AT&T, Inc. 2.91%, General Electric Co. 2.91%, Microsoft Corporation 2.86%, GlaxoSmithKline PLC 2.72%, Exxon Mobil Corporation 2.65%, Boeing, Co. 2.60%, & Intel Corporation 2.53%.

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. Treasury bonds are debt obligations issued by the United States government. The Russell 3000 Index measures the performance of the 3,000 largest publicly held companies incorporated in the U.S. based on market capitalization. The Russell 3000 Growth Index is a market-capitalization weighted index that measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth rates. The Russell 3000 Value Index is based on the Russell 3000 Index, of companies with lower price-to-book ratios and lower expected growth rates which measures how U.S. stocks in the equity value segment perform. The Russell Microcap Index is a small-cap and micro-cap stock market index of the smallest 2,000 companies in the Russell 3000E Index incorporated in the U.S. based on market capitalization. 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 publicly-held companies incorporated in the U.S. based on market capitalization. The BofA ML Combined Index is an unmanaged, blended index consisting of 60% of the S&P 500 Index and 40% of the Bank of America Merrill Lynch U.S. High Yield Master II Index. 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. You cannot invest directly in an index.

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.