High Yield Fund

***PM Commentary** as of December 31, 2017*

CAPITAL MARKET OVERVIEW

After producing positive returns greater than 2% in each of the three previous quarters, the U.S. high yield sector continued to generate favorable results in the period, but at a considerably slower pace.

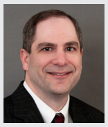
The market's performance was driven by:

- Continued, albeit modest, economic growth of the U.S. gross domestic product;
- Optimism regarding the release of a corporate friendly tax plan;
- The Federal Reserve raising the Fed Funds rate target by an anticipated 25 bps to 1.50;
- The equity market indexes continue to reach record highs;
- Multi-year high in crude oil prices which supported energy bonds.

Investors continued to invest in risky assets given these favorable market conditions. The 10-year Treasury bond produced a negative return of -0.29% during the quarter while stocks, as measured by the S&P 500 Index, produced a return of 6.64%.

PORTFOLIO MANAGEMENT TEAM

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



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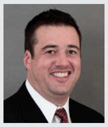

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According to data from JP Morgan, high yield funds experienced outflows during the quarter of about $11.6 billion compared to outflows of $530 million in the previous quarter. The high yield new issuance calendar remained healthy in the 4th quarter, up 40% from the 4th quarter 2016 to $73 billion but down sequentially from $80 billion in the 4th quarter 2017.

During the quarter, the yield on the 10-year Treasury bond increased by 7 bps from 2.33% to 2.40% but the U.S. high yield spread-to-worst declined by 11 bps to 404 bps reflecting investors willingness to hold on to risk assets. Once again, the lower end of the credit quality spectrum outperformed higher quality as investors moved into lower duration issues in anticipation of eventual rising interest rates. According to data from JP Morgan, the CCC/non-rated segments returned 1.7% outpacing the B-rated segment's 0.86% and BB-rated segment's 0.36% for the quarter.

As mentioned above, the U.S. high yield market's spread-to-worst at the end of 2017 was 404 bps, 11 bps lower than the preceding quarter and 212 bps below its 20-year historical average of 616 bps. The yield-to-worst for the high yield market at quarter-end was 6.10%, below the 20-year average of 9.14%, but higher than the yield of 5.90% at the end of the previous quarter.

Average Annualized Performance (%)

As of 12/31/17	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo High Yield Fund	5.98	4.79	5.12	6.45	6.90	7.19
ICE BofA ML High Yield Master II Index	7.48	6.39	5.80	7.89	8.84	7.36
Lipper High Yield Bond Funds Index	7.53	5.43	5.22	6.47	7.66	6.05

Expense ratio 1.03%. Inception date 5/19/1995. 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.

PERFORMANCE COMMENTARY

The Buffalo High Yield Fund gained 0.59% for the quarter, outperforming the ICE Bank of America Merrill Lynch High Yield Master II Index by 18 basis points (bps), which rose 0.41% during the period.

The fund's cash balance increased during the period as the holdings in the fund that were called away or sold outright exceeded purchases. The fund's composition by asset class at quarter-end was as follows:

Fund Composition by Asset Class

	12/31/16	3/31/17	6/30/17	9/30/17	12/31/17
Straight Corporates	65.5%	63.6%	62.9%	60.5%	62.6%
Convertibles	13.8%	13.1%	13.7%	13.3%	12.8%
Bank Loans	11.5%	12.5%	13.9%	18.6%	17.8%
Preferred Stock	0.0%	0.0%	1.0%	1.5%	0.5%
Convertible Preferred	1.6%	0.9%	0.9%	1.2%	0.5%
Common Stocks	0.0%	0.5%	0.6%	0.7%	0.7%
Cash	7.6%	9.3%	7.0%	4.3%	5.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate and Contribution of Return from the Fund's Various Asset Classes in Q4 '17

	Unweighted Return	Contribution to Return
Straight Corporates	0.7%	0.44%
Convertibles	1.8%	0.24%
Bank Loans	1.2%	0.22%
Preferred Stock	-2.2%	-0.02%
Convertible Preferred	-7.6%	-0.07%
Common Stocks	0.5%	0.00%
Cash	0.0%	0.00%
Total	0.58%	0.58%

The fund's bias towards higher-quality, non-investment grade securities continued to be a headwind for performance relative to its benchmark on a year-to-date basis. The fund's underweight to the energy and utilities sectors also continued to be detrimental to relative results as the two industries were the strongest performers in the quarter with energy and utilities advancing 2.6% and 2.1%, respectively.

The fund is underexposed to the energy sector by roughly 400 bps and to the utilities sector by roughly 180 bps. However, the fund has exposure to convertible bonds, the benchmark does not, and 4 of those convertible bond issues were the fund's top performing positions in the 4th quarter, resulting in the fund's overall relative outperformance.

TOP CONTRIBUTORS

Specific securities that contributed most positively to performance included **Insulet Corp** 2% convertible bonds, **Greenbrier** 3.5% convertible bonds, and **Neurocrine Biosciences** 2.25% convertible bonds. Insulet rallied in November on exceptionally strong reported earnings that were driven by greater than expected top-line and margin growth in all three of its business segments. Greenbrier advanced on a solid earnings report and better-than-expected outlook for 2018, along with the added benefit from the new tax bill. Neurocrine blew past earnings expectations in November driven by sales of its Ingrezza drug, which were four times consensus estimates.

TOP DETRACTORS

Specific securities that detracted most from performance included **Consolidated Communications** 6.5% straight corporate bonds, **Allergan** 5.5% convertible preferred bonds, and **Medicines Company** 2.75% convertible bonds. Despite meeting earnings estimates, Consolidated declined during the quarter along with the rest of the regional wired telecom space, as concerns around intense competition and required capital expenditures to compete weighed on the group. Allergan stock, and thus the convertible bonds, continued to struggle among concerns over expiring drug patents and new competition for some of its drugs. Medicines Company fell as investors lost patience with the restructuring of company's business model, as management has chosen to pursue drug studies independently rather than sell the firm.

OUTLOOK

Similar to last quarter, the market for high yield securities remains well bid as yields and spreads bounce around cycle lows. A growing economy with modest inflation has created a favorable environment for risky assets. The slowdown in new issuance activity has reduced the supply of bonds available for purchase, while muted default rates have reduced investor's risk premium requirements. However, several risk factors could negatively influence the favorable environment. Our concerns from last quarter remain and include: the Federal Reserve taking a more aggressive tightening policy stance; fiscal stimulus policy not coming to fruition; escalating geopolitical issues such as with North Korea; and increasing protectionism.

Within this environment of low spreads and yields, we are managing the fund cautiously yet actively. We ended the quarter with 144 positions compared to the previous quarter's level of 135 holdings (excluding cash) invested in 109 issuers.

We are managing the fund with an emphasis on higher-quality, non-investment grade issuers with defensive business models and manageable credit metrics. We will continue to deploy the fund's cash in opportunities that we believe offer the most appealing risk/reward tradeoff with a bias toward shorter durations and less levered credits. We believe bank loans offer a compelling opportunity as they offer senior positioning in the capital structure and floating interest rates, and we remain constructive in regards to convertible bonds and preferred issues.

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 9/30/17 the Buffalo High Yield Fund's top ten holdings were: Bankrate, Inc. (6.125%, 8/15/18) 2.49%, Akorn, Inc. (Term Loan B, 5.250%, 4/16/21) 2.47%, Lions Gate Entertainment Corp. (1.250%, 4/15/18) 2.31%, Maxar Technology, Inc. (Term Loan B, 2.750%, 07/06/24) 2.06%, DigitalGlobe, Inc. (Term Loan B, 3.732%, 01/15/24) 2.04%, Quad Graphics, Inc. (7.000%, 05/01/22) 1.73%, Triumph Group, Inc. (4.875%, 4/01/21) 1.66%, Endo Finance LLC. (5.750%, 1/15/22) 1.64%, Consolidated Communications, Inc. 6.500%, 10/01/22) 1.63%, & FTI Consulting, Inc. (6.000%, 11/15/22) 1.57%. 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 10-year Treasury Note is a debt obligation issued by the United States government that matures in 10 years. A basis point (bps) refers to one hundredth of one percent, used chiefly in expressing differences of interest rates. Yield is the income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Spread to worst measures the difference from the worst performing security to the best, and can be seen as a measure of dispersion of returns within a given market or between markets. 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. Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

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. The Lipper High Yield Bond Funds Index is a widely recognized index of the 30 largest mutual funds that invest primarily in high yield bonds. The S&P 500 Index is a free-float capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States. Performance is presented net of the funds' fees and expenses. One cannot invest directly in an index.

A Standard & Poor's Rating of B means an obligor is more vulnerable the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. A Standard and Poor's Rating of BB means an obligor is less vulnerable in the near term than other lower-rated obligors. A Standard and Poor's Rating of CCC means an obligor is currently vulnerable, and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. The highest rating is AAA and the lowest rating is D. A Standard & Poor's Rating of BBB– or higher represents investment grade securities. In limited situations when the rating agency has not issued a formal rating, the Advisor will classify the security as nonrated.

Mutual Fund investing involves risk. Principal loss is possible. Investment by the Fund in lower-rated and non-rated securities 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 foreign securities include additional risk such as greater volatility, and political, economic, and currency risks, as well as difference in accounting methods.

Diversification does not assure a profit, nor does it protect against a loss in a declining market.

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