

Capital Market Overview

The U.S. stock market continued to advance in the 3rd quarter, as expectations for accommodative monetary policy appeared to outweigh concerns of slowing economic growth. The S&P 500 Index returned 1.70% in the period, bringing the year-to-date return to 20.55% through quarter-end. Weak economic data led the Federal Reserve to cut interest rates twice in the quarter, driving rates lower and bond prices higher. U.S. markets outperformed international markets on the strength of the U.S. dollar.

The Russell 3000 Index gained 1.16% in the quarter. Value narrowly outperformed growth, with the Russell 3000 Value Index up 1.23% and the Russell 3000 Growth Index advancing 1.10%. Large caps generally outperformed small caps in the quarter. The Russell 1000 Index returned 1.42%, the Russell Midcap Index returned 0.48%, and the Russell 2000 Index posted a loss of 2.40%. Defensive sectors led the way in the period, with Utilities up 9.34%, Real Estate up 7.69%, and Consumer Staples up 6.12%. Energy was the worst performing sector with a total return of -6.61%. Health Care was also weak, returning -2.25% on increasing political concerns.

Performance Commentary

The Buffalo Dividend Focus Fund posted a return of 2.53%, outperforming the Morningstar U.S. Large-Mid Cap Index return of 1.51% and the S&P 500 Index return of 1.70%. Sector weightings and security selection influenced the Fund's relative performance. Portfolio sectors with highest weightings – Information Technology, Financials, and Consumer Discretionary – posted positive absolute returns and the latter two sectors had favorable relative performance to comparable benchmark sectors. Some of the Fund's least weighted sectors – Energy and Telecommunication Services (sectors comprising less than 11% of the Fund) – had negative returns with only Telecom lagging the comparable benchmark sector.

Average Annualized Performance (%)

As of 9/30/19	1 YR	3 YR	5 YR	Since Inception
Investor Class - <i>BUFDX</i>	3.22	11.45	9.58	12.47
Institutional Class - <i>BUIDX</i> ¹	3.43	11.63	9.76	12.64
Morningstar U.S. Large-Mid Cap Index	4.21	13.29	10.64	13.83
S&P 500 Index	4.25	13.39	10.84	13.91

¹For performance prior to 7/1/19 (Inception Date of Institutional Class), performance of the Investor Class shares is used and includes expenses not applicable and lower than those of Institutional Class shares. Data represented reflects past performance and is no guarantee of future results. 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. Each Morningstar category average represents a universe of funds with similar objectives.

↑ Top Contributors

Specific securities that contributed most positively to performance included **Medicines Company** (MDCO), **Apple** (AAPL), and **Edison International** (EIX). Medicines Company gained on favorable results from Phase 3 trial studies evaluating its LDL-cholesterol lowering drug, inclisiran. Apple rallied on new product announcements (iPhone 11 series) and services (Apple TV) with favorable price points. In addition, investors now expect a robust 5G phone launch next year. Meanwhile Edison International rose on passage of wildfire legislation in California and a secondary equity offering.

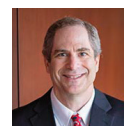
Fund Facts

	Investor	Institutional
Ticker:	BUFDX	BUIDX
Inception Date:	12/3/12	7/1/19
Expense Ratio:	0.96%	0.81%
Fund Assets:	\$60.54 Million	
Category:	Large Cap Blend	
Benchmark:	Morningstar U.S. Large-Mid Cap Index	

Management Team



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Co-Manager since 2018
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↓ Top Detractors

Specific securities that detracted from performance include **Anthem** (ANTM), **UnitedHealth Group** (UNH), and **8x8** (EGHT). Anthem and UnitedHealth Group declined on reports health insurers are paying out a higher percentage of the premiums they take in to cover patients' medical claims (medical-loss ratio or MLR) and presidential candidates pushing forms of single payer systems or "Medicare For All". 8x8 dropped on concerns regarding customer acquisition costs and cash flow outlook.

Outlook

The modest gain in the stock market for the quarter was primarily driven by investor uncertainty regarding trade policies (U.S.–China, Brexit, etc.) and the Federal Reserve's (the "Fed") monetary policy. The lack of agreements on major trade deals (rhetoric regarding tariffs and no deal strategies) are curtailing companies from making long-term capital spending plans, which could lead to slowing or negative growth. Certain indicators such as yield curve inversions are already signaling a recession 6-18 months out. Resolving the trade deals (especially U.S.–China) would provide companies with more certainty to make capital investment decisions, boost consumer confidence, and accelerate gross domestic product and revenue growth. Lack of progress could raise the prospects for an economic slowdown. The Fed will need to adjust their policy accordingly. During the quarter, the Fed delivered on their dovish outlook by cutting rates twice and growing the balance sheet. They indicated they are data-dependent, with trade policies creating economic uncertainties. With the federal funds rate below 2%, there is only limited ability to cut rates (before going negative). The Fed will likely have to use its balance sheet if it needs to be aggressive with its policy.

Despite the uncertainty regarding trade policies and the Fed reaction, we remain focused on wide moat, large capitalization companies trading at reasonable valuations, in our view. As always, the fund will continue to emphasize on competitively advantaged companies that can be purchased at a fair value, in our opinion. As stock market volatility spikes, we will look for opportunities to find companies that fit our investment criteria, as we continue to follow our process of finding new investment ideas and to be ready when market declines provide better entry points. ▲

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 summary and statutory prospectuses contain this and other important information about the investment company and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read carefully before investing.

As of 6/30/19 the Buffalo Dividend Focus Fund top 10 equity holdings were Microsoft 4.54%, Visa 3.72%, Apple 2.99%, 8x8 (0.500% 2/1/24) 2.84%, American Electric Power 2.29%, JPMorgan Chase 2.04%, The Walt Disney Co 2.02%, S&P Global 1.94%, Bank of America 1.92%, Berkshire Hathaway 1.91%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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

The opinions expressed are those of the Portfolio Managers 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 capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. 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 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 Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Russell 2000 Index is an unmanaged index that consists of the smallest 2,000 securities in the Russell 3000 Index, representing approximately 10% of the Russell 3000 total market capitalization. The Morningstar U.S. Large-Mid Cap Index measures the performance of the U.S. equity market targeting the top 90% of stocks by market capitalization. One cannot invest directly in an index. Cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows.

Mutual Fund investing involves risk. Principal loss is possible. The Fund invests in U.S. based companies with substantial interests outside of the U.S. which may involve additional risk such as greater volatility and political, economic and/or currency risks. This risk is greater in emerging markets. The Fund may invest in convertible securities which may be influenced by changing interest rates and the credit standing of the company. The Fund invests in smaller companies, which involves additional risks such as limited liquidity and greater volatility than larger companies.

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