

Capital Market Overview

The 4th quarter of 2018 was a rough period for equity markets, with steep declines dragging full year returns into negative territory. The S&P 500 Index declined -13.52% during the quarter, driven by fears of tightening monetary policy, escalating trade tensions, slowing global economic growth, and margin pressure from higher labor and freight costs. Investors sought safety in government bonds, driving the yield on the 10-year Treasury down from 3.06% at the end of the 3rd quarter to 2.68% at the end of the 4th quarter.

In a reversal of the year-to-date trend, value outperformed growth in the period, as the Russell 3000 Value Index declined -12.24% compared to a -16.33% drop in the Russell 3000 Growth Index. Large companies held up better than smaller companies during the quarter, as the Russell 1000 Index fell -13.82%, the Russell Midcap Index was down -15.37%, and the small cap Russell 2000 Index was down -20.20%. The only sector to post a positive return in the 4th quarter was Utilities. Real Estate, Consumer Staples, and Health Care were down but outperformed the market. Energy was the worst performing sector, driven by steep declines in crude oil. Technology, Industrials, and Consumer Discretionary also underperformed the broad market.

Performance Commentary

The Buffalo Dividend Focus Fund (BUFDX) posted a return of -12.77% for the quarter, outperforming the Morningstar U.S. Large-Mid Cap Index return of -13.68% and the S&P 500 Index return of -13.52%.

While the Fund's absolute performance for the period was disappointing, the Fund's relative performance was aided by sector weightings and security selection. Investments in sectors with our highest weightings, Financials, Health Care, and Information Technology posted favorable returns relative to comparable index sectors. The Fund's least weighted sectors, Materials, Real Estate, and Utilities (sectors comprising only about 9% of fund assets combined), had returns lower than their corresponding index sectors.

Average Annualized Performance (%)

As of 12/31/18	1 YR	3 YR	5 YR	Since Inception
Buffalo Dividend Focus Fund	-5.05	7.88	8.72	10.99
Morningstar U.S. Large-Mid Cap Index	-4.52	9.05	8.20	12.12
S&P 500 Index	-4.38	9.26	8.49	12.25

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 **Starbucks**, **CME Group**, and **Procter & Gamble**. Starbucks improved on a strong earnings report with favorable comparable store sales growth. CME Group advanced on rising earnings expectations due to higher contract trading and recent acquisitions. Shares of Procter & Gamble rose on a positive earnings release with healthy organic sales growth.

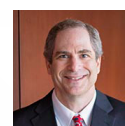
Fund Quick Facts

Ticker:	BUFDX
Inception Date:	12/3/2012
Net Assets:	\$52.63 Million
Expense Ratio:	0.95%
Category:	Large-Cap Blend
Benchmark:	Morningstar U.S. Large-Mid Cap Index

Management Team



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↓ Top Detractors

Specific securities that detracted from performance included **Activision Blizzard**, **Hess Corporation**, and **Conagra**. Activision Blizzard fell on weak earnings forecast, as a new video game release missed lofty expectations and a new game received poor reviews. Shares of Hess dropped primarily due to falling oil prices during the period, and Conagra declined on a soft earnings release and weak performance of recent acquisitions.

Outlook

We expect the market to experience continued volatility in the coming quarters as the Federal Reserve seeks to normalize interest rates. Other concerns include inflation growth acceleration, potential strengthening of the U.S. dollar, increased protectionism efforts from the U.S. Administration, evolving geopolitical risks, and a divided Congress. Valuation metrics, while off recent highs, are still above historical market averages, leading us to believe the stock market may have a difficult time achieving further multiple expansion. On the other hand, prospective tailwinds for the economy include further job growth, wage increases, lower tax rates, robust business and consumer confidence, and lower energy prices, all of which could lead to higher Gross Domestic Product (GDP) growth.

Despite the expectation of continued volatility, we remain focused on wide moat, large-capitalization, dividend-paying companies trading at what we view as reasonable valuations. As always, the Fund will continue to place emphasis on competitively-advantaged companies that can be purchased at a fair value, as determined by our internal analysis. As stock market volatility has continued to climb, we will look for opportunities to find companies that fit our investment criteria. We will continue following 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 it carefully before investing.

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

As of 9/30/18 the Buffalo Dividend Focus Fund top 10 equity holdings were Microsoft 4.07%, Apple 3.36%, Visa 3.16%, JPMorgan Chase 2.46%, AMC Entertainment 2.17%, Bank of America 2.11%, Berkshire Hathaway 1.95%, Anthem 1.91%, BB&T 1.84%, UnitedHealth Group 1.82%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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 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 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 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. A basis point is one hundredth of a percentage point (0.01%).

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.

