

## Capital Market Overview

The combination of a U.S. Federal Reserve (Fed) interest rate cut, an improving economic outlook, and easing trade tensions, sent equity markets sharply higher in the 4th quarter. The S&P 500 Index advanced 9.10% during the period, which brought the full-year (2019) gain to 31.49%. The Fed cut interest rates three times in 2019, erasing the brief yield curve inversion and assuaging fears of a recession. The economy continued to add new jobs at a strong pace and unemployment declined to 3.5%. Consumer spending remained healthy, and there is optimism for better business investment following the announced "phase one" trade deal with China.

Similar to the S&P 500 Index, the broad-based Russell 3000 Index returned 9.04% during the quarter. Growth outperformed value, as the Russell 3000 Growth Index returned 10.62% compared to a return of 7.41% for the Russell 3000 Value Index. Smaller companies outperformed larger companies, as one would expect in a "risk-on" period. The Russell Microcap Index surged 13.45% and the Russell 2000 Index advanced 9.94%. Large company benchmarks such as the Russell 1000 Index advanced 9.04% while the Russell Midcap Index produced a return of 7.06%. Technology and Health Care were the best performing sectors in the quarter, while more defensive areas of the market lagged such as Real Estate and Utilities. Higher long-term interest rates weighed on high-quality bond proxies – the safe haven 10-year U.S. Treasury Bond produced a return of -1.74% during the quarter.

## Performance Commentary

The Buffalo Dividend Focus Fund posted a return of 7.89% for the quarter, underperforming the Morningstar U.S. Large-Mid Cap Index return of 9.01% and the S&P 500 Index return of 9.07%. Sector weightings and security selection curtailed the Fund's performance relative to the benchmark. The Fund's sectors with highest weightings – Information Technology, Health Care, and Financials – posted positive, low double-digit returns, and the latter two sectors had positive contribution to comparable index sectors due the Fund's overweight position and investment performance. Information Technology, a strong performing benchmark sector for the quarter, detracted from relative performance due to a portfolio underweight within, along with weaker security selection for the Fund. Information Technology averaged a weighting of nearly 27% during the quarter compared to the Fund's 23%. The Industrial sector also detracted from relative performance for the portfolio.

## Average Annualized Performance (%)

As of 12/31/19	1 YR	3 YR	5 YR	Since Inception
Investor Class - BUFDX	27.66	12.68	9.93	13.21
Institutional Class - BUIDX <sup>1</sup>	27.85	12.84	10.09	13.37
Morningstar U.S. Large-Mid Cap Index	31.61	15.21	11.49	14.69
S&P 500 Index	31.49	15.27	11.70	14.78

<sup>1</sup>For 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 Investor Class shares. 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](http://buffalofunds.com). Each Morningstar category average represents a universe of funds with similar objectives.

## Fund Facts

	Investor	Institutional
Ticker:	BUFDX	BUIDX
Inception Date:	12/3/12	7/1/19
Expense Ratio:	0.96%	0.81%
Fund Assets:	\$79.82 Million	
Category:	Large Cap Blend	
Benchmark:	Morningstar U.S. Large-Mid Cap Index	

## Management Team



**Paul Dlugosch, CFA**  
Co-Manager since 2013  
B.S. – University of Iowa



**Jeff Sitzmann, CFA**  
Co-Manager since 2018  
M.B.A. – Univ. of Chicago  
B.B.A. – Univ. of Toledo



**Jeff Deardorff, CFA**  
Co-Manager since 2018  
B.S. – Kansas State Univ.

## ↑ Top Contributors

Specific securities that contributed most positively to performance included **Apple Inc.**, **Medicines Company**, and **Microsoft Corporation**. Shares of Apple advanced on solid quarterly results, guidance on iPhone sales, strength in services and wearables, better trends in China, and reduced trade tensions. Microsoft improved on growing momentum from its cloud services and enterprise products which boosted quarterly results above analyst estimates. The company also won the Pentagon's JEDI cloud contract, and shares experienced valuation multiple expansion on all the good news. Meanwhile, drug development company Medicines Co. jumped on favorable study results for Inclisiran (cholesterol therapy), which led to an acquisition agreement with Novartis.

## ↓ Top Detractors

Specific securities that detracted from performance included **Boeing Company**, **AMC Entertainment Holdings**, and **Vistra Energy**. Shares of Boeing fell due to uncertainty regarding the delayed and growing costs related to the return to service of its grounded 737Max planes. The movie theater chain AMC Entertainment dropped on lagging box office results and concerns regarding its high debt leverage. Meanwhile, Vistra Energy, a retail and wholesale electricity production and distribution company, declined due to a large shareholder selling some of their position, as well as a negative Capacity, Demand and Reserves report by the Electric Reliability Council of Texas (ERCOT).

## Outlook

The healthy gains in the stock market during the quarter were primarily driven by expansion in market valuation metrics, as corporate earnings have been relatively flat. Aiding the valuation expansion was the Fed, which cut short-term interest rates during the quarter and indicated a pause in further rate actions, possibly for an extended period. Trade tensions have also been reduced with agreements reached on the USMCA (United States, Mexico, and Canada) and the phase one pact with China. Key drivers for further stock market advancement are likely to be driven by how the Middle East conflicts play out, the upcoming domestic election cycle, and improved corporate earnings growth.

Despite the uncertainty primarily related to non-economic events, we remain focused on finding wide moat, large-capitalization companies trading at reasonable valuations, in our view. As always, the Fund will continue to emphasize competitively-advantaged companies that can be purchased at a fair price, by our analysis. If and when 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 9/30/19 the Buffalo Dividend Focus Fund top 10 equity holdings were Microsoft 4.70%, Visa 3.67%, Apple 3.37%, 8x8 (0.500% 2/1/24) 2.61%, American Electric Power 2.43%, Edison Intl 2.17%, JPMorgan Chase 2.14%, S&P Global 2.08%, BB&T 2.05%, Bank of America 1.93%. 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 Microcap Index is an unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. 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 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 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.

