Dividend Focus Fund

***PM Commentary** as of March 31, 2018*

CAPITAL MARKET OVERVIEW

The long streak of low volatility and positive stock market returns ended in the 1st quarter of 2018. Strong gains in January were erased in February and March, leaving the S&P 500 Index down 0.76% for the quarter. Volatility as measured by the Cboe Volatility Index (VIX) was up about 80% in the 1st quarter after falling for the last three years. Investor worries about increasing interest rates, possible trade wars, and threatened government action against large technology companies offset generally strong economic data and corporate earnings growth.

PORTFOLIO MANAGER

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

PERFORMANCE COMMENTARY

The Buffalo Dividend Focus Fund posted a loss of 2.03% for the quarter, underperforming the S&P 500 Index return of -0.76%. The Fund's relative underperformance was primarily driven by the Information Technology, Consumer Discretionary, and Health Care sectors, which was partially offset by outperformance in the Financials and Real Estate sectors. The top contributors on an individual security standpoint were **Microsoft**, **S&P Global**, and **Intel** while **Kraft Heinz**, **Parker Hannifin**, and **Shire** were the top detractors.

Within the Information Technology sector, the Fund's relative underperformance was driven by stock selection as well as an underweight in the best performing benchmark sector during the quarter. Specific securities that detracted from performance within Information Technology included **Qualcomm** and **Broadcom**. Qualcomm declined due to the U.S. government's decision to block the merger with Broadcom, as well as litigation with Apple, Inc. Broadcom declined due to the aforementioned failed merger attempt with Qualcomm and 2018 financial guidance which disappointed some investors. Strong performance from certain non-dividend payers that are included in the Index but not in the Fund, such as Adobe and Salesforce.com, also detracted from relative results with the sector.

Average Annualized Performance (%)

As of 3/31/18	1 YR	3 YR	5 YR	Since Inception
Buffalo Dividend Focus Fund	8.51	8.37	12.97	13.31
S&P 500 Index	13.99	10.78	13.31	14.90

Expense ratio 0.96%. Inception Date 12/3/2012. 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.

Underperformance within the Consumer Discretionary sector was primarily due to strong performing non-dividend paying companies, Amazon and Netflix, that are included in the Index but not in the Fund based on our dividend requirement. Other detractors within the consumer area included Fund holdings **Comcast** and **Wal-Mart**. U.S cable giant Comcast declined on fears the company will overpay for its potential acquisition of the British pay-TV group Sky PLC, as well as on fears around subscriber losses. The acquisition of Sky could also add new challenges as it operates in new international markets and increases the company's balance sheet leverage. Meanwhile, Wal-Mart declined after reporting weaker-than-expected online sales for the 4th quarter of 2017 as well as challenged margins.

The underperformance within Health Care was primarily due to security selection. The Ireland-based pharmaceutical company **Shire PLC** was the worst performer within our Health Care portfolio, but shares of **McKesson** and **Zimmer** also pulled back during the period. Shire's decline reflected several factors including new competition to several key products (e.g., Roche in Hematology and generic competition for Lialda) as well as some underwhelming product launches. Zimmer declined after investors received news from the new management team that turnaround plans for the company might take longer than previously expected. Finally, McKesson declined on the announcement of a potential competitive joint venture with Amazon/Berkshire Hathaway/JP Morgan that investors viewed unfavorably and on government threats of legal action associated with opioids and generic pricing.

OUTLOOK

Going forward, we continue to have a consistent message in that we will look for companies that we believe:
1) exhibit long term sustainable competitive advantages;
2) have a history of growing their revenues, earnings, and dividends;
3) generate significant amounts of free cash flow;
4) have rock solid balance sheets;
5) have management teams who exhibit stellar capital allocation skills whose interests are aligned with shareholders;
6) and whose shares are trading at an adequate discount to our estimate of fair value.

As the market has moved up and multiples have expanded over the last few years, it has become more difficult to continue to find undervalued companies. We continue to search for companies that meet our criteria for purchase and sell those that no longer exhibit the qualities we desire.

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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537