

Dividend Focus Fund

PM Commentary as of September 30, 2017



Average Annualized Performance (%)

As of 9/30/17	1 YR	3 YR	Since Inception
Buffalo Dividend Focus Fund	15.72	9.72	13.78
S&P 500 Index	18.61	10.81	15.20

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.

CAPITAL MARKET OVERVIEW

Equity markets continued their winning streak in the 3rd quarter of 2017 with the S&P 500 Index posting its 8th consecutive quarterly gain. Investors have been encouraged by the synchronized upswing in global economic growth. For the first time since 2007, all 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) are on pace to grow this year, with the growth rates expected to accelerate in 33 of those countries.

This economic backdrop, in conjunction with strong corporate earnings and a renewed focus on tax reform, helped the reflation trade regain momentum in the quarter. The reflation trade, also known as the "Trump trade", pushed shares of banks, industrials, and smaller companies higher, while expectations of another interest rate increase by the Federal Reserve drove relative weakness in Treasury bonds and their stock market proxies, such as utility companies. The U.S. dollar also strengthened during the period against most major foreign currencies. Furthermore, strong demand and slowing production of oil in the U.S. drove West Texas Intermediate crude prices up 12.2% in the period.

The S&P 500 Index produced a total return of 4.48% during the quarter. Growth stocks outperformed value stocks, as the S&P 500 Growth Index advanced 5.29%, compared to a gain of 3.48% for the S&P 500 Value Index. Shares of smaller capitalized companies generally outperformed larger companies during the quarter. The S&P SmallCap 600 Index climbed 5.96% during the period, compared to a gain of 3.22% for the S&P MidCap 400 Index. Technology and energy were the best performing sectors, while consumer staples and consumer discretionary sectors lagged.

PERFORMANCE COMMENTARY

The Buffalo Dividend Focus Fund posted a return of 2.66% for the quarter, which underperformed the S&P 500 Index return of 4.48%. The Fund's underperformance was primarily driven by relative weakness in the consumer discretionary, information technology, and healthcare areas of the portfolio.

The top contributors on an individual security basis were **Boeing**, **Apple**, and **Abbvie** while **AMC Entertainment**, **Sabre**, and **Medtronic** were the top detractors. The Fund's cash position was also a slight drag on performance given the strong quarterly advance for the index.

Within the consumer discretionary sector, the Fund's relative underperformance was primarily driven by security selection as AMC Entertainment Holdings declined by nearly 35%. The fall in AMC's shares reflected investor concerns surrounding premium video on demand (PVOD) and its potential impact on theater industry revenues, as well as a weaker than expected box office.

PORTFOLIO MANAGEMENT TEAM



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Other detractors within consumer discretionary included **Goodyear Tire** and **Cedar Fair**. Goodyear provided a weaker than expected outlook on its earnings call, while Cedar Fair, the amusement park operator, released weak operating metrics for the Labor Day holiday due to unfavorable weather conditions.

The Fund's underperformance in information technology was driven mostly by security selection and to a lesser extent sector weighting. Security selection was negatively impacted by several securities within the S&P 500 Index that the fund did not own, such as Nvidia, and a few non-dividend paying index constituents including Paypal.

Regarding investment positions with the Fund, Sabre Corp was the largest detractor within the information technology sector, as the company disappointed when they announced a slowdown in their airline solutions business due to the halting of an implementation at Air Berlin, Alitalia's bankruptcy, and the loss of a Southwest Airlines domestic contract. This, coupled with increased investment in new products and technology, are also expected to weigh on the company's growth and margins in the near term.

The underperformance within the healthcare sector was due mostly to security selection, and the two biggest detractors in the Fund were Shire and Cardinal Health. The weakness in Shire during the quarter reflected fears around a competitor's new product in the hemophilia market and a patent loss for its Lialda drug that is anticipated to negatively impact future revenues. Meanwhile, the decline in shares of Cardinal Health reflected investor concerns about weakness in generic drug pricing, in general.

OUTLOOK

We believe the market could experience more volatility in the coming quarters as the Federal Reserve continues its plan to normalize interest rates, along with a focus on the ability of the Trump administration to enact infrastructure spending, deregulation, and corporate tax reform. Prospective tailwinds for the economy include further job growth, wage increases, lower tax rates, and simply more optimism from both businesses and consumers; all of which could lead to higher Gross Domestic Product (GDP) growth. On the other hand, potential headwinds include strengthening of the U.S. dollar, further increases in interest rates, and valuation metrics that are above historical market averages, leading us to believe that the stock market may have a hard time achieving further multiple expansion.

Despite the expectation of greater volatility, we continue to focus on wide-moat, large-capitalization companies that are trading at reasonable valuations, in our view. As always, the Fund will continue to focus on competitively-advantaged companies that can be purchased at a fair price, in our opinion. As the stock market has continued to climb, it is getting harder to find companies that fit our investment criteria. We continue follow our process of finding new investment ideas and are ready when market declines provide better opportunities. ◀

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 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 6/30/17 the Buffalo Dividend Focus Fund's top ten holdings were: Apple, Inc. 3.51%, Microsoft Corp. 2.69%, JP Morgan Chase & Co. 1.99%, American Electric Power, Inc. 1.94%, Visa, Inc. 1.88%, Bank of America Corp. 1.81%, BB&T Corporation 1.53%, Broadcom Ltd. 1.50%, Berkshire Hathaway, Inc. 1.47%, & Monsanto Co. 1.45%.

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.

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

The S&P 500 Index is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. Treasury bonds are debt obligations issued by the United States government. The S&P 500 Growth Index consists of those stocks within the S&P 500 Index which display strong growth characteristics. The S&P 500 Value Index consists of those equities within the S&P 500 Index exhibiting strong value characteristics. The S&P MidCap 400 Index measures the performance of mid-sized companies. The S&P SmallCap 600 Index measures the small-cap segment of the U.S. equity market. You cannot invest directly in an index.

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.