

# Dividend Focus Fund

PM Commentary as of December 31, 2017



## CAPITAL MARKET OVERVIEW

Equity markets ended 2017 on a strong note. The 4th quarter saw a continuation of trends that have influenced the market all year. Investor optimism about continued global economic growth and strong corporate earnings led to another quarter of higher stock prices. Strong holiday sales and the passage of tax reform legislation also provided tailwinds to equity markets. The CBOE Volatility Index continued to hover near record lows, and, for the first time since 1958, U.S. equities delivered positive returns in every single month of the year.

The S&P 500 Index produced a total return of 6.64% in the 4th quarter. Growth continued to outperform value, with the Russell 3000 Growth Index up 7.61%, beating the 5.08% return from the Russell 3000 Value. Large companies generally outperformed smaller companies during the quarter. The Russell 1000 returned 6.59%, the Russell Midcap Index returned 6.07%, the Russell 2000 returned 3.34%, and the Russell Microcap Index returned 1.80%. Consumer discretionary and technology were the best performing sectors in the fourth quarter. Utilities, health care, and consumer staples underperformed.

## PERFORMANCE COMMENTARY

The Buffalo Dividend Focus Fund posted a return of 6.47% for the quarter, which slightly underperformed the S&P 500 Index return of 6.64%. The Fund's underperformance was primarily driven by relative weakness in the energy, consumer discretionary, and utility areas of the portfolio.

The top contributors on an individual security basis were **Microsoft**, **Apple**, and **Bank of America** while **General Electric**, **Edison International**, and **Merck** 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 energy sector, the Fund's relative underperformance was primarily driven by security selection as **Hess Midstream** declined by roughly 10%. The fall in Hess Midstream's shares reflected investor concerns surrounding energy prices and the growth outlook in the Bakken basin.

**Schlumberger** and **EQT Midstream** were down marginally during the quarter.

The Fund's relative underperformance in consumer discretionary was driven by security selection. The primary detractor was **Hanesbrands** which lowered guidance due weakness in its innerwear segment which is facing challenging conditions in the mass merchandise channel.

The underperformance within the utility sector was due to security selection as **Edison International** was negatively impacted by the recent California wildfires. While it is early in the process, and EIX has not been assigned any blame for the fires, investors are concerned about EIX's liability due to California's inverse condemnation policy -- CA utilities can be held liable for fires because they socialize the costs via higher future rates.

## PORTFOLIO MANAGER



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

### Average Annualized Performance (%)

As of 12/31/17	1 YR	3 YR	5 YR	Since Inception
<b>Buffalo Dividend Focus Fund</b>	18.02	9.81	14.67	14.46
<b>S&amp;P 500 Index</b>	21.83	11.41	15.79	15.85

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](http://buffalofunds.com).

## OUTLOOK

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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. ◀

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**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 9/30/17 the Buffalo Dividend Focus Fund's top ten holdings were: Apple 3.90%, Microsoft 3.02%, JP Morgan Chase 2.27%, Visa 2.19%, Bank of America 2.07%, American Electric Power 2.04%, BB&T 1.76%, Berkshire Hathaway 1.65%, Wells Fargo 1.55%, Monsanto 1.53%. 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. 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 a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index based on market capitalization. The Russell Microcap Index is a small-cap and micro-cap stock market index of the smallest 2,000 companies in the Russell 3000E Index incorporated in the U.S. based on market capitalization. The Chicago Board of Options Exchange Volatility (CBOE) Index measures the market expectations of near-term volatility conveyed by S&P 500 stock index option prices. 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.