Buffalo High Yield Fund

QUARTERLY
COMMENTARY

March 31, 2019

Capital Market Overview

After producing negative returns in final quarter of 2018, the U.S. high yield sector reversed course and generated positive performance in the 1st quarter of 2019, with bond prices rallying in all three months. The market's performance was driven by: (i) continued, albeit modest, economic growth of U.S. Gross Domestic Product (GDP); (ii) a more dovish sentiment from the Federal Reserve (Fed), signaling a pause in raising interest rates and timing of plans to reduce their balance sheet; (iii) a healthy labor market with additional jobs added and the unemployment rate near cycle lows; and (iv) the equity market indexes bouncing back after dismal performance to end last year. The Fed's pause, and the resulting decline in the level of short-term interest rates (3-Month LIBOR ended the period down 20bps to 2.60%), encouraged investors to buy risky assets. The 10-year Treasury bond produced a return of 3.07% during the quarter while the S&P 500 Index returned a positive 13.65%.

Anticipation of a potentially longer credit cycle and decreased market volatility resulted in positive cash inflows for the high yield asset class during the quarter of about $12.2 billion compared to outflows of $19.2 billion for the year ago quarter ending March 31, 2018 (source: JP Morgan). The $65.4 billion in new issuance of high yield bonds during the quarter increased sequentially from $19.1 billion in the 4th quarter of 2018 quarter, but was down year-over-year compared to the $72.7 billion during the 1st quarter of 2018.

During the period, the 10-year Treasury bond yield dropped by 18 basis points (bps) from 2.69% to 2.41%. High yield issues across all ratings segments and industry sectors followed suit with positive returns and lower yields. According to data from JP Morgan, the heart of the ratings curve outperformed slightly with the single B rated bond segment producing the highest return at +7.38% and bank loans being the worst performer at +4.65%.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 452bps, 42bps wider than the preceding quarter of 2018 but still 160 basis points below its 20-year historical average of 612 basis points. The yield to worst for the high yield market at quarter end was 6.83%, below the 8.95% 20-year average, and above the yield of 6.56% at the end of the last March 2018 quarter.

The market for high yield securities showed signs of life during the quarter as spread to worst tightened over 100bps and yield to worst shrank by 140bps. This is the strongest start to a calendar year on record for the high yield asset class, as a growing economy with modest inflation and a more dovish Fed stance toward monetary policy has created an increased appetite for risk assets. The U.S. high yield default rate of 0.94% was down 87bps from January 1, 2019 and down 133bps compared to the March 31, 2018 default rate of 2.21%, and still well below the 3.5% long-term average. New issuance activity steadily increased each month during the quarter, satiating some of the demand driven by $12.2 billion of inflows into high yield mutual funds.

Performance Commentary

The Buffalo High Yield Fund posted a return of 5.28% for the quarter, underperforming the ICE BofAML High Yield Index return of 7.40% during the same period.

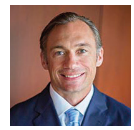
The Fund's cash balance increased 332bps compared to December 31st as some holdings were either called by the issuers or sold outright and exceeded our new security purchases.

We ended the quarter with 122 positions compared to the previous quarter's level of 124 positions (excluding cash).

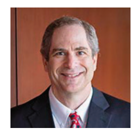
Fund Quick Facts

Ticker:	BUFHX
Inception Date:	5/19/1995
Net Assets:	$191.66 Million
Expense Ratio:	1.03%
Category:	High Yield Bond
Benchmark:	ICE BofAML U.S. High Yield Index

Management Team



Paul Dlugosch, CFA
Co-Manager since 2007
B.S. – University of Iowa



Jeff Sitzmann, CFA
Co-Manager since 2007
M.B.A. – Univ. of Chicago
B.B.A. – Univ. of Toledo

Jeff Deardorff, CFA
Co-Manager since 2015
B.S. – Kansas State Univ.

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Average Annualized Performance (%)

As of 3/31/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo High Yield Fund	3.46	4.98	3.60	8.68	5.67	6.93
ICE BofAML U.S. High Yield Index	5.94	8.69	4.70	11.24	7.25	7.18
Lipper High Yield Bond Funds Index	4.72	7.79	3.87	10.19	6.13	5.90
Morningstar High Yield Bond Category	4.33	6.97	3.45	9.49	6.02	5.89

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.

Fund Composition by Asset Class

	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19
Straight Corporates	63.7%	64.9%	67.2%	68.1%	65.4%
Convertibles	11.5%	8.9%	8.3%	7.6%	10.1%
Bank Loans	18.1%	21.0%	19.7%	20.2%	17.2%
Preferred Stocks	0.5%	0.0%	0.0%	0.0%	0.0%
Convertible Preferreds	0.5%	0.5%	0.5%	0.6%	0.6%
Common Stocks	1.5%	1.3%	1.1%	0.8%	0.7%
Cash	4.3%	3.5%	3.1%	2.7%	6.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 1Q19

	Unweighted Return	Contribution to Return
Straight Corporates	6.1%	4.13%
Convertibles	10.0%	0.89%
Bank Loans	2.7%	0.50%
Convertible Preferreds	13.6%	0.08%
Common Stocks	-9.7%	-0.08%
Cash		0.00%
TOTAL		5.28%

As shown in the table above, all of the Fund's asset classes with the exception of common stocks produced positive returns. The Fund's convertible bonds and convertible preferreds outperformed the Index total return, while corporates, bank loans, and common stocks underperformed the Index total return.

Top Contributors

Specific securities that contributed most positively to performance include **LiveNation** 2.500% convertible bonds, **Andeavor Logistics** 6.875% corporate bonds, and **Triumph Group** 4.875% corporate bonds. LiveNation advanced on better than expected earnings and sell-side speculation that the company is an attractive acquisition target. Andeavor bounced back after a dismal December as investors were bailing out of perpetual maturity issues. Triumph Group rose as the company continued to improve the business by selling assets, cutting costs, and focusing on higher margin businesses.

Top Detractors

Specific securities that detracted most from performance include **Maxar Technologies** bank debt, **Greenbrier** common stock, and **Weight Watchers** bank debt. The Maxar term loan declined on worse than expected earnings and management's decision to cut the dividend which made debt holders wary. Greenbrier declined on earnings coming in below expectations, and the continued sluggish environment for railcar orders forced management to lower expectations for 2019. The Weight Watchers term loan was hurt by declining revenue concerns and increasing leverage.

Outlook

Given that we are possibly in the late stages of the economic cycle, we find ourselves confronted with relatively low spread and yield levels. We continue to be concerned about inflation growth acceleration, geopolitical tensions – specifically the trade tensions with China, and increasing protectionism efforts from the White House.

We are managing the Fund cautiously yet actively, focusing on high-quality issuers with defensive business models and manageable credit metrics. We will continue to deploy cash in opportunities that we believe offer the most appealing risk/reward trade-off with a bias toward shorter durations and less levered credits. Additionally, we believe bank loans offer a compelling opportunity as they offer senior positioning in the capital structure and floating interest rates. Finally, we continue to look for opportunities in convertible bonds and preferreds.

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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 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.

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

As of 12/31/18 the Buffalo High Yield Fund top 10 holdings were MacDonald Dettwiler (T/L B, 7/5/24) 2.47%, Wildhorse Resource (6.875%, 2/1/25) 2.31%, Consolidated Comm. (6.500%, 10/1/22) 2.15%, Quad Graphics (7.000%, 5/1/22) 2.06%, Triumph Group (4.875%, 4/1/21) 1.95%, Phillips Van Heusen (7.750%, 11/15/23) 1.87%, Brunswick (7.375%, 9/1/23) 1.76%, Andeavor Logistics (6.875%, 8/15/23) 1.69%, Live Nation Entmt. (5.375%, 6/15/22) 1.67%, Nuance Comm. (6.000%, 7/1/24) 1.62%. 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 10-year Treasury bond is a debt obligation issued by the United States government that matures in 10 years. A basis point (bps) is one hundredth of one percent (0.01%). Yield is the income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Spread to worst measures the difference from the worst performing security to the best, and can be seen as a measure of dispersion of returns within a given market or between markets. Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. The ICE BofAML U.S. High Yield Index is an unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. The Lipper High Yield Bond Funds Index is a widely recognized index of the 30 largest mutual funds that invest primarily in high yield bonds. The S&P 500 Index is a capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. One cannot invest directly in an index. LIBOR (London Interbank Offered Rate) is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans.

A Standard & Poor's Rating of B means an obligor is more vulnerable the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. A Standard and Poor's Rating of BB means an obligor is less vulnerable in the near term than other lower-rated obligors. A Standard and Poor's Rating of CCC means an obligor is currently vulnerable, and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. The highest rating is AAA and the lowest rating is D. A Standard & Poor's Rating of BBB– or higher represents investment grade securities. In limited situations when the rating agency has not issued a formal rating, the Advisor will classify the security as nonrated.

Mutual fund investing involves risk. Principal loss is possible. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in foreign securities include additional risk such as greater volatility, and political, economic, and currency risks, as well as difference in accounting methods.

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.