Buffalo High Yield Fund

QUARTERLY
COMMENTARY

March 31, 2020

Capital Market Overview

After producing positive returns in the past three consecutive quarters of 2019, the U.S. high yield sector suffered a significant correction during the period, driven by the COVID-19 outbreak and plunging crude oil prices. The Saudi-Russian power struggle over oil output and the virus pandemic overshadowed everything in the month of March. The U.S Federal Reserve (the "Fed") enacted extraordinary measures including slashing interest rates, removing the caps on the size of asset purchases, and restarting the Term Asset-Backed Securities Loan Facility (TALF). Congress passed a $2+ trillion economic relief package in concert with the Fed's moves, but in spite of these efforts, the flight to quality ensued quickly and painfully. The 10-year Treasury bond returned 12.09% during the quarter, while the S&P 500 Index logged a return of -19.60%.

The flight to quality along with increased market volatility resulted in high yield mutual funds experiencing cash outflows of about $16.7 billion during the quarter. In fact, the $13 billion outflow in the month of March was the second largest monthly outflow for high yield, trailing only the $13.6 billion outflow in June 2013. This follows a $3 billion inflow in the previous quarter and a $3.2 billion inflow in the 3rd quarter of 2019. The $73 billion in high yield new issuance during the quarter was essentially all brought to market in January and February as demand vanished in March. In fact, only five bonds, totaling $4.2 billion, priced during the month of March compared to March 2019's volume total of $26.6 billion.

During the quarter, the yield on the 10-year U.S. Treasury Bond declined from 1.92% to 0.67% as investors scrambled to safety. The U.S. high yield universe as a whole was on the opposite side of that flight to quality, with negative returns in every industry, sector, and credit rating silo. According to data from JP Morgan, the highest quality end of the high yield credit spectrum (i.e., split BBB and BB), suffered less than the lower end of the quality spectrum. The split BBB segment produced the smallest loss at -8.35% and split B was the worst performer with a -24.56% loss.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 9.49%, which was 525 basis points (bps) wider than at year-end and 339 bps wider than the 20-year historical average of 610 bps. The yield to worst for the high yield market at quarter end was 10.00%, above the 20-year average of 8.70%, and above the yield of 6.84% as of December 31st.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) decreased -12.52% for the quarter, compared to a decline of -13.12% for the ICE BofAML U.S. High Yield Index. The Fund also declined less than the Lipper High Yield Bond Funds Index, which produced a return of -14.28% for the quarter.

Average Annualized Performance (%)

As of 3/31/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	-6.67	-0.12	1.47	4.29	4.98	6.35
Institutional Class - *BUIHX*[1]	-6.62	0.00	1.60	4.44	5.14	6.50
ICE BofAML U.S. High Yield Index	-7.45	0.55	2.67	5.50	6.22	6.55
Lipper High Yield Bond Funds Index	-8.47	-0.18	1.68	4.80	5.04	5.28
Morningstar High Yield Bond Category	-7.67	-0.18	1.66	4.52	5.05	5.31

[1]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. Each Morningstar category average represents a universe of funds with similar objectives.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$186.83 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofAML U.S. High Yield	

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.

BUFFALO FUNDS

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Fund Composition by Asset Class

	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20
Straight Corporates	65.4%	64.7%	65.0%	55.6%	60.1%
Convertibles	10.1%	12.1%	13.4%	17.7%	16.7%
Bank Loans	17.2%	15.2%	16.0%	16.2%	19.1%
Preferred Stocks	0.0%	0.0%	0.0%	1.1%	1.3%
Convertible Preferreds	0.6%	0.0%	0.0%	0.0%	0.0%
Common Stocks	0.7%	1.4%	1.2%	1.7%	1.0%
Cash	6.0%	6.5%	4.4%	7.6%	1.8%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 1Q20

	Unweighted Return	Contribution to Return
Straight Corporates	-13.4%	-6.76%
Convertibles	-13.5%	-2.03%
Bank Loans	-12.6%	-1.93%
Preferred Stocks	57.2%	-0.60%
Convertible Preferreds	0.0%	0.00%
Common Stocks	-82.1%	-1.00%
TOTAL		-12.52%

↑ Top Contributors

There were only a handful of securities that delivered positive returns for the Fund, with the three top contributors being **Brunswick** 7.375% corporate bonds, **Dermira** 3.000% convertible notes, and **Holly Energy Partners** 6.000% corporate notes. Brunswick is an investment grade credit with a high coupon and a relatively short maturity date of 2023, which protected it somewhat from the downturn. Dermira was acquired by Eli Lilly in March, and the notes were converted at a small premium to par. Holly Energy Partner notes were called by the company in February at a premium.

↓ Top Detractors

Specific securities that detracted the most from performance include **MPLX** 6.875% corporate bonds, **Energy Transfer** common equity, and **US Silica** bank debt. All three companies are directly exposed to the energy exploration and production (E&P) sector, which was significantly hurt by plummeting crude prices.

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Outlook

Until March, the United States had been enjoying a growing economy with modest inflation that had created a favorable environment for risky assets. However, near the end of February and early March, the COVID-19 pandemic and plummeting crude oil prices wreaked havoc on the markets. The U.S. high yield default rate increased to a three-year high of 3.54% in March, which was up 91 bps from the 2.63% level in December 2019, and above the 3.44% long-term average.

We are concerned first and foremost about the ongoing COVID-19 pandemic and the fallout on global economies, while previous issues such as China trade talks and the upcoming presidential election become a secondary focus. We are managing the Fund cautiously yet actively, focusing on high-quality issuers with defensive business models and manageable credit metrics. We ended the quarter with 136 positions unchanged from the previous quarter's level (excluding cash). We will continue to deploy the Fund's cash in opportunities that we believe offer the most appealing risk/reward tradeoff with a bias toward shorter durations and less levered credits. Additionally, we believe bank loans offer a more defensive position as they provide senior positioning in the capital structure. Finally, we continue to look for opportunities in convertible bonds and preferreds.

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 12/31/19 the Buffalo High Yield Fund top 10 holdings were MacDonald Dettwiler (T/L B, 7/5/24) 2.19%, Consolidated Comm. (6.500%, 10/1/22) 2.10%, Quad Graphics (7.000%, 5/1/22) 1.75%, Phillips Van Heusen (7.750%, 11/15/23) 1.70%, MPLX (6,875%, 8/15/23) 1.64%, Nuance Communications (1.500%, 11/1/35) 1.63%, Brunswick (7.375%, 9/1/23) 1.59%, Performance Food Group (5.500%, 10/15/27) 1.49%, Cardtronics (1.000%, 12/1/20) 1.49%, Treehouse Foods (6.000%, 2/15/24) 1.44%. 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. A coupon or coupon payment is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity. 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 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. One cannot invest directly in an index.

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.

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