Buffalo High Yield Fund

QUARTERLY
COMMENTARY

March 31, 2021

Capital Market Overview

The U.S. high yield sector continued its rally in the quarter, keeping yields at record lows. High yield bond prices continued their recovery from the COVID-19 sell-off in March 2020 amid stimulus and vaccine optimism. The high yield market, as demonstrated by the JP Morgan Domestic High Yield Index, posted positive returns in each month of the quarter (0.56% in January, 0.44 % in February, and 0.39% in March) maintaining yields at a 4.72% level. The 10-year U.S. Treasury Bond declined -7.08% during the quarter while the S&P 500 Index logged a return of 6.17%.

Following $3.4 billion in cash outflows in the final quarter of 2020, high yield mutual funds recorded another $10.2 billion in outflows this quarter. Interestingly, between the months of April to August 2020, high yield funds posted five consecutive months of inflows totaling $59.1 billion, which included the two largest monthly inflows ever recorded in April ($17.1 billion) and May ($20.5 billion), only to be followed by seven consecutive months of outflows totaling -$9.2 billion.

High yield new issuance volume was a record $158.6 billion during the three-month period after posting $99 billion in the previous quarter. Refinancing continued to be the primary use of proceeds accounting for ~77% of transaction volume in the quarter. According to JP Morgan, mid-tier and upper tier (B-split BBB) issues accounted for the bulk of activity in the quarter (86%) with the heaviest volume coming from Energy (20.3%), Gaming/Lodging (9.8%), and Telecommunications (6.8%).

The yield on the 10-year Treasury Bond increased 82 basis points (bps) during the quarter, from 0.92% to 1.74%, as early signs of inflation and a "return to normal" post-COVID outlook crept into the market. According to data from JP Morgan, the higher credit rating silos, which are more sensitive to interest rate movements, posted negative returns in the quarter while the lower tier silos performed better, as investors sought higher yields. The Defaulted segment produced the largest gain of 21.86% and the BB segment was the worst performer with a 0.09% loss.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 406 bps, 38 bps tighter than the preceding December quarter and 194 bps tighter than its 20-year historical average of 600 bps. The yield to worst for the high yield market at quarter end was 4.72%, below the 20-year average of 8.34%, and essentially unchanged from the 4.71% at the end of the 4th quarter of 2020.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) increased 1.73% in the quarter, outperforming the ICE BofAML U.S. High Yield Index return of 0.90% for the three-month period. The Fund also outperformed the Lipper High Yield Bond Funds Index return of 1.47%.

Average Annualized Performance (%)

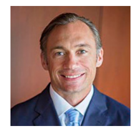
As of 3/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	27.07	7.06	6.54	5.68	6.21	7.08
Institutional Class - *BUIHX*[1]	27.28	7.19	6.68	5.83	6.36	7.24
ICE BofAML U.S. High Yield Index	23.31	6.53	7.94	6.31	7.21	7.15
Lipper High Yield Bond Funds Index	24.07	5.95	7.30	5.68	6.07	5.95
Morningstar High Yield Bond Category	21.79	5.43	6.54	5.31	6.00	5.89

[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.

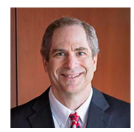
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.89%
Fund Assets:	$275.73 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofAML U.S. High Yield Index	

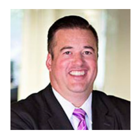
Management Team



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.

Buffalo High Yield Fund

QUARTERLY COMMENTARY

March 31, 2021

Fund Composition by Asset Class

	3/31/20	6/30/20	9/30/20	12/31/20	3/31/21
Straight Corporates	60.1%	55.4%	60.6%	61.0%	62.7%
Convertibles	16.7%	20.1%	17.6%	14.7%	16.3%
Bank Loans	19.1%	16.6%	16.3%	17.2%	11.2%
Preferred Stocks	1.3%	1.7%	1.5%	1.2%	2.2%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	1.0%	0.6%	0.4%	0.1%	0.0%
Cash	1.8%	5.6%	3.6%	5.8%	7.6%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 1Q21

	Contribution to Return
Straight Corporates	1.31%
Convertibles	0.19%
Bank Loans	0.29%
Preferred Stocks	0.14%
Convertible Preferreds	0.00%
Common Stocks	0.00%
TOTAL	**1.73%**

↑ Top Contributors

During the period 112 out of the 143 issues in the Buffalo High Yield Fund produced positive returns. The three top contributors were Southwest Airlines 1.25% convertible bonds, J2 Global 1.75% convertible bonds, and Quad Graphics 7.00% corporate bonds. The rise in Southwest Airlines convertible bonds was driven by the underlying common stock rallying throughout the quarter as COVID-19 vaccinations began rolling out and interest in air travel picked up steam. J2 Global improved on the back of the underlying common stock increasing over 22% during the quarter, driven by better than expected earnings and continued demand for its cloud-based communication services. Quad Graphics corporate bonds returned to near par levels, after the company reported better than expected earnings during the quarter, and investors were attracted to its higher coupon, lower duration profile.

↓ Top Detractors

Guidewire 1.25% convertible bonds, Smile Direct Club zero coupon convertible bonds, and the Air Transport Services 1.125% convertible bonds were the worst performers during the quarter. Guidewire performed well in the December quarter and gave some of that back this period as investors rolled out of Technology and into value sectors. Smile Direct Club convertible bonds were issued during the quarter as the stock was peaking and then retreated after the issuance. Air Transport Services convertible bonds declined after the common stock peaked at year-end despite Amazon announcing that it was purchasing another eleven aircraft from the company.

Buffalo High Yield Fund

QUARTERLY
COMMENTARY

March 31, 2021

Outlook

We are managing the Fund cautiously yet actively, focusing on high quality, below investment grade 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 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 and less interest rate sensitivity due to their floating rate structures. Finally, we continue to look for opportunities in convertible bonds and preferred stocks. We ended the period with 143 positions, up slightly from the previous quarter's level of 138 (excluding cash).

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