Buffalo High Yield Fund

QUARTERLY
COMMENTARY

March 31, 2023

Capital Market Overview

The U.S. high yield sector generated its second consecutive positive quarter after posting three consecutive losing quarters. In January and February, investors became more optimistic that the previous aggressive US Federal Reserve actions were taming inflation more quickly than expected and lower rated credits outperformed. However, in March, the US regional bank turmoil caused a surge in spreads (drop in prices) in fixed income, which induced steady outflows of assets and stifled new issuance activity. Despite this volatility, March still produced positive returns for the high yield sector. According to JP Morgan, high yield bonds ended the quarter at a yield to worst of 8.76%, down 47 basis points (bps) from the beginning of the quarter and compared to the record low of 4.22% in July 2021. The 10-year Treasury yield declined 41 bps to 3.47% and produced a positive return of 3.50% during the quarter while the S&P 500 Index posted a gain of 7.50% over the same period.

High yield funds saw quarterly cash outflows of -$16.0 billion in the quarter which compares to -$27.2 billion of outflows during the first quarter of 2022. High yield new issuance for the quarter was $40.5 billion compared to $46.5 billion in the first quarter of 2022. Capital market conditions steadily improved in January amid a sharp decline in yields. Twenty-five high yield bonds priced in January totaling $20.5 billion, the heaviest activity since January 2022's $27.9 billion. An average of $7.2 billion priced per month over the previous 11 months. February started out well but quickly tapered off due to rising yields, but still managed to produce eighteen deals for $14.4 billion. March was very quiet amid the banking turmoil and Fed rate decision with only $5.6 billion issued. New loan issuance was healthy in Jan ($13.7 billion), February was very active ($38.9 billion) and more in-line in March ($17.4 billion) for a total of $70.3 billion for the quarter.

According to JPMorgan, CCC rated bonds outperformed both B and BB rated issues during the quarter (CCC = 5.00%, B = 4.08%, BB = 3.80%), which helps to explain the index outperformance of the fund. Broadcasting and Telecom were the only two industries in the U.S. high yield universe that generated negative returns during the first quarter. According to data from JP Morgan, the Gaming/Leisure industry was the best performer with a positive 6.04% return and Broadcasting was the worst performing sector delivering negative returns of -1.09%.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 499bps, 12bps tighter than the fourth quarter of 2022 and 63bps tighter than its 20-year historical average of 562bps. The yield to worst for the high yield market at quarter end was 8.76%, above the 20-year average of 7.82%, but below the 9.23% yield at the end of the fourth quarter 2022.

Performance Commentary

The Buffalo High Yield Fund advanced 2.36% for the quarter ending March 31, 2023, trailing the ICE BofA U.S. High Yield Index which gained 3.73% and under-performing the Lipper High Yield Bond Funds Index which gained 3.35% for the three-month period.

Average Annualized Performance (%)

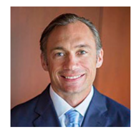
As of 3/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	-1.63	8.42	4.24	4.28	5.90	6.57
Institutional Class - *BUIHX*[1]	-1.49	8.59	4.38	4.43	6.05	6.72
ICE BofA US High Yield Index	-3.50	5.86	3.07	4.03	6.41	6.48
Lipper High Yield Bond Funds Index	-3.57	6.27	2.84	3.62	5.44	5.38
Morningstar High Yield Bond Category	-3.70	5.12	2.28	3.02	4.91	5.30

[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.

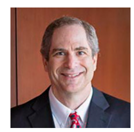
Fund Facts

	Investor	Institutional
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$309.35 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofA U.S. High Yield Index	

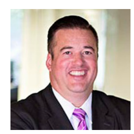
Management Team



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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Fund Composition by Asset Class

	3/31/22	6/30/22	9/30/22	12/31/22	3/31/23
Straight Corporates	68.3%	69.4%	69.6%	68.4%	67.6%
Convertibles	6.3%	4.6%	4.3%	3.4%	3.6%
Bank Loans	18.5%	18.9%	19.1%	19.1%	21.5%
Preferred Stocks	2.7%	2.9%	2.5%	2.2%	2.7%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	4.1%	4.1%	4.6%	6.9%	4.7%

Approximate Rate & Contribution of Return in 1Q23

	Contribution to Return
Straight Corporates	1.98%
Convertibles	0.11%
Bank Loans	0.25%
Preferred Stocks	0.18%
Convertible Preferreds	N/A
Common Stocks	N/A
TOTAL	**2.36%**

↑ Top Contributors

The fund's three top contributors were the **Ranger Oil** 9.25% 2026 corporate bonds, the **Vista Outdoors** 4.50% 2029 corporate bonds and the **Northern Oil & Gas** 8.125% 2028 corporate bonds. In February, Baytex Energy announced it was acquiring Ranger Oil for cash and stock. The bonds traded just under par prior to the announcement and promptly traded up to around $106 which is near its 106.94 call price on 8/15/23. These bonds will be redeemed when the acquisition is finalized. Vista Outdoors 4.50% was trading in the mid 70's to start the year and caught a strong bid throughout January rallying over 6 points into the low $80's. Vista is one of the largest manufacturers of small caliber ammunition (Remington) as well as outdoor recreational brands like Camelbak, Bell Helmets, and Bushnell. It is a BB credit that was trading at CCC-type yields because Environmental, social, and governance (ESG) mandates prevent some investors from owning ammunition. The bonds of Northern Oil & Gas 8.125% is the largest position in the fund and the bond price improved 3.5% during the quarter, in line with the ~3.7% return for the Energy sector.

↓ Top Detractors

The **Tutor Perini** 6.875% 2025 corporate bonds, the **Consensus Cloud** 6.0% 2026 corporate bonds, and the **Scripps** 5.375% 2031 corporate bonds were the worst performers during the quarter. Tutor Perini reported disappointing earnings in March citing canceled projects and an adverse legal ruling. The fund liquidated its position in the bonds during the quarter. Consensus Cloud sold off in late February after posting disappointing earnings compounded by the market selloff in early March. Scripps bonds also came under pressure after the company reported weaker than expected earnings in February compounded by the entire Broadcasting sector declining during the quarter.

BUFFALO FUNDS

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Outlook

We are focused first and foremost on the Federal Reserve's balancing act between taming inflation while avoiding a recession, economic weakness globally, and the geopolitical uncertainty caused by the ongoing conflict in Ukraine. We are managing the fund cautiously yet actively, focusing on higher-quality issuers with defensive business models and manageable credit metrics. 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 and less interest rate sensitivity due to their floating rate structures. Finally, while we continue to look for opportunities in convertible bonds and preferred stocks, the increased level of bond yields for traditional bonds/loans in conjunction with the increased volatility of the underlying equities makes these types of securities less appealing to us at this time. We ended the quarter with 137 positions, up from the previous quarter's level of 128 (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:

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As of 12/31/22 the Buffalo High Yield Fund top 10 holdings were MPLX (6.875% Perp) 3.14%, Northern Oil And Gas (8.125%, 3/1/28) 3.14%, DirecTV (Term Loan, 8/2/27) 2.96%, Talos Energy (12.0%, 1/15/26) 2.32%, Corecivic (8.25%, 4/15/26) 2.18%, Portillo's Holdings (Term Loan, 9/6/24) 2.09%, Penn Virginia Escrow (9.25%, 8/15/26) 1.98%, Matador Resources Company (5.875%, 9/15/26) 1.88%, Geo Group (Term Loan, 3/23/27) 1.74%, Maxar Technologies (Term Loan, 6/14/29) 1.74%. 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. JP Morgan Domestic High Yield Index is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market. 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 BofA US 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. The 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. The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and 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.