Buffalo High Yield Fund

QUARTERLY
COMMENTARY

June 30, 2019

Capital Market Overview

After producing robust positive returns in the 1st quarter of 2019, the U.S. high yield sector continued to push higher, generating positive performance again this period, although to a lesser extent than the previous quarter. The market's performance was driven by: (i) continued modest economic growth of U.S Gross Domestic Product (GDP); (ii) a more dovish sentiment from the Federal Reserve (The Fed), which signaled a potential reversal in monetary policy from interest rates increases to actually considering cuts; (iii) a healthy labor market with additional job gains and an unemployment rate near cycle lows; and (iv) the equity market indexes continuing their climb higher. The Fed's pause and resulting drop in the level of short-term interest rates – 3 Month LIBOR declined 28 basis points (bps) to 2.32% – encouraged investors to buy risky assets. High quality also performed well as the 10-year Treasury bond returned 4.30% during the quarter, matching the S&P 500 stock index's 4.30% return.

Despite decreased market volatility and the anticipation of a potentially longer credit cycle, high yield mutual funds experienced negative cash outflows during the June quarter of about $600 million. However, the preceding March quarter inflow of $12.6 billion was the largest quarterly inflow in the last five years and may have sucked some of the air out of the June quarter. The nearly $75 billion in high yield new issuance during the quarter was an increase both sequentially ($65 billion in the March quarter) as well as year-over-year ($54 billion June 2018 quarter).

During the quarter, the 10-year Treasury bond's yield dropped by 50 bps from 2.50% to 2.00%. High yield issues across all ratings segments and sectors, with the exception of energy, followed suit with positive returns and lower yields. The energy sector was hampered by plunging crude oil prices during the quarter. According to data from JP Morgan, the heart of the ratings curve outperformed slightly with the BB-rated segment producing the highest return at 2.99% and split B-rated being the worst performer at 0.76%.

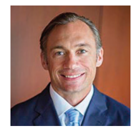
According to data from JP Morgan, the U.S. high yield market's spread-to-worst for the period was 461 bps, 55 bps wider than the preceding quarter of 2018 but still 150 bps below its 20-year historical average of 611 bps. The yield-to-worst for the high yield market at quarter-end was 6.46%, below the 8.89% 20-year average, and below the 6.72% from the end of the previous quarter.

The market for high yield securities held steady following a very solid first three months of the calendar year, as spread-to-worst widened just 9 bps and yield-to-worst shrank by 37 bps. This has been one of the strongest first halves of a calendar year on record for the high yield asset class. The U.S. high yield default rate has declined 37 bps year-to-date to 1.46%. This represents a decline of 52 bps from 1.98% as of June 2018, and remains below the 3.46% long-term average. New issuance activity steadily increased each month during the quarter – $18.1 billion in April, $28.1 billion in May and $28.5 billion in June. This compares to the $18.2 billion monthly average over the last 18 months and June monthly volumes of $21.6 billion since 2010.

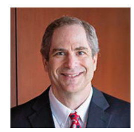
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$197.41 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
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Jeff Deardorff, CFA
Co-Manager since 2015
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Performance Commentary

The Buffalo High Yield Fund increased 2.42% during the 2nd quarter, slightly underperforming the ICE BofAML High Yield Index (the "Index") by 15 bps, which returned 2.57% during the same period. The Fund also underperformed the Lipper High Yield Bond Funds Index by 38 bps, but outperformed the Morningstar High Yield Bond Category by 14 bps.

The Fund's cash balance increased about 0.50% from the 1st quarter's levels, as the holdings in the Fund that were either called by the issuers or sold outright exceeded new security purchases.

Average Annualized Performance (%)

As of 6/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	5.42	5.09	3.79	7.25	5.80	6.96
Institutional Class - *BUIHX*[1]	5.58	5.25	3.95	7.41	5.95	7.12
ICE BofAML U.S. High Yield Index	7.58	7.54	4.70	9.22	7.48	7.22
Lipper High Yield Bond Funds Index	6.90	7.17	3.97	8.50	6.35	5.96
Morningstar High Yield Bond Category	6.19	6.31	3.47	7.95	6.27	5.93

[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 Composition by Asset Class

	6/30/18	9/30/18	12/31/18	3/31/19	6/30/19
Straight Corporates	64.9%	67.2%	68.1%	65.4%	64.7%
Convertibles	8.9%	8.3%	7.6%	10.1%	12.1%
Bank Loans	21.0%	19.7%	20.2%	17.2%	15.2%
Preferred Stocks	0.0%	0.0%	0.0%	0.0%	0.0%
Convertible Preferreds	0.5%	0.5%	0.6%	0.6%	0.0%
Common Stocks	1.3%	1.1%	0.8%	0.7%	1.4%
Cash	3.5%	3.1%	2.7%	6.0%	6.5%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 2Q19

	Unweighted Return	Contribution to Return
Straight Corporates	2.5%	1.62%
Convertibles	4.6%	0.51%
Bank Loans	3.8%	0.62%
Preferred Stocks	0.0%	0.00%
Convertible Preferreds	-3.2%	-0.01%
Common Stocks	-9.1%	-0.10%
Cash		0.00%
TOTAL		2.42%

BUFFALO® FUNDS

Top Contributors

Specific securities that contributed most positively to performance include **Maxar Technology** bank debt, **8x8** 0.5% convertible bonds, and **Medicines Company** 2.75% convertible bonds.

After being one of the worst performers in the preceding quarter, Maxar advanced, as the new CEO stated publicly that the company would be able to stay within its debt covenants. The company also received payments from two insurance settlements and won a new significant contract from the National Aeronautics and Space Administration (NASA).

The 8x8 convertible bonds rallied on the back of the common stock, which rose 20% during the quarter, driven by bullish sell-side recommendations and Steven Cohen's Point72 firm increasing its stake to 5%.

Medicines Company convertible bonds rose due to favorable study results for its new cholesterol-lowering medication.

Top Detractors

Specific securities that detracted most from performance include **LSC Communications** 8.75% corporate bonds, **Lions Gate** common stock, and **Internap** bank debt.

The LSC bonds declined after the Department of Justice (DoJ) announced it was blocking the acquisition of LSC by Quad Graphics. The bonds jumped roughly 10 points in October 2018 when the deal was announced and the retreated to pre-deal levels this quarter.

Lions Gate declined on earnings coming in below expectations and the continued sluggish environment at the movie theater box office.

Meanwhile, Fund management decided to liquidate its position in the Internap term loan and, unfortunately, low trading liquidity forced a haircut on the mark-to-market during the sale.

Outlook

We continue to be concerned about the late stages of this economic cycle, geopolitical tensions, in particular the trade tensions with China, and increasing protectionism positioning from the White House. Given the potential late stages of the economic cycle, we find ourselves confronted with relatively low spread and yield levels. We are managing the fund cautiously yet actively. We ended the quarter with 126 positions compared to the previous quarter's level of 122 positions (excluding cash).

We are focusing on higher-quality, non-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 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 preferred securities.

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 3/31/19 the Buffalo High Yield Fund top 10 holdings were Consolidated Comm. (6.500%, 10/1/22) 2.20%, Quad Graphics (7.000%, 5/1/22) 2.08%, MacDonald Dettwiler (T/L B, 7/5/24) 2.05%, Triumph Group (4.875%, 4/1/21) 2.03%, Andeavor Logistics (6.875%, 8/15/23) 1.82%, Phillips Van Heusen (7.750%, 11/15/23) 1.81%, 8x8 (0.500%, 2/21/24) 1.74%, Brunswick (7.375%, 9/1/23) 1.69%, Live Nation Entmt. (5.375%, 6/15/22) 1.62%, Treehouse Foods (6.000%, 2/15/24) 1.61%. 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.