

Capital Market Overview

After suffering a massive correction in the 1st quarter, driven by the COVID-19 outbreak and plunging crude oil prices, the U.S. high yield sector delivered a substantial rally in the 2nd quarter -- the strongest since the 3rd quarter of 2009. While not fully recapturing the losses of the 1st quarter, aggressive monetary and fiscal stimulus implemented in April and May fueled the rebound in high yield bonds from the March low point. The 10-year Treasury Bond returned 0.68% during the quarter while common stocks, as measured by the S&P 500 Index, logged a return of 20.54%.

Following \$16.7 billion in outflows from a flight to quality during the preceding quarter, high yield funds saw a record cash inflow of \$47.3 billion in the June quarter. Recognizing the influx of capital, high yield issuers brought a record \$145.5 billion in high yield new issuance, easily exceeding the previous record of \$121.2 billion set in the 2nd quarter of 2014. In the first six months of 2020, new issuance volume totaled \$218.4 billion, up 55% from the \$140.5 billion in the first six months of 2019. According to JP Morgan, BB-rated issues accounted for the bulk of activity (58%), and tilted heavily toward sectors impacted by the virus. The heaviest volume in period came from Gaming/Leisure and Lodging (\$21.6 billion, 15%), Autos (\$13.3 billion, 9%), and Energy (\$12.0 billion, 8%).

During the quarter, the 10-year Treasury bond yield was essentially flat at 0.66% following the 125 basis point (bps) contraction in the 1st quarter, and remains near record lows. Excluding transportation, every industry and sector in the U.S. high yield universe and every credit rating silo produced positive returns. According to data from JP Morgan, the lower quality end of the high yield credit spectrum (i.e., CCC and non-rated) performed better than the higher end of the quality spectrum. The non-rated segment produced the largest gain of 13.81% and the higher-rated split BBB segment was the worst performer, but still produced a solid 7.36% gain.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 722 bps, 227 bps tighter than the preceding quarter and 111 bps wider than its 20-year historical average of 611 bps. The yield to worst for the high yield market at quarter end was 7.57%, below the 20-year average of 8.64%, and below the yield of 10.00% at the end of the 1st quarter.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) advanced 10.00% over the quarter and outperformed the ICE BofAML U.S. High Yield Index, which gained 9.61%. The Fund also outperformed the peer group Lipper High Yield Bond Funds Index return of 9.27%.

Average Annualized Performance (%)

As of 6/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFHX	0.24	2.54	3.11	5.26	5.52	6.69
Institutional Class - BUIHX ¹	0.34	2.67	3.25	5.41	5.67	6.84
ICE BofAML U.S. High Yield Index	-1.10	2.94	4.58	6.48	6.68	6.87
Lipper High Yield Bond Funds Index	-2.70	2.17	3.48	5.82	5.52	5.60
Morningstar High Yield Bond Category	-1.89	2.04	3.38	5.49	5.50	5.61

¹For 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 Institutional 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.

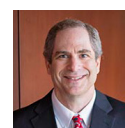
Fund Facts

	Investor	Institutional
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	\$208.63 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.

Fund Composition by Asset Class

	6/30/19	9/30/19	12/31/19	3/31/20	6/30/20
Straight Corporates	64.7%	65.0%	55.6%	60.1%	55.4%
Convertibles	12.1%	13.4%	17.7%	16.7%	20.1%
Bank Loans	15.2%	16.0%	16.2%	19.1%	16.6%
Preferred Stocks	0.0%	0.0%	1.1%	1.3%	1.7%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	1.4%	1.2%	1.7%	1.0%	0.6%
Cash	6.5%	4.4%	7.6%	1.8%	5.6%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 2Q20

	Unweighted Return	Contribution to Return
Straight Corporates	8.6%	5.00%
Convertibles	13.5%	2.51%
Bank Loans	10.7%	1.91%
Preferred Stocks	36.6%	0.55%
Convertible Preferreds	0.0%	0.00%
Common Stocks	32.1%	0.26%
TOTAL		10.00%

↑ Top Contributors

All but a handful of securities delivered positive returns during the period, with the three top contributors being **Cerence** 3.000% convertible bonds, **MPLX** 6.875% corporate bonds, and **Nuance Communications** 1.500% convertible bonds. The Fund participated in the new issuance of the Cerence 3.000% convertible bonds, which increased over 25% in their first week of trading. MPLX bonds, one of the Fund's worst performers in the preceding quarter, recovered significantly in the 2nd quarter as crude oil prices recovered and the energy sector as a whole rebounded. Nuance Communications convertible bonds rallied on the back of the common stock, which increased 51% during the quarter as investors favored the technology sector.

↓ Top Detractors

Specific securities that detracted the most from performance include **Brunswick** 7.375% corporate bonds, **Townsquare Media** 6.500% corporate bonds, and **J2 Global** 1.750% convertible bonds. Brunswick bonds were one of the Fund's best performers in the 1st quarter as higher quality issues were safe havens for investors, but the bonds experienced some selling pressure this period as capital was redirected into riskier securities that had been punished starting the year. Townsquare Media declined due to the negative economic impact of the pandemic resulting in the pull back of radio advertising. This has caused leverage to increase and may require the company to get a waiver on its revolver covenants. The company also took a non-cash impairment charge due to an accounting error. J2 Global was negatively-impacted by a hedge fund short-sell report released in June. In response, management issued a firm rebuttal addressing the assertions and pointed out multiple inaccuracies in the report.

Outlook

Until March, the United States had been enjoying a growing economy with modest inflation that created a favorable environment for risky assets. However, by 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 3-year high of 3.54% in March, an increase of 91 bps from the December 2019 level, and slightly above the long-term average of 3.44%. Unfortunately, the trend continued during the 2nd quarter with the default rate increasing to 6.61%, a 10-year high. During the quarter, 47 companies defaulted on a record-breaking \$82.2 billion of debt.

We are concerned first and foremost about the ongoing COVID-19 pandemic and the fallout on global economies. Previous concerns such as trade talks with China and the upcoming presidential election have 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 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 preferred stocks. ▲

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 3/31/20 the Buffalo High Yield Fund top 10 holdings were Cerence (T/L B, 9/30/24) 2.83%, Consolidated Comm. (6.500%, 10/1/22) 2.35%, MacDonald Dettwiler (T/L B, 10/4/24) 2.25%, Builders FirstSource (5.000%, 3/1/30) 1.93%, Brunswick (7.375%, 9/1/23) 1.92%, Nuance Communications (1.500%, 11/1/35) 1.87%, Quad Graphics (7.000%, 5/1/22) 1.77%, Phillips Van Heusen (7.750%, 11/15/23) 1.73%, Treehouse Foods (6.000%, 2/15/24) 1.60%, Cogent Comm. (5.625%, 4/15/21) 1.59%. 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.

