Buffalo High Yield Fund

QUARTERLY
COMMENTARY

June 30, 2022

Capital Market Overview

The U.S. high yield sector posted consecutive losing quarters as inflation fears and the economic fallout from the ongoing Russia/Ukraine conflict continued to weigh on investor sentiment. A 75-basis point (bps) increase in the Federal Funds rate, accompanied by hawkish commentary from the Federal Reserve, caused significant upward pressure on Treasury yields during the period. Commodity prices also remained elevated as the Ukraine invasion persisted. High yield bonds ended the quarter at a yield to worst of 9.21%, up 290 bps from the beginning of the quarter, finishing significantly higher than the record low of 4.22% achieved in July 2021. The 10-year Treasury yield rose 68 bps and produced a negative return of -5.00% during the quarter, while the S&P 500 Index posted a loss of -16.10% over the same period.

High yield funds continued its streak of monthly cash outflows that began in January 2022. High yield funds experienced $15.3 billion in outflows in the quarter. The current stretch of high yield outflows is the largest six-month period of outflows on record. Unsurprisingly, high yield new issuance was only $24.6 billion, which was the lightest volume since the December 2018 quarter and compares to the quarterly average of $117 billion over the last two years. According to JP Morgan, split BBB and BB-rated credits accounted for the bulk of the new issue activity in the 2nd quarter (53%), and was heavily tilted toward Energy (21.8%), Automotive (13.3%), and Metals/Mining (11.2%).

As mentioned previously, the 10-year Treasury Bond's yield rose 68 bps from 2.34% to 3.02%, compounding the 83 bps increase in the previous quarter ending March 31st. Every credit rating silo produced negative returns during the 2nd quarter. According to data from JP Morgan, the highest quality split BBB credit tier declined -6.93% and outperformed the rest of the credit spectrum. CCC-rated bonds performed the worst, producing a return of -14.05% for the quarter. Similarly, every sector within U.S. high yield market produced negative returns during the quarter. According to data from JP Morgan, the Diversified Media sector was the best performing industry, declining -5.30% while Broadcasting's decline of -14.60% was the worst.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 620bps, 221bps wider than the previous quarter and 43bps tighter than its 20-year historical average of 577 basis points. The yield to worst for the high yield market at quarter end was 9.21%, above the 20-year average of 7.93%, and higher than the 6.31% yield at the end of the March 2022 quarter.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) declined -7.98% for the quarter but outperformed the ICE BofA U.S. High Yield Index and the Lipper High Yield Bond Funds Index returns of -9.97% and -9.55%, respectively.

Average Annualized Performance (%)

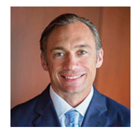
As of 6/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	-8.48	2.81	3.16	4.33	5.27	6.49
Institutional Class - *BUIHX*[1]	-8.26	2.96	3.32	4.49	5.42	6.65
ICE BofAML U.S. High Yield Index	-12.66	-0.04	1.95	4.41	5.64	6.39
Lipper High Yield Bond Funds Index	-11.71	0.08	1.90	4.07	4.66	5.29
Morningstar High Yield Bond Category	-11.80	-0.21	1.46	3.59	4.51	5.21

[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

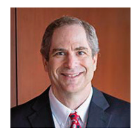
	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	$269.31 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofAML U.S. High Yield Index	

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 FUNDS

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Fund Composition by Asset Class

	6/30/21	9/30/21	12/31/21	3/31/22	6/30/22
Straight Corporates	61.5%	65.3%	67.8%	68.3%	69.4%
Convertibles	17.0%	16.1%	7.1%	6.3%	4.6%
Bank Loans	13.7%	13.5%	16.7%	18.5%	18.9%
Preferred Stocks	2.3%	2.2%	2.6%	2.7%	2.9%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	0.0%	0.0%	1.3%	0.0%	0.0%
Cash	5.5%	2.9%	4.5%	4.1%	4.1%

Approximate Rate & Contribution of Return in 2Q22

	Contribution to Return
Straight Corporates	-6.38%
Convertibles	-0.68%
Bank Loans	-0.61%
Preferred Stocks	-0.09%
Convertible Preferreds	N/A
Common Stocks	N/A
TOTAL	**-7.98%**

↑ Top Contributors

The three top contributors for the Fund in the period were **NuStar Energy** 9.00% preferred stock, **Maxar Technologies** term loan, and **Consol Energy** term loan. NuStar Energy transports and stores crude oil and refined products and benefited from strong demand for crude and refined products during the quarter. Maxar Technologies term loan was refinanced during the quarter resulting in a recovery from its market price to its par value. Consol Energy provides coal mining services and experienced significant improvement in operating metrics, driven by European natural gas shortages and thus rising coal prices.

↓ Top Detractors

The **Northern Oil & Gas** 8.125% corporate bonds, **Entercom Media** 6.750% corporate bonds, and the **Diebold Nixdorf** 8.500% corporate bonds were the worst performers during the quarter. In mid-June, Northern Oil & Gas announced the acquisition of assets in the Williston Basin. Despite the low-priced accretive deal and debt/preferred repurchases, bonds came under pressure. Entercom (now called Audacy) sold off with the rest of the broadcasting sector over concerns a slowing economy would lead to less ad spending. Diebold Nixdorf reported weaker than expected earnings, and the Fund liquidated its position during the quarter.

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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. We are also mindful of continued supply chain disruptions and the geopolitical uncertainty caused by the tragic conflict in Ukraine. It should come as no surprise that we are managing the Fund cautiously yet actively, focusing on high-quality 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 quarter with 128 positions, down 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:

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As of 3/31/22 the Buffalo High Yield Fund top 10 holdings were Northern Oil & Gas (8.125%, 3/1/28) 3.01%, DirecTV Financing (1 Month LIBOR + 5.000%, 8/2/27) 2.96%, MPLX (6.875%, 8/15/23) 2.48%, Penn Virginia Escrow (9.250%, 8/15/26) 2.31%, Talos Production (12.000%, 1/15/26) 2.18%, Consol Energy (11.000%, 11/15/25) 2.11%, Matador Resources (5.875%, 9/15/26) 1.88%, Energy Transfer (7.125%, perpetual preferred) 1.82%, PetIQ (3 Month LIBOR + 4.250%, 4/7/28) 1.66%, Magnite (6 Month LIBOR + 5.000%, 4/3/28) 1.49%. 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 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. 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. 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.