Buffalo High Yield Fund

QUARTERLY
COMMENTARY

September 30, 2018

Capital Market Overview

After producing positive returns in the 2nd quarter of 2018, the U.S. high yield sector stayed on course, generating positive performance in the 3rd quarter, with positive returns in all three months, although each month's return was lower than the prior month. The market's performance was driven by:

- continued, albeit modest, economic growth of U.S. Gross Domestic Product;
- a healthy labor market with additional jobs added and the unemployment rate remaining near cycle lows;
- the Federal Reserve maintaining a gradual pace of increasing interest rates and timing of plans to reduce their balance sheet; and
- a quiet new issue market which provided support for secondary pricing.

Headwinds in the quarter were:

- rising treasury rates;
- continued concerns regarding disruptions in international trade due to the Administration's escalating trade wars with the North American Free Trade Agreement (NAFTA) countries and particularly with China;
- increasing oil prices; and
- an evolving geopolitical landscape and risks.

Despite uncertain market conditions, equity markets and high yield markets performed well during the quarter despite the level of short-term interest rates moving higher. The 3 Month Intercontinental Exchange London Interbank Offered Rate, LIBOR, increased 9 basis points (bps) to 2.42%, as investors continued to gravitate towards higher risk assets. The 10-Year Treasury Note returned -1.08% during the quarter while the JP Morgan Domestic High Yield Index generated 2.37% and the S&P 500 Index returned 7.71%.

During the quarter, the 10-year Treasury yield rose 20bps from 2.86% to 3.06%. Despite the increase in Treasury yields, demand for high yield caused spreads to tighten across the asset class.

Changing course from the last few quarters, higher-rated issues tightened more than lower-rated issues. Spreads on the CCC-rated segment tightened 30bps while the spreads on higher rated BB-rated bonds tightened 44bps. According to data from JP Morgan, the BB-rated segment returned 2.32%, slightly better than the B-rated segment return of 2.29%, but still less than CCC-rated segment, which returned 2.99%. The Buffalo High Yield Fund was underexposed to the CCC sector with a weighting of about 4.9% compared to the JP Morgan CCC weighting of 11.5%.

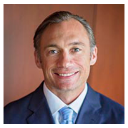
According to data from JP Morgan, the U.S. high yield market's spread-to-worst for the period ended September 30th was 365bps, 50bps tighter than the preceding September quarter and 249 basis points below its 20-year historical average of 614bps. The yield-to-worst for the high yield market at quarter-end was 6.53%, below the 9.02% 20-year average, and below the yield of 6.72% at the end of the 2nd quarter.

Counterintuitively, high yield mutual funds continued to experience cash outflows during the September quarter of about $1.0 billion compared to outflows of $4.5 billion in the previous quarter, according to data from JP Morgan. High yield new issuance for the quarter was $42.1 billion, the lowest volume since the $38.2 billion in the 4th quarter of 2011, and well below the average quarterly volume of $83 billion during that seven-year span.

Fund Quick Facts

Ticker:	BUFHX
Inception Date:	5/19/1995
Net Assets:	$206.94 Million
Expense Ratio:	1.03%
Category:	High Yield Bond
Benchmark: ICE BofAML U.S. High Yield Index	

Management Team



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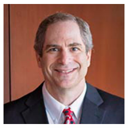

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Performance Commentary

The Buffalo High Yield Fund increased 1.80% in the 3rd quarter, underperforming the ICE BofAML U.S. High Yield Index by 64bps, which returned 2.44% during the same period. We ended the quarter with 131 positions compared to the previous quarter's level of 140 positions (excluding cash).

Average Annualized Performance (%)

As of 9/30/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo High Yield Fund	2.36	4.84	4.06	7.39	6.02	7.03
ICE BofAML U.S. High Yield Index	2.94	8.19	5.54	9.38	7.64	7.23
Lipper High Yield Bond Funds Index	2.70	6.97	4.82	7.86	6.55	5.95
Morningstar High Yield Bond Category	2.36	6.41	4.31	7.62	6.42	5.94

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.

The Fund's cash balance at the end of the quarter decreased 33bps from the prior quarter's level, as sales of existing positions were exceeded by new security purchases and investor withdrawals in the Fund. The Fund's composition by asset class at quarter-end was as follows:

Fund Composition by Asset Class

	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18
Straight Corporates	60.5%	62.6%	63.7%	64.9%	67.2%
Convertibles	13.3%	12.8%	11.5%	8.9%	8.3%
Bank Loans	18.6%	17.8%	18.1%	21.0%	19.7%
Preferred Stocks	1.5%	0.5%	0.5%	0.0%	0.0%
Convertible Preferreds	1.2%	0.5%	0.5%	0.5%	0.5%
Common Stocks	0.7%	0.7%	1.5%	1.3%	1.1%
Cash	4.3%	5.2%	4.3%	3.5%	3.1%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 3Q18

	Unweighted Return	Contribution to Return
Straight Corporates	2.3%	1.45%
Convertibles	2.2%	0.17%
Bank Loans	1.5%	0.29%
Preferred Stocks	0.0%	0.00%
Convertible Preferreds	2.2%	0.01%
Common Stocks	8.3%	0.10%
Cash	-	0.00%
TOTAL		1.79%

BUFFALO FUNDS

Buffalo High Yield Fund

↑ Top Contributors

Specific securities that contributed most positively to performance include Live Nation 2.500% convertible notes, Greenbrier common stock, and Andeavor Logistics 6.875% perpetual notes. Live Nation advanced throughout the quarter on better-than-expected earnings and growing speculation that the company is becoming an acquisition target. Greenbrier improved on strong earnings and expectations for railcar orders to improve. The fixed-to-floating rate feature in the Andeavor notes attracted investors looking to gain more floating rate exposure as treasury yields were increasing.

↓ Top Detractors

Specific securities that detracted most from performance include Medicines Company 2.750% convertible notes, Twitter 1.000% convertible notes, and PRA Group 3.500% convertible notes. The Medicines Company converts were down as the stock sold off in September, after a strong rally in the previous quarter. Twitter declined on disappointing earnings in July. PRA Group was hurt by disappointing earnings, and supply of defaulted consumer debt remains tighter than expected.

Outlook

A growing economy with modest inflation has created a favorable environment for risky assets. However, market participants are becoming increasingly concerned about potential trade wars with China and physical confrontations with North Korea and Russia/Syria.

The U.S. high yield default rate increased to 2.02%, up 74bps year-to-date, up 95bps from 1.07% as of September, 30 2017, but still well below the 3.0-3.5% long-term average.

On the positive side, the slowdown in new issuance activity has reduced the supply of bonds available for purchase, which has helped support bid levels. We continue to be concerned about the Federal Reserve taking a more aggressive tightening policy stance, inflation growth acceleration, geopolitical issues such as North Korea or tensions in the Middle East escalating, and increasing protectionism efforts from the White House.

Given that we are likely in the late stages of the economic cycle, we still find ourselves confronted with relatively-low spread and yield levels. We are managing the Fund cautiously, yet actively.

We continue to focus on higher-quality, non-investment grade 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 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 preferreds.

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 contains this and other important information about the investment company, and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read it carefully before investing.

Earnings growth is not representative of the Fund's future performance.

As of 6/30/18 the Buffalo Small Cap Fund top 10 equity holdings were Twilio 3.18%, CoreCivic 2.20%, MasTec 2.00%, Mimecast 1.97%, Medidata Solutions 1.95%, HealthEquity 1.94%, HMS Holdings 1.94%, CyrusOne 1.89%, 8x8 1.87%, Repligen 1.86%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.

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 Note 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 3 Month LIBOR (London Interbank Offered Rate) is the rate average interest rate at which a selection of banks in London are prepared to lend to one another with a maturity of 3 months.

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 J.P. 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. 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.