Buffalo High Yield Fund

QUARTERLY
COMMENTARY

September 30, 2019

Capital Market Overview

After producing positive returns in the 2nd quarter of 2019, the U.S. high yield sector continued to push higher during the 3rd quarter, albeit to a lesser extent. The market's performance was impacted by: (i) continued modest economic growth of U.S. gross domestic product (GDP); (ii) a widely anticipated 25 basis point (bps) cut from the Federal Reserve (the "Fed") with a signaled "wait and see" approach going forward; (iii) volatile movements in crude oil prices that affected the energy space; and (iv) the equity market indexes continuing their climb higher. The Fed's cut, and the resulting decline in the level of short-term interest rates (3Month LIBOR down 23bps to 2.09%), encouraged investors to buy risky assets. The 10-year Treasury bond returned 3.37% during the quarter, outpacing the S&P 500 Index return of 1.70%.

Despite increased market volatility, high yield mutual funds experienced positive cash inflows during the quarter of about $3.8 billion. This follows a flat 2nd quarter and a 1st quarter inflow of $12.6 billion, which was the largest quarterly inflow in the last five years. The $67.7 billion in high yield new issuance during the quarter was down sequentially ($74.7 billion in the 2nd quarter) but higher year-over-year ($42 billion 3rd quarter 2018).

During the quarter, the 10-year Treasury Bond yield dropped by 33 bps from 2.00% to 1.67%. The U.S. high yield universe as a whole followed suit with positive returns and lower yields despite the energy sector continuing to be punished by plunging crude oil prices. According to data from JP Morgan, the higher quality end of the credit spectrum, single B-rated issues and above, continued its year-to-date trend of outperforming lower rated issues. The split BBB segment produced the highest return at 2.14% while the split B segment was the worst performing group at -4.36%.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 4.75%, 110 bps wider than the preceding September quarter but still 135 basis points below its 20-year historical average of 610 basis points. The yield to worst for the high yield market at quarter-end was 6.39%, below the 8.83% 20-year average, and below the yield of 6.53% at the end of the last September 2018 quarter.

Performance Commentary

The Buffalo High Yield Fund increased 1.24% in the 3rd quarter, a result in-line with the ICE BofAML U.S. High Yield Index return of 1.22%. The Fund also outperformed the Lipper High Yield Bond Funds Index and the Morningstar High Yield Bond Category for the quarter.

Average Annualized Performance (%)

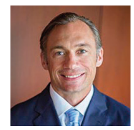
As of 9/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	4.84	4.40	4.29	6.18	5.78	6.94
Institutional Class - *BUIHX*[1]	4.99	4.55	4.45	6.34	5.94	7.10
ICE BofAML U.S. High Yield Index	6.30	6.07	5.36	7.85	7.25	7.19
Lipper High Yield Bond Funds Index	5.70	5.74	4.59	7.23	6.16	5.94
Morningstar High Yield Bond Category	5.27	5.10	4.09	6.75	6.06	5.91

[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.

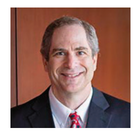
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$201.38 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
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

	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19
Straight Corporates	67.2%	68.1%	65.4%	64.7%	65.0%
Convertibles	8.3%	7.6%	10.1%	12.1%	13.4%
Bank Loans	19.7%	20.2%	17.2%	15.2%	16.0%
Preferred Stocks	0.0%	0.0%	0.0%	0.0%	0.0%
Convertible Preferreds	0.5%	0.6%	0.6%	0.0%	0.0%
Common Stocks	1.1%	0.8%	0.7%	1.4%	1.2%
Cash	3.1%	2.7%	6.0%	6.5%	4.4%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 3Q19

	Unweighted Return	Contribution to Return
Straight Corporates	1.9%	1.22%
Convertibles	1.2%	0.18%
Bank Loans	0.7%	0.08%
Preferred Stocks	0.0%	0.00%
Convertible Preferreds	0.0%	0.00%
Common Stocks	-4.7%	-0.06%
TOTAL		1.23%

↑ Top Contributors

Specific securities that contributed most positively to performance include **Medicines Company** 2.750% convertible bonds, **Performance Food Group** 5.500% corporate bonds, and **Brunswick** 7.375% corporate bonds. Medicines Company convertible bonds rose due to favorable study results for its new cholesterol lowering medication. The Fund participated in the new issuance from Performance Food Group in September that quickly popped several basis points after being released. Brunswick 7.375% corporate bonds are investment grade and continued to rally as treasury yield spreads tightened.

↓ Top Detractors

Specific securities that detracted most from performance include **LSC Communications** 8.75% corporate bonds, **8x8 Inc.** 0.500% convertible notes, and **Air Transport Services** 1.125% convertible notes. The LSC bonds declined after the Department of Justice announced that it was blocking the acquisition of LSC by Quad Graphics. 8x8's convertible notes declined as the underlying common stock was negatively impacted by a sell-side analyst downgrade in September. Air Transport Services converts followed its common stock lower in August after a peer reported worse-than-expected performance and uncertainty from the China trade tensions that weighed on the sector.

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Outlook

A growing economy with modest inflation has created a favorable environment for risky assets. However, market participants are becoming increasingly concerned about the trade war with China, political uncertainty in Washington, and escalating tension in the Middle East. The U.S. high yield default rate decreased to 2.52% in September, down slightly from 2.55% in June 2019, and still below the 3.46% long-term average. New issuance activity in the quarter declined to $67.7 billion, below the $75.2 billion in the 2nd quarter. 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 efforts from the White House.

Given the late stages of the economic cycle, we find ourselves confronted with still relatively low spread and yield levels. We are managing the Fund cautiously yet actively. We ended the quarter with 131 positions compared to the previous quarter's level of 126 positions (excluding cash).

We are managing the portfolio to focus 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 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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As of 6/30/19 the Buffalo High Yield Fund top 10 holdings were MacDonald Dettwiler (T/L B, 7/5/24) 2.27%, Consolidated Comm. (6.500%, 10/1/22) 2.14%, Quad Graphics (7.000%, 5/1/22) 2.06%, Triumph Group (4.875%, 4/1/21) 2.01%, Phillips Van Heusen (7.750%, 11/15/23) 1.79%, Andeavor Logistics (6.875%, 8/15/23) 1.77%, 8x8 (0.500%, 2/21/24) 1.73%, Brunswick (7.375%, 9/1/23) 1.68%, Live Nation Entmt. (5.375%, 6/15/22) 1.59%, Treehouse Foods (6.000%, 2/15/24) 1.58%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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.