Buffalo High Yield Fund

QUARTERLY
COMMENTARY

September 30, 2020

Capital Market Overview

After posting its strongest performance since Q3 2009 in Q2 2020, the U.S. high yield sector continued its rally into the 3rd quarter of this year. High yield bond prices continued their recovery through July and August before reversing course in September. The first two months advanced on positive vaccine news, better-than-expected earnings and a dovish stance from the Federal Reserve. The high yield market declined in September amid uncertainty over a new economic stimulus package, the pending U.S. elections, and rising cases of COVID-19 in Europe. The 10-year Treasury Bond returned 0.08% during the quarter, while the S&P 500 Index advanced 8.93%.

Following a record $47.3 billion inflow in the 2nd quarter, high yield funds saw $10.7 billion of cash inflows in the 3rd quarter. While July and August continued the trend of inflows, September posted the first monthly outflows (-$4.3 billion) since the mass exodus in March of this year. During the quarter, high yield issuers brought $131.9 billion in new bonds to market, driven primarily by refinancing. In the first nine months of 2020, new issuance volume totaled $350.3 billion, up 68% from the $208.2 billion in the first nine months of 2019. According to JP Morgan, BB-rated issues accounted for the bulk of activity in the quarter (47%) with the heaviest volume coming from Energy (13.2%), Technology (9.4%), and Healthcare (8.6%).

During the quarter, the 10-year Treasury bond yield increased only two basis points (bps) to 0.68%, following what was essentially unchanged 0.66% during the June quarter and remains near record lows. Every industrial sector in the U.S. high yield universe and every credit rating silo produced positive returns during the 3rd quarter. According to data from JP Morgan, the lower quality end of the high yield credit spectrum (i.e., split B/CCC, non-rated, and defaulted issues) performed better than the higher end of the quality spectrum. The defaulted segment produced the largest gain of 11.82% and the BB segment was the worst performer with a still solid 4.24% gain.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 603 bps, 119 bps tighter than the preceding quarter and 6 bps tighter than its 20-year historical average of 609 bps. The yield to worst for the high yield market at quarter end was 6.32%, below the 20-year average of 8.55%, and below the yield of 7.57% at the end of the June 2020 quarter.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) increased 5.58% for the quarter and outperformed the ICE BofAML U.S. High Yield Index, which gained 4.71% for the period. The Fund also outperformed the Lipper High Yield Bond Funds Index return of 4.19%.

Average Annualized Performance (%)

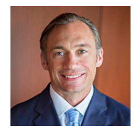
As of 9/30/20	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	4.54	3.91	4.78	5.39	5.87	6.85
Institutional Class - *BUIHX*[1]	4.57	4.02	4.91	5.54	6.02	7.00
ICE BofAML U.S. High Yield Index	2.30	3.83	6.61	6.28	6.95	7.00
Lipper High Yield Bond Funds Index	0.29	2.87	5.35	5.57	5.71	5.71
Morningstar High Yield Bond Category	1.33	2.89	5.18	5.29	5.72	5.72

[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

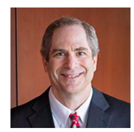
	Investor	Institutional
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.89%
Fund Assets:	$243.81 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofAML U.S. High Yield Index	

Management Team



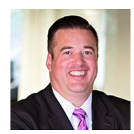
Paul Dlugosch, CFA

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

Fund Composition by Asset Class

	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20
Straight Corporates	65.0%	55.6%	60.1%	55.4%	60.6%
Convertibles	13.4%	17.7%	16.7%	20.1%	17.6%
Bank Loans	16.0%	16.2%	19.1%	16.6%	16.3%
Preferred Stocks	0.0%	1.1%	1.3%	1.7%	1.5%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	1.2%	1.7%	1.0%	0.6%	0.4%
Cash	4.4%	7.6%	1.8%	5.6%	3.6%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 3Q20

	Unweighted Return	Contribution to Return
Straight Corporates	4.9%	3.00%
Convertibles	9.8%	1.93%
Bank Loans	3.9%	0.67%
Preferred Stocks	7.8%	0.13%
Convertible Preferreds	0.0%	0.00%
Common Stocks	14.6%	0.08%
TOTAL		5.58%

↑ Top Contributors

During the quarter, 124 out of the 137 issues in the Buffalo High Yield Fund produced positive returns. The three top contributors were **Nuance Communications** 1.500% convertible bonds, **Cerence** 3.00% convertible bonds, and **Zillow Group** 2.750% convertible bonds. All three companies are technology-driven enterprises that reported better-than-expected earnings or guidance during the quarter, and the underlying stocks benefited from the strong demand from investors to own the Technology sector.

↓ Top Detractors

Securities that detracted the most from performance included **Energy Transfer** common stock, **K12 Inc.** 1.125% convertible bonds, and **MPLX** 6.875% corporate bonds. Energy Transfer declined with the rest of the Energy sector stocks over concern for fossil fuel demand. K12 Inc. convertible bonds declined in September after Miami-Dade school board decided to stop using K12's services. The contract was 1% of revenue and not related to the company's core online business, but the stock sold off regardless. Similar to Energy Transfer, MPLX 6.875% bonds declined during the month of September amid fossil fuel demand concerns.

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Outlook

Until March 2020, the United States had been enjoying a growing economy with modest inflation that had created a favorable environment for risky assets. However, near the end of February and 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 three-year high of 3.54% in March, which was up 91 bps from the 2.63% level in December 2019, and above the 3.44% long-term average. The trend continued through July, peaking around 6.2% before declining to 5.8% through August and September. During the quarter, 26 companies defaulted on $19.3 billion of debt.

We are concerned first and foremost about the ongoing COVID-19 pandemic and the fallout on global economies, with the upcoming presidential election being a secondary focus. We are managing the Fund cautiously yet actively, 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 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. We ended the quarter with 137 positions, essentially unchanged from the previous quarter's level (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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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 6/30/20 the Buffalo High Yield Fund top 10 holdings were Consolidated Comm. (6.500%, 10/1/22) 2.21%, Nuance Communications (1.500%, 11/1/35) 2.06%, Cerence (T/L B, 9/30/24) 1.90%, Builders FirstSource (5.000%, 3/1/30) 1.81%, Quad Graphics (7.000%, 5/1/22) 1.67%, MacDonald Dettwiler (T/L B, 10/4/24) 1.67%, Phillips Van Heusen (7.750%, 11/15/23) 1.63%, Brunswick (7.375%, 9/1/23) 1.58%, Diebold Nixdorf (8.500%, 4/15/24) 1.53%, MPLX (6.875%, 8/15/23) 1.51%. 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.