Buffalo High Yield Fund

QUARTERLY COMMENTARY

September 30, 2021

Capital Market Overview

The U.S. high yield sector continued its positive return streak in the quarter, posting a sixth consecutive positive quarter, after suffering a significant correction in March 2020. Though positive, high yield returns were more muted this quarter, as investors weighed strong corporate earnings and economic data early in the first half of the quarter versus Federal Reserve tapering concerns, uncertainty regarding the spread of the Delta variant, and potential fallout from China's Evergrande default. High yield bonds ended the quarter at a 4.51% yield to worst, after touching a record low of 4.22% in July. The 10-year Treasury Bond declined -0.28% during the quarter while the S&P 500 Index posted a return of 0.58%.

High yield funds saw a relatively benign cash inflow of $1.9 billion in the quarter, but it was the first quarterly inflow this year, following outflows of -$10.6 billion and -$3.3 billion in the March and June quarters respectively. Meanwhile, high yield new issuance produced the seventh highest quarterly volume on record with $108.5 billion, following the third highest volume of $142.5 billion issued in the preceding June 2021 quarter. According to JP Morgan, the middle and upper credit quality tiers (B < split BBB rated issues) accounted for 88% of activity in the September quarter, and led by Healthcare (13.1%), Financials (11.3%), and Energy (10.2%).

During the quarter, the 10-year Treasury Bond yield rose 6 basis points (bps) to 1.53% from 1.47% at the end of June, after dropping as low as 1.17% in early August. Every 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 outperformed the middle and upper tiers, with the split B and CCC segments performing the best at 1.17% and 1.03% respectively. The split BB and split BBB segments were the laggards, with both posting a 0.72% gain.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 385 bps, 15 bps wider than the preceding June quarter and 204 basis points tighter than its 20-year historical average of 589 basis points. The yield to worst for the high yield market at quarter end was 4.51%, bouncing off of the all-time record low of 4.30% in the preceding June quarter, and still well below the 8.14% 20-year average.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) increased 0.74% in the 3rd quarter, trailing the ICE BofAML U.S. High Yield Index (the "Index") and Lipper High Yield Bond Funds Index, which gained 0.94% and 0.88% respectively. We ended the quarter with 147 positions, basically unchanged from the previous quarter's level of 148 (excluding cash).

Average Annualized Performance (%)

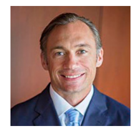
As of 9/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	13.00	7.39	6.09	6.48	6.34	7.07
Institutional Class - *BUIHX*[1]	13.22	7.52	6.24	6.63	6.50	7.23
ICE BofAML U.S. High Yield Index	11.46	6.62	6.35	7.30	7.17	7.16
Lipper High Yield Bond Funds Index	11.97	6.20	6.02	6.77	6.11	5.98
Morningstar High Yield Bond Category	10.50	5.69	5.41	6.25	6.01	5.90

[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.

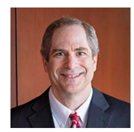
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	$299.17 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofAML U.S. High Yield Index	

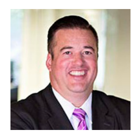
Management Team



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

	9/30/20	12/31/20	3/31/21	6/30/21	9/30/21
Straight Corporates	60.6%	61.0%	62.7%	61.5%	65.3%
Convertibles	17.6%	14.7%	16.3%	17.0%	16.1%
Bank Loans	16.3%	17.2%	11.2%	13.7%	13.5%
Preferred Stocks	1.5%	1.2%	2.2%	2.3%	2.2%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	0.4%	0.1%	0.0%	0.0%	0.0%
Cash	3.6%	5.8%	7.6%	5.5%	2.9%

Approximate Rate & Contribution of Return in 3Q21

	Contribution to Return
Straight Corporates	0.96%
Convertibles	-0.19%
Bank Loans	0.15%
Preferred Stocks	0.04%
Convertible Preferreds	0.00%
Common Stocks	0.00%
TOTAL	**0.74%**

↑ Top Contributors

The three top contributors for the Fund during the quarter were **Consol Energy** 11% corporate bonds, **Quad Graphics** 7% corporate bonds, and **Air Transportation Services** 1.125% convertible bonds. Consol Energy operates coal mines in Pennsylvania and West Virginia, and its bonds gained during the quarter, as coal prices increased roughly 60% during the period. Quad Graphics performed well after posting better-than-expected earnings in the quarter and announcing the sale of a non-core business, which was used to pay down debt. Air Transportation Services convertible bonds rallied in conjunction with the underlying common stock, after the company posted better-than-expected earnings in early August.

↓ Top Detractors

The **Invacare** 4.25% convertible bonds, **Smile Direct Club** 0.0% convertible bonds, and the **Avaya** 2.25% convertible bonds were the worst performers during the quarter. Invacare convertible bonds were negatively impacted by disappointing earnings announcement that were driven by global supply chain disruptions. Smile Direct Club convertible bonds declined after posting weaker-than-expected earnings. The position was liquidated during the quarter. Despite meeting analysts' estimates, Avaya convertible bonds declined after the company provided guidance for the rest of 2021 that missed expectations.

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Outlook

We are focused first and foremost on the ongoing recovery from the COVID-19 pandemic, the supply chain disruptions that have occurred as a result, and the Federal Reserve's balancing act between growth and inflation. The potential for new regulatory changes to various industries from the Biden Administration is 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 will continue to deploy the 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.

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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