

Capital Market Overview

The U.S. high yield sector posted its third consecutive losing quarter as domestic inflation and global recession fears continued to weigh on investor sentiment. Two separate 75 basis point (bp) increases in the Federal Funds rate accompanied by hawkish commentary from Federal Reserve (the "Fed") committee members caused significant upward pressure on Treasury yields during the quarter. Energy prices remained elevated throughout the period as the Russian invasion of Ukraine persisted. High yield bonds ended the quarter at a yield-to-worst of 9.86%, up 65 bps from the beginning of the quarter, and well off the record low of 4.22% in July 2021. The 10-year Treasury yield rose 80 bps to 3.82% and produced a return of -6.21% during the quarter while the S&P 500 Index posted a loss of -4.88%.

High yield funds continued a streak of cash outflows of that began in the 1st quarter of 2021, posting \$8.7 billion in outflows for the 3rd quarter. Year-to-date, high yield fund outflows were a record -\$53.6 billion through September 30, 2022, which compares to -\$12.4 billion outflows during the first nine months of 2021. Unsurprisingly, high yield new issuance remained muted during the quarter with only \$18.9 billion coming to market, which was the lightest volume since the 1st quarter of 2009 and compares to the quarterly average of \$117 billion over the last two years. According to JP Morgan, single B-rated or higher issues accounted for all of the activity in the quarter and tilted heavily toward Technology (29.1%), Gaming/Lodging/Leisure (17.2%), and Automotive (9.3%) companies.

As mentioned previously, the 10-year Treasury bond yield rose 80 bps to 3.82% which follows the 68 bp yield increase during the 2nd quarter. According to data from JP Morgan, the split B credit tier was the only positive return across credit quality silos and outperformed the rest of the credit spectrum with a gain of 1.04%. The highest quality non-investment grade silo, the split BBB-rated bonds, performed the worst producing a return of -3.31% for the quarter. Returns by economic sector were mixed during the quarter. According to data from JP Morgan, the Energy sector was the best performer with a positive 1.35% return and Automotive was the worst at -2.41%.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 574 bps, 46 bps tighter than the preceding quarter, and only 3 bps wider than its 20-year historical average of 571 basis points. The yield to worst for the high yield market at quarter end was 9.86%, above the 20-year average of 7.88%, and above the 9.21% yield at the end of the previous quarter.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) produced a total return of 0.44% for the quarter, outperforming the ICE BofA U.S. High Yield Index and the Lipper High Yield Bond Funds Index, which declined -0.65% and -0.71% respectively, for the three-month period.

Average Annualized Performance (%)

| As of 9/30/22 | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | Since Inception |
|--|--------|-------|------|-------|-------|-----------------|
| Investor Class - BUFHX | -8.74 | 2.54 | 2.96 | 4.13 | 5.20 | 6.45 |
| Institutional Class - BUIHX ¹ | -8.61 | 2.66 | 3.09 | 4.27 | 5.35 | 6.61 |
| ICE BofAML U.S. High Yield Index | -14.04 | -0.66 | 1.41 | 3.87 | 5.57 | 6.30 |
| Lipper High Yield Bond Funds Index | -13.11 | -0.52 | 1.34 | 3.53 | 4.60 | 5.21 |
| Morningstar High Yield Bond Category | -13.13 | -0.83 | 0.94 | 3.06 | 4.44 | 5.13 |

¹For 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 Institutional 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: | \$271.74 Million | |
| Category: | High Yield Bond | |
| Benchmark: | ICE BofA 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.

Fund Composition by Asset Class

| | 9/30/21 | 12/31/21 | 3/31/22 | 6/30/22 | 9/30/22 |
|------------------------|---------|----------|---------|---------|---------|
| Straight Corporates | 65.3% | 67.8% | 68.3% | 69.4% | 69.6% |
| Convertibles | 16.1% | 7.1% | 6.3% | 4.6% | 4.3% |
| Bank Loans | 13.5% | 16.7% | 18.5% | 18.9% | 19.1% |
| Preferred Stocks | 2.2% | 2.6% | 2.7% | 2.9% | 2.5% |
| Convertible Preferreds | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Common Stocks | 0.0% | 1.3% | 0.0% | 0.0% | 0.0% |
| Cash | 2.9% | 4.5% | 4.1% | 4.1% | 4.6% |

Approximate Rate & Contribution of Return in 3Q22

| | Contribution to Return |
|------------------------|------------------------|
| Straight Corporates | 0.62% |
| Convertibles | -0.15% |
| Bank Loans | 0.43% |
| Preferred Stocks | -0.21% |
| Convertible Preferreds | N/A |
| Common Stocks | N/A |
| TOTAL | 0.44% |

↑ Top Contributors

The three top contributors for the Fund during the quarter were **IEA Energy Services** 6.625% corporate bonds, **MPLX** 6.875% corporate bonds, and the **DirectTV** term loan. It was announced in July that higher-rated MasTec would acquire IEA Energy Services for cash and stock which caused the bonds to rally twenty points from a low \$80 to near par. The coupon on the MPLX bonds converts from a fixed rate to a floating rate in early 2023 which made the issue attractive, as the Fed raised short term rates during the period. MPLX is also midstream energy operator, and the energy sector performed better than any other sector during the quarter. The DirectTV term loan held up well during the quarter due to its higher quality and higher floating rate coupon.

↓ Top Detractors

The **Entercom Media** 6.75% corporate bonds, **NuStar Energy** 9% perpetual preferred stock, and **Cimpress** 7% corporate bonds were the worst performers during the quarter. Entercom (now called Audacy) sold off with the rest of the broadcasting sector over concerns a slowing economy would lead to less ad spending. NuStar Energy declined in response to the sell-off in crude oil and natural gas prices during September. Cimpress reported disappointing earnings performance for the fiscal year ending in June, and Moody's downgraded the bonds due to elevated leverage and lower than expected cash flows for 2023.

Outlook

We are focused first and foremost on the Federal Reserve's balancing act between taming inflation while attempting to avoid a recession. Global economic weakness, continued supply chain disruptions, and the geopolitical uncertainty caused by the ongoing conflict in Ukraine are also among the areas of concern. We are managing the Fund cautiously yet actively, focusing on higher-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 duration 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, while we continue to look for opportunities in convertible bonds and preferred stocks, the increased level of bond yields for traditional bonds/loans in conjunction with the increased volatility of the underlying equities makes these types of securities less appealing to us at this time. We ended the quarter with 131 positions, a slight increase from the previous quarter's level of 128 (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 6/30/22 the Buffalo High Yield Fund top 10 holdings were Northern Oil & Gas (8.125%, 3/1/28) 3.19%, DirecTV Financing (1 Month LIBOR + 5.000%, 8/2/27) 2.96%, MPLX (6.875%, 8/15/23) 2.66%, Penn Virginia Escrow (9.250%, 8/15/26) 2.32%, Talos Production (12.000%, 1/15/26) 2.31%, Consol Energy (11.000%, 11/15/25) 2.27%, Portillo's (1st Lien Term Loan, 9/6/24) 2.22%, CoreCivic (8.250%, 4/15/26) 2.18%, Matador Resources (5.875%, 9/15/26) 1.97%, Energy Transfer (7.125%, perpetual preferred) 1.79%. 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 BofA 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.

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.

