Buffalo High Yield Fund

QUARTERLY
COMMENTARY

September 30, 2022

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 throughput 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 (%)

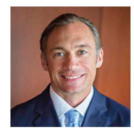
As of 9/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	-8.74	2.54	2.96	4.13	5.20	6.45
Institutional Class - *BUIHX*[1]	-8.61	2.66	3.09	4.27	5.35	6.61
ICE BofAML U.S. High Yield Index	-14.04	-0.66	1.41	3.87	5.57	6.30
Lipper High Yield Bond Funds Index	-13.11	-0.52	1.34	3.53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

[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

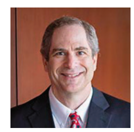
	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$271.74 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofA U.S. High Yield Index	

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.

BUFFALO FUNDS

Buffalo High Yield Fund

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 **DirecTV** 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 DirecTV 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.

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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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