Buffalo High Yield Fund

QUARTERLY
COMMENTARY

December 31, 2018

Capital Market Overview

After producing positive returns in the 3rd quarter, the U.S. high yield sector reversed course, generating negative performance in the 4th quarter with negative returns in all three months. The market's performance was driven by global growth indicators slowing, significant declines in crude oil and equities, ongoing concern over trade war with China, and somewhat confusing signals from the Federal Reserve regarding its current views on the market.

Despite these headwinds, the quarter also experienced declining treasury rates and continued, albeit modest, economic growth of U.S. Gross Domestic Product (GDP) The healthy labor market continued with additional jobs added and the unemployment rate remaining near cycle lows. A quiet new issue market provided support for secondary pricing.

Given the uncertain market conditions, equity markets and high yield markets performed poorly during the quarter as investors began moving away from higher risk assets. The 10-year Treasury bond returned 3.87% during the quarter, while the JP Morgan US High Yield Index declined -4.79% and the S&P 500 Index declined -13.52%.

According to data from JP Morgan, cash outflows from high yield mutual funds accelerated during the quarter to the tune of $20.2 billion, compared to outflows of $0.5 billion in the previous quarter. High yield new issuance for the period was a benign $19 billion, the lowest volume since the $1 billion in the 4th quarter of 2008, and well below the average quarterly volume of $77 billion during the last seven years.

During the quarter, the 10-year Treasury bond yield declined by 38 basis points (bps) from 3.06% to 2.68%. Given the flight to quality, high yield spreads widened across the asset class. Higher rated issues held in better than lower rated issues across the credit quality spectrum. Spreads on the CCC-rated segment widened 345bps while the spreads on higher rated BB-rated bonds only widened 142bps. According to data from JP Morgan, the BB-rated segment returned -3.13%, which was better than the B-rated segment and considerably better than CCC-rated segment, which returned -3.50% and -8.30% respectively. The Fund was underexposed to the CCC sector with a weighting of about 3.5% compared to the JP Morgan CCC weighting of 11.3%.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the 4th quarter was 567bps, 163bps wider than the preceding 4th quarter but still 46bps below its 20-year historical average of 613. The yield to worst for the high yield market was 8.23% at quarter-end, below the 20-year average of 8.99%, but significantly above the yield of 6.10% a year ago December. These are the highest yields and spreads since April 2016 and December 2016.

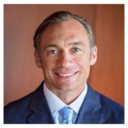
Performance Commentary

The Buffalo High Yield Fund declined -3.96% in the 4th quarter, outperforming the ICE Bank of America Merrill Lynch U.S. High Yield Index (the "Index") by 71bps, which returned -4.67% during the same period.

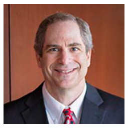
Fund Quick Facts

Ticker:	BUFHX
Inception Date:	5/19/1995
Net Assets:	$185.06 Million
Expense Ratio:	1.03%
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 2007
B.S. – Kansas State Univ.

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Average Annualized Performance (%)

As of 12/31/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo High Yield Fund	-2.26	3.38	2.78	8.78	5.43	6.77
ICE BofAML U.S. High Yield Index	-2.26	7.27	3.82	10.99	6.89	6.93
Lipper High Yield Bond Funds Index	-2.98	6.12	3.05	9.82	5.78	5.66
Morningstar High Yield Bond Category	-2.59	5.59	2.71	9.25	5.68	5.68

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.

The Fund's cash balance decreased 44bps from the previous quarter's levels as sales of existing positions were exceeded by new security purchases and investor withdrawals in the Fund. The Fund's composition by asset class at quarter end was as follows:

Fund Composition by Asset Class

	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18
Straight Corporates	62.6%	63.7%	64.9%	67.2%	68.1%
Convertibles	12.8%	11.5%	8.9%	8.3%	7.6%
Bank Loans	17.8%	18.1%	21.0%	19.7%	20.2%
Preferred Stocks	0.5%	0.5%	0.0%	0.0%	0.0%
Convertible Preferreds	0.5%	0.5%	0.5%	0.5%	0.6%
Common Stocks	0.7%	1.5%	1.3%	1.1%	0.8%
Cash	5.2%	4.3%	3.5%	3.1%	2.7%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate & Contribution of Return in 4Q18

	Unweighted Return	Contribution to Return
Straight Corporates	-2.9%	-1.85%
Convertibles	-8.8%	-0.67%
Bank Loans	-4.5%	-0.85%
Preferred Stocks	0.0%	0.00%
Convertible Preferreds	-1.3%	-0.01%
Common Stocks	-38.2%	-0.36%
Cash	-	0.00%
TOTAL		-3.96%

↑ Top Contributors

Specific securities that contributed most positively to performance include **LSC Communications** 8.750% corporate bonds, **Royal Caribbean Cruises** 7.500% corporate bonds, and **Townsquare Media** 6.500% corporate bonds. LSC Communications announced it was being acquired by Quad Graphics and the bonds will be paid down post-merger. Royal Caribbean posted strong results in October, and it is a high grade credit, which benefited from the flight to quality in the quarter. Townsquare Media bonds coupon payment was more than enough to offset the slight decrease in price during the quarter.

↓ Top Detractors

Specific securities that detracted most from performance include **Greenbrier** common stock, **Andeavor** 6.875% corporate bonds, and **Wildhorse Resources** 6.875% corporate bonds. The Greenbrier stock and Andeavor bonds were both top performers in the preceding quarter and proceeded to "give back" those gains in the 4th quarter. Wildhorse declined after Chesapeake Energy announced in October that it was acquiring Wildhorse, and it is uncertain whether the lower-rated Chesapeake will be required to purchase the Wildhorse debt or leave the bonds outstanding. That uncertainty caused the bonds to sell off several points.

Outlook

Until this most recent quarter, a growing economy with modest inflation has created a favorable environment for risky assets. However, market participants are becoming increasingly concerned about where we are in the economic cycle, along with the trade dispute with China and lack of clarity regarding the Federal Reserve Board's mindset going into 2019.

The U.S. high yield default rate was up 53bps from 1.28% in December 2017 to 1.81% but still well below the 3.5% long-term average. On the positive side, the slowdown in new issuance activity has reduced the supply of bonds available for purchase, which has helped support bid levels.

We continue to be concerned about the Federal Reserve taking a more aggressive tightening policy stance, inflation growth acceleration, geopolitical issues such as China or tensions in the Middle East escalating, and increasing protectionism efforts from the White House.

In spite of the potential late stages of the economic cycle, we continue to find ourselves confronted with relatively low spread and yield levels. With that perspective we are managing the Fund cautiously yet actively. We ended the quarter with 124 positions compared to the previous quarter's level of 131 positions (excluding cash).

We are managing the Fund to focus on high-quality issuers with defensive business models and manageable credit metrics. We will continue to deploy the Fund's 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 preferreds.

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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:

Christopher Crawford
ccrawford@buffalofunds.com
(913) 647-2321

Scott Johnson
sjohnson@buffalofunds.com
(913) 754-1537

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 it carefully before investing.

Earnings growth is not representative of the Fund's future performance.

As of 12/31/18 the Buffalo High Yield Fund top 10 holdings were MacDonald Dettwiler (T/L B, 7/5/24) 2.37%, Wildhorse Resource (6.875%, 2/1/25) 2.26%, Consolidated Comm. (6.500%, 10/1/22) 2.07%, Quad Graphics (7.000%, 5/1/22) 1.97%, Triumph Group (4.875%, 4/1/21) 1.88%, FTI Consulting (6.000%, 11/15/22) 1.80%, Phillips Van Heusen (7.750%, 11/15/23) 1.73%, Andeavor Logistics (6.875%, 8/15/23) 1.70%, Brunswick (7.375%, 9/1/23) 1.62%, Live Nation Entmt (5.375%, 6/15/22) 1.52% Top 10 holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are for the previous quarter.

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. 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 J.P. 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. 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.