Buffalo High Yield Fund

QUARTERLY
COMMENTARY

December 31, 2021

Capital Market Overview

The U.S. high yield sector continued its positive return streak in the period, posting seven consecutive positive quarters after suffering a significant correction in March 2020. High yield bonds posted their strongest monthly return for the year in December (up 1.98%), more than erasing declines in October and November. Though positive, high yield returns were muted this quarter as investors weighed uncertainty regarding the spread of COVID and the emergence of the omicron variant, as well as Federal Reserve tapering concerns. High yield bonds ended the quarter with a yield to worst of 4.71%, up 20 basis points (bps) from the beginning of the quarter and nearly 50bps higher than the record low of 4.22% in July. The 10-year Treasury Bond returned 0.78% during the quarter, while the S&P 500 Index posted a return of 11.03%.

High yield funds saw cash outflows of $1.1 billion in the quarter, following $1.9 billion of inflows during the 3rd quarter and outflows of -$10.6 billion and -$3.3 billion in the March and June quarters, respectively. For the calendar year, high yield funds experienced outflows of -$13.6 billion. Meanwhile, the $73.3 billion of high yield new issuance in the quarter was fairly quiet relative to the rest of 2021, which helped produce a very strong $483 billion of new paper for the calendar year. According to JP Morgan, the middle and upper credit quality tiers (B < split BBB rated issues) accounted for 87% of the new issue activity in quarter, and led by Energy (14.1%), Cable/Satellite (9.1%), and Financials (8.8%).

The yield on the 10-year Treasury Bond ended the period at 1.51%, an increase of only 2bps from 1.49% at the end of September after increasing to as much as 1.71% in the middle of October. Every credit rating silo produced positive returns during the 4th quarter. According to data from JP Morgan, the heart of the high yield credit spectrum (split B – BB) outperformed the lower and upper tiers, with the split B and single B segments performing the best at 1.13% and 1.07%, respectively. While positive, the 0.08% return from CCC's and 0.37% return from split BBB were the laggards in the quarter.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 375bps, 10bps tighter than the preceding quarter and 209bps tighter than its 20-year historical average of 584bps. As mentioned earlier, the yield to worst for the high yield market at quarter end was 4.71%, still well below the 20-year average of 8.04%.

Performance Commentary

The Buffalo High Yield Fund (BUFHX) returned 0.44% for the quarter, a result that slightly trailed the ICE BofAML U.S. High Yield Index and Lipper High Yield Bond Funds Index which gained 0.66% and 0.63%, respectively.

Average Annualized Performance (%)

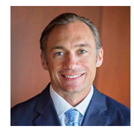
As of 12/31/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	5.53	9.01	6.05	6.01	6.17	7.02
Institutional Class - *BUIHX*[1]	5.69	9.14	6.20	6.16	6.32	7.18
ICE BofAML U.S. High Yield Index	5.36	8.57	6.10	6.72	6.93	7.12
Lipper High Yield Bond Funds Index	5.85	8.23	5.76	6.24	5.86	5.94
Morningstar High Yield Bond Category	4.77	7.51	5.19	5.74	5.75	5.86

[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.

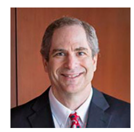
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	$301.47 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofAML U.S. High Yield Index	

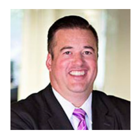
Management Team



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.

Fund Composition by Asset Class

	12/31/20	3/31/21	6/30/21	9/30/21	12/31/21
Straight Corporates	61.0%	62.7%	61.5%	65.3%	67.8%
Convertibles	14.7%	16.3%	17.0%	16.1%	7.1%
Bank Loans	17.2%	11.2%	13.7%	13.5%	16.7%
Preferred Stocks	1.2%	2.2%	2.3%	2.2%	2.6%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	0.1%	0.0%	0.0%	0.0%	1.3%
Cash	5.8%	7.6%	5.5%	2.9%	4.5%

Approximate Rate & Contribution of Return in 4Q21

	Contribution to Return
Straight Corporates	0.61%
Convertibles	-0.17%
Bank Loans	0.14%
Preferred Stocks	0.05%
Convertible Preferreds	0.00%
Common Stocks	0.00%
TOTAL	**0.44%**

↑ Top Contributors

The three top contributors during the quarter were Penn Virginia 9.25% corporate bonds, Lumentum 0.5% convertible bonds, and Flexion Therapeutics 3.375% convertible bonds. Penn Virginia completed its acquisition of LoneStar and rebranded the combined company to become Ranger Oil Corp. in early October. Post consolidation, the bonds improved after management committed to deleveraging the balance sheet to under 1x leverage and with an attractive coupon and strengthening crude oil market. Lumentum convertible bonds saw healthy gains as the underlying common stock rallied over 20% in December on continued strength in demand for their key product lines, especially in the industrial & consumer and lasers segments. Flexion convertible notes benefited from the company being acquired at a 37% premium by Pacira BioSciences in the first half of the quarter.

↓ Top Detractors

Revance Therapeutics 1.75% convertible bonds, Invacare 4.25% convertible bonds, and the Southwest Airlines 1.25% convertible bonds were the worst performers during the quarter. Revance common stock dropped precipitously after management announced in mid-October that the Food & Drug Administration (FDA) surprisingly declined to approve its application for its highly-anticipated frown-line treatment. Invacare convertible bonds were negatively impacted by a disappointing earnings announcement driven by global supply chain disruptions. Southwest Airlines convertible bonds declined as COVID trends accelerated and thwarted the rebound in domestic air travel.

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Outlook

We are focused on the ongoing recovery from the COVID 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 portfolio cautiously yet actively, focusing on high-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 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. We ended the quarter with 142 positions, down slightly from the previous quarter's level of 147 (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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As of 9/30/21 the Buffalo High Yield Fund top 10 holdings were Nuance Communications (1.500%, 11/1/35) 2.51%, MPLX (6.875%, 8/15/23) 2.39%, Northern Oil & Gas (8.125%, 3/1/28) 2.36%, Consol Energy (11.000%, 11/15/25) 2.07%, DirecTV Financing (1 Month LIBOR + 5.000%, 8/2/27) 2.01%, Matador Resources (5.875%, 9/15/26) 1.90%, Energy Transfer (7.125%, perpetual preferred) 1.75%, Penn Virginia Escrow (9.250%, 8/15/26) 1.69%, PetIQ (3 Month LIBOR + 4.250%, 4/7/28) 1.67%, Magnite (6 Month LIBOR + 5.000%, 4/3/28) 1.51%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.