High Yield Fund

***PM Commentary** as of June 30, 2018*

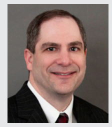
CAPITAL MARKET OVERVIEW

After producing negative returns in the 1st quarter of 2018, the U.S. high yield sector reversed course, generating positive performance with bond prices improving in April and June. The market's performance was driven by:

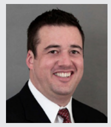
- continued, albeit modest, economic growth of U.S. Gross Domestic Product (GDP);
- a healthy labor market with additional jobs added and the unemployment rate near cycle lows;
- the Federal Reserve maintaining a gradual pace of increasing interest rates and timing of plans to reduce their balance sheet;
- an unseasonably quiet new issue market which provided support for secondary pricing;
- concerns regarding disruptions in international trade on proposals for tariffs on selected imported products;
- evolving geopolitical landscape and risks.

PORTFOLIO MANAGEMENT TEAM

Paul Dlugosch, CFA
Co-Manager since 2007
B.S. – University of Iowa



Jeff Sitzmann, CFA
Co-Manager since 2007
M.B.A. – University of Chicago
B.B.A. – University of Toledo



Jeff Deardorff, CFA
Co-Manager since 2015
B.S. – Kansas State University

Despite uncertain market conditions, equity and high yield markets performed well during the period. The level of short-term interest rates remained steady, as the 3 Month LIBOR (London Interbank Offered Rate) increased 2 basis points (bps) to 2.33% and investors continued to gravitate towards higher risk assets. The 10-year Treasury bond returned -31bps during the quarter, while the S&P 500 stock index returned +343bps.

The rising interest rate environment and increased market volatility resulted in negative cash outflows for the sector during the quarter of about $3.8 billion, according to data from JP Morgan. This follows outflows of $19.2 billion in the previous quarter. High yield new issuance declined sequentially in all three months of the quarter, with $21 billion in April, $17 billion in May, and $16 billion in June for a total of $54 billion, down from $73 billion in the previous quarter and down year-over-year from $74 billion in the 2nd quarter of 2017.

During the quarter, the yield on the 10-year Treasury bond rose 13bps from 2.73% to 2.86%. With the increase in Treasury yields, spreads on higher rated issues (> BB rated) increased due to their inherent interest rate sensitivity, while the spreads on lower rated CCC-rated bonds tightened 67bps, primarily due to 800bps of spread insulating their sensitivity to interest rate movements. This led to outperformance in lower quality fixed income products in the quarter. According to data from JP Morgan, the BB-rated segment returned 0.18%, underperforming the B-rated segment and CCC-rated segments, which returned 1.40% and 2.22% respectively. The Fund was underexposed to the CCC sector with a weighting of about 2% compared to the JP Morgan CCC weighting of 11.6%.

The U.S. high yield market's spread to worst ended the period at 406bps, 4bps tighter than the preceding quarter and 211 bps below its 20-year historical average of 617 bps. The yield to worst for the high yield market ended at 6.72%, which was below the 20-year average of 9.08%, but higher than the yield of 6.56% in the 1st quarter of 2018.

Average Annualized Performance (%)

As of 6/30/18	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Buffalo High Yield Fund	2.01	3.32	4.29	6.90	6.06	7.03
ICE BofA ML High Yield Master II Index	2.53	5.55	5.51	8.03	7.66	7.20
Lipper High Yield Bond Funds Index	2.54	4.49	4.84	6.67	6.60	5.91
Morningstar High Yield Bond	2.23	4.20	4.36	6.51	6.46	5.92

Expense ratio 1.03%. Inception date 5/19/1995. 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.

PERFORMANCE COMMENTARY

The Buffalo High Yield Fund generated a total return of 0.51% for the quarter ending June 30, 2018, a result that lagged the ICE BofA Merrill Lynch High Yield Master II Index (the "Index") return of 1.00% during the period.

The Fund's cash balance closed the period at about 3.5% of assets and decreased 86bps from March as sales of existing positions were exceeded by new security purchases combined with cash outflows from the Fund. The Fund's composition by asset class at quarter end was as follows:

Fund Composition by Asset Class

	6/30/17	9/30/17	12/31/17	3/31/18	6/30/18
Straight Corporates	62.9%	60.5%	62.6%	63.6%	64.9%
Convertibles	13.7%	13.3%	12.8%	11.5%	8.9%
Bank Loans	13.9%	18.6%	17.8%	18.1%	21.0%
Preferred Stock	1.0%	1.5%	0.5%	0.5%	0.0%
Convertible Preferred	0.9%	1.2%	0.5%	0.5%	0.5%
Common Stocks	0.6%	0.7%	0.7%	1.5%	1.3%
Cash	7.0%	4.3%	5.2%	4.3%	3.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Approximate Rate and Contribution of Return from the Fund's Various Asset Classes in 2Q18

	Unweighted Return	Contribution to Return
Straight Corporates	0.8%	0.62%
Convertibles	1.4%	0.17%
Bank Loans	0.2%	0.06%
Preferred Stock	-8.0%	-0.05%
Convertible Preferred	-2.1%	-0.01%
Common Stocks	1.8%	0.03%
Cash	0.0%	0.00%
Total	0.52%	0.52%

TOP CONTRIBUTORS

Specific securities that contributed most positively to performance included **Consolidated Communications** 6.5% ’22 notes, **Live Nation** 2.5% ’19 convertible notes, and **Wildhorse Resource Development** 6.875% ’25 notes. Consolidated advanced throughout the quarter on better than expected earnings and several sell-side research pieces that were bullish on the credit. Live Nation improved after beating earnings estimates for the 1st quarter and giving stronger than expected guidance for the rest of 2018, based on ticket sales year to date. Wildhorse rose on financial results that exceeded expectations along with stronger than expected well production.

TOP DETRACTORS

Specific securities that detracted most from performance included **Akorn**’s bank loan, **Nuance Communications** 1.5% convertible notes, and **Compass Diversified** 7.25% perpetual preferred stock. The Akorn bank loan declined after Fresenius’ announcement in late April that it was canceling its bid to acquire the company. Nuance declined on disappointing earnings results and lower guidance for 2018. Meanwhile, Compass Diversified was also negatively impacted by a disappointing earnings announcement.

OUTLOOK

A growing economy with modest inflation has supported a favorable environment for risky assets; however, market participants are becoming increasingly concerned about potential trade wars with China and physical confrontations with North Korea and Russia/Syria. The U.S. high yield default rate has increased to 1.98%, up 70bps year to date. By comparison the default rate was 1.50% in June 2017 and therefore currently 48bps higher than 12 months ago, but still below the 3.0-3.5% 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.

Given that we believe the U.S. is in the later stages of the current economic cycle, we continue to find ourselves confronted with relatively low spread and yield levels. We are also concerned about the Federal Reserve taking a more aggressive tightening policy stance, inflation growth acceleration, geopolitical issues, and increasing protectionism efforts from the White House.

We ended the quarter with 140 positions compared to the previous quarter’s level of 145 positions (excluding cash). We are managing the Fund cautiously yet actively. We continue to focus on high-quality, non-investment grade issuers with defensive business models and manageable credit metrics. We will 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 continue to 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 preferred securities.

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

As of 3/31/18 the Buffalo High Yield Fund's top ten holdings were: Lions Gate Entertainment (1.250%, 4/15/18) 2.17%, MacDonald Dettwiler (Term Loan B, 7/5/24) 2.17%, Akorn (Term Loan B, 5.250%, 4/16/21) 2.12%, Quad Graphics (7.000%, 5/1/22) 1.80%, Consolidated Communications (6.500%, 10/1/22) 1.73%, Triumph Group (4.875%, 4/1/21) 1.70%, FTI Consulting (6.000%, 11/15/22) 1.61%, Phillips Van Heusen (7.750%, 11/15/23) 1.60%, Brunswick (7.375%, 9/1/23) 1.52%, Wildhorse Resource Dev (6.875%, 2/1/25) 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 Manager(s) 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 Note is a debt obligation issued by the United States government that matures in 10 years. A basis point (bps) refers to one hundredth of one percent, used chiefly in expressing differences of interest rates. 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 3 Month LIBOR (London Interbank Offered Rate) is the rate average interest rate at which a selection of banks in London are prepared to lend to one another with a maturity of 3 months.

The ICE BofA Merrill Lynch High Yield Master II 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 S&P 500 Index is a free-float capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States. 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.

Diversification does not assure a profit, nor does it protect against a loss in a declining market.

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.