Buffalo High Yield Fund

QUARTERLY
COMMENTARY

June 30, 2023

Performance Commentary

The Buffalo High Yield Fund produced a return of 2.10% for the quarter and outperformed the ICE BofA US High Yield Index and the Lipper High Yield Bond Funds Index which advanced 1.66% and 1.59%, respectively.

The U.S. high yield sector posted a third consecutive positive quarter as recession fears abated and economic data signaled resiliency. A pause after the May increase in the Federal Funds rate accompanied by hawkish commentary from the Federal Reserve caused significant upward pressure on treasury yields and compressed spreads for high yield and leveraged loans. High yield bonds ended the quarter at a yield to worst of 8.71%, down 5 basis points from the beginning of the quarter but significantly higher than the record low of 4.22% in July 2021. High yield spread to worst over treasuries ended the quarter at 434 bps, or 65 bps tighter than where they started the quarter and 128 bps tighter than its 20-year historical average of 562 bps. The yield to worst for the high yield market was 8.71% at quarter end, above the 20-year average of 7.82%, but slightly below the 8.74% yield at the end of the March quarter. The 10-year Treasury yield rose 37 bps and produced a negative return of -1.95% during the quarter while the S&P 500 Index posted a gain of 8.74%.

Average Annualized Performance (%)

As of 6/30/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	9.14	5.76	4.57	4.43	6.12	6.59
Institutional Class - *BUIHX*[1]	9.20	5.91	4.71	4.58	6.27	6.74
ICE BofA US High Yield Index	8.97	3.24	3.20	4.35	6.40	6.48
Lipper High Yield Bond Funds Index	8.31	3.72	3.02	3.93	5.44	5.39
Morningstar High Yield Bond Category	8.00	3.09	2.76	3.51	5.23	5.31

[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.

High yield funds saw quarterly cash inflows of $3.6 billion in the second quarter compared to roughly -$14.8 billion of outflows during the first quarter and an average quarterly outflow of -$12.2 billion throughout 2022. Year to date, high yield fund outflows have totaled -$11.2 billion compared to -$45 billion over the same period last year. It is also worth noting that exchange traded fund (ETF) flows accounted for 55% of total outflows year to date, compared to 19% in 2022 and 25% in 2018.

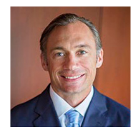
High yield new issuance was $55 billion for the quarter (vs. $40 billion in the first quarter), the highest total since the fourth quarter of 2021. Capital market conditions improved following the Silicon Valley bank "crisis" in March. Seventy-two high yield bonds priced in the quarter and an average of $18.4 billion priced per month compared to the monthly average of just $9 billion throughout 2022.

According to JP Morgan, split B/CCC rated bonds more than doubled the performance of both single B and BB rated issues during the quarter (CCC = 4.97%, split B = 5.26%, B = 2.15%, BB = 0.80%) as investors became more bullish. Broadcasting was the only industry in the U.S. high yield universe that generated negative returns during the second quarter (-0.62%). The Telecommunications sector was the best performer with a return of 5.70%.

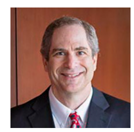
Fund Facts

	Investor	Institutional
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.02%	0.87%
Fund Assets:	$325.77 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofA U.S. High Yield Index	

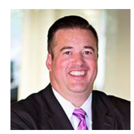
Management Team



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.

The Fund's composition by asset class at quarter end was as follows:

Fund Composition by Asset Class

	6/30/22	9/30/22	12/31/22	3/31/23	6/30/23
Straight Corporates	69.4%	69.6%	68.4%	67.6%	68.6%
Convertibles	4.6%	4.3%	3.4%	3.6%	4.7%
Bank Loans	18.9%	19.1%	19.1%	21.5%	20.8%
Preferred Stocks	2.9%	2.5%	2.2%	2.7%	2.8%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stocks	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	4.1%	4.6%	6.9%	4.7%	3.1%

The approximate rate and contribution of return from the various asset classes in the Fund during the quarter is as follows:

Approximate Rate & Contribution of Return in 2Q23

	Contribution to Return
Straight Corporates	1.35%
Convertibles	0.20%
Bank Loans	0.50%
Preferred Stocks	0.16%
Convertible Preferreds	N/A
Common Stocks	N/A
TOTAL	**2.10%**

↑ Top Contributors

The three top contributors for the quarterly period were Consensus Cloud Solutions 6% corporate bonds, Uniti Group 10.5% corporate bonds, and Magnite term loan.

Consensus Cloud is a leading provider of secure information delivery in the Cloud Fax sector servicing more than one million customers of all sizes across over 50 countries and rebounded after trading down in March following disappointing quarterly earnings.

The **Uniti Group** bonds improved during the quarter along with the rest of the telecom sector which was one of the harder hit sectors in 2022.

Magnite is the largest independent supply side platform for digital advertising on the open internet and connected TV and the term loan performed well due to strong earnings report and the floating nature of its coupon rate resetting with the Fed hikes.

↓ Top Detractors

The PRA Group 8.375% corporate bonds, Enviva Partners 6.5% corporate bonds, and the Tutor Perini term loan were the worst performers during the quarter.

In mid-May, **PRA Group** reported disappointing quarterly earnings due to softer than expected cash collections and lowered guidance for the rest of 2023.

Enviva Partners sold off in early May after cutting its EBITDA outlook by 30% and eliminating the dividend which will actually benefit the bonds going forward.

Tutor Perini reported weaker than expected earnings as well, and as a result we liquidated its position during the quarter.

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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. We are also monitoring supply chain disruptions and the geopolitical uncertainty caused by the tragic conflict in Ukraine. 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 145 positions, up 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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