Buffalo High Yield Fund

QUARTERLY COMMENTARY

June 30, 2024

Performance Commentary

The Buffalo High Yield Fund increased 1.56% for the quarter ending June 30, 2024, outperforming the ICE BofA U.S. High Yield Index and the Lipper High Yield Bond Funds Index, which gained 1.11% and 1.22% respectively, for the three-month period.

Average Annualized Performance (%)

As of 6/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	11.48	3.65	5.74	4.76	6.74	6.75
Institutional Class - *BUIHX*[1]	11.65	3.81	5.88	4.91	6.90	6.91
ICE BofA US High Yield Index	10.52	1.70	3.76	4.23	7.37	6.62
Lipper High Yield Bond Funds Index	10.29	1.79	3.67	3.82	6.87	5.56
Morningstar High Yield Bond Category	9.93	1.63	3.54	3.52	6.32	5.46

[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.

The U.S. high yield bond sector posted its seventh consecutive positive quarter as economic data signaled cooling inflation pressures and the Federal Reserve softened its hawkish rhetoric prompting speculation that rate cuts are likely in the back half of 2024. High yield bonds declined -0.87% in April due to stronger than expected inflation data before recovering with positive returns in May and June of 1.18% and 0.93%, respectively. Treasury yields, the 10-year in particular, were volatile during the quarter widening by 40 basis points (bps) in April before rallying back down to 4.39% at the end of the period, just 8bps higher than at the beginning of the quarter. Despite the volatility in treasuries, the spread to worst for high yield bonds remained relatively steady and only widened 8bps to 351bps, still well below the 20-year average of 562bps. The yield to worst for JP Morgan High Yield Index increased 20bps to 8.03% during the quarter. This compares to the record low of 4.22% in July 2021 and slightly above the 20-year average of 7.82%. Leveraged loans generated a gain of 1.92% for the quarter and ended with a yield of 9.09%, which was 28bps higher than the previous quarter. The yields on term loans continued to be 106bps wider than high yield bonds despite being senior in the capital structure and was the primary reason management of the Buffalo High Yield Fund increased its weighting to bank debt during the period.

According to JP Morgan, high yield funds saw quarterly cash inflows of $900 million in the second quarter which compares to roughly $3.6 billion of inflows during in the first quarter. Notably, April recorded the first month of outflows (-$5.3 billion) in the last six months.

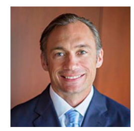
There were 124 high yield bonds issued during the quarter valued at $78 billion compared to $88 billion in the first quarter. May recorded $34 billion in new issues, which was the highest monthly total since September 2021. The Energy sector accounted for more than 16% of the total new issuance, followed by Financials and Technology at about 14% of the total volume, respectively.

According to JP Morgan, higher credit quality outperformed during the quarter with the return on BB-rated bonds beating both single-B rated and CCC-rated bonds (BB = 1.44%, B = 1.23%, CCC = 0.70%). Healthcare, Automotive, and Chemicals were the three best performing segments with positive 3.12%, 2.97% and 2.53% returns, respectively. Broadcasting, Telecom, and Cable/Satellite were the three worst performing areas in the second quarter, delivering returns of -2.91%, -1.93%, and -1.42% respectively.

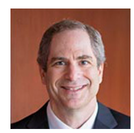
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	$505.66 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofA U.S. High Yield Index	

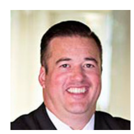
Management Team



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.

Top 10 Holdings*

Amenal Pharmaceuticals (Term Loan, 5/4/28)	2.91%
Uniti Group Lp (10.5%, 2/15/28)	2.69%
Northern Oil And Gas, Inc. (8.125%, 3/1/28)	2.09%
Geo Group Inc. (Term Loan, 3/23/27)	2.03%
Directv Financing (Term Loan, 8/2/29)	1.93%
Burford Capital Global Finance (9.25%, 7/1/31)	1.82%
Martin Midstream Partners L.p. (11.5%, 2/15/28)	1.70%
Trulite Holding Corp. (Term Loan, 3/1/30)	1.69%
Energy Transfer, L.p. (7.125%, Perpetual)	1.66%
Consensus Cloud Solutions, Inc. (6.0%, 10/15/26)	1.65%
Top 10 Holdings Total	**20.16%**

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

Fund Composition by Asset Class

	6/30/23	9/30/23	12/31/23	3/31/24	6/30/24
Straight Corporates	68.6%	64.4%	63.1%	59.9%	60.8%
Convertibles	4.7%	3.4%	4.4%	3.9%	3.3%
Bank Loans	20.8%	27.3%	27.0%	28.8%	30.7%
Preferred Stocks	2.8%	2.6%	2.4%	1.8%	0.6%
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	3.1%	2.4%	3.2%	5.6%	4.6%

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 2Q24

	Contribution to Return
Straight Corporates	0.94%
Convertibles	0.06%
Bank Loans	0.64%
Preferred Stocks	0.00%
Convertible Preferreds	N/A
Common Stocks	N/A
TOTAL	**1.56%**

↑ Top Contributors

The top three contributors to fund results were **GEO Group** 10.25% corporate bonds, **Mirum Pharmaceuticals** 4% convertible bonds, and the **Amneal Pharmaceutical** term loan. The GEO 10.25% bonds were issued in April when yields were rising and high yield was not performing well, which meant the bonds needed to be attractively priced to lure buyers. The bonds appreciated significantly in May and June as the market recovered and sentiment became more positive. Mirum convertible bonds were one of the worst performing positions in the previous quarter, but positive news regarding one of the company's drug trials sent the underlying common stock soaring in June. The Amneal term loan yielded more than 10% and is the fund's largest position thus the income component alone made it a top contributor.

↓ Top Detractors

The **Uniti** 10.5% corporate bonds, the **Scripps** 5.375% corporate bonds, and the **Alta Equipment** 9% corporate bonds were the worst performers during the quarter. The Uniti 10.5% bonds were a top performer in the previous quarter and then the company announced it was recombining with its old parent Windstream which created some uncertainty for investors. The fund purchased the newly issued Alta Equipment 9% bonds during the quarter and the bonds subsequently drifted down post the primary issue fervor. Scripps bonds continue to be under pressure along with the rest of the broadcasting industry group.

Buffalo High Yield Fund

QUARTERLY
COMMENTARY

June 30, 2024

Outlook

We are focused first and foremost on the Federal Reserve's balancing act between taming inflation while avoiding a recession, the upcoming U.S. Presidential election, and geopolitical uncertainty. As usual, we are managing the fund 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. The fund ended the quarter with 153 positions, up from the previous quarter's level of 142 (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:

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

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

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. A coupon or coupon payment is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity. The S&P 500 Index is a capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. The ICE BofA US 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. 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. EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBITDA is one indicator of a company's financial performance and is used as a proxy for a company's current operating profitability. Free cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows.

*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 3/31/24. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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

BUFFALO
FUNDS