

Buffalo High Yield Fund

QUARTERLY
COMMENTARY

September 30, 2023

Performance Commentary

The Buffalo High Yield Fund returned 1.98% for the quarter ending September 30, 2023, outperforming the ICE BofA US High Yield Index and the Lipper High Yield Bond Funds Index returns of 0.53% and 0.61%, respectively. The 10-year Treasury yield rose 73 bps and produced a return of -5.98% during the quarter while the S&P 500 Index posted a loss of -3.27%.

Average Annualized Performance (%)

As of 9/30/23

	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - BUFHX	10.82	4.55	4.61	4.33	6.46	6.60
Institutional Class - BUIHX ¹	10.98	4.72	4.74	4.48	6.61	6.76
ICE BofA US High Yield Index	10.28	1.85	2.82	4.17	7.15	6.44
Lipper High Yield Bond Funds Index	9.76	2.21	2.69	3.75	6.11	5.37
Morningstar High Yield Bond Category	9.49	1.80	2.51	3.38	5.84	5.28

¹For 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 sector posted its fourth consecutive positive quarter as economic data signaled resiliency and the Fed paused its rate hikes in September. However, the high yield index lost nearly two thirds of the quarterly gains in the last two weeks as treasury rates spiked, and market sentiment shifted towards accepting a "higher for longer" interest rate environment. The significant upward pressure on treasury yields pushed the yield to worst for high yield to 8.97%, an increase of 26bps from the prior quarter and well above the record low of 4.22% from July 2021.

According to JP Morgan, high yield funds experienced cash outflows of \$3.5 billion in the quarter compared to roughly \$3.6 billion of inflows during the previous quarter. Year to date, high yield fund outflows totaled -\$14.5 billion compared to -\$54 billion over the same period last year.

High yield new issuance was \$41.1 billion for the quarter with \$24.6 billion coming to market in the month of September alone. Sixty-six high yield bonds priced in the quarter, and an average of \$13.7 billion priced per month. This compares to \$8.9 billion on average per month throughout 2022.

According to JPMorgan, split B/CCC rated bonds significantly outperformed both single B and BB rated issues during the quarter (CCC = 2.44%, split B = 3.37%, B = 1.19%, BB = -0.14%) as investors were looking for more yield to offset rising interest rates and hoping that the Fed can avoid a deep recession. According to data from JP Morgan, the Cable & Satellite and Energy sectors were the best performing industries during the period producing returns of 2.34% and 2.02%, respectively. Given the concern over a looming recession, the more cyclical sectors of Retail and Housing were the worst performing groups delivering returns of -0.64% and -0.50%, respectively.

According to data from JP Morgan, the U.S. high yield market's spread to worst for the period was 420bps, 14bps tighter than the previous quarter and 142bps tighter than the 20-year historical average of 562bps. The yield to worst for the high yield market at quarter end was 8.97%, above the 20-year average of 7.82%, but slightly below the yield at the end of the second quarter of 8.71%. Leveraged loans ended the quarter at 10.01%, which was tighter by 19bps driven by demand for floating rate securities.

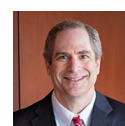
Fund Facts

	Investor	Institutional
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	\$355.96 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.



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

Fund Composition by Asset Class

	9/30/22	12/31/22	3/31/23	6/30/23	9/30/23
Straight Corporates	69.6%	68.4%	67.6%	68.6%	64.4%
Convertibles	4.3%	3.4%	3.6%	4.7%	3.4%
Bank Loans	19.1%	19.1%	21.5%	20.8%	27.3%
Preferred Stocks	2.5%	2.2%	2.7%	2.8%	2.6%
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	4.6%	6.9%	4.7%	3.1%	2.4%

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 3Q23

	Contribution to Return
Straight Corporates	1.54%
Convertibles	-0.05%
Bank Loans	0.56%
Preferred Stocks	0.03%
Convertible Preferreds	N/A
Common Stocks	0.01%
TOTAL	1.98%

↑ Top Contributors

The top three contributors were **Northern Oil & Gas** 8.125% corporate bonds, **Mirum Pharmaceuticals** 4% convertible notes, and **Martin Midstream Partners** 11.50% corporate bonds. Northern Oil & Gas bonds benefited from continued strength in the energy sector as crude oil surged 28% during the quarter and natural gas gained nearly 5%. Mirum convertible bonds rallied along with the common stock on the news that Mirum had completed the purchase of Travelex's bile acid product portfolio in early September. Like Northern, Martin Midstream also performed well given the rally in commodity prices as well as increased demand for the higher coupon and shorter duration nature of the notes.

↓ Top Detractors

The **Southwest Airlines** 1.25% convertible bonds, **Scripps** 5.375% corporate bonds, and the **Treehouse** 4.0% corporate bonds were the worst performers during the quarter. Southwest Airlines convertible bonds were negatively impacted by the 25% decline in the underlying common stock price driven by increasing fuel costs and concern over a potential pilots' strike. Scripps bonds declined after the company reported disappointing earnings in early August as well as overall concerns about the broadcasting sector's ability to generate free cash flow if the economy falls into a recession. Treehouse Foods bonds fell in early August after giving disappointing earnings guidance, then the bonds took another leg down in September given its 4% coupon as Treasury rates spiked.



Outlook

We are focused first and foremost on the Federal Reserve's balancing act between taming inflation while avoiding a recession, lingering supply chain disruptions, and the geopolitical uncertainty caused by the tragic conflict in Ukraine. We are managing the portfolio cautiously yet actively, focusing on higher-quality, non-investment grade issuers with defensive business models and manageable credit metrics. We will continue to deploy cash into 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 132 positions, down from the previous quarter's level of 145 (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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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 carefully before investing.

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

As of 6/30/23 the Buffalo High Yield Fund top 10 holdings were Northern Oil And Gas (8.125%, 3/1/28) 2.74%, Uniti Group (10.5%, 2/15/28) 2.59%, DirecTV (Term Loan, 8/2/27) 2.49%, Consensus Cloud Solutions (6.0%, 10/15/26) 1.95%, Talos Energy (12.0%, 1/15/26) 1.93%, Energy Transfer (7.125%, Perpetual) 1.92%, Corecivic (8.25%, 4/15/26) 1.86%, Buford Capital Global Finance (9.25%, 7/1/31) 1.83%, Vista Outdoor (4.5%, 3/15/29) 1.69%, Matador Resources Company (5.875%, 9/15/26) 1.64%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

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.

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.

