Buffalo High Yield Fund

QUARTERLY COMMENTARY

September 30, 2024

Performance Commentary

The Buffalo High Yield Fund produced a return of 3.25% for the quarter, a result that underperformed the ICE BofA US High Yield Index and the Lipper High Yield Bond Funds Index, which gained 5.29% and 4.51% respectively.

Average Annualized Performance (%)

As of 9/30/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	12.86	4.51	6.16	5.22	6.17	6.81
Institutional Class - *BUIHX*[1]	13.04	4.66	6.30	5.37	6.33	6.97
ICE BofA US High Yield Index	15.74	3.14	4.58	4.97	6.75	6.74
Lipper High Yield Bond Funds Index	14.56	2.99	4.36	4.48	6.26	5.67
Morningstar High Yield Bond Category	14.05	2.87	4.17	4.17	5.80	–

[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 eighth consecutive positive quarter as economic data signaled cooling inflation pressures and the Federal Reserve initiated a 50 basis point (bps) rate cut in September. High yield bonds gained 1.92% in July, driven by softer than expected inflation data that indicated the Fed might be moving closer to its first rate cut. Subsequently, August produced a return of 1.69%, followed by a gain of 1.62% in September. Treasury yields, 10-year bonds in particular, were volatile during the quarter dropping to a low of 3.62% before ending the three-month period at 3.78%, an increase of 68 bps for the quarter. Despite the volatility in Treasuries, the spread to worst for high yield remained relatively steady and tightened 6 bps to 345 bps, near all-time lows and well below the 20-year average of 562 bps. The yield to worst for the JP Morgan High Yield Index decreased 93 bps to 7.10% during the quarter. This compares to the record low of 4.22% in July 2021 and below the 20-year average of 7.82%. Leveraged loans generated a return of 2.04% for the quarter and ended with a yield of 7.95%, which was 114 bps lower than the previous quarter. The yields on term loans were 85 bps wider than high yield bonds despite being senior in the capital structure and is the primary reason why the Buffalo High Yield Fund has maintained its weighting to bank debt.

According to JP Morgan, high yield funds experienced cash inflows of $9.2 billion in the quarter, compared to inflows of roughly $900 million during the second quarter. Notably, April has been the only month of cash outflows (-$5.3 billion) year to date.

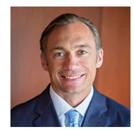
There were 110 high yield bonds issued during the quarter totaling $74.3 billion compared to $77.9 billion in the second quarter. The Energy sector accounted for more than 17% of the total new issuance, followed by Gaming/Lodging/Leisure and Financials sectors, accounting for about 10.8% and 9.3% of the total volume, respectively.

According to JPMorgan, lower credit quality bonds outperformed during the quarter with the return on CCC-rated bonds beating BB-rated and single-B rated bonds (BB = 4.38%, B = 4.64%, CCC = 12.81%). Telecom, Cable/Satellite and Broadcasting were by far the best performing groups with returns of 15.43%, 10.73%, and 8.15%, respectively. These three sectors were the worst performing sectors in the previous quarter. Automotive, Energy, and Retail were the three worst performing areas this quarter, but nonetheless delivered positive returns of 2.68%, 2.85%, and 2.93%, respectively.

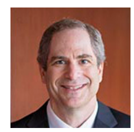
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	$579.35 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)	3.96%
Uniti Group Lp (10.5%, 2/15/28)	2.29%
Endo Finance Holdings, Inc. (Term Loan, 4/24/31)	1.97%
Northern Oil And Gas, Inc. (8.125%, 3/1/28)	1.87%
Geo Group Inc. (Term Loan, 3/23/27)	1.68%
Directv Financing (Term Loan, 8/2/29)	1.65%
Burford Capital Global Finance (9.25%, 7/1/31)	1.63%
Petiq LLC (Term Loan, 4/7/28)	1.60%
Saturn Oil & Gas, Inc. (9.625%, 6/5/29)	1.60%
Ardonagh Group Finance Ltd. (8.875%, 2/15/32)	1.59%
Top 10 Holdings Total	**19.85%**

BUFFALO FUNDS

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

Fund Composition by Asset Class

	9/30/23	12/31/23	3/31/24	6/30/24	9/30/24
Straight Corporates	64.4%	63.1%	59.9%	60.8%	63.2%
Convertibles	3.4%	4.4%	3.9%	3.3%	1.7%
Bank Loans	27.3%	27.0%	28.8%	30.7%	31.0%
Preferred Stocks	2.6%	2.4%	1.8%	0.6%	0.5%
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	2.4%	3.2%	5.6%	4.6%	3.6%

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 3Q24

	Contribution to Return
Straight Corporates	2.64%
Convertibles	0.29%
Bank Loans	0.71%
Preferred Stocks	0.01%
Convertible Preferreds	N/A
Common Stocks	N/A
TOTAL	**3.47%**

↑ Top Contributors

The top three contributors to the fund's results in the quarter were **Uniti** 10.5% corporate bonds, **Amneal Pharmaceuticals** term loan, and the **Ardonagh Group** 8.875% corporate bonds. Uniti bonds entered July yielding close to 11%. The company reported better than expected earnings, and along with being a large issue, drew investors into the bonds throughout the quarter, decreasing its yield by nearly 300 bps. The Amneal term loan was also yielding more than 10% coming into the period. This security was the fund's largest position throughout the quarter and ended as a top performer on the income component alone. Ardonagh is a CCC-rated property and casualty (P&C) insurance broker whose bonds were yielding nearly 200 bps more than the high yield index and benefited from investor demand for higher yielding, lower quality issues as the Fed cut rates.

↓ Top Detractors

The **Kronos Acquisition** term loan, the **Artera Services** term loan, and the **Alta Equipment** 9% corporate bonds were the worst performers during the quarter. Despite being the worst performers in the portfolio, it should be noted that the three positions combined only detracted about 9 bps from the fund's overall total return. Kronos was negatively impacted after one of its storage facilities caught fire during Hurricane Helene. Fortunately, the damage was not as dire as originally feared and the loans recaptured some of the initial losses. The Artera term loan drifted lower without any notable news or concerns. Alta Equipment 9% bonds were under pressure due to the cyclical nature of the equipment rental business and emerging signals that the economy might be slowing.

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Outlook

We are focused first and foremost on the Federal Reserve's balancing act between taming inflation while avoiding a recession, an upcoming presidential election, and geopolitical uncertainty. We are managing the fund 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 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 156 positions, up from the previous quarter's level of 153 (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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