

# Buffalo High Yield Fund

QUARTERLY  
COMMENTARY

December 31, 2024

## Performance Commentary

The Buffalo High Yield Fund produced a return of 1.86% for the quarter, a result that outperformed the ICE BofA US High Yield Index and the Lipper High Yield Bond Funds Index which gained 0.17% and 0.29%, respectively.

## Average Annualized Performance (%)

As of 12/31/24	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - <i>BUFHX</i>	9.72	5.00	5.95	5.36	6.06	6.81
Institutional Class - <i>BUIHX</i> <sup>1</sup>	9.89	5.15	6.10	5.51	6.21	6.97
ICE BofA US High Yield Index	8.27	2.98	4.08	5.10	6.35	6.69
Lipper High Yield Bond Funds Index	8.03	2.88	3.85	4.61	5.88	5.63
Morningstar High Yield Bond Category	7.63	2.78	3.72	4.33	5.46	-

<sup>1</sup>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 Institutional 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](http://buffalofunds.com). Each Morningstar category average represents a universe of funds with similar objectives.

U.S. high yield bonds, as an asset class, have posted nine consecutive positive quarters. Performance throughout the period was mixed. High yield bonds declined 0.52% in October driven by speculation that the Fed might take a slower rate cut path but then rebounded in November producing a return of 1.15% following US election results and benign economic figures. High yield reversed course again in December with a pullback of -0.41% after more hawkish commentary from the Fed and economic data that suggested a more measured approach to interest rate cuts in 2025 might be appropriate.

Treasury yields were volatile, the 10-year Treasury yield started the quarter at 3.74% and climbed to 4.57% by the end of the period. Despite the volatility, the spread to worst for high yield bonds tightened to 325 basis points (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 increased to 7.59% during the quarter. A result that was well above the record low yield of 4.22% in July 2021, but below the 20-year average of 7.82%. Leveraged loans continued the winning streak to fourteen consecutive months of gains by generating a return of 2.41% for the quarter. Loans ended with a yield of 8.33%, which was 38 bps higher than the previous quarter. The average yield on term loans was 74 bps wider than high yield bonds despite being senior in the capital structure and is the primary reason the fund has maintained its current allocation to bank loan debt.

According to JP Morgan, high yield funds saw quarterly cash inflows of \$1.0 billion compared to roughly \$9.2 billion inflows during the third quarter. December was only the second month of 2024 to post cash outflows from the asset class. There were 76 high yield bonds issued during the quarter totaling about \$49 billion. This was down from the \$74 billion issued during the third quarter. The Financial sector accounted for more than 15% of the new issuance total, followed by Energy and then Transportation accounting for about 10.5% and 9.6% of the total volume, respectively.

According to JPMorgan, lower credit quality outperformed during the quarter with the return on CCC-rated bonds beating BB-rated and single-B rated bonds (CCC = 2.55%, BB = -0.51%, B = 0.61%). The Telecom, Automotive and Diversified Media sectors were the best performing sectors with a with returns of 2.93%, 1.51%, and 1.42%, respectively. Utilities, Housing and Healthcare were the three worst performing sectors, delivering returns of -1.17%, -0.97%, and -0.80%, respectively.

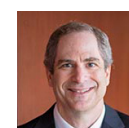
## Fund Facts

	Investor	Institutional
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	\$597.95 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)	4.52%
Uniti Group Lp (10.5%, 2/15/28)	2.68%
Endo Finance Holdings, Inc. (Term Loan, 4/23/31)	1.73%
Saturn Oil & Gas, Inc. (9.625%, 6/5/29)	1.71%
Ardonagh Group Finance Ltd. (8.875%, 2/15/32)	1.61%
Northern Oil And Gas, Inc. (8.125%, 3/1/28)	1.58%
Geo Group Inc. (10.25, 4/15/31)	1.47%
Petiq LLC (Term Loan, 4/7/28)	1.41%
Burford Capital Global Finance (9.25%, 7/1/31)	1.40%
Directv Financing (Term Loan, 8/2/29)	1.39%
<b>Top 10 Holdings Total</b>	<b>19.50%</b>



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

## Fund Composition by Asset Class

	12/31/23	3/31/24	6/30/24	9/30/24	12/31/24
Straight Corporates	63.1%	59.9%	60.8%	63.2%	62.4%
Convertibles	4.4%	3.9%	3.3%	1.7%	1.4%
Bank Loans	27.0%	28.8%	30.7%	31.0%	30.6%
Preferred Stocks	2.4%	1.8%	0.6%	0.5%	0.5%
Convertible Preferreds	0.0%	0.0%	0.0%	0.0%	1.5%
Common Stocks	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	3.2%	5.6%	4.6%	3.6%	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 4Q24

	Contribution to Return
Straight Corporates	0.88%
Convertibles	0.12%
Bank Loans	0.83%
Preferred Stocks	0.01%
Convertible Preferreds	0.17%
Common Stocks	N/A
TOTAL	1.86%

## ↑ Top Contributors

The top three contributors to fund performance were **Amneal Pharmaceuticals** term loan, **Boeing** 6% convertible preferreds, and **Stride** 1.125% convertible bonds. The Amneal term loan was yielding more than 10%. It is the fund's largest position, by weight, therefore the income component alone made it a top contributor. The fund participated in the Boeing 6% convertible preferred bond that was issued in October and the underlying common stock proceeded to rally nearly 15% through the end of the year. Stride is a technology-based education company that reported surprisingly strong earnings in October, followed by multiple analyst upgrades that drove the underlying common stock higher throughout the quarter.

## ↓ Top Detractors

**Patrick Industries** 1.75% convertible bonds, the **First Brands** term loan, and the **Prime Healthcare** 9.375% corporate bonds were the worst performers in the portfolio during the quarter, however those three positions combined only detracted 9 bps from the fund's overall return. Patrick Industries manufactures building products for the manufactured housing and recreational industries and was negatively impacted by the outlook for interest rates. Higher interest rates usually correlate to slower housing sales. The First Brands term loan drifted lower on lackluster financial results. Prime Healthcare bonds sold off following the election due to concerns that Trump's potential policies regarding reimbursement rates in healthcare would negatively impact the company.

## Outlook

We are managing the Fund cautiously yet actively, focusing on high-quality issuers with defensive business models and manageable credit metrics. The Federal Reserve continues its balancing act of attempting to tame inflation while avoiding a recession. Geo-political concerns remain elevated. 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 157 investment positions, an increase of one from the previous quarter's level of 156. ▲

## 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 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.

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. The J.P. Morgan Domestic High Yield Index is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market. 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.**

\*Top Ten Holdings for the quarter are not disclosed until 60 days after quarter end. Those listed are as of 9/30/24. 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.

