



# BUFFALO HIGH YIELD FUND

## MANAGER COMMENTARY

September 30, 2023

Tickers: **BUFHX** | **BUIHX**

### MORNINGSTAR RATING



Overall Morningstar Rating™ of BUFHX based on risk-adjusted returns among 629 High Yield Bond funds as of 9/30/2023.

### FUND MANAGEMENT



#### Paul Dlugosch, CFA

Co-Manager since 2007  
26 Years Investment Experience  
B.S. - University of Iowa



#### Jeff Sitzmann, CFA

Co-Manager since 2007  
36 Years Investment Experience  
MBA - University of Chicago  
B.B.A. - University of Toledo



#### Jeff Deardorff, CFA

Co-Manager since 2015  
26 Years Investment Experience  
B.A. - Kansas State University

### ABOUT US

The Buffalo Funds are a family of 10 actively-managed, no-load mutual funds, which provide a variety of long-term investment options for investors. We believe that patient investing, backed by solid, intelligent research, can be the best way to achieve long-term financial returns.

### CONTACT US

800.49.BUFFALO  
buffalofunds.com

## 1 Would you please comment on the Fund's performance during the third quarter and over longer periods of time?

We are pleased the Fund's 1.98% return outperformed the Morningstar High Yield Bond category's average return of 0.61% for the three months ended September 30, 2023. Also, the Fund's 1-year return of 10.82% outperformed the category's average return of 9.49% as of quarter's end.

Our recent relative outperformance stems, in part, from our increased allocation to leveraged loans. By rotating into a higher allocation to bank loans, we have shortened the Fund's duration, which aids performance and potentially reduces volatility during rising rate environments. As of September 30, 2023, the Fund's effective duration was 2.64 vs. 3.38 for the Morningstar category average. We also attribute our outperformance to individual security selection derived from our credit-intensive investment process that focuses on experienced management teams, consistent positive cash flow and disciplined balance sheet management.

In fact, the Fund has outperformed our Morningstar category peers over multiple time periods. The Fund is **one of only two funds** out of 424 funds in the Morningstar High Yield category that achieved **top 15% or better performance for the 3-, 5- and 10-year periods** and earned Morningstar's **"Below Average" or "Low" Risk Rating for the same periods**, as of September 30, 2023.

## 2 Would you please discuss the Fund's current allocation to high-yield bonds vs bank loans?

We have high conviction in the loan market. The Fund's current allocation to leveraged loans totals 28%, the highest it has ever been. We have gravitated towards loans for several reasons. Returns on bank loans have been slightly

*Continued*

### PERFORMANCE (%) AS OF 9/30/2023

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
<b>Investor Class - BUFHX</b>	<b>1.98</b>	<b>10.82</b>	<b>4.55</b>	<b>4.61</b>	<b>4.33</b>	<b>6.60</b>
<b>Institutional Class - BUIHX<sup>1</sup></b>	<b>2.02</b>	<b>10.98</b>	<b>4.72</b>	<b>4.74</b>	<b>4.48</b>	<b>6.76</b>
ICE BofA U.S. High Yield Index	0.54	10.28	1.85	2.82	4.17	6.44
Morningstar High Yield Bond Cat. Avg.	0.61	9.49	1.80	2.51	3.38	-
<b>Percentile Rank in Morningstar Cat. - BUFHX</b>		<b>22</b>	<b>6</b>	<b>3</b>	<b>11</b>	
# of Funds in Category		683	629	586	424	
Morningstar Risk Rating			Below Avg.	Below Avg.	Below Avg.	

Expense Ratio: Investor Class 1.03%, Institutional Class 0.87%

*Inception dates: BUFHX 5/19/1995, BUIHX 7/1/2019. Average annual total return represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate and redemption value may be more or less than original cost. Fund performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by visiting buffalofunds.com. <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 Investor Class shares.*

higher than high yield bonds. Bank loans also tend to be less volatile than high yield bonds as they are more senior in a company's capital structure and can offer better covenant protection. Given the somewhat uncertainty of the economy and the Fed's actions, these protections are important. The floating interest rate feature of loans is also attractive. The loan's interest rate will increase if the Fed continues its tightening, which should enhance the Fund's income distribution. The current supply and demand backdrop is favorable as U.S. leveraged loan issuance has been strong and demand continues to rise from income-oriented investors.

### 3 How are you positioning the portfolio given the current economic environment?

We are currently tilting the portfolio in favor of defensive companies and limiting our exposure to cyclical companies and industries. We believe that the economy may be facing economic headwinds and uncertainties later this year and into 2024. For example, student debt payments will resume in October after a 3-year pandemic-related pause. Over 40 million people collectively owe \$1.6 trillion in federal student loan debt. These payment resummptions could trigger personal financial difficulties that could lower consumer spending and spill over to the broader economy. Additional economic uncertainties include oil prices racing towards \$100 per barrel and fueling inflation pressures, the United Automobile Workers' unprecedented strike against the Big Three automakers, and the fear that the Federal Reserve will keep rates higher for longer as it digs in for a longer fight against inflation.

Accordingly, we favor companies that have more predictable or contractual cash flows, such as healthcare and utility companies. We are risk-focused investors, and our credit-intensive investment approach has resulted in the Fund having a lower risk profile.

Compared to the Morningstar High Yield

Bond category average, the Fund had lower volatility as measured by standard deviation, better risk-adjusted return as measured by Sharpe ratio, and better downside capture.

	3-Year		
	Standard Deviation	Sharpe Ratio	Downside Capture Ratio
<b>Buffalo High Yield Fund</b>	<b>5.68</b>	<b>0.46</b>	<b>8</b>
Morningstar High Yield Bond Funds Category Avg.	7.38	0.03	41

Source: Morningstar as of 9/30/2023

*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 may be obtained by calling (800) 49-BUFFALO or visiting [buffalofunds.com](http://buffalofunds.com). Read them carefully before investing.*

**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.**

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a 3-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all 3 rating periods. The Buffalo High Yield Fund (BUFHX) received 5 stars among 629 for the 3-year, 5 stars among 586 for the 5-year, and 5 stars among 424 High Yield Bond funds for the 10-year period ending 9/30/23 based on risk-adjusted returns. © 2023 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

Morningstar Risk scores for a given time period (three, five, or 10 years) reflect the Fund's Morningstar risk score plotted on a bell curve: Monthly calculations are based on whether the Fund scores in the top 10% of its category, its risk score is considered High; if it falls in the next 22.5% Above Average; a place in the middle 35% is Average; those lower still, in the next 22.5%, are Below Average and the bottom Low. Overall Morningstar risk score is a weighted average of the available three, five, and 10 year Morningstar risk scores. Investments with less than three years of performance history are not rated.

The ICE BofA U.S. High Yield Index is an unmanaged index that tracks the performance of U.S. dollar denominated, below investment-grade rated corporate debt publicly issued in the U.S. domestic market. One cannot invest directly in an index.

September 30, 2023

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Duration is a measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Standard Deviation measures the distance from the mean in a set of data points, giving analysts an idea of the variance that could occur; used to illustrate volatility in a portfolio. Sharpe Ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. 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. Downside capture ratio is used to evaluate how well or poorly an investment manager performed relative to an index during periods when that index has dropped. An investment manager who has a downside capture less than 100 has outperformed the index during the down-market. For example, a manager with downside capture of 80 indicates the manager's portfolio declined only 80% as much as the index during the period in question.

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