Buffalo High Yield Fund

QUARTERLY COMMENTARY

December 31, 2023

Performance Commentary

The Buffalo High Yield Fund produced a total return of 4.78% for the quarter, a result that trailed the ICE BofA US High Yield Index return of 7.08%.

Average Annualized Performance (%)

As of 12/31/23	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFHX*	11.68	3.64	6.44	4.59	8.00	6.72
Institutional Class - *BUIHX*[1]	11.85	3.80	6.59	4.74	8.15	6.87
ICE BofA US High Yield Index	13.54	2.05	5.24	4.53	9.04	6.64
Lipper High Yield Bond Funds Index	12.34	2.18	5.03	4.04	8.20	5.55
Morningstar High Yield Bond Category	12.08	1.88	4.70	3.68	7.60	5.45

[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 asset class posted its fifth consecutive quarter of positive returns as economic data signaled resiliency and the Federal Reserve softened its hawkish rhetoric prompting speculation that interest rate cuts may come sooner than previously expected. The high yield index posted a loss of 1.24% in October before surging 8.24% in November and December as 10-year Treasury Yields sank. The significant downward pressure on treasury yields in the last two months of the year pushed the yield to worst for high yield down to 7.82% by the end of the quarter, marking a low point for 2023. For reference, the record low yield to worst of 4.22% occurred in July 2021. Leveraged loans ended the quarter with a yield of 8.60%, which was 140 basis points (bps) tighter than the previous quarter driven by moderating inflation and resilient growth.

According to JP Morgan, high yield funds saw quarterly cash inflows of $5.3 billion compared to roughly $3.5 billion of outflows during the preceding quarter. For calendar year 2023, high yield fund outflows totaled -$7.9 billion compared to -$14.5 billion in 2022.

There were 65 high yield bonds issued during the quarter totaling $42.1 billion, slightly higher than the $39.2 billion in new issues for the third quarter. The energy sector accounted for nearly 25% of total new issuance, followed by financials and industrials which each accounted for about 10% of the volume.

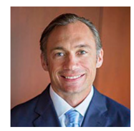
BB and CCC rated bonds outperformed single-B rated issues during the quarter (CCC = 7.03%, B = 6.86%, BB = 7.15%) as investors focused on higher duration (BB issues) and higher risk/reward (CCC issues) in anticipation of more aggressive interest rate cuts. According to data from JP Morgan, the Retail, Housing, and Broadcasting sectors were the best performers with returns of 9.36%, 8.65% and 8.55%, respectively. Retail and Housing were the two worst performing sectors in the prior quarter, but investors expect both to perform well in a declining rate environment. There were no negative performing sectors during the quarter, but Metals/Minerals and Transportation were the worst performing sectors delivering returns of 4.06% and 4.16%, respectively.

The U.S. high yield market's spread to worst for the period was 377bps, 43bps tighter than the preceding quarter, according to data from JP Morgan, and 185bps tighter than its 20-year historical average of 562bps. The yield to worst for the high yield market at quarter end was 7.82%, matching the 20-year average of 7.82%, and significantly below the yield of 8.97% from the third quarter. Leveraged loan yields tightened as well from 541bps in the prior period to 500bps.

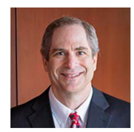
Fund Facts

	Investor	*Institutional*
Ticker:	BUFHX	BUIHX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	1.03%	0.87%
Fund Assets:	$392.25 Million	
Category:	High Yield Bond	
Benchmark:	ICE BofA U.S. High Yield Index	

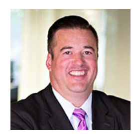
Management Team



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*

Uniti Group Lp (10.5%, 2/15/28)	2.75%
Northern Oil And Gas, Inc. (8.125%, 3/1/28)	2.56%
Geo Group Inc (Term Loan, 3/23/27)	2.52%
Directv Financing Llc (Term Loan, 8/2/27)	2.49%
Consensus Cloud Solutions, Inc. (6.0%, 10/15/26)	1.94%
KDC/One Development Corporation, Inc. (Term Loan, 8/3/28)	1.90%
Energy Transfer, L.p. (7.125%, Perpetual)	1.78%
Talos Energy Inc (12.0%, 1/15/26)	1.76%
Corecivic, Inc. (8.25%, 4/15/26)	1.71%
Burford Capital Global Finance Llc (9.25%, 7/1/31)	1.70%
Top 10 Holdings Total	**21.12%**

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

Fund Composition by Asset Class

	12/31/22	3/31/23	6/30/23	9/30/23	12/31/23
Straight Corporates	68.4%	67.6%	68.6%	64.4%	63.1%
Convertibles	3.4%	3.6%	4.7%	3.4%	4.4%
Bank Loans	19.1%	21.5%	20.8%	27.3%	27.0%
Preferred Stocks	2.2%	2.7%	2.8%	2.6%	2.4%
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	6.9%	4.7%	3.1%	2.4%	3.2%

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 4Q23

	Contribution to Return
Straight Corporates	3.85%
Convertibles	0.19%
Bank Loans	0.84%
Preferred Stocks	0.09%
Convertible Preferreds	N/A
Common Stocks	N/A
TOTAL	**4.83%**

↑ Top Contributors

The top three contributors to performance for the quarter were **Vista Outdoor** 4.5% corporate bonds, **Uniti** 10.5% corporate bonds, and **Energy Transfer** 7.125% corporate bonds. Vista Outdoor bonds benefited from the announcement that Vista would be acquired by Czechoslovak Group and the bonds will be repaid once the acquisition is finalized. The 10.5% coupon and annuity-like cash flows attracted investors to the Uniti bonds during the quarter and are now trading over par. The Energy Transfer bonds rallied nearly 10 points during the quarter as investors were drawn to its near investment grade quality and longer duration characteristics which should benefit the bonds in a declining interest rate environment.

↓ Top Detractors

The **Array Technologies** 1% convertible bonds, the **iHeart Communication** 8.375% corporate bonds and the **Mastec** 6.625% corporate bonds were the worst performers during the quarter. Array convertible bonds were negatively impacted by the 24% decline in the underlying common stock price driven by unexpected project delays. iHeart bonds declined after giving disappointing guidance and general concern over the health of the radio industry as competitor Audacy filed for bankruptcy. The Mastec bonds suffered from project delays, similar to Array's, compounded by some illiquidity volatility given there is only $78 million outstanding of the issue.

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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, lingering supply chain disruptions, and the geopolitical uncertainty caused by the conflicts in Ukraine and the Middle East. 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 relative to industry average. 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 135 positions, up slightly from the previous quarter's level of 132 (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 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. 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 9/30/23. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any securities.

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