

# Adirondack Small Cap Fund (ADKSX)

Data as of September 30, 2017

## Quarterly Commentary

Dear Fellow Shareholder,

During the quarter ending 09/30/17, The Adirondack Small Cap Fund (ADKSX) underperformed its benchmark, the Russell 2000 Value Index (RUJ), by 68 bps. The Fund returned 4.43% during this period, while the RUJ returned 5.11%. The Fund's annualized return for 1 year, 5 year, and 10 year was 16.92%, 12.54%, and 9.27%, respectively.\*

The major US indices (Standard & Poor's 500, the Dow Jones Industrial Average, and the Nasdaq Composite Index) continued their ascent this quarter. GDP growth has been solid but inflation has remained persistently low. Currently, the general consensus is one more Fed interest rate increase in December. Three major hurricanes back to back, Harvey, Irma and Maria, will disrupt Q3 GDP, however future quarters will likely see the positive impact of rebuilding communities adversely affected. Tax reform is taking center stage and should it eventually become law, it would represent the most aggressive reform since 1986. This helped rally equities the last week of September and small caps stand to be a significant beneficiary as they pay a higher average tax rate than larger corporations.

The Fund's underperformance this quarter was primarily due to sector allocation because of our underlying conservative bias. We were underweight high-flying industries like pharmaceuticals and trucking, while being overweight in lower beta (less volatile) industries like food and beverage. Pharma and Transportation were the two largest contributors to the index in the quarter. Although our attribution analysis shows good overall stock selection, a couple of our positions within Industrials suffered. Helping to offset this underperformance, our largest position, Vonage (VG), was up 23.24% this quarter, materially outpacing the Telecommunications sector which was the worst performing sector as investors moved away from dividend yielding safe stocks. VG posted a solid quarter in all three of its divisions and investors have begun to take notice. (As of 09/30/17, Vonage represented 3.5% of the portfolio.) Additionally, the Fund's recent stock selection within Consumer Discretionary outperformed. As previously discussed, we have been finding opportunities within this battered space.

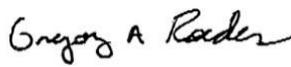
Our outlook has not changed from last quarter and we continue to keenly look at all areas for potential value and avoid or trim areas that appear to be overheated. We have reduced our tech exposure and taken profit while increasing our allocation to Consumer Staples and Discretionary. Not surprisingly, given this bull market, it is a challenge to find quality names that fit our disciplines, however, we are currently finding good risk/reward potential within Energy.

We thank you for your continued investment in The Adirondack Small Cap Fund. As noted in our last commentary, effective August 1<sup>st</sup>, our management fee was further reduced resulting in a current net expense ratio of 1.23%. For the most up-to-date information on your investment, please visit our website at [www.adirondackfunds.com](http://www.adirondackfunds.com) or call us at (518) 690-0470.

Regards,



Matt Reiner, CFA®  
Portfolio Manager



Greg Roeder, CFA®  
Portfolio Manager

*\*Performance data quoted represents past performance; past performance does not guarantee 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 cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 888-686-2729, or visiting [www.adirondackfunds.com](http://www.adirondackfunds.com).*

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## Quarterly Commentary (con't)

*Per the prospectus, the Fund's gross annual operating expense ratio is 1.23%. The Advisor has contractually agreed to waive fees or reimburse the Fund to the extent necessary to maintain the Fund's total annual operating expenses at 1.48% until August 1, 2018, subject to termination by the Fund on 60 days' written notice.*

*The Fund invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility. Additionally, value investing is subject to the risk that a company's intrinsic value may never be fully realized by the market.*

*The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1-888-686-2729, or visiting [www.adirondackfunds.com](http://www.adirondackfunds.com). Read it carefully before investing. The Adirondack Small Cap Fund is distributed by Rafferty Capital Markets, LLC, Garden City, NY 11530.*

*The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. You cannot invest directly in an index.*

*The Standard & Poor's 500 Index is a market value-weighted index of 500 stocks seen as indicators of U.S. equities and reflects large cap performance. You cannot invest directly in an index.*

*The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. You cannot invest directly in an index.*

*The Nasdaq Composite Index is a market capitalization-weighted index of approximately 3000 equities listed on the Nasdaq stock exchange. You cannot invest directly in an index.*