Adirondack Small Cap Fund (ADKSX)

Data as of September 30, 2019

Quarterly Commentary

Dear Fellow Shareholder,

During the quarter ending 09/30/2019, The Adirondack Small Cap Fund (ADKSX) underperformed its benchmark, the Russell 2000 Value Index (RUJ), by 480 bps. The Fund returned (5.37%) during this period, while the RUJ returned (0.57%). The Fund's annualized return for 1 year, 5 year, and 10 year was (21.14%), 1.68%, and 8.08%, respectively.*

Similar to last quarter, the headlines were dominated by trade issues, Federal Reserve policy and recession fears which drove continued volatility. The quest for yield remained evident as REITS and Utilities both outperformed. The normally steady Healthcare sector came under pressure as Healthcare reform was a hot topic during the Democratic Presidential debates held over the summer. This sector was down just under 8% during Q3, which is an unusually elevated level of underperformance for a normally defensive sector. The Fund's underperformance in Q3 was roughly divided between sector allocation and stock selection.

When looking at our sector performance this past quarter, the majority of the shortfall was within Materials. The Fund being overweight in Materials and Energy hurt us as these sectors are highly sensitive to trade tensions that have intensified in recent months. Within the RUJ, Energy stocks were down 21.0% and Materials down 5.0%. Over the past ten years, Materials and Energy have been the worst performing sectors of the small cap market, realizing less than 50% of the market return. Last quarter, the majority of the companies within these sectors experienced share price declines. Historically, the Fund has been significantly underweight Materials and Energy, but, over the past several years the exposure has roughly doubled as relative valuations have become too hard to ignore. At 9/30/2019 the Fund's total exposure to these sectors stood at 16.7%. They require a healthy dose of patience, but they are arguably the most reasonably valued stocks within the overall U.S. equities market. In addition, we are seeing companies within these sectors take the advice of frustrated investors and make significant changes to their businesses. Some are merging, some are divesting assets, many are tightening belts and changing management teams. The weak will go bankrupt like they normally do when investors turn off the capital spigot. Virtually none of these companies are complacent. As the survivors plant the seeds for future growth, with fewer competitors, they will be better positioned to capitalize on the opportunities within their respective industries. To us, battle tested sectors tend to sharpen the skills of management which lead to better capital allocation and, therefore, are worthy of a continued overweight by the Fund.

On the stock selection side, Owens-Illinois Inc. (OI) performed particularly poorly last quarter, down 40.3% although it has long been considered more of a steady, predictable, investment. They are one of the largest manufacturers of glass containers in the world with roughly 25% market share, long-term contracts and high barriers to entry. OI's results were impacted by a number of one-time issues exacerbated by a strong U.S. dollar which pressured earnings and cashflow. Given their elevated debt levels, a push out of the usually predictable generation of cash spooked equity investors. Holders of OI's debt however are more supportive as evidenced by their bonds trading firmly above par throughout last quarter. OI has engaged Goldman Sachs to explore strategic options, which could lead to the sale of operations in either Europe or Asia. One of OI's larger investors (Atlantic Capital Management) has been pushing for a sale of the European operations for more than a year now. The reaction to Q2's results certainly have added pressure on management to deleverage. Recent merger & acquisition activity within the European packaging sector has taken place at prices 40% – 60% above the current multiple (6x EBITDA) that OI fetches in the United States. This would suggest the chance of OI making value enhancing asset sales appear reasonable. Finally, insider sentiment is also encouraging as several directors added meaningfully to their holdings after Q2 results were released. (as of 09/30/2019, OI represented 1.74% of the portfolio.)

**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.*

Per the prospectus, the Fund's gross annual operating expense ratio is 1.24%. 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, 2020, subject to termination by the Fund on 60 days' written notice.

Adirondack Research & Management, Inc.
2390 Western Avenue
Guilderland, NY 12084
www.adirondackFunds.com • 1-518-690-0470

Adirondack
SMALL CAP FUND

Adirondack Small Cap Fund (ADKSX)

Data as of September 30, 2019

Quarterly Commentary (con't)

As value investors we gravitate towards the sometimes controversial and often less crowded sectors of the market. To be successful over the long term we must be patient with companies in transition, looking past the noise and knee jerk reactions. August was a particularly volatile month where earnings or guidance missteps met with harsh reactions, particularly in sectors sensitive to trade policy. While the overall market has not had a sustained correction in the traditional sense, the carnage experienced in certain more economically sensitive and commodity sectors of the small cap value space has been severe. In many ways it feels much like it did when The Adirondack Small Cap Fund was launched. We have a strong conviction in our investments as the majority of our holdings are currently trading near decade lows and below intrinsic value. We plan to remain steadfast to our contrarian philosophy much like we did coming out of 2008 which was followed by some of our best years of outperformance since the Fund's founding. The portfolio continues to maintain over 95% active share relative to our benchmark (Russell 2000 Value®) another indication of our idiosyncratic/contrarian approach to investing. We are confident that our patience, contrarian approach and focus on valuation will be rewarded over the long run. As fellow shareholders we feel your frustration. Your confidence and patience are greatly appreciated. For the most up-to-date information on your investment, please visit our website at www.adirondackFunds.com or call us at (518) 690-0470.

Regards,

Matt Reiner, CFA®
Portfolio Manager

Greg Roeder, CFA®
Portfolio Manager

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. 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.

EBITDA (earnings before interest, taxes, depreciation, and amortization) is a measure of a company's overall financial performance and profitability.

Adirondack Research & Management, Inc.
2390 Western Avenue
Guilderland, NY 12084
www.adirondackFunds.com • 1-518-690-0470

Adirondack
SMALL CAP FUND