Adirondack Small Cap Fund (ADKSX)

Data as of December 31, 2019

Quarterly Commentary

Dear Fellow Shareholder,

During the quarter ending December 31, 2019, The Adirondack Small Cap Fund (ADKSX) generated returns of 8.94%. Over the same period, its benchmark, the Russell 2000® Value Index (RUJ), increased 8.49%. The Fund's annualized return for 1 year, 5 year, and 10 year was 15.95%, (0.48%), and 2.03%, respectively.* The top ten holdings represented 35.9% of Fund assets, in line with our objective to focus on our best ideas. Portfolio turnover for the year ending 12/31/2019 was 23.7%.

The market responded favorably to growing potential for signing of phase one of the long-awaited trade pact with China. Ten year treasury rates rebounded from near two-year lows to finish the year at 1.92% (up from 1.68% as of 09/30/19). Growth stocks and large caps have been the go-to place for U.S. investors, however, we have seen more indications of investor pushback on some of the frothier valuations. The Environmental, Social and Governance (ESG) investing drumbeat is growing, and while ESG is not part of our mandate, the Fund has scored well on these measures. Tighter labor conditions and higher input costs will continue to represent an inordinate challenge to the small cap value space.

Outperformance relative to the index (RUJ) was in part attributed to being underweight the interest sensitive industries that have outperformed in the recent past like REITs, Utilities and Banks. Stock selection within Consumer Discretionary and Energy sectors played a part as well. We talked about conviction in our holdings, such as Office Depot (ODP), last quarter and ODP rallied strongly (up 57.4% since 9/30/19); and while the road ahead might be still bumpy, we think the stock still has meaningful upside. (as of 12/31/2019, ODP represented 3.78% of the portfolio.) In the energy sector, we were pleased to see investors finally noticing Renewable Energy Group Inc (REGI) which rose 73.6% during the quarter ended 12/31/19. This company produces diesel fuel for the U.S. transportation market. In December, the U.S. Congress approved renewal of a long-awaited tax credit for blenders/distributors of this fuel. Skeptical short sellers quickly covered their positions resulting in a sharp rally which we used to largely exit our position. (as of 12/31/2019, REGI represented 0.29% of the portfolio.) We still see REGI capitalizing on its early mover position, but at the current valuation, further upside appears limited. We support renewable diesel as a low carbon alternative fuel for trucks/aircraft and will follow REGI in hopes to find a more attractive reentry price.

Notable portfolio exits include Cleveland- Cliffs Inc. (CLF). They announced their intention to acquire one of their larger customers, AK Steel Corp (AKS). In doing so, CLF will change their business model from a raw material supplier to a fully integrated producer of steel. To our surprise, the market was reasonably supportive of this monumental deal. We will continue to follow their progress but these transformative mergers with substantial leverage tend to be challenging in our experience. We sold Investors Real Estate Trust (IRET), an apartment REIT, that during the course of our involvement sold all of its office properties and nearly all of its smaller apartment properties located in small towns in the Upper Midwest, redeploying capital into larger complexes in growing urban areas like Denver and Minneapolis. Investors that specialize in the REIT space appreciated this move making IRET one of the best performing stocks in the REIT sector during 2019. Now valued similarly to their apartment focused peer group, we opted to exit IRET. (as of 12/31/2019, IRET represented 0.06% of the portfolio.) We added Houghton Mifflin Harcourt Co (HMHC) as after several painful restructurings, we think they are now better aligned to meet the needs of the K-12 education market. The stock is near decade lows, yet they have made meaningful strides developing new services and reengineering old ones, as evidenced by their growing backlog. They are addressing organizational and balance sheet issues as well. (as of 12/31/2019, HMHC represented 1.25% of the portfolio.)

Finally, we added GrafTech International Ltd. (EAF) which primarily supplies graphite electrodes, an essential consumable product used by electric arc furnace steel producers. What makes EAF unique is that they are the only supplier that is vertically integrated into petroleum needle coke (a key ingredient) giving them significant cost advantages over the competition. Steel made via Electric Arc furnaces is often largely of scrap and recycled steel versus blast furnaces that use iron ore pellets and coking coal. Over coming years, more steel around the globe will be produced by electric arc furnaces due to the lower carbon intensity of its manufacturing process. After spending time in the private markets

**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.*

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Adirondack SMALL CAP FUND

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EAF was brought public in early 2018 at $15. They earned $3.18 per share that year and will likely earn north of $2.00 in 2020, a year where steel prices are expected to remain challenged. The market's myopic focus on near-term steel prices, overlooks EAF's durable competitive advantages serving a market with excellent long-term growth prospects. (as of 12/31/2019, EAF represented 1.44% of the portfolio.)

We thank you for your continued support and investment. 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

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.

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.

Portfolio turnover is a measure of how frequently assets within a fund are bought and sold.

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