Adirondack Small Cap Fund (ADKSX)

Data as of December 31, 2018

Quarterly Commentary

Dear Fellow Shareholder,

During the quarter ending 12/31/18, The Adirondack Small Cap Fund (ADKSX) underperformed its benchmark, the Russell 2000 Value Index (RUJ), by 724 bps. The Fund returned (25.91%) during this period, while the RUJ returned (18.67%). The Fund's annualized return for 1 year, 5 year, and 10 year was (23.10%), (0.69%), and 11.88%, respectively.*

This quarter was a volatile and dramatic departure from what we have seen the first nine months of the year. After small caps hit an all-time high in August, they officially reached bear market territory (decline of 20% or more) in December. The major indices were not spared either with the S&P 500 and Dow Jones Industrial Average (DJIA) posting their worst year since 2008. Looming concerns regarding the Fed and interest rates as well as escalating trade tensions with China finally reached their peak with investors, and markets fell forcefully. Investors took advantage of tax-loss selling pushing some stocks into oversold territory. It has also been argued that electronic trading algorithms further exacerbated the situation. Volatility came back with a vengeance, as evidenced by the DJIA posting the worst Christmas Eve drop, just to be followed by the largest single day rally on December 26th. Overall, however, it appears that investor sentiment is shifting towards protecting downside, especially after this long bull run.

Despite the Fund's absolute and relative performance this quarter, we are confident in our current portfolio and its underlying fundamentals. We continue to employ the same strategy, philosophy and process that we always have. We are encouraged by the fact that we have seen significant insider buying in many of our companies as their stocks reach multi-year lows. As contrarians, we are taking advantage of these current challenges to help position us for long-term success. We tactically used volatility this quarter to reallocate capital to those stocks with better risk/reward.

Our underperformance was mainly due to stock selection. While there was not a specific sector that was the culprit, one theme that did emerge this quarter was the severity in which companies that missed their earnings and/or revenue guidance were punished. For companies we own that have missed, we believe that for the majority, the thesis is intact and the price decline was an overcorrection. Take, for instance, Allscripts Healthcare Solutions (MDRX). In early November, they missed by $0.02 on earnings and came in slightly (2%) below 20% revenue growth guidance. The stock finished the day down 18.9%. MDRX has since recovered about half the losses after reporting the sale of a non-core asset and a large debt reduction. We continue to believe in the long-term potential of this healthcare technology company. While the road may be bumpy as providers consolidate, ultimately MDRX's clients need to increase their IT spending to address the growing complexity of tasks such as clinical workflow, medical records automation and revenue cycle management. (As of 12/31/2018, Allscripts represented 3.02% of the portfolio.) We are optimistic that with a significant number of our positions now near our cost basis, we should be well positioned should our investment thesis play out.

Based on yearend valuations, we believe the market is discounting a difficult economic road ahead. Absent a major trade war, we think that fear is misguided. We continue to diligently monitor our positions as we patiently await the return of sensible market conditions. Small cap value, in particular, is sensitive to high yield market conditions and we are cognizant of the credit market concerns reflected in recent valuations. We continue to favor companies that are de-levering and focusing on their strengths rather than those that have leveraged up with cheap credit. As we say goodbye (or good riddance, rather) to 2018, we optimistically look forward as a recent study by Furey Research showed that when small caps drop significantly, they often post strong forward returns.

We thank you for your continued support and investment along the way. 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

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Portfolio Manager

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Quarterly Commentary (con't)

**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 1.23%. 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, 2019, 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.

The S&P 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.

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