

# Adirondack Small Cap Fund (ADKSX)

Data as of March 31, 2019

## Quarterly Commentary

Dear Fellow Shareholder,

During the quarter ending 03/31/2019, The Adirondack Small Cap Fund (ADKSX) outperformed its benchmark, the Russell 2000 Value Index (RUJ), by 370 bps. The Fund returned 15.63% during this period, while the RUJ returned 11.93%. The Fund's annualized return for 1 year, 5 year, and 10 year was (6.96%), 1.72%, and 15.47%, respectively.\*

After a difficult end to 2018, equities rebounded strongly this quarter – in fact posting their best quarter in nearly 10 years. Markets saw a January bounce with investors assessing the health of the economy while digesting the pullback of future rate hikes by the relatively new Fed chairman. Trade issues with China were a common worry, causing increased volatility mid-quarter. The general consensus seems to be that the US economy is indeed slowing, yet recessionary fears are being pushed out given a return to more accommodation by the Federal Reserve. Investors, however, anticipated that the news would be much worse and with the Fed's willingness to be "patient" and keeping the cost of capital relatively cheap, investor sentiment shifted back towards risk-on.

We are pleased to see our Fund outperform so far this year, which has been mainly due to stock selection versus sector allocation. Not surprisingly, some of our best performers were the ones that hurt us at the end of last year, specifically within Health Care and Industrials. One of our top performers this quarter that was not the result of this bounce back was Covanta Holding Corporation (CVA) which represented 2.91% of the portfolio as of 3/31/19. Covanta, a waste energy company servicing municipalities primarily in the US, UK and Canada, focuses on producing energy from various waste streams. Given where we are in the business cycle, the emphasis on sustainability and an increasing shortage of landfill capacity, we expect the demand for their services to continue to trend higher.

As we alluded to last quarter, the market indiscriminately punished companies with higher debt levels. As these companies' share prices have recovered recently, we are taking this reset as an opportunity to more conservatively assess the ability of these companies to access debt markets in periods of stress. As such we have exited or significantly reduced exposure to companies whose turnaround efforts could endure well into next year. For example, during the quarter we completely exited our position in McDermott International, Inc. (MDR). While this energy infrastructure company has an abundance of opportunity, its acquisition of a larger competitor (CB&I) has left the company vulnerable to the whims of the high yield debt markets. We wish MDR the best, but their leverage is now well above our comfort level.

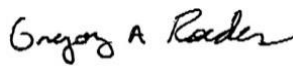
Even with the rebound this quarter, a meaningful number of our positions remain well below our estimate of intrinsic value and largely out of favor with investors. We look forward with patience and vigilance knowing there are opportunities in every stage of the cycle. We continue to stick to our knitting as long-term investors and look for value in an increasingly inefficient market.

As the Fund begins its 15<sup>th</sup> year, we thank you for your support and investment along the way. 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).*

*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.*

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## Quarterly Commentary (con't)

*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.*