Adirondack Small Cap Fund (ADKSX)

Data as of June 30, 2019

Quarterly Commentary

Dear Fellow Shareholder,

During the quarter ending 06/30/2019, The Adirondack Small Cap Fund (ADKSX) underperformed its benchmark, the Russell 2000 Value Index (RUJ), by 411 bps. The Fund returned (2.73%) during this period, while the RUJ returned 1.38%. The Fund's annualized return for 1 year, 5 year, and 10 year was (14.57%), 1.30%, and 11.24%, respectively.*

The major indices (S&P500, DJIA and the NASDAQ) continued to rise for the second quarter, nearing all time-highs. However, behind this increase was enormous volatility which caused markets to drop dramatically in May only to strongly rebound in June. Trade war concerns with China continued to dominate the headlines as negotiations stalled and the potential for increased tariffs loomed. By June it appeared that talks had resumed, culminating in a meeting between Presidents Trump and Xi at the G-20 summit. Regardless of the eventual outcome, it is clear that companies that depend on China are reviewing other alternatives in Southeast Asia in order to avoid any issues in the future. The United States economy remains the "best house in the neighborhood" as global growth continues to wane. Domestic 1Q GDP was strong (+3.1%) and unemployment remains at historic lows. Going forward, the short-term impact of trade wars coupled with a weak jobs report for May has opened the possibility of future Fed cuts if the need arises. Additionally, expectations for the upcoming earnings seasons have been revised downward, currently assuming negative year over year growth.

After a strong start to the year, both on an absolute and relative basis, the Fund lagged this quarter. This was due, in part, to having relatively more exposure to commodity sensitive sectors impacted by international trade issues, namely Materials and Energy and less exposure to domestically focused businesses like Banks, REITs and Utilities. In addition, two of our larger positions missed earnings, but we believe the long-term thesis remains intact. We continue to have high conviction in our companies. Given where we are in the business cycle, we are keeping a keen eye on leverage, especially when any holding makes an acquisition. We have been more judicious when adding or exiting positions. Currently two-thirds of our companies have a debt/equity ratio below that of the benchmark. As a result, the Fund has become more concentrated holding 62 names as of June 30, 2019, down from 75 a year ago.

Our contrarian philosophy and our preference for smaller and less followed companies sometimes leaves us at a relative disadvantage when short term investors use index funds to trade macro events. But if we remain prudent, disciplined, and focused on the long-term, we believe our diamonds in the rough will eventually be recognized and rewarded accordingly. As such, we remain optimistic about the future. For starters, many of our top 20 names are near their cost basis and if just a handful play out, they will add meaningful alpha. Additionally, approximately 40% of our companies are trading below book value – a level we haven't seen since 2012. That time period preceded the Fund's second-best year since inception, both on an absolute and relative basis. From a broader market perspective, small cap valuations remain inexpensive relative to large cap, nearing a 20-year low, and while small cap growth stocks continue to dominate value we are starting to see signs of investors pushing back on valuations within the frothier sectors of the market. When these two trends shift, small cap value should be the beneficiary. Lastly, volatility has reemerged which allows us to take advantage of mispriced securities. All these viewpoints require patience. It is one of our core tenants as long-term investors and 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 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.*

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

Adirondack
SMALL CAP FUND

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, 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 (DJIA) 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.

The debt-to-equity (D/E) ratio is calculated by dividing a company's total liabilities by its shareholder equity.

Book value is also the net asset value of a company calculated as total assets minus intangible assets (patents, goodwill) and liabilities. Book value refers to the total amount a company would be worth if it liquidated its assets and paid back all its liabilities.

Alpha is the excess return of an investment relative to the return of a benchmark index.

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