Adirondack Small Cap Fund (ADKSX)

Data as of June 30, 2020

Quarterly Commentary

Dear Fellow Shareholders,

During the quarter ending June 30, 2020, The Adirondack Small Cap Fund (ADKSX) generated returns of 19.56%. Over the same period, its benchmark, the Russell 2000® Value Index (RUJ), increased 18.91%. The Funds annualized return for 1 year, 5 year and 10 year was (21.42%), (3.55%) and 5.43% respectively*. The top ten holdings represented 38.08% of Fund assets.

Performance relative to the index (RUJ) was due to stock selection within Financials which contributed 190 basis points of relative outperformance and stock selection in technology/communications, which combined for 208 basis points of outperformance. Avoiding bank stocks and solid execution by life/health insurer CNO Financial Group Inc. were key contributors to the Financial sector. (as of 6/30/2020, CNO represented 4.14% of the portfolio.) On the technology side, the work from home surge helped the likes of Adtran Inc. (ADTN) and Vonage Holdings (VG). We continue to remain significantly underweight financials while maintaining a large position in technology. (as of 6/30/2020, ADTN and VG represented 4.30% and 3.15% of the portfolio, respectively.) As we mentioned previously, Covid-19 has given the smaller banks far too much to handle. The current consensus estimates for loan losses are only about a third of those experienced during the 2008 financial crisis, suggesting perhaps that banks have yet to thoroughly tackle the issue. The stimulus and payment deferrals have provided consumers a bridge to better days, which could be delayed (to the detriment of banks) given the hindered business re-opening's due to the recent uptick in Covid-19 cases across the country.

We are often asked how do value investors find ideas in the overheated Technology sector? Interestingly, it can be found within those companies that are connected to the same secular trends as Apple, Google, and Microsoft. Component makers and contract manufacturers like Adtran Inc., Sanmina Corp (SANM), and Celestica Inc (CLS), are not sexy nor do they post blazing revenue growth, but they have good balance sheets, excellent cash flow and trade at reasonable multiples to normalized earnings. For example, Sanmina Corp. trades for about 10 times trailing earnings while the average technology stock in the U.S. currently trades more than 30 times. These companies fall through the cracks as their revenue progression is often not as smooth and they are not as profitable as the large technology companies they serve. Growth investors ignore them, and traditional value investors avoid technology names like the plague. As such, there exists a pocket of market inefficiency within small cap technology that has suited us well over time. (as of 6/30/2020, SANM and CLS represented 2.23% and 4.24% of the portfolio, respectively.)

Last quarter, however, was not without some frustration, including missing much of the stampede into consumer discretionary stocks which rose 67.8%. Being situated in the Northeast, near the epicenter of the initial outbreak, we found it hard to picture a quick return to normal. This remarkable performance seems disconnected from fundamental employment and consumer spending, so we anticipate it might be short lived. The energy sector also bounced nicely off the bottom (up 26.30%) and we missed it. The rally in oil prices arising from production cuts by OPEC surprised us. Most shale oil basins need over $50 per barrel to profitably drill according to a recent survey by the Federal Reserve Bank of Dallas. That price seems less likely given bulging inventories and demand destruction caused by the pandemic. Many CEO's have been quoted as saying that hybrid office/work from home routines might allow for companies to improve productivity with less overhead while reducing carbon footprints. The Fund's energy exposure remains focused on the transportation of fuels and production of natural gas. Natural gas and fuel transportation stocks tend to move in the opposite direction of crude oil and should benefit from better supply/demand dynamics going forward.

**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.

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We exited six positions during the quarter representing approximately 5% of Fund assets. They largely represented some of the turnaround stories within the portfolio whose progress will likely be hampered by the pandemic. These sales remain consistent with our strategy of trading up the quality spectrum. For example, we replaced Boeing supplier Triumph Group Inc. (TGI) with the larger, less leveraged aerospace supplier, Hexcel Corp (HXL). (as of 6/30/2020, HXL represented 2.00% of the portfolio.) We sold Houghton Mifflin Harcourt Co (HMHC) the supplier of K-12 educational content. Like a restaurant operator, HMHC's business has been turned upside down as school budgets will likely be challenged. We also exited Alcoa Corp as large consumers of aluminum like the automobile industry and aviation have idled production leaving a glut of excess capacity. While Alcoa made some asset sales prior to the crisis, they still need to raise more funds in an increasingly challenging environment.

We added four new holdings in the quarter. Three of which the Fund had bought and sold previously. Matrix Service Co (MTRX)is a name we have traded several times in the past. (as of 6/30/2020, MTRX represented 1.51% of the portfolio.) Matrix provides energy storage, electrical infrastructure, and refinery turnaround services to most of the top energy companies in the U.S. It is well regarded for safety and throughout the years has generated healthy free cash flow while diversifying its business mix. Its business tends to be lumpy which often creates opportunities for those looking past the near term industry challenges. We also added Old Republic International Corp (ORI). (as of 6/30/2020, ORI represented 1.00% of the portfolio.) Alerted by Chairman Aldo Zucaro's significant share purchases this year, we decided to revisit this name. Zucaro has been an astute acquirer in the past and has significant skin in the game. We like ORI's strong positions in niche insurance lines and their solid access to capital markets.

During the quarter, an unusual level of speculation creeped into the market, driven by new retail investors often using options trades. Many trade on a platform called Robinhood and they swap ideas on social media. Some have hypothesized that the lockdown has fostered speculative trading activity which normally would be channeled into gaming and sports betting. Sundial Capital Research reported last month that smaller trader option call buying made up more than 50% of the market recently and options activity set record volumes in May. If Covid-19 were not enough to impart more vigilance, rampant stock flipping by novice traders provides additional corroboration.

While the economy has endured some recent setbacks in the Covid-19 fight, we are encouraged by the growing optimism that a vaccine will be developed before yearend and those at most risk could soon receive some measure of protection. Stay safe and 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

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.

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