

# Adirondack Small Cap Fund (ADKSX)

Data as of September 30, 2020

## Quarterly Commentary

Dear Fellow Shareholders,

During the quarter ending September 30, 2020, The Adirondack Small Cap Fund (ADKSX) generated returns of 1.98%. Over the same period, its benchmark, the Russell 2000® Value Index (RUJ), increased 2.56%. The Funds annualized return for 1 year, 5 year and 10 year was -15.33%, -0.74% and 4.72% respectively\*. At quarter-end, 50 positions were held in the portfolio with the top ten holdings representing 35.5% of Fund assets, portfolio turnover (annualized) for the quarter was 38.5%. The Fund remains meaningfully overweight technology (26.7% versus 6.1% for the RUJ) while being underweight consumer discretionary (7.0% versus 12.2% for the RUJ), real estate (1.5% versus 10.0% for the RUJ) and financials (22.6% versus 27.4% for the RUJ). The RUJ rebalance, which took place in June, exacerbated several over and underweight positions as the index reduced its technology exposure while increasing exposure to industrials and consumer discretionary. As we have mentioned previously, we are comfortable with being out of step with the index, especially when we think that stock picking and fundamentals will finally matter again.

Small-cap value stocks continue to be largely disconnected from the fervor within the large-cap growth space. As small-cap value trudged through a summer of mixed signals, large Nasdaq stocks enjoyed an exuberant rally, which seems removed from economic reality. The Nasdaq 100 Index is up over 30% year to date versus about 12% for the S&P 500. The negative 18.18% YTD performance of small cap value stocks (as measured by the RUJ) puts this asset class in a league of its own. The economy continues to recover as those Americans less impacted by the shutdowns actively invested discretionary income in things like home improvement projects (roofs, patio's, landscaping, pools) and outdoor sporting equipment (boats, RV's, bicycles, kayaks, hiking, camping, golf and fishing gear). The topics of sanitizer, toilet paper, and bacon shortages gave way to stories concerning the red-hot housing markets and the challenges of finding new appliances. It's good to see Americans starting to act normal again.

The Fund's slight underperformance in Q3 was largely due to being underweight in the consumer sector, which caught a boost from the reopening of the economy. As mentioned above, the unprecedented surge in spending on Covid friendly home improvements, entertainment and gear spurred the fast money crowd to pile into consumer stocks and retailers that might benefit. We continue to position the portfolio for what we believe will be a slower uphill climb with numerous switchbacks rather than a sharp V-shaped recovery. We remain underweight consumer stocks for the time being due to the challenge of finding ideas with longer-term investment merits.

We initiated/built two meaningful positions during the quarter. Under Armour Inc. (as of 9/30/2020, UAA represented 2.07% of the portfolio) and Ingles Markets Inc. (as of 9/30/2020, IMKTA represented 1.71% of the portfolio). These ideas' commonality is solid historical free cash flow generation, market leadership, and improving end markets. Under Armour is a popular branded apparel company, a fallen angel, so to speak, transitioning from founder run to one managed by a team of seasoned managers recruited from leading apparel brands. Ingles Markets is a supermarket chain located in the Southeast, primarily in the rapidly growing Appalachian mountain towns and suburbs of Atlanta, GA, and Charlotte, NC. We had seen improving Supermarket industry fundamentals before Covid-19 driven by better private label penetration and clever customer loyalty programs. Ingles owns most of the shopping centers that it occupies, which provides an inflation hedge while also allowing more flexibility on store remodels and expansion.

We have either reached or are arguably very near the point where the Fund's opportunity set (small-cap value) is cheaper than ever relative to any other asset class in the U.S. equity market. According to our friends at Furey Research Partners, the R2000 Growth index is beating Value by over 3000 bps over the trailing year period. The only other time that Growth outperformed Value by such a wide margin was during the Internet Bubble! It's been a challenging year for small cap value stocks, but we look forward to better days ahead with a more concentrated portfolio of high conviction ideas. 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](http://www.adirondackfunds.com).

*\*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 1.36%. 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, 2021, subject to termination by the Fund on 60 days' written notice.*

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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](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.*

*The Russell 2000 Growth Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. You cannot invest directly in an index.*

*The Nasdaq 100 Index is a modified capitalization-weighted index of the top 100 largest most actively traded U.S. companies (non-financial) on the Nasdaq stock exchange. 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.*