Adirondack Small Cap Fund (ADKSX)

Data as of March 31, 2023

Quarterly Commentary

Dear Fellow Shareholders,

During the 2023 fiscal year, The Adirondack Small Cap Fund (ADKSX/the Fund) returned 0.73% versus a 13.04% decline in the iShares ® Russell 2000 Value ETF (IWN). During the quarter ended March 31, 2023, the Fund returned 2.73% compared to the iShares ® Russell 2000 Value ETF (IWN) which returned negative 0.60%. The Fund's annualized returns for the 5 year and 10 year periods were 4.81% and 7.02%, respectively.* As of March 31, 2023, the portfolio held forty-seven positions, with the top ten holdings representing 36.63% of Fund assets. The top sector overweight remains Technology, with large underweights in Real Estate and Healthcare. Annualized portfolio turnover was 28.07%. We continue to make few changes to the portfolio composition and tax loss harvesting is not a priority, given the Fund's Capital Loss Carryforward balance.

The aggressive moves by the Fed to tamp down inflation so far have had a moderate impact on slowing the strong U.S. economy. Instead, rates took a toll on the financial services industry resulting in the failure of three mid-sized banks. So far, it has been a liquidity-driven event rather than one due to credit problems. Because these institutions were so flush with post-COVID deposits, they could not loan them out fast enough, instead investing in longer-dated fixed-income securities. Problems arose when those same securities declined steeply in value as the Fed swiftly raised rates. The market is on high alert for the next shoe to drop. The office sector of commercial real estate is prominent, given that hybrid home/work arrangements are likely to be permanent in many cases. How banks and their regulators respond to this crisis will determine how hard the economy hits the brakes. It is sensible to assume that bankers will rein in lending and aggressively price credit in this challenging environment. All told, credit so far continues to look fine and high-yield spreads are tight. The sharp slowdown many pundits have long called for is still not reflected in quarterly business results. We think the recent events bring us closer to the end of the tightening cycle.

Since banks are a hot topic, let us summarize the Fund's exposure. TrustCo Bank Corp (as of 3/31/2023 TRST represented 3.20% of the portfolio) is the only bank stock the Fund owns of the 193 banks held by the Fund's benchmark (IWN). TrustCo's HQ is near ours in Upstate NY. Most of its 148 branches are within a hundred miles of HQ, with a meaningful presence in Florida (32% of loans). Its bread and butter are home mortgages, with a modest commercial loan (4% of assets) book. They are well capitalized (risk-based capital ratio of 19.7% on 12/31/22) and have historically paid an attractive dividend, including during the 2008/09 financial crisis - an extraordinary accomplishment by a company focused on residential lending. For reference, only one in ten publicly traded U.S. banks currently have risk-based capital ratios of over 17%. It is a small group that includes JP Morgan. In summary, TrustCo is a conservative bank and often overlooked for more interesting ones; nevertheless, we appreciate their slow and steady approach. Every cycle reminds us that bankers run leveraged balance sheets dealing with complicated variables. It only takes modest errors in judgment to trigger severe hardship. Banks represent 14% of the Fund's benchmark (IWN) and while it is tempting to look for more bargains, we are still waiting for the dust to settle.

The Fund had an outstanding year, finishing within the top ten percent of its Morningstar peer group. Outperformance came from avoiding the more problematic industries like Banking and Real Estate. Overweighting Energy and solid stock picking in Insurance proved beneficial. Finally, LSI Industries and Ardmore Shipping - two core positions (as of 3/31/2023 LYTS and ASC represented 3.96% and 1.01% of the portfolio, respectively) turned the corner, each more than doubling in value, helping counter the market downdraft. While it was a challenging year, the tide is turning as bottoms-up financial analysis returns to the forefront. A higher cost of capital has a way of instilling financial discipline that has been lacking for some time now. We are pleased to have turned in strong relative performance. We are excited by the prospect of making the most of the recent market turbulence to capture future additional alpha- generating opportunities*.

**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 1.43%. 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, 2023, subject to termination by the Fund on 60 days' written notice.

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SMALL CAP FUND

The Fund closed three positions in the quarter ended March 31, 2023. We exited egg producer Cal-Maine Foods, anticipating that record egg prices would lead to a supply response. Cal-Maine is a well-run company with solid long-term fundamentals, but the recent runup of the stock was more due to investors chasing headlines. Insurance holding Old Republic International Corp was sold once it hit our price target. Lastly, we unloaded textile manufacturer Unfi Inc. as industry issues convinced us there was better risk/reward elsewhere.

On the buy side, we have been carefully adding exposure to the U.S. Airline Industry. We successfully invested in JetBlue Airways (from 2013-2019) and are wise to this sector's issues. After a disastrous foray into US Air in the nineties, Warren Buffett joked "the way to become a millionaire was to start with a billion dollars and buy an airline." The industry, however, has changed remarkably since then. From a complicated hub and spoke system built for business travelers with outmoded technology to simpler networks with sophisticated revenue management algorithms that help optimize revenue per passenger. Carriers now employ fuel-efficient aircraft that carry more passengers and serve longer routes. Consumer behavior has changed too. Families living further apart necessitate air travel, tourism by retired boomers helps fill off-peak capacity and millennials/gen-z fly 3-4 times more often than their elders. Valuations are well below pre-COVID valuations. Our favorite, for instance, Alaska Air Group Inc (as of 3/31/2023 ALK represented 0.35% of the portfolio), trades at a valuation more than 40% below the middle of last decade despite having 50% more available seat miles after acquiring Virgin America.

The Fund is significantly underweight REITs (versus the iShares ® Russell 2000 Value ETF) but have started to hunt around the space for bargains as fear perks up. We began acquiring shares in JBG Smith Properties (as of 3/31/2023 JBGS represented 0.92% of the portfolio) at what we believe to be a substantial discount to the replacement cost of their highly desirable asset base. They own office buildings, apartments, land, and a Northern VA/DC area hotel. Spun off from Vornado Realty Trust, they have the misfortune of being viewed as an office REIT despite owning over eight thousand apartment units in areas with higher incomes and stable employment. Within a few years, they will derive most of their earnings from the more stable residential segment. The shares are down more than 60% from pre- COVID levels even though much of JBGS's property is located within Northern Virginia's National Landings sub-market that is home to Amazon's second headquarters (HQ2) planned development (five buildings in phases). JBGS owns a large hotel (Crystal City Marriott), a short walk to all of Amazon's proposed facilities, including the unique HQ2 centerpiece office named Helix. Concerns surrounding the delay by Amazon of Phase 2 of this project have put pressure on JBGS shares. Amazon, though has reiterated publicly that it remains committed to the development, supported by $750 million of incentives from the Commonwealth of Virginia. With a $1B investment in a new research center by Virginia Tech, National Landings is transforming into one of the top locations in the country for innovation, akin to Mission Bay in San Francisco, Atlanta's Tech Square, or Kendall Square in Boston. As home to the Pentagon, Northern Virginia attracts all the major national defense contractors. Boeing, Lockheed Martin General Dynamics, Raytheon, and Northrop Grumman each maintain multiple offices in the area. They, along with defense sub-contractors, IT infrastructure/security firms, and numerous government agencies, act to reduce the area's economic cyclicality. This unique aspect of Northern Virginia cushions real estate values thus moderating downside risk for JBGS as they transition.

The Fund's opportunity set (small-cap value) is strong and growing. We continue to watch for signs of recession, but so far, company and macroeconomic data reflect resiliency. If a recession eventually arrives, it will be a cleansing event, wiping out weak, undisciplined companies while offering opportunities to prudent capital allocators. Equity risk premiums within our universe are attractive, and we remain highly vigilant for unwarranted pessimism which creates entry points like those that enticed us to acquire the new positions highlighted above. As we have said before, it takes nerve and patience to invest when disbelief is high, but it is often when risk/reward is excellent. We eagerly look forward to a more favorable environment for value investing with a concentrated portfolio of high-conviction ideas. Thank you for your support and investment. For the most up-to-date information on your investment, please visit www.adirondackfunds.com.

Regards,

Matt Reiner, CFA®
Portfolio Manager

Greg Roeder, CFA®
Portfolio Manager

Important Risk Information

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 iShares ® Russell 2000 Value ETF (IWN) seeks to track the investment results of an index composed of small-capitalization U.S. equities that exhibit value characteristics.

Alpha in the phrase "alpha-generating opportunities" means the return earned on an investment above that of the benchmark.