Adirondack Small Cap Fund (ADKSX)

Data as of June 30, 2023

Quarterly Commentary

Dear Fellow Shareholders,

During the three months ended 6/30/2023, The Adirondack Small Cap Fund (ADKSX) returned 1.29% while the iShares ® Russell 2000 Value ETF (IWN) returned 3.09%. The Fund's annualized return for 1 year, 5 year, and 10 year was 17.96%, 3.87% and 6.66%, respectively. Top ten holdings represented 35.9% of Fund assets and annualized portfolio turnover was 30.7%.

As earnings reports and employment data trickle out the news reflects some deceleration, but the economy is holding up surprisingly well in the face of rapidly rising rates. As is frequently the case in the post-pandemic world, the challenges are abundant. The market needs a healthy economy to move higher, and concerning issues remain. While Americans have trillions in savings, most are in the hands of too few households. A recent survey noted that 50% of Americans have less than $500 saved for a rainy day. The recent debt ceiling agreement called for the resumption of debt payments on the $1.6 trillion balance of student loans. More than 40 million Americans have resumed repaying their loans deferred since the onset of the pandemic. The current oversupply of commercial office space is another challenge, which not only impacts creditors but entire cities, states, and transit systems. Possibly offsetting these challenges is the significant, multiyear, stimulus expected from the Inflation Reduction Act (IRA) of 2022. This legislation aims to curb drug prices and offers extensive incentives for clean energy conversion and manufacturing reshoring. While the plan is ambitious, it is hard to see how it eases inflation. This quarter saw a pause in the outperformance of value as tamer inflation readings had investors speculating that the Fed would either pause or start cutting by the end of the year. Calling inflation under control, however, might be premature as demonstrated by the recent UPS contract agreement; teamsters clearly had the upper hand, winning significant wage increases and other perks.

National Western Life Group Inc. (as of 06/30/2023 NWLI represented 3.61% of the portfolio) was the Fund's strongest performer, responding well to an announcement that the founding family has engaged an investment banker to sell the company. However, the Fund's telecommunications equipment and apparel investments detracted from performance. Within the telecom segment, weakness was due to order sluggishness from the world's top broadband service providers. We have reduced exposure to telecom equipment by 20% (from 5% to 4% of assets) though we are watching current developments closely. We are confident that the long-term drivers of broadband growth will lead to better days ahead for this mission-critical industry.

Apparel continues to suffer from tepid demand and an inventory overhang, which has left the entire group at valuations not seen in decades. This type of environment can yield opportunity for patient investors. The Fund's position in Under Armour Inc. (as of 06/30/2023 UAA represented 2.54% of the portfolio) was down 24% during the quarter and one of the larger detractors to performance. We continue to acquire shares for several reasons. Investors have cast aside Under Armour as if it is doomed for the ash-heap of history. After revolutionizing the athletic apparel industry, UAA is a struggling company within the besieged apparel industry. But there's reason for optimism. UAA hired a new CEO, Stephanie Linnartz from Marriott, who on her first investor conference call spoke in a refreshingly candid way about the company's strengths and weaknesses. Skepticism is high given that she follows another CEO who took the reins from founder Kevin Plank but stepped down after two years. She has wasted no time developing a deep understanding of the business and quickly outlined opportunities for improvement without dismissing the challenges. High inventory levels remain an issue for the entire apparel industry. Fortunately, UAA has a strong balance sheet from which to work off the excess. UAA recently finalized a lifetime contract with NBA star Stephen Curry, who is among the world's most important sports brand representatives. Finally, in May, founder Kevin Plank sold $100 million worth of non-voting shares to BDT Capital to fund personal real estate commitments in Baltimore MD. Plank still owns 12% of the company and does not plan to sell more. BDT Capital was founded by Byron Trott, a former Goldman Sachs banker, friend of Warren Buffett and considered a premier investor in the consumer discretionary space.

*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 expens*e 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.*

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)

Their investment of $100 million in the less liquid, non-voting share class points to a high level of faith in founder Kevin Plank and the Under Armour brand. Surprisingly UAA shares did not react favorably when the news broke in late May. We see this move as another significant positive because having the right shareholders is vital to any turnaround. BDT's investment should allow UAA to attract more patient capital serving them well in this tumultuous environment.

After Q1 2023 earnings reports, we spoke with and visited companies. Several observations of note. Supply chain issues are less pressing, but labor availability is tight and re-shoring manufacturing will not be easy. Challenges bringing workers back to the office are not just confined to Northeast/Mid-Atlantic cities where commuting is expensive. We saw noticeably quiet office environments in the Midwest as well. So, what do we make of the office situation? Noted Real Estate investor Barry Sternlicht recently called it a category 5 hurricane. The test for small and regional banks comes as commercial real estate loans approach renewal, as the math simply will not work for the businesses to renew the loans. Mindful that just 5% office exposure can represent as much as 50% of a bank's tangible capital, we continue to avoid banks with meaningful Commercial Real Estate exposure.

During the quarter, the Fund trimmed its insurance exposure, which had moved up sharply (up 18.10%) on increased M&A activity. We invested the proceeds primarily in building two existing smaller positions. Pactiv Evergreen Inc. (as of 06/30/2023 PTVE represented 1.64% of the portfolio) provides food and beverage packaging solutions and has simplified operations by shedding international divisions and higher-cost domestic capacity. We like its strong position within quick serve, strong cash flow and the less cyclical nature of its business. We also added to Veradigm Inc. (as of 06/30/2023 MDRX represented 2.35% of the portfolio), a healthcare IT and data insights company that sold its growth-challenged divisions while keeping its growthier, higher-margin, ones. The company collects data on hundreds of millions of patients that can then be used by providers, payors, and researchers to improve patient outcomes. Data is king in our increasingly AI world and MDRX maintains an important piece of the puzzle. The company is currently in the penalty box due to a manageable financial restatement issue. We view the sizeable valuation gap between MDRX and its peers as a comfortable margin of safety.

In closing, we continue to hold a strong conviction in the Fund's holdings and our value investment approach. At the height of the Internet bubble of 2000, technology stocks represented 40% of the S&P 500 Index, and prior to the crisis of 2008 the financial sector represented 40%. Technology stocks are once again nearly 40% of the S&P 500 Index and are discounting rapid growth far into the future. While timing the market may be a fool's game, portfolio rebalancing to avert pockets of excess, however, is sensible. It's not too late to jump on the value train. We remain steadfast to our contrarian philosophy and expect to find more ideas as tighter credit conditions play out.

Enjoy the rest of the summer. We look forward to reconnecting in the fall. Once again, we are extremely grateful to have you invest alongside us.

Regards,

Matthew P. Reiner

Matt Reiner, CFA®
Portfolio Manager

Gregory A Roeder

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.
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.

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

Adirondack
SMALL CAP FUND