Adirondack Small Cap Fund (ADKSX)

Data as of September 30, 2024

Semi-Annual Commentary

Dear Fellow Shareholders,

During the first six months of the Fund's 2025 fiscal year, the Adirondack Small Cap Fund (ADKSX) gained 8.09% versus a 4.86% gain for the Morningstar US Small Cap Broad Value Extended Index (MSI). During the quarter ended September 30, 2024, the Fund returned 9.53% compared to the MSI which returned 10.17%. The Fund's annualized return for 1 year, 5 year and 10 year was 22.28%, 13.31%, and 7.34%, respectively.* As of September 30, 2024, the portfolio held 56 positions, with the top ten holdings representing 33.3% of fund assets. Annualized turnover at 33.2% remains within historical ranges.

The top performing sectors were Utilities, Real Estate, and Consumer Staples (15.1% of assets combined at 9/30/24), each returning over 25%. Materials (11.1% of assets at 9/30/24) struggled the most, as the Fund's holdings in this sector dropped 20% due to global economic concerns. Particularly solid stock picking during this period produced positive alpha across nine industry sectors. This broad impact was atypical. While results over short periods can be a stroke of luck, seeing an assorted collection of stocks drive performance is gratifying. Major contributors included Dole Foods (DOLE represented 3.18% of assets at 09/30/2024), Healthcare Realty Trust (HR represented 3.22% of the portfolio at 09/30/2024), Virtu Financial (VIRT represented 3.28% of the portfolio at 09/30/2024) and Wolverine Worldwide (WWW represented 1.84% of the portfolio at 09/30/2024). Healthcare Realty rebounded nicely from the overblown fears arising from a tenant bankruptcy filing. Dole, Wolverine, and Virtu followed solid first-quarter performance with better-than-expected second-quarter results. Detractors included Cleveland Cliffs (CLF represented 1.36% of the portfolio at 09/30/2024), struggling with a weakening outlook for steel; oilfield services company Tetra Technology (TTI represented 1.90% of the portfolio at 09/30/2024), was challenged by lower exploration activity; and finally, glass packaging company O-I Glass Inc (OI represented 0.69% of the portfolio at 09/30/2024) reduced its earnings guidance and announced more facility closures. Given OI's continued challenges, we significantly reduced exposure.

We recently added Chatham Lodging Trust (CLDT represented 1.47% of the portfolio at 9/30/24), owner of a portfolio (39 hotels – 5,883 rooms) of select-service and extended-stay hotels; primarily located in markets with less competition due to higher entry barriers. Its hotels are aligned with Marriot, Hilton, and Hyatt brands and include a good mix of getaway destinations like Portland, ME, Savannah, GA, Charleston, SC, and San Diego, CA. They also own extended-stay locations in Austin TX, Palo Alto, CA, and Bellevue, WA, which are benefiting from the presence of companies leading the AI revolution. Valuations of U.S. lodging REITs have not recovered from the blow delivered by COVID. While CLDT suffered along with all hospitality companies, their concentration in the extended-stay segment allowed them to outperform peers and minimize cash burn in 2020 and 2021. During that time they made several opportunistic asset sales and raised capital through a preferred stock issuance, which, in hindsight, was wise as it allowed for flexibility going forward. Also noteworthy is the upgrade of their asset mix in recent years through selling older hotels and recycling proceeds into new facilities. For example, in 2021, two newer extended-stay hotels were acquired in Austin, TX, near the city's new soccer complex (Q2 Stadium) and Apple's billion-dollar office campus. Due to higher labor costs, tepid business travel, and fewer foreign visitors; CLDT shares are down more than 50% since 2019. In the meantime, replacement costs on average (as measured by the Turner Building Cost Index) are up over 20%, while Apartment rents (alternate purpose) are up over 30% (according to Zillow), reflecting the nationwide housing shortage. Trading at less than 60% of book value and just $168,000 per room, the current valuation makes little sense, and we think there is an exceptional opportunity to own a share of a terrific collection of properties whose value is currently blemished by market misperception.

Perrigo is another new position (PRGO represented 2.03% of the portfolio at 9/30/24). They provide over-the-counter self-care products in the U.S. and Europe. Their products include vitamins, supplements, oral care, baby formula, skin care, allergy remedies, and products that treat upper respiratory conditions. We believe the shares suffer from investor fatigue as they are on their third CEO in seven years. The PRGO turnaround started in 2018. Before then, it was a textbook case of how aggressive growth through acquisitions without strategic rationale can lead to poor outcomes. When the prior CEO (Murray Kessler) arrived in October 2018 from tobacco giant Lorillard Inc., the stock had already declined 50% from its 2015 highs. Kessler had little time to get acquainted when PRGO was hit with a

*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 1.59% (net 1.48% with fee waiver/expense reimbursement arrangement). 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, 2025, subject to termination by the Fund on 60 days' written notice.

$1.6 billion tax assessment by Ireland, driving the stock down another 50%. They eventually settled it for about 20% of the original bill. During his tenure, Kessler aggressively repositioned the business from a collection of assorted business units to one focused solely on self-care products. Under his leadership, they sold their generic, prescription, and animal health businesses to reduce debt, but he also made several acquisitions that could have produced better results had it not been for the impact of COVID. In 2022, the FDA came down hard on the infant formula industry in response to complaints that a plant owned by a competitor was the source of deadly bacterial infections; Perrigo, the third largest U.S. infant formula manufacturer, was unprepared for the increased scrutiny. By mid-2023, when it was clear that the infant formula challenges were getting worse, Perrigo recruited Patrick Lockwood from Bayer AG to serve as CEO. He brought a wealth of consumer health and turnaround experience. He quickly engaged outside experts and, by Q4 23, announced a major overhaul of its infant formula facilities. The remediation is mostly complete, so it is conceivable that the infant formula business will return to normal in 2025. Though there is work left to do in other areas of the business, the recent progress on gross margins and their successful debt refinance extending $1 Billion of debt maturities to 2032 give a sense that things are looking up. We like the elevated barriers to entry, high free cash flow conversion, and this business's noncyclical nature. We believe there's considerable upside here as investors reassess the company, and it looks to achieve the valuation multiples enjoyed by other health and wellness names.

The Fund exited its HanesBrands Inc. (HBI) and CNX Resources Corp (CNX) positions during the quarter ended 9/30/24. With Hanes, the disappointing proceeds received from the sale of their Champion Brands subsidiary drove the decision. The sale takes near-term risks off the table, but it was the company's crown jewel and a large part of our investment thesis. What remains is a vertically integrated innerwear-focused company with a challenging debt load. Natural Gas producer CNX hit our price targets and has become a darling of the trading crowd. We invested in 2021, when natural gas was out of favor, as industry consolidation took hold. CNX's valuation has more than doubled since we initiated the position, and with the short-term investing herd now involved, the risk/reward isn't as appealing.

Starting in July, data supportive of a soft landing (moderating jobs growth/cooling inflation data) sparked a strong rally in small cap stocks and bonds. So, it was surprising when the Fed commenced its long-awaited easing cycle on September 18 with a 50bps reduction in the policy rate. A 25bps cut was widely expected, but Fed governors overwhelmingly voted for a more aggressive posture. Equity markets welcomed the news, but the bond market did not. Treasury bonds have given up much of the pre-cut rally, and mortgage rates are at 20-year highs. Heading into earnings season, investors will focus on company-specific data for economic clues. Smaller companies continue to trade at historically low multiples against the growingly tech-concentrated S&P 500. Sectors like Materials. Energy, Healthcare, and Real Estate look attractive in a soft-landing scenario. As always, there are numerous special situations like those we highlighted above. In short, we feel good about our small slice of the U.S. market, but with much speculation surrounding the election, we remain vigilant heading into year end. Have a great holiday season and thank you for investing with us.

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 Morningstar US Small Cap Broad Value Extended Index (MSI) seeks to set forth the performance of the small cap value segment of the equity market in the United States. You cannot invest directly in an index. More information about Morningstar Indices can be found at https://indexes.morningstar.com/.

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.