April 30, 2019

Dear Shareholders,

"Those who have knowledge, don't predict. Those who predict, don't have knowledge."

– Lao Tzu

In our shareholder letter from last quarter, we discussed the drivers for the stock market downturn during Q4 2018. We suggested that monetary tightening from central banks across the world was the primary culprit in deflating equity prices at the time. Specifically, we postulated that markets would remain weak without a reversal in monetary policy. And, in January 2019, the Federal Reserve did a stunning about-face and reversed its tightening stance. Quantitative tightening is scheduled to end soon, and further interest rate hikes appear to be out of consideration, at least for now. This policy reversal helped to drive the U.S. equity markets to the best start to the year since 1998.

The Federal Reserve's reversal also sparked rising bond prices, and the corollary to higher bond prices is lower interest rates. However, a particularly foreboding sign raised its ugly head in the debt markets for the first time since 2007 – the U.S. Treasury yield curve *inverted* in late March 2019. Historically, this unique anomaly has occurred when GDP growth is slowing, when the risk of recession is increasing, and when investors expect central banks to reduce short-term interest rates – much like we discussed at length in our January investor letter.

<u>The Inverted Yield Curve</u>

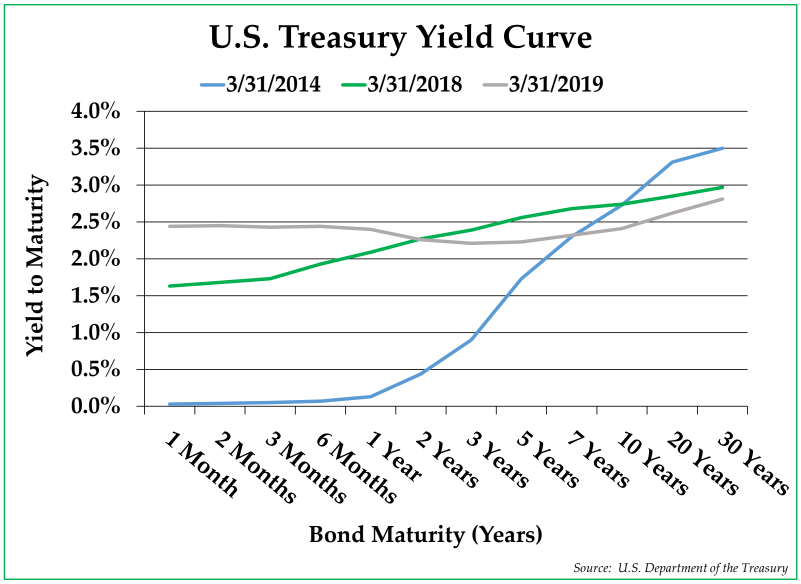
The *yield curve* is defined as the relationship between short-term and long-term interest rates of government debt. Most of the time, short-term interest rates are lower than long-term interest rates, so the yield curve slopes upwards, reflecting higher returns for longer-term bond investments. In the United States, the short-end of the yield curve is controlled by the Federal Reserve, which sets short-term interest rates. The long-end of the yield curve is generally governed primarily by inflationary expectations, which are subject to the whims of bond market participants.[1]

Intuitively, it makes sense for long-term interest rates to be higher than short-term interest rates. Investors typically expect to get paid more for tying up their capital for a longer period. For most of the past decade during which the economy has been growing slowly but steadily, investors have faced an upward-sloping yield curve. On the graph on the next page, the blue yield curve from five years ago (3/31/2014) is a prime example of an upward-sloping yield curve, and a more gentle but still upward-sloping example is the green yield curve from one year ago (3/31/18) on the same graph.

Late in economic cycles, the yield curve often flattens. As economic activity reaches a more mature part of the cycle, short-term interest rates tend to increase. At the same time, the long-end of the yield curve can

[1] Typically, long-term interest rates are defined as the rates for the 10-year Treasury bond, and short-term interest rates are defined as the 90-day Treasury bill.

be pressed downwards as investors increasingly expect weaker GDP growth and inflationary expectations.



Sometimes, the yield curve inverts, as it did in late March 2019. In an inverted yield curve situation, long-term interest rates are *lower* than short-term interest rates, which, on the surface, might seem counterintuitive. The inverted grey yield curve in the graph on the right is a reflection of the last trading day of this past quarter.

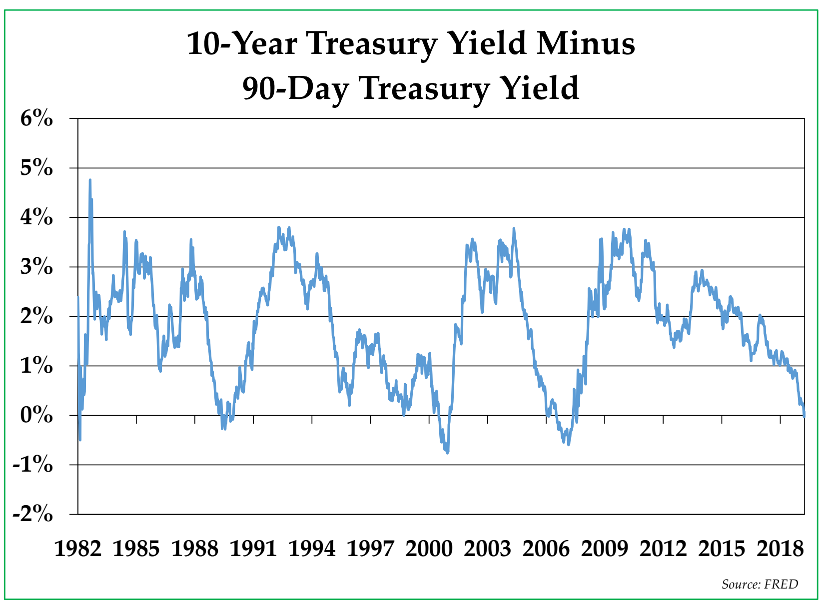
The Cause of Yield Curve Inversions

As recessionary fears increase, long-term interest rates trend lower in reaction to investors buying long-term Treasury bonds to lock in higher current yields, coincident with falling inflationary expectations. Contemperaneously, late in the economic cycle, the Federal Reserve often increases interest rates to dial down economic growth and temper inflation, which keeps the short-end of the yield curve high. With higher short-term rates and lower long-term rates, lo and behold, the yield curve inverts.

The Impact of an Inverted Yield Curve

The influence of an inverted yield curve can be significant. When the yield curve inverts (even by just a very small percentage, as it did recently), it reflects the fact that investors believe that the risk of recession is accelerating.

The chart to the right shows the yield spread between the 10-Year Treasury bond and the 90-Day Treasury bill. Any data points below the 0% line reflect periods when the yield curve inverted. Importantly, an inverted yield curve preceded each of the last three recessions. Moreover, the inversion of the yield curve occurred before every post-World War II recession.



When the yield curve is steep and upward-sloping, it typically suggest higher inflation in the future, or faster economic growth in the years to come than in the immediate future. Of course, when the yield curve is inverted, the curve implies slower economic growth and lower inflation in the future.

However, an inversion is not just a technical market signal; its very shape reduces profitability for the banking sector. If bank assets (loans with longer maturities) generate less income than bank liabilities (short-term customer deposits), banks have little incentive to make new loans. Then, as a result of declining credit availability, economic growth starts to slow. Thus, the yield curve is more than just a leading indicator for future recessions; its inverted shape can also help to cause recessions.

From the perspective of investors, yield curve inversion eliminates the risk premia for long-term fixed income investments, allowing investors to obtain more attractive yields with short-term debt investments. Also, due to an increasing risk of recession, investors often get nervous about owning stocks when the yield curve inverts.

Is This Time Different?

Famed investor Sir John Templeton correctly pointed out that the words, "This time is different," have been proved time and again to be the most expensive four words for investors. In 2000, consensus thinking was that the fiscal surplus and the dearth of longer-dated Treasuries would cause the inverted yield curve signal to be less relevant. The subsequent Dot-Com implosion proved this theory wrong. And, in 2006-2007, both consensus thinking and former Federal Reserve Chairman Ben Bernanke believed that the inverted yield curve was not a useful economic indicator due to the global savings glut at the time. The subsequent housing bust and Credit Crisis also proved them wrong.

As for today, former Federal Reserve Chairman Alan Greenspan is among the market pundits who believe that the recent yield curve inversion is a false recession indicator, since, in his view, long-term bond prices are buoyed by heavy investor demand. Given the recent exuberance of the stock market, it is apparent that stock market investors also do not believe, at least for now, that a recession is forthcoming anytime soon.

Indeed, we would be remiss not to mention the fact that there are unique aspects to the economic situation today that could limit the predictive impact of the recently inverted yield curve:

- Interest rates are manipulated.
  After a decade of unprecedented market manipulation by the Federal Reserve and other central banks, long-term interest rates across the world stand at historically low levels. The global bond market is roughly $100 trillion in size, and close to 8% of the total bond market shockingly now offers a ***negative*** yield as a result of intensive central bank bond manipulation.

- The Federal Reserve seems to be more reluctant to raise rates.
  The Federal Reserve does not want to catch the blame for dampening economic growth by raising rates and causing a recession. It seemingly only plans on raising rates significantly after they see an actual, sustained spike in inflation rates.

- The inversion has already reversed itself.
  The yield curve inversion only lasted a few days; as of this writing, the yield curve is now ever-so-slightly upward-sloping. Plus, the yield curve was inverted for a short time, so it is possible that it was nothing but a head fake.

- Policy changes could stimulate the economy.
  Policy-driven catalysts could drive asset prices upwards. A resolution of the U.S./China trade war and a negotiated decline in the value of the U.S. dollar, similar to what transpired at the 1985 Plaza Accords, would be highly stimulative for the U.S. economy. Alternatively, additional fiscal stimulus combined with a return to quantitative easing would nudge investors back into risky assets.

Historically, the inverted yield curve has been a useful leading indicator of weakening economic activity. Of course, we do not know if it will continue to work in the future based on the reasons listed above, but there is no structural reason to think that the indicator has broken down. We see little compelling evidence to convince us that it is different this time, and we would suggest that the chance of recession has increased in recent months.

Investment Implications

At the moment, we do not own any U.S. banks whose earnings would be hurt by an inverted Treasury yield curve. However, we do own several companies which operate in economically cyclical industries whose earnings could decline significantly in a global recession. In Appleseed Fund, we own U.S. companies in Mosaic Company and Titan International that make fertilizer and tractor tires, respectively. We also own foreign companies in Samsung and BMW that make semiconductors and luxury automobiles, respectively. Demand for their products and earnings would presumably decline in a global recession. However, in our view, the cyclical companies we own in our portfolio are already priced for future earnings declines.

We own several companies which we believe should be able to continue growing revenues and earnings through a recession. For example, we believe increasing online advertising penetration should continue to drive double-digit revenue growth for Sina Corporation, Appleseed Fund's largest holding, even during a global recession. Ardelyx's share price will be far more dependent on its success in clinical trials than on any measure of GDP. Furthermore, we believe our overweight position in cash and gold should perform relatively well if a recession causes stocks to correct significantly. Finally, with the economic outlook uncertain, we continue to maintain a small put position on the S&P 500 Index.

Most importantly, our view is more focused on the long-term investment horizon. When we commit capital to an investment, we do not worry about the revenue and earnings results of the next six months. Instead, we focus on the long-term fundamentals and the actions that management takes to maintain and build on the company's competitiveness. We want to remain invested in companies that are undervalued and where we expect management will build enduring value over the course of a market cycle. While we are owners, if a stock rises in value and exceeds our estimate of intrinsic value, we plan to sell our position. Likewise, if we find a well-managed, high quality business whose shares are curiously inexpensive even under very conservative assumptions about the future, we plan to buy shares.

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Appleseed Performance and Portfolio Changes

During the first three months of 2019, Appleseed Fund Investor shares generated a 5.28% total return, behind the 12.48% return of the MSCI World Index. Appleseed Fund Investor shares have generated a 6.16% annual return since its inception in 2006, exceeding the return of the MSCI World Index by 1.04% per annum. Our relative underperformance this quarter was largely driven by broader market trends; momentum and growth stocks greatly outperformed value stocks during Q1 2019.

Our most significant equity contributors to performance were **Coherent (COHR)**, **Ardelyx (ARDX)**, and **Hudson Technologies (HDSN)**. All three stocks experienced significant price declines in the fourth quarter; their strong performances during the most recent quarter represented the reversal of those price declines. We have been trimming our positions in these companies as their share prices have appreciated and as their risk/reward profiles have become less attractive with higher share prices.

Appleseed's most significant detractors to performance were **Osram Licht (OSR-Germany)**, **SK Telecom (SKM)**, and **Embraer (ERJ)**. Due to significant weakness in industrial and semiconductor demand during Q4, all three companies posted quarterly earnings that were below analysts' expectations. We significantly increased our position in Embraer due to the additional margin of safety we saw in its share price as it traded lower during the quarter. With semiconductors and industrial goods seemingly already in recession due to a decline in global trade, we are inclined to hold onto our existing positions or add additional shares where appropriate.

During the quarter, we exited from one position, **Oaktree Capital Group (OAK)**, and we initiated new positions in **ASM Pacific Technology (522-Hong Kong)** and **Moscow Exchange (MOEX-Russia).**

- Oaktree Capital Group announced that Brookfield Asset Management planned to acquire the company's public shares. The announcement generated a short-term pop in the share price, and we have since exited our position in Oaktree, which Appleseed Fund has held for years. While exiting Appleseed's position with a profit, we are more than a little disappointed in the decision Howard Marks made to go private at an exceedingly undervalued price, in our view. We believe he wanted to sell his remaining privately held stake to Brookfield at a later date and, more importantly, at a better price than public shareholders will realize from this transaction. We look closely at governance factors when evaluating prospective investments to avoid these problems, but we made a mistake in our assessment of Oaktree Capital in general and of Howard Marks in particular.

- ASM Pacific Technology is the largest semiconductor back-end equipment manufacturer in the world. The company has held this distinction every year except for one since 2002. ASMPT holds an estimated 27.5% share in the overall market. The company has an even larger share in certain verticals such as LED (>50.0%) and CMOS image sensors (70.0%). With a broad product portfolio and no customer larger than 10.0% of sales, the company sells its highly technical equipment into a fragmented market. With its vast product portfolio, we belive ASMPT is well positioned to grow along with the global semiconductor market which is projected to grow 6.7% annually through 2025. Despite these strong long-term fundamentals, we purchased the company's shares while they were trading at valuation multiples comparable to those present during the Financial Crisis.

- Moscow Exchange operates the dominant exchange with a leading market share in the trading of Russian financial securities. The company has grown revenues every year dating back to 2008 (the first year that data is publicly available). During this period, company revenues grew by 15.5% annually in local currency terms. Going forward, as financial services penetration continues to increase and as Russian financial assets become less out-of-favor, we expect that management will grow revenues and earnings at a double-digit rate or better. At the same time, despite its formidable competitive positioning and its enviable track record, Moscow Exchange trades at valuation multiples that are lower than all other publicly-traded exchanges. Further, the company pays nearly all of its net income out as dividends to shareholders.

Our net allocation to equities at the end of March was 64.2%. We also hold a 19.5% position in bonds and cash, and we have a 15.9% position in gold trusts.

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We appreciate having the opportunity to manage your long-term investment with Appleseed Fund. It is deeply meaningful for us to have the opportunity to invest on your behalf; we take our responsibilities as a steward of your capital very seriously.

Should you have any questions about this letter or anything else, please do not hesitate to reach out to Colin Rennich at colin@appleseedcapital.com or at 312.896.9660.

Sincerely,

Joshua Strauss, CFA

William Pekin, CFA

Adam Strauss, CFA

Shaun Roach, CFA

ANNUALIZED RETURNS- as of 3/31/2019					
	1 Year	3 Years	5 Years	10 Years	Since Inception
Investor Class (APPLX)	3.74%	6.89%	2.83%	10.05%	6.16%
Institutional Class (APPIX)	3.94%	7.06%	3.04%	*10.24%*	*6.32%*
MSCI World Index	4.02%	10.69%	6.78%	12.38%	5.12%

Fund Inception Date: 12/8/2006.

Fund's past performance does not guarantee future results. The investment return and principal value of an investment in the Fund 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 1-800-470-1029.

As of 03/31/2019, the Fund's Top Ten Holdings can be found at: www.appleseedfund.com.

The gross expense ratio of the Fund's investor class is 1.55%, and the institutional class is 1.30%; the net expense ratio after contractual fee waivers through January 31, 2020 is 1.35% and 1.16%. The Fund's ninety day redemption fee is 2.00%.

The S&P 500 Index is a widely recognized, unmanaged group of stocks that is representative of a broad market. The index provides returns in U.S. dollars, assumes reinvestment of all distributions, and does not reflect the deduction of taxes and fees. The MSCI World Index is a widely followed, unmanaged group of stocks from 23 international markets and is not available for purchase. These indices provide total returns in U.S. dollars with net dividends reinvested. These index returns do not reflect the deduction of expenses, which have been deducted from the Fund's returns. These index returns assume reinvestment of all distributions and do not reflect the deduction of taxes and fees. Individuals cannot invest directly in these indices, however, an individual can invest in exchange traded funds or other investment vehicles that attempt to track the performance of a benchmark index.

The use of options involves substantial higher risks and may subject the Fund to higher price volatility. Investments in international markets present special risks, including currency fluctuation, the potential for diplomatic and political instability, regulatory and liquidity risks, foreign taxation, and differences in auditing or other financial standards. Value investing involves the risk that an investment made in undervalued securities may not appreciate in value as anticipated or remain undervalued for long periods of time.

Diversification does not ensure a profit or guarantee against loss.

Investments in commodities such as gold may be affected by overall market movements, changes in interest rates, and other factors such as embargoes and international economic and political developments. Commodities are assets that have tangible properties, such as oil, metals, and agricultural products. These instruments may subject the Fund to greater volatility than investments in traditional securities.

The views and opinions expressed in this material are those of the authors. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. These opinions are current as of the date of this letter but are subject to change. There is no guarantee that any forecasts or opinions in this material will be realized. Information should not be construed as investment advice nor be considered a recommendation to buy, sell or hold any particular security.

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus by calling 1-800-470-1029.

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