July 30, 2019

Dear Appleseed Shareholder:

*"Do I contradict myself?*
*Very well then I contradict myself,*
*(I am large, I contain multitudes.)"*

– Walt Whitman, *Song of Myself*

As the S&P 500 Index reaches all-time highs with an extraordinarily high valuation by most measures, how can the 10-year Treasury bond yield simultaneously be declining towards all-time lows? Usually, stocks go up when investors are increasingly bullish about the economy, while Treasury bond yields typically fall when investors are increasingly bearish about the economy and inflationary prospects, but rising stock prices and falling bond yields are both happening at the same time today. The apparent contradiction is difficult to reconcile.

It may well be that we are witnessing a temporary anomaly which occasionally surfaces in the financial markets. For example, oil prices skyrocketed to $144 per barrel in 2008 at the same time that the housing bust and the financial crisis were starting to accelerate. How could oil prices have risen to record highs just as aggregate demand was falling off a cliff? That anomaly corrected a few months later when oil prices declined by more than 75% to $34 per barrel.

Just as the oil price surge in 2008 turned out to be a temporary phenomenon, the conflicting signals between the stock and bond markets today may also be a short-term anomaly. If the stock market is correct and the bond market is mistaken, then bond yields should start to increase. On the other hand, if the bond market is right, and the stock market is wrong, a correction in the stock market would likely be coming soon.

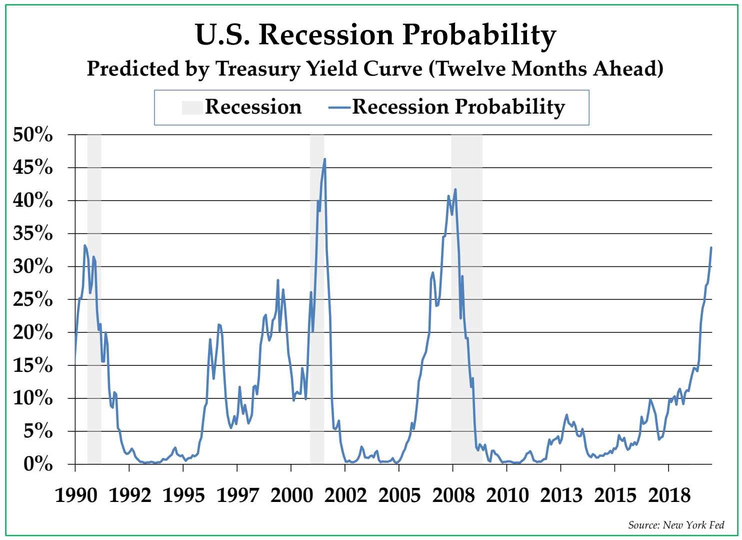
However, what if it is not an anomaly?

**The Bond Market**

A fundamental axiom of bond investing is that when bond prices increase, *ceteris paribus*, bond yields decline. Similarly, when bond prices fall, bond yields rise. Needless to say, this relationship can be somewhat counter-intuitive. From November 2018 through June 2019, 10-year U.S. Treasury yields declined from 3.23% to 1.99%, which is the lowest yield for 10-year Treasuries since 2016, a year in which 10-year Treasury yields hit a new all-time low of 1.36%. It seems strange for yields to compress in the face of a rising stock market, but several reasons could explain this phenomenon:

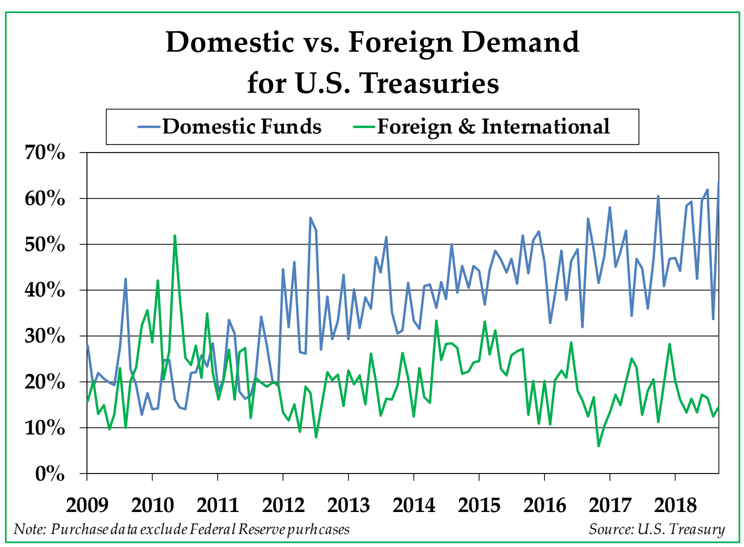
- **Increasing Recession Concerns**
  Investors tend to buy U.S. Treasuries when they think a recession is imminent. The Treasury yield curve, which is currently inverted, is warning that a recession might be coming; the Federal Reserve Bank of New York uses the yield curve as an indicator to estimate that the

chance of a recession within the next 12 months is as high as 33% (see chart to the right). The longer the yield curve remains inverted, the more likely it is that a recession is soon coming. Besides the inverted yield curve, which we wrote about in detail during our Q1 letter, other signals are also suggesting that the U.S. economy is, at the very least, slowing down if not approaching a recession. With growth slowing and the increasing possibility of a recession ahead, investors might be increasing their allocation to U.S. Treasuries, driving bond prices up and yields down.




- **Increasing Pool of Retiree Investors**
  As the U.S. population ages and 10,000 new baby boomers enter retirement daily, investor demand for safety and yield should continue to increase. Retiree investors are less inclined to own an oversized allocation to risk assets like stocks, opting instead for U.S. Treasuries and other less volatile assets. As demonstrated in the chart below, domestic investors have been purchasing an increasing share of U.S. Treasury auctions. It is possible that the strength in bonds recently is partly attributable to increasing demand by domestic investors who are aging and seeking a safe haven, although it is difficult to understand why domestic demand for Treasuries would be discernably different today than it was eight months ago.

- **Federal Reserve as a Treasury Buyer**
  Last year, the Federal Reserve reduced the size of its balance sheet by selling some of its U.S. Treasury holdings. This incremental supply increase pushed down Treasury bond prices and pushed up Treasury yields. However, with the stock market correction that took place in Q4 2018 and with economic numbers weakening, the Federal



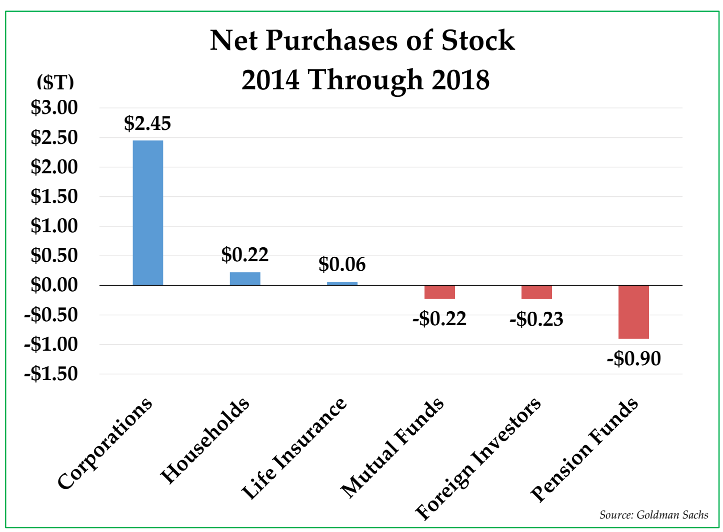
Reserve is signaling that it will soon cease its selling of U.S. Treasury bonds and begin buying U.S. Treasury bonds once again. Whether it is to fund the U.S. budget deficit or to push investors back into riskier investments, the Federal Reserve is communicating to investors that large-scale asset purchases of U.S. Treasuries may soon resume. Investors may be buying U.S. Treasuries now to front-run the Federal Reserve and enjoy the price appreciation that could take place once the Federal Reserve becomes a buyer again.

- **Negative Yielding Foreign Bonds**
  As crazy as it may sound, a huge share of government debt across the world pays a *negative* yield, which means that investors in such bonds are paying government issuers to hold their money for them. A record $12.5 trillion of foreign bonds are now generating a negative yield, and that yield is becoming increasingly more negative as the global economy continues to weaken and as central banks communicate their willingness to do whatever it takes to provide additional monetary stimulus. While U.S. Treasury yields might appear to be low relative to what investors could earn twenty years ago, Treasury yields are high compared to most other sovereign debt in the developed world such as the debt of Japan, Switzerland, Germany, and Sweden.

Perhaps, then, the bond market is making sense. With the economy slowing, baby boomers aging, and the Federal Reserve increasingly inclined to become a Treasury buyer, many investors are finding Treasury bonds to be attractive.

**The Stock Market**
However, if all of the above is true, why is the S&P 500 Index testing all-time highs right now?

- **Corporate Buybacks**
  With bond yields so low, it remains inexpensive for companies to issue bonds and use those bond proceeds to buy back their own stock. While corporate buybacks create weaker corporate balance sheets and amplify long-term stock market risk, they nevertheless create incremental short-term demand for shares and boost share prices. This trend has been driving the U.S. stock market for the past five years.




  Also, with corporate bond yields pitifully low, private equity funds can more easily finance the acquisition of publicly traded companies with cheap debt. While baby boomers might be reallocating their investments towards bonds, other investors, namely corporations and private equity firms, are using leverage to buy stocks.

- **The Fed "Put"**
  The U.S. stock market, in many respects, has become a significant driver of the U.S. economy over the past 20 years. Pension plans depend on a rising stock market. So, too, do retirees. Employees with 401(k) plans, while not yet retired, have to increase their savings rate if the U.S. stock market does not continue to deliver attractive returns. The Federal Reserve knows this, and Federal Reserve monetary policy has evolved since the Financial Crisis to focus increasingly on preventing the stock market from correcting. After the correction in December 2018, the Federal Reserve immediately stopped tightening and communicated a far more dovish monetary policy stance. Investors may be buying stocks because they expect the Federal Reserve will do whatever it takes to keep the stock market party going and it simply may be that "There Is No Alternative" to buying U.S. stocks (also known as the "TINA" effect).

- **Inflation Hedge**
  The U.S. budget deficit is worsening due to increasing military expenditures, growing medical and retirement entitlements, recently enacted tax cuts, and rising debt service obligations, with no end in sight. At the same time, an emerging consensus is developing that the dollar is too strong relative to other currencies, making it difficult for U.S. manufacturers to compete. President Donald Trump and Senator Elizabeth Warren have both remarked recently that a weaker dollar is a critical factor to America's future economic competitiveness, and economists like Harvard's Carmen Reinhart advocate that the Federal Reserve should keep bonds yields well below the inflation rate to reflate the economy. While seemingly overvalued, stocks may be an attractive hedge for those investors looking for inflation protection.

- **Interest Rate Manipulation**
  Because the Federal Reserve has enacted policies in recent years to influence not only the interest rate of short-term bonds but also the interest rate of long-term bonds, some investors do not believe that the yield curve provides a useful signal for upcoming recessions and are therefore less concerned about an imminent recession.

**Investment Implications**
Unlike 2008, when the Federal Reserve appeared to be asleep at the switch, central banks around the world appear to be on alert today, for better or for worse, and stand ready to provide markets with liquidity to avoid another crisis. Ultimately, whether the rising stock market or falling bond yields are correct depends in no small part on whether the U.S. economy is entering a recession or just another soft patch.

If a recession is coming, corporate earnings are likely to fall, credit spreads should rise, and corporations will find it more expensive to issue bonds to buy back their own shares, all of which should result in a challenging market for stocks and bonds with high levels of credit risk. Under this scenario, we will be glad to have be invested in gold and short-term Treasury bonds. These holdings should provide portfolio stability as investors flock to safe-haven investments while the Federal Reserve cuts interest rates and once again expands its balance sheet to buy U.S. Treasuries.

On the other hand, if the economy is just going through a soft patch rather than a recession, the Federal Reserve's monetary easing efforts during the second half of the year should reflate the economy and allow the stock market to continue rising, driven by corporate buybacks. Under this scenario, inflation expectations should increase once again along with economic growth as the soft patch recedes. Today, many of the more attractively priced stocks available are cyclical companies, with already pessimistic discounts due to increasing concerns about slowing growth, declining global trade, and growing geopolitical concerns. Should growth re-accelerate, cyclical stocks and the stocks of companies that are exposed to global trade should perform well, similar to what happened in 2017 as economic expectations improved. Under this scenario, stocks could keep rising.

It is much less evident today than it was during the first half of 2008 that the economy is heading into a recession. The New York Fed's recession probability of 33% does not seem terribly off to us. Of course, the New York Fed does not have a crystal ball on these matters -- nor does anybody else. Without knowing the future with any level of certainty, we are keeping Appleseed's portfolio diversified, with a constant eye towards committing capital to what we believe are high-quality businesses which are selling at a sufficiently large discount to their fair values.

We are also more focused on making long-term capital commitments that we believe should generate an attractive return over a long-term time horizon rather than what happens to the economy in the next few months. As we see it, U.S. fiscal deficits are set to rise sharply in the coming decade, and it seems unlikely that foreign investors will pick up the tab. We expect the Federal Reserve to fill in the gap, buying U.S. Treasuries to fund these deficits. This scenario is likely to cause the U.S. dollar to depreciate and create an environment where gold and stocks rise in nominal price while long-term Treasury bonds are unable to compensate investors adequately for the inflation risk they are taking.

As this occurs, the choice between more volatility and more inflation protection versus less volatility and less inflation protection will become an increasingly important topic of conversation for investors. It has been a topic for us for years at this point, and we are increasingly positioning our portfolio in the direction of more inflation protection. Our equity exposure is increasing, our foreign exposure is increasing, and our emerging market exposure is increasing. All of this increases volatility but should position Appleseed Fund well for a weakening dollar environment over the next decade.

**Portfolio Performance and Positioning**

Appleseed Fund's Investor shares generated a total return of -3.45% during the most recent quarter versus a return in the MSCI World Index of 4.00%. Appleseed Fund's Investor shares total return since inception is 5.74% per annum versus an average total return in the MSCI World Index of 5.34%.

From a short-term performance standpoint, Appleseed Fund had a lousy quarter. The driver of Appleseed Fund's relative underperformance was widespread across the portfolio. Relative to our category, we are overweight foreign stocks, and foreign stocks underperformed. We are overweight emerging markets, and emerging markets underperformed. We are overweight value stocks, and value stocks underperformed. We are also overweight small-cap stocks, and small-cap stocks underperformed. Perhaps put more simply, we are in an environment where large-cap U.S. growth stocks are killing it from a total return standpoint relative to everything else, and our exposure to this area is purposefully nil from valuation and risk standpoints.

In order for value strategies to work over the long-term, value investing must endure periods of time of underperformance. If that were not the case, everyone would choose to be a value investor all the time. Value strategies have endured a significant period of underperformance which has continued since the financial crisis. Moreover, value strategies have particularly underperformed during this most recent quarter. While never pleased with underperforming, we are taking advantage of the discounted share prices that Mr. Market is offering us by adding to several of our existing positions.

The strongest three contributors to performance were Air Lease (**AL**), Sberbank (**SBER**), and Appleseed's gold holdings, while the most significant detractors to performance among our long equity positions were Hudson Technologies (**HDSN**), Sina Corporation (**SINA**), and Criteo (**CRTO**).

Sina Corporation is currently the largest position in Appleseed Fund and was also one of the most significant detractors to fund performance during the quarter. Sina is a holding company which owns cash, various technology investments, and a controlling stake in Weibo (**WB**), which is China's version of Twitter, except that Weibo is far more profitable and far better managed than Twitter. We were thrilled when we bought our initial position after Sina's share price had declined by 50% from its 2018 high. At that time, through Sina, we were effectively investing in Weibo at an enterprise value to cash flow ratio of less than 6x. With Sina's share price having declined further this year, we now own Weibo at an enterprise value to cash flow ratio of less than 2x.

Indeed, we acknowledge the trade war concerns related to China. We have these concerns ourselves. However, Weibo is a social media platform uninvolved in global trade. Even if the trade war continues, we expect Weibo's business to perform well. Moreover, China is attempting to stimulate China's domestic economy, and we expect online advertising to continue to grow at a double-digit rate for the foreseeable future. Indeed, during the most recent quarter, Weibo revenues, EBIT, and net income increased at a double-digit rate compared to the same quarter a year ago. Moreover, Sina's balance sheet is incredibly strong, with $1.6 billion of cash and investments which are entirely unrelated to Weibo. Needless to say, our bullishness with regards to our Sina investment has increased commensurately with its recent share price decline.

At quarter end, stocks represented 66% of the portfolio, gold represented 17% of the portfolio, and our cash/bond position represented approximately 17% of the portfolio. We continue to believe Appleseed Fund's portfolio is well-diversified, generally undervalued, positioned for accelerating inflation, and holding enough cash and short-term bonds to take advantage of any buying opportunities that might arise.

**Portfolio Changes**

| *New Long Equity Positions* | *Sold Long Equity Positions* |
| --- | --- |
| Criteo (**CRTO**) | Qualcomm (**QCOM**) |
| | Stagecoach Group (**SGC-London**) |
| | Bayerische Motoren Werke (**BMW-Germany**) |

This quarter, we sold Appleseed Fund's Qualcomm position for a large gain. The Appleseed Fund playbook worked perfectly for Qualcomm, and we sold most of the position once the company's share price exceeded our estimate of intrinsic value. In the case of Qualcomm, appreciation happened quickly, so we held onto a few remaining shares until the one-year marker had passed and we were able to realize a long-term gain for our investors.

We also sold Appleseed's BMW shares at a modest profit to reallocate towards other investments. We have spent much time over the last few years trying to understand some of the changes that are occurring within the auto industry. The electrification of cars has been an amazing development, and so too has been the rapid development of autonomous vehicles. Appleseed shareholders own several auto-related investments, not the least of which is Osram Licht AG, a leading producer of LEDs for automobile OEMs. With all of the technological innovation that is occurring within the auto sector, we have become eager consumers but reluctant investors. The future for legacy OEMs like BMW has become increasingly uncertain, and, as our outlook has become more clouded, our intrinsic value estimate for BMW has become increasingly uncertain.

During the quarter, we also sold our small position in Stagecoach Group, a rail and bus operator based in the United Kingdom. We purchased Stagecoach at a modest valuation multiple thinking that the fundamentals would improve eventually. The valuation multiple remains modest today, but the business's prospects have deteriorated considerably. Due to increasing concerns about the financial position of the British government and worries that we have about Brexit's impact on the U.K. economy, we decided to exit our investment with a modest loss.

Appleseed Fund's newest position, Criteo S.A., is one of the world's largest advertising technology companies, which specializes in online retargeting. Retargeting refers to feeding customized ads to users that have visited an ecommerce website, expressed interest in certain goods or services, but moved on to other websites before making the purchase. These ads play an important role in many online retailers' marketing strategy because they are focused on high-intent customers that are about to be lost forever.

In the 14 years since its launch in 2005, Criteo transformed from a small startup in Paris, France to a global leader with 2,700 employees across 31 offices serving over one trillion online ads every year. The company has almost 20,000 clients including such well-known names as Booking.com, Macy's, and Samsung. Together, Criteo's customers generate over $800 billion of sales transactions per year. The breadth and depth of this data allows Criteo to maintain industry-leading computer algorithms and, on average, deliver $13 of incremental revenues on every $1 spent on its services. Rather unsurprisingly, the company boasts a customer retention rate of 90%.

Today, Criteo stock is trading at less than $19 per share. This is more than 65% below its all-time high of $55 per share, which was seen in 2017. This dramatic selloff was a result of two major factors: Apple making it almost impossible for Criteo and most other ad tech companies to retarget Safari users and rumors that Google might follow suit.

While Apple's decision was bad news for Criteo indeed, it only affected one-sixth of their revenues. In addition, we know now that Google is not going to implement a copycat blanket ban on cookie usage by third-party marketers. Apparently, business and antitrust considerations played a big role in this decision. Unlike Apple, Google makes billions of dollars on online ads. At the same time, Google's internet browser enjoys a near-monopolistic position with an installed base that is nearly twice as big as all other browsers combined. Nevertheless, Criteo stock continues to trade as if 50% of its revenues that originate in Google Chrome are still at risk.

Since 2013, Criteo has a team of privacy experts that sit with the Product and R&D Department, and their job is monitor potential privacy risks during the product lifecycle and proactively mitigate privacy risks. In our view, Criteo's leading-edge privacy, security, and safety standards for consumers and its commerce & brand clients are key competitive advantages for the Company.

At less than 10x earnings ex-cash, this high-ROIC company with healthy growth prospects, net cash on the balance sheet, and significant insider ownership appears to be an attractive long-term investment. Since buying an initial position, the share price has declined further, and we have added to our initial position at lower prices. Currently, Criteo is one of the largest positions in Appleseed Fund.

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We remain humbled and grateful for your trust in having us invest a portion of your capital through your investment in Appleseed Fund.

Sincerely,

Josh Strauss, CFA
William Pekin, CFA
Adam Strauss, CFA
Shaun Roach, CFA

| ANNUALIZED RETURNS- as of 6/30/2019 | | | | | |
|---|---|---|---|---|---|
| | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
| Investor Class (APPLX) | 2.36% | 4.82% | 1.45% | 7.09% | 5.74% |
| Institutional Class (APPIX) | 2.57% | 4.97% | 1.66% | *7.28%* | *5.89%* |
| MSCI World Index | 6.34% | 11.77% | 6.60% | 10.72% | 5.34% |

*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 06/30/2019, 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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