



October 1, 2009

Dear Appleseed Shareholder:

While some of the time the supply of equities and the demand for equities are approximately in balance, most of the time they are not. When they are in balance, stock prices fluctuate within a narrow band. When they are not in balance, aggressive selling occurs as fear takes control of investor psychology; alternatively, greed dominates and stock prices get pushed up.

Fear became the main driver beginning in October of 2007, taking the market down -57.7% from its peak to its trough on March 6, 2009. Since then, fear has taken a back seat. From the Bear Market bottom on March 9th through the end of September, the market increased a stunning 58.2%, providing investors with reason to breathe a bit easier following the tension-filled prior 18 months. Notwithstanding this unusually powerful recovery, the S&P 500 on September 30, 2009, was still 32% lower than its October 2007 peak.

During the third quarter of 2009, the S&P 500 Index appreciated 15.1% and for the first nine months of 2009, the S&P 500 Index was up 17.1%.

So, you ask...“what changed to cause this highly-welcomed dramatic market upsurge?” A definitive answer to that question may not be known for some years, but, at this point, two things fairly summarize what occurred. First, and most importantly, the highly stimulative actions of the Federal Reserve kicked in and served to prevent a total meltdown of the financial system. And, second, these stabilizing actions enabled the recessionary economy to initially weaken at a reduced rate, and then subsequently to bottom out.

In response to past recessions, cheap and freely available money, sooner or later, has led to increased business activity, enabling the economy to stop contracting. Similarly, higher levels of government spending served to buoy business activity as well. The former comes under the heading of Monetary Policy, and the latter is known as Fiscal Policy. These are the two schools of thought as to which stimulus policy is the most effective to lift the economy out of recession.

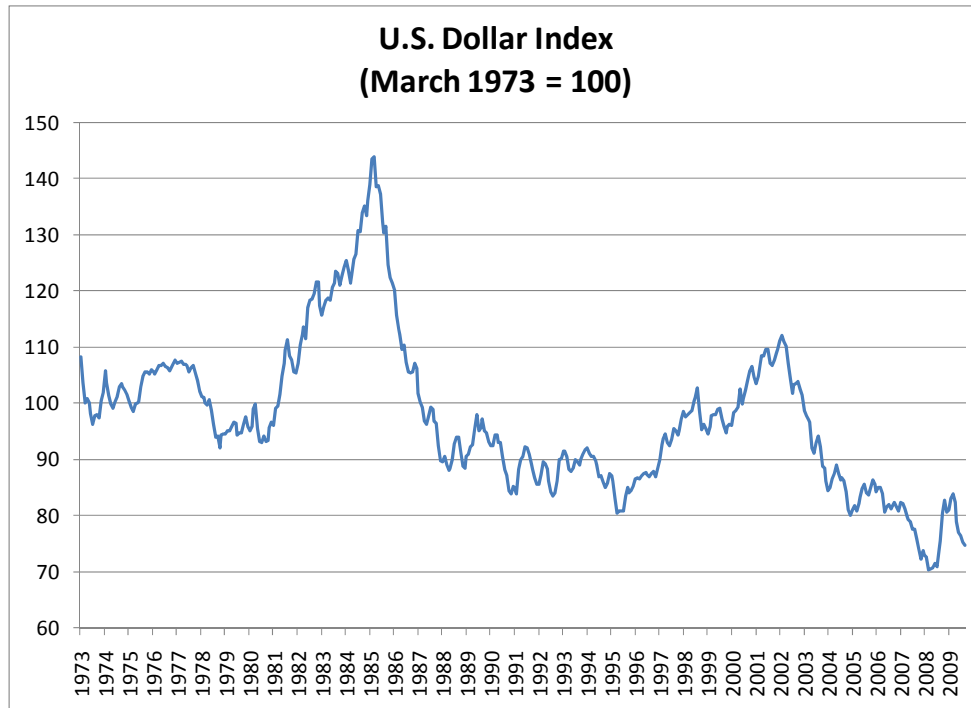
In any event, the economy appears to be responding to the stimulus. Following 22 months of decline, the usually reliable Index of Leading Economic Indicators turned up in April and has since risen for five consecutive months. Moreover, recent discussions with the managements of some of the companies whose stocks we own have indicated they are seeing encouraging signs of improved demand in their business; this, coupled with their belt tightening efforts of the past year, is translating into improved bottom-line results. We believe the latter has been an important prop underlying the strong stock market since last March.

Our view is that the Federal Reserve’s Monetary Policy under Ben Bernanke will prove to be excessive, just as it was during our last recession under Alan Greenspan. In particular, we worry about the amount of money that the Federal Reserve is printing to execute its strategy of keeping money cheap. M2, the broadest measure of money supply in circulation, has grown at a rate of 7.8% in the past 12 months and would have increased at a faster rate had demand for loans from the private sector been more robust.

For investors, the important thing is not what happened, of course, but what is going to happen. With this in mind, we are concerned about the soundness of the dollar. The graph on the next page highlights what those of you who have travelled abroad recently have painfully experienced—the U.S. dollar buys precious little today by comparison to what it has in the past. At this writing, on average, against all other foreign



currencies, the dollar as measured by the U.S. Dollar Index purchases less than one-half of what it bought in the mid-1980s, and, just since 2002, the value of the dollar has decreased by 32.8%.<sup>1</sup>

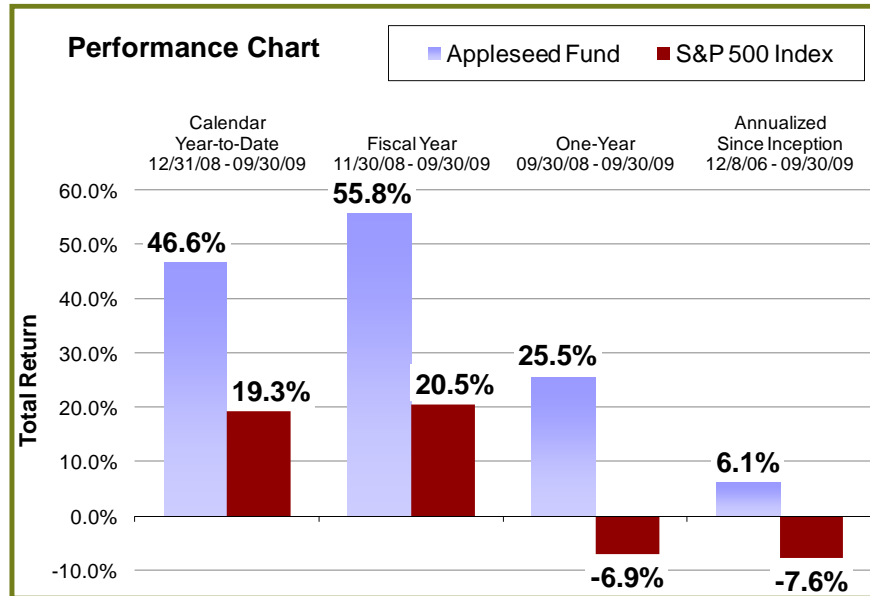


Source: Bloomberg.

A weakening dollar is clearly good news for exporters and those U.S.-based companies that compete with foreign producers of goods—stimulating demand for their products, enabling them to increase production, and also to hire additional employees. Consequently, U.S. exports have emerged as a silver lining in an otherwise weak economy. And it is for this reason that some economists, perhaps even including Fed Chairman Bernanke, continue to favor a weak dollar policy. With the financial panic receding and many declaring victory over the forces of recession, it would seem timely for the Federal Reserve to start looking to push interest rates up and to cease its monetization of the Treasury’s debt, both of which would strengthen the value of the dollar. However, such moves would require considerable courage, something we have not seen at the Federal Reserve since the early 1980s when Paul Volcker was chairman.

The Federal Reserve’s public statements about their commitment to a strong dollar notwithstanding, we have established what we believe to be appropriate safeguards in the Appleseed portfolio to at least partially protect your capital from accelerating inflation. We are investing in portfolio companies that we expect will retain pricing power in an inflationary environment, and we are investing in companies that derive a large percentage of their earnings and cash flow in non-dollar denominated currencies. Additionally, we will continue to own gold bullion ETFs until we have a greater level of confidence that the Federal Reserve intends to support the dollar. Because gold is not widely used industrially and has largely been held in vaults as a store of value, we also believe that owning gold bullion should hedge the risk of a falling dollar without taking on unnecessary counterparty risk.

<sup>1</sup> The U.S. Dollar Index (USDIX) is a futures index quoted 24 hours a day seven days a week and is on the NYBOT (New York Board of Trade). The index represents the relationship between the U.S. dollar and six major currencies.



Generating strong investment returns is, in our opinion, the result of a mixture of hard work, a commitment to in-depth bottom-up research, a sound investment process, and a bit of good luck. During this past year, Appleseed shareholders benefited from all of these, as the Fund generated strong performance relative to other equity mutual funds, relative to the market, and in absolute terms. The 25.5% investment return that the Appleseed Fund generated for shareholders over the past twelve months was the result of good stock picking, an aversion to financial companies with opaque balance sheets, and our choice in March 2009 to invest in several stocks with strong balance sheets that were trading below the value of their working capital (we like to call these stocks, “Ben Graham specials”)<sup>2</sup>.

Between our last update at the end of May and the end of September, the biggest contributor to the Fund’s performance was **John B. Sanfilippo (JBSS)**. We have owned the shares of John B. Sanfilippo in the Fund since its inception in 2006. Until recently, investment returns have been disappointing even though the business has been improving. At its low in March, John B. Sanfilippo’s stock traded at a stunningly cheap 2x free cash flow multiple. Today, after more than doubling in price, the company’s stock is still trading below book value and at a multiple of 4x free cash flow. As the largest producer of private label baking and snack nuts in the world, the company is well positioned to appeal to consumers looking to pursue a healthier diet and to consumers looking to stretch their grocery dollars.

The second biggest contributor to the Fund’s performance was **Gaiam (GAIA)**. Gaiam was one of our “Ben Graham specials,” as we initially purchased Gaiam in March 2009 at a value that equalled the cash on the company’s balance sheet. In addition to the cash, Gaiam owns unencumbered commercial real estate in Louisville, Colorado, a majority stake in **Real Goods Solar (RSOL)**, one of the largest residential integrators of solar energy systems in the United States, and a business marketing lifestyle products under the Gaiam brand name. Since the market began to rally in March, investors have become increasingly willing to invest

<sup>2</sup> Ben Graham wrote the classic value investing books, *Intelligent Investing* and *Security Analysis*.



in Gaiam for the value of its cash *plus* the value of its businesses. With that said, we continue to believe that Gaiam's stock is being undervalued by Mr. Market.


Beyond John B. Sanfilippo and Gaiam, about one-half of our portfolio positions generated an internal rate of return of 25% or more since the end of May, and we did not have any equity holdings which generated a negative internal rate of return. We also sold our holdings in **Miller Industries (MLR)**, **Anworth Mortgage (ANH)**, and **Unit Corporation (UNT)** as their stock prices appreciated and reached our estimates of intrinsic value. Appleseed shareholders generated very attractive returns with all three of these stocks. At the same time, we have initiated new positions in **Novartis (NVS)**, **Noble Corporation (NE)**, and **PetSmart (PETM)**. These new positions represent investments in companies that have leading positions in their respective markets, fortress balance sheets, experienced management teams, and strong sustainability records.


We do not expect the Appleseed Fund to outpace the market going forward to the extent it did in 2008 and in the first nine months of 2009. Furthermore, we do not expect Appleseed's absolute investment returns over the long-run to remain near 25.5% per annum. However, our research team, our investment process, and our conservative approach towards risk will continue to guide our investment decisions in the future. We believe these factors should increase the likelihood that we will continue to meet our objective of outperforming the market over the long-term, even if we do not meet that objective every year.

Picking up on the theme that we began this letter with, Warren Buffett once said that when he invests, he "strives to be fearful when others are greedy and greedy when others are fearful." Our approach to value investing tends to be contrarian in much the same vein as Warren Buffett, although our portfolio is quite different than his portfolio. Yet, there is more to our investing approach than simply being contrarian. As fiduciaries of your capital, uppermost in our minds is the fact that there is an ongoing trade-off between the "downside risk" and the "upside reward" inherent in every investment decision we make. We are constantly weighing the risks and rewards of our decisions, and above all else we try not to lose money with your invested capital. With this in mind and given the strength of the markets this year, be assured that we are every bit as cautious in committing your capital today as we ever have been in the past.

As always, we appreciate the opportunity to be the stewards of your capital invested in the Appleseed Fund.


Sincerely,

  
Ronald Strauss, CFA

  
Richard Singer, CFA

  
Adam Strauss, CFA

  
William Pekin, CFA

  
Joshua Strauss, CFA



*The gross expense ratio of the Fund is 3.13%, and the net expense ratio after contractual fee waivers is 1.24%. The advisor has contracted with the Fund to waive fees to maintain a 1.24% expense ratio for shareholders of the Fund through March 2010.*

*The 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.*

*At the end of the Fund's reporting period on September 30, 2009, John B. Sanfilippo (JBSS) represented 9.5%, Gaiam (GAIA) represented 3.2%, Novartis (NVS) represented 4.9%, and PetSmart (PETM) represented 4.8% of the portfolio, respectively.*

***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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