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Innovative Fund Looks to Johnny Appleseed for Inspiration

by Anne Moore Odell

The Appleseed Fund offers social investors a fresh venue for investing in undervalued companies selected for their social and environmental records.

SocialFunds.com -- Launched December 2006, the Appleseed Fund was named after Johnny Appleseed, the visionary environmentalist and entrepreneur. The Appleseed Fund's portfolio managers are guided by four principles: disciplined value investing, socially responsible investing, low shareholder expenses, and portfolio manager ownership.

Headquartered in Chicago, the Fund considers a company's environmental record, labor issues such as sweatshop and child labor, and human rights record. It does not invest in the tobacco, alcohol, pornography, gambling, or weapons industries. The Fund's environmental, social and governance screening is done both in-house and using third party research data. The Fund is a participant in the Social Investment Forum's "1% or More in Community Investing" campaign.

Pekin Singer Strauss Asset Management, a Chicago-based investment advisor founded in 1990, advises the Fund. Although the Appleseed Fund is less than six months old, its five portfolio managers have nearly 100 years of combined experience as value investors. They worked almost two years developing the Fund before its launch. Pekin Singer Strauss Asset Management currently has \$450 million of assets under management.

Adam Strauss, Portfolio Manager of the Appleseed Fund, told Socialfunds.com, "Our firm is without a doubt a family business. Billy Pekin is the son of two of the firm's founders, Joanne Pekin and Shelley Pekin, while Joshua Strauss and I are both sons of Ronald Strauss, another partner in the firm. The three families have been close for over three decades, so we work in an environment where communication is very open; the best ideas we have generally surface to the top."

The Fund is trying to carve out a niche in the SRI mutual fund field by investing in screened companies that are out of favor, under-followed and/or undervalued. The portfolio managers will only invest with a company if their research indicates the company's intrinsic value is at least 50% greater than their purchase price. Set up without any capitalization restrictions, the Fund holds mega-cap stocks like Johnson & Johnson (JNJ) and micro-cap stocks like the Female Health Company (FHCO).

Strauss explained why Appleseed Funds holds John B. Sanfilippo & Son, Inc (JBSS), owner of the Fisher Nuts brand and the largest nut producer in the United States: "From a social perspective, the company represents a good value due to the products they make; nuts are a high quality source of vegetarian protein, and researchers have found that people who eat nuts regularly have lower risks of heart disease."

"From a financial perspective, the company represents a good investment value because, as commodity costs for nuts continue to moderate and the company moves its operations into a more efficient manufacturing facility, we believe the company's gross margins could double from FY 06 levels. Today the company is trading at a price below tangible book value and below our estimate of liquidation value," he added.

The Fund has worked to keep fees competitive with other actively managed SRI equity funds. With only 15-20 portfolio companies, the Fund plans to hold onto an investment for four years, limiting the transaction costs, reinvestment risk, and the tax burden of the Fund's shareholders. The Fund is a no-load mutual fund and has waived management fees through March 2009 to keep the Fund's net expense ratio at 0.90% to minimize the performance drag that fees can have on returns.

Another important aspect of the Fund is that its five portfolio managers are also co-shareholders in the Fund with collective investments representing about 20% of the Fund's total assets. "By eating our own cooking, so to speak, we think our interests will be better aligned with outside shareholders' interests," said Strauss.

The Appleseed Fund has generated a 4.7% return through the first quarter of 2007, compared with the S&P 500 Index's 0.7% total return during that same period. According to Morningstar, the Appleseed Fund's year-to-date return as of May 22 is 10.67%. It currently has \$5 million in net assets.

The minimum investment in the Fund is \$2,000. It can be set up for tax-sheltered retirement plans with minimum IRA investment of \$1,000.

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Socially Responsible Investing (SRI)

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