



January 15, 2011

Dear Appleseed Shareholder:

Beginning in 2011, we plan to communicate to our investors more frequently. Previously, we have been writing shareholder letters semi-annually, but enough shareholders have asked us to write more frequently that we decided to write on a quarterly schedule. We hope you find our letters helpful to your understanding of our market view and investment strategy.

Institutional Share Class

Before we provide our market commentary, we want to alert you to the fact that, as of January 28th, we will be offering an Institutional Share Class with the ticker (**APPIX**). If you invest a minimum of \$100,000 in the Appleseed Fund, or if you are an advisor who invests a minimum of \$100,000 in the Appleseed Fund across your client base, our Institutional Share Class will save you 0.25% per annum going forward. **The net expense ratio of APPIX will be capped at 0.99% per annum.** We are well aware of how important low expenses are in determining long-term investor returns, and we remain committed to taking advantage of opportunities which limit Appleseed's investment expenses for our shareholders.

Market Commentary

In 2010, the S&P 500 increased 15.1%, much of it in the fourth quarter when the Index appreciated 10.2%. December's robust rally alone tacked on 6.5% to the first 11 months' gains. Notwithstanding the rebound of the stock market in 2009-2010, the S&P 500 at 12/31/10 was still 17.4% below its peak reached in early November of 2007.

The stock market upswing of the past two years was driven initially by intensive pump-priming on the part of the U.S. and other sovereign governments to prevent a collapse of the financial system. More recently, equity investors have become encouraged that the economy is improving, if only moderately so. The consequence of the Federal Reserve's pump-priming is that competition for investors' liquid capital diminished to the vanishing point, as the price of money dropped to historic lows. Money market funds' yields remain as close to zero without actually being zero; similarly, rates of returns on bonds, with few exceptions, are equally unattractive given the heightened risks of inflation.

In effect, the Federal Reserve has created a hostile environment for investors to continue to invest their capital in what traditionally have been relatively safe harbors—and the prices of risky assets, including stocks, have been the beneficiary.

Therefore, if the strength of the stock market has struck you as having false or artificial underpinnings, you are not alone. Our view is that the market's buoyancy reflects not so much the underlying fundamentals of the economy as much as a lack of sensible alternative investment vehicles facing investors. And, make no mistake about it, this is exactly what the Federal Reserve's policy was designed to achieve.

The thinking is that by engineering higher asset prices, investors obviously will be wealthier, feel better about their lot in life and spend money, which creates jobs and so on. Moreover, with higher stock prices, businesses can feel more confident in making capacity-addition decisions, including staff additions. To date, however, because confidence was so badly shaken by the financial crisis and because balance sheets throughout the system were (and are) so debt-laden, the policy's impact on the economy, while certainly positive, has been disappointing.

Moreover, there are structural issues that serve as headwinds for policy makers to financially engineer a



healthy economy:

- A continuing weak housing market that defies one government stimulus effort after another designed to lift prices (which would create some badly needed mobility for homeowners) and possibly strengthen building activity.
- A job market that keeps unemployment and under-employment in the work-force at post-World War II highs, leading many discouraged workers from even seeking employment; indeed, the long-term unemployed face the possibility that their skills may become permanently impaired with each passing period of idle activity.
- Far too much debt throughout much of the world's economy that cannot be serviced, let alone repaid—residential mortgages, municipal obligations and sovereign debt—putting a lid on business activity, and presenting an ongoing source of potential instability.
- Serious inflation concerns (currently in the range of 6%-8%/year) surfacing in important emerging market countries, such as China, India, Brazil—all important drivers for the world economy in recent years.
- An energy environment where crude oil is becoming more difficult and more costly to find. The cost of a barrel of oil is once again approaching \$100 per barrel, offsetting consumer savings from low interest rates and the two-year extension of the Bush tax cuts. Developing alternative sources of energy remains an important and urgent task.

Looking at the strength of the stock market, it is easy to conclude that these concerns are not widely shared. In fact, stock market investors are showing signs of putting on their party hats, as if it were ...1999 all over again. (And few need reminding of the hangover from that party.) By pushing asset prices higher in order to strengthen the economy, the Federal Reserve has created an environment that could become problematic for investors.

The Challenge of Bubbles

We are increasingly concerned that another bubble could be forming in risky assets.

The lessons of asset price manipulation are that it cannot be sustained indefinitely, and that it has an unintended cost attached to it. One only has to look at the housing boom in the years leading up to 2006 and the subsequent housing bust for confirmation. Inevitably, bubbles break and the market collapses to true value or replacement cost; often the collapse goes well beyond these levels.

No one knows when the bursting of any bubble will occur or what the eventual damage will be. Our principal charge is to be out of the way when bubbles deflate and to be ready when investing opportunities then surface. What we know is that hockey stick stock markets are the delusions of momentum speculators, are fundamentally unsound and will correct, sooner or later. As portfolio managers, we are driven to avoid permanent losses of capital, which means that we often miss out in the upside of momentum-driven markets.

Unfortunately, in the current market, there are scant places for investors to hide. All asset classes appear expensive, yet holding cash has its own risks in a zero interest rate environment with the potential for accelerating inflation. Our current portfolio, which is a mix of undervalued stocks, cash, and gold trusts, reflects our cautious outlook, and for the moment we are more focused on selling opportunities than buying opportunities.

As value investors, we are currently following Warren Buffet's dictum to "be fearful when others are greedy." When fear eventually re-enters the market, we look forward to being greedy once again. We



purchased a basket of significantly undervalued small cap stocks in March 2009, the last time the market was fearful, thrilled to have had the opportunity to find such outstanding buying opportunities. Today we are selling several of those same stocks after they tripled in price during the past twenty-one months.

Gold Bullion as an Inflation Hedge

We continue to expect accelerating inflation, and we continue to hedge Appleseed's portfolio against inflation with positions in gold bullion trusts.

Our oft-stated responsibility as managers of the Appleseed Fund is to preserve our shareholders' capital. In recent years, we have altered this to mean preserve our shareholders' capital *in real terms*; i.e. in inflation-adjusted terms, not just nominal terms. This change stems from the abnormal policy measures that the Federal Reserve has adopted to reflate asset prices and recapitalize the too-big-to-fail banks.

As investors, one of the more expensive lessons we learned early on was that there is no free lunch. There is always a cost. Our view is that the cost of the current policy will be increasing inflation which has already begun as commodity prices are skyrocketing and long-term interest rates are creeping up.

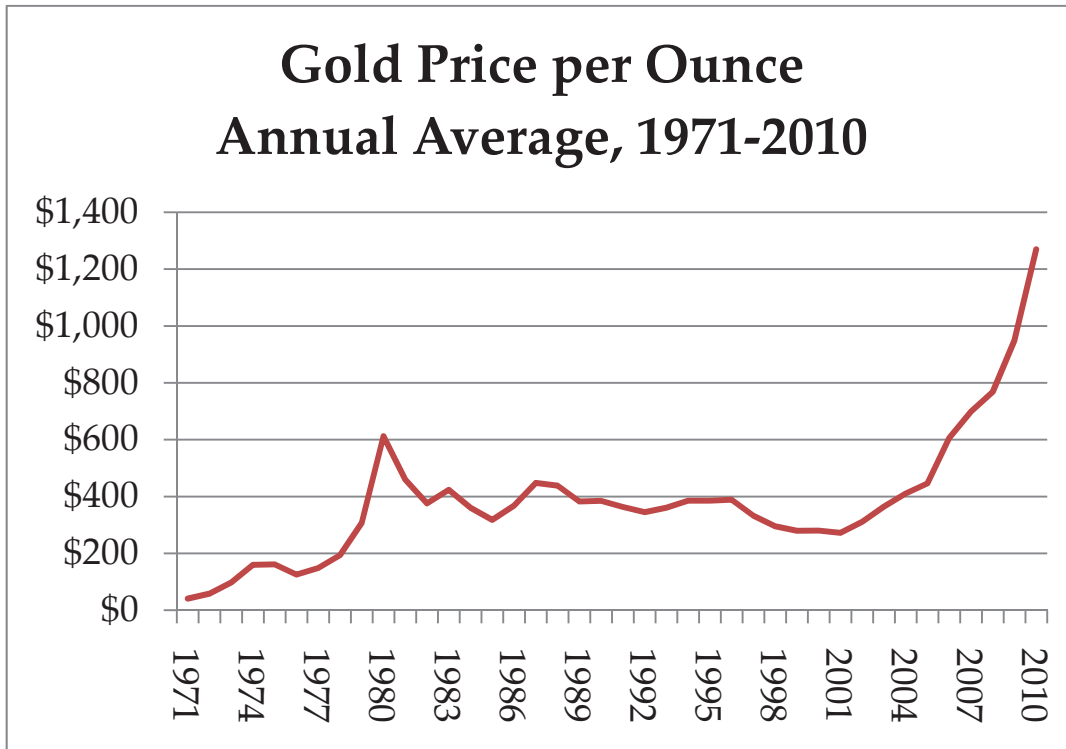
Thus far, the government-measured rate of inflation, the Consumer Price Index (CPI) has been fairly subdued. The CPI was actually down 0.4% in 2009, and it was up a relatively tame 1.6% last year. Two important trends have kept this gauge of inflation in check; on the one hand, "shelter" costs (obviously weak) make up close to one-third of the calculation of the CPI, and, on the other, inexpensive labor abroad producing an array of goods at artificially low exchange rates have served to put a lid on selling prices (and wages). As long as the CPI is low and the unemployment rate is high, we expect the Federal Reserve to keep interest rates near 0%.

The lack of concern about the threat of inflation on the part of Federal Reserve officials is of small value since they were either unconcerned with (or oblivious to) the housing bubble, whose bursting has done so much damage to the economy in recent years, and the tech bubble of the late 90s.

Given the prospect of accelerating inflation over the intermediate period ahead, we have made a number of different strategic moves in the past couple of years designed to protect the real value of our clients' capital. One such move was the purchase of gold bullion trusts.

Just briefly, gold is an excellent inflation hedge. Its supply is finite, whereas the potential supply of fiat currency is infinite. Throughout history, gold has served as a reliable store of monetary value for the purchase of goods and services. Just for the record, in the past nearly 100 years since the creation of the Federal Reserve, the dollar has NOT been a good store of value. In the past decade of relatively modest inflation, the dollar has lost 20% of its purchasing power and, since 1967, it has lost nearly 85% of its value.

As a result of past inflation and the prospect for more coming in the future, investors have used gold as a vehicle to preserve the purchasing power of their capital. Gold, in particular, has also been used historically as a safe haven in periods of crisis, such as political or social upheaval. The chart below shows the price of gold since 1971, when President Nixon delinked the dollar from gold.



Of course, gold has its drawbacks; it is not an asset that generates income, nor does it pay dividends, and there is a cost to buy and store it. Because gold does not generate any income, traditional valuation methods are unavailable to investors, including ourselves. In this respect, gold is much like fine art—it is worth only what people are willing to pay for it.

The question we face is: "Although gold has performed well since our initial (and subsequent) purchases, how will we know when to sell gold?" Another way to look at it is: "With the price of gold nearly twice what it was when we took our initial position, at what point do we begin to think that gold, itself, is in bubble territory, much like it evidently was in 1980 when it hit \$850/ounce?"

Because gold serves as our inflation hedge, we will sell Appleseed's gold position when we no longer feel that inflation insurance is necessary. We expect that inflation insurance will no longer be needed: a) when policy makers begin to make tough but prudent decisions that truly reform the financial system and reduce the role that too-big-to-fail banks have on the economy; b) when Federal Reserve officials signal concern for the declining value of the dollar, and take action accordingly; and c) when we eliminate our trade deficit. Whether that means we sell gold when it appreciates 15% or 50% from current prices or even twice what it is today, we cannot say.

When gold last peaked in 1980, it did so only because investors had become convinced that the then Chairman of the Federal Reserve Board, Paul Volcker, showed that he was serious about taking the necessary measures to reduce inflation when he raised the Federal Funds rate to 20% in June 1981. In comparison, today the Federal Funds rate is effectively 0% with no signs that the Federal Reserve has any interest in containing inflation. We expect that the time will come again when the Federal Reserve will again raise interest rates dramatically to contain inflation, but we do not expect that time will be soon.



Also, in 1981, when gold peaked at the same time as the Federal Reserve hiked interest rates to 20%, stocks were despised and inexpensively priced asset classes. We expect that when it is eventually time to exit our gold position that we will see exceedingly attractive values once again.

Gold Bullion as a Sustainable Investment

As many of you know, we screen our portfolio investments not just for value, but also for social and environmental sustainability. For that reason, we are often asked the question: how is gold a sustainable investment? The following is our long-winded answer to this question.

We want to emphasize that we own gold bullion - not gold mining companies. Most gold mining companies do not meet our environmental screens or our human rights screens. Simply put, gold mining is a dirty business. Due to the myriad of political, social, and environmental issues, it is also not a particularly attractive business. For those reasons, we do not own gold mining companies in the Appleseed portfolio.

At the same time, we believe that owning gold is more sustainable than owning most other commodities. Gold has little industrial use and is largely held in the form of bullion, coins and jewelry; importantly, because of its great value, gold is *not* consumed. Indeed, most of the gold that exists above-ground today was mined years ago and is recycled between investors and jewelry owners. We currently estimate that just 1.5% of the world's above-ground supply is mined each year. We wish that gold mining activity was more responsible, but the marginal ounce of gold is not derived from gold mines; it is derived from gold scrap, from melted down jewelry, and most recently from selling by the IMF. The gold bullion held in the trusts we own is purchased through the London interbank market, which is a secondary market. In other words, our trusts are buying gold bullion that is already in circulation.

The extent to which gold is mined for investor use is also far less than other industrial and precious metals. For example, silver is also a precious metal which, like gold, has a historical monetary role. However, silver also has many more industrial uses – in electronics, photography, batteries, mirrors, and other products. We estimate that, unlike gold, more than 100% of the world's above ground supply of silver is mined ever year. In the case of silver, because it is consumed so readily, the marginal ounce of silver must come from a mine.

Before closing, we will leave you with a prescient quote from “Economic Consequences of the Peace” written by the eminent economist, John Maynard Keynes, after World War I:

“Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, **while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth.** Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become 'profiteers,' who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and **the process of wealth-getting degenerates into a gamble and a lottery.**

Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.”

As this process unfolds today, we approach the markets every day trying to find sustainable value while giving appropriate recognition to the fact that we are living through historic times.

We thank you for the trust you have placed in us; be assured, we take our responsibility as stewards of your



capital very seriously.

Sincerely,

Rick Singer, CFA

Ron Strauss, CFA

William Pekin, CFA

Josh Strauss, CFA

Adam Strauss, CFA

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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