



July 15, 2011

Dear Appleseed Shareholder:

The stock market, as measured by our performance benchmark, the S&P 500 Index, increased marginally by 0.4% in the second quarter and by 5.9% for the first six months of 2011.

Notwithstanding the seemingly flat performance of the market in the June quarter as a whole, stock prices continue to exhibit an unusual amount of volatility from one day to the next, giving mood-whiplash to investors. The day-to-day volatility is unsettling to many. We have no strong opinion on what day-to-day trading implies--our approach is strictly long-term, and we view volatility as an opportunity to put our shareholders' capital to work in securities where the risk/reward relationship makes sense.

The old saying "Don't fight the Fed" has rarely been more valid than during the period since the Bear Market bottom of March 2009. The Federal Reserve's easy monetary policy, adopted in late-2008, drove interest rates downward and the stock and bond markets up. The Fed's charge was to breathe life into an economy crippled by the financial collapse of 2008 and the cumulative impact of too many decades of household and government debt accumulation.

Federal Reserve Chairman Bernanke said he wanted a stronger stock market, and, by buying bonds for the Fed's account and maintaining interest rates at historic lows, he has engineered one of the strongest market rallies in history. He claimed the "wealth effect" would make people feel better; more wealth would lift consumer spending and, with it, the economy. To date, some have lifted their spending, but many have not. Upper-end spending (Tiffany, Nordstrom, Sotheby's, etc.) has, in fact, increased markedly, but most consumers have kept a tight grip on their purses. Any improvement in household wealth has largely been limited to high net worth individuals.

The Fed's money boom has not been especially helpful to most middle-class families because the economic recovery has been tepid and because rising food and energy costs have substantially reduced their discretionary income (income after necessities). Also, much of their wealth is tied up in heavily mortgaged homes whose value has sagged. As a result, consumer sentiment, as measured by the Conference Board/University of Michigan surveys, while higher than a couple of years ago, remains low by comparison to most past survey periods.

Subdued Investor Sentiment Accompanies Low Consumer Sentiment

A recent Gallup survey indicated that most investors (67%) lack the optimism that normally accompanies a bull market. While investors are not particularly optimistic about the future, neither are they pessimistic. Our view is that valuations have become elevated in the face of potentially serious headwinds, and any look-the-other-way approach to investing has its risks. Some of the troubling issues that investors may be ignoring include:

- Cheap and easy money policies have driven global commodity prices higher, leading important drivers of the world's economy such as China, India, and Brazil to take actions designed to slow their respective economies and their inflation rates.
- While it has been relatively quiet in the Middle East and North Africa in recent weeks, political instability in the region, driven in part by soaring food prices, remains an ongoing concern.



- Insufficient and belated recognition by governments in developed countries around the world of the need to get their fiscal houses in order.
- Notwithstanding its recent agreement to adopt austerity measures, Greece remains on life-support provided by the IMF and the EU (and Ireland, Portugal, Spain, and Italy are no pictures of economic health themselves).
- The world's third largest economy, Japan, is in a recession, principally as a result of the tragic earthquake and tsunami.
- At home, the Misery Index, which is calculated by adding the current inflation rate (3.6%) to the unemployment rate (9.2%), is at a 29-year high at 12.8.
- Historically high U.S. corporate profit margins (stemming from prior years' belt-tightening efforts and the weak dollar stimulating export demand) are likely unsustainable, particularly in an environment when rising commodity costs are not being offset with commensurately higher selling prices. Lower profit margins would put earnings growth at risk.

It has been slightly more than two years since the U.S. recession officially ended, according to the National Bureau of Economic Research, the official arbiter as to whether we are in an expanding economy or a contracting economy. The Great Recession may be technically over, but, for many, it is still very much with us. Not only is unemployment stubbornly high but *underemployment* is also very high. The Department of Labor reports that one in four middle-aged men lack a full-time job, and the number of individuals using food stamps is presently a stunning 44 million.

And, not surprisingly, despite heroic efforts by the government, the housing market remains depressed. Housing prices (nationally) have returned to 2002 levels, one-third below peak prices reached in late '05-early '06. In total, \$7+ trillion of household wealth has been erased by the bursting of the housing bubble. Moreover, a near-term turnaround appears unlikely as mortgage availability remains limited, foreclosures continue at a brisk pace with 4.5 million homeowners three or more payments late, and 23% of all homeowners are underwater on their mortgages—that is, they owe more to their lender than their houses are worth.

Facing Stagflation

We continue to believe the U.S. is in a period of stagflation—when slow economic growth is accompanied by higher rates of inflation, much like the U.S. experienced in the late-1970s. Today, the potential growth of the economy is hampered by the presence of too much debt in the system and the clear need to reduce it. As long as private and public debts remain excessive, we expect that consumer spending and business investment will remain tepid. At the same time, commodity costs are rising because too much money is chasing too few goods, driven by an ocean of liquidity provided by central banks here, in Europe and in Japan.

With the prospect of slow growth over the intermediate period ahead, we continue to favor companies that should perform well even in a sluggish economy. While shunning companies producing highly discretionary durable goods, we continue to maintain overweight positions in healthcare companies, such as **Johnson & Johnson (JNJ)**, **Pfizer (PFE)**, and **Novartis (NVS)**, and consumer staples producers, such as **John**



B. Sanfilippo (JBSS) and Dr. Ci: Labo (4924). In the current environment, we feel more comfortable owning an overweight position in undervalued securities of companies that operate in defensive industries.

With the likelihood that higher rates of inflation will accompany slow growth, we continue to maintain our gold bullion trust positions. We believe these positions should help protect the real value of our shareholders' capital.

Fund Update

As of 6/30/11, our assets under management have increased to \$187 million. Our growth has been driven by solid investment performance and by additional investments from existing and new investors. We are grateful to all of you who have invested with us.

Thus far, we are meeting our goal of generating returns that outperform the market over the long-term. Since the Fund's inception in 2006, the Appleseed Fund has generated a compound annual return of 8.1%, versus the S&P 500's annual return of 0.8%.¹ We attribute our investment performance to our risk averse investment culture, to the hard work and diligent research of our staff, and to the strength of our investment process. Every investment decision we make undergoes an extremely rigorous vetting. We learned years ago that the combined brainpower of our investment professionals yields far better decisions than the brainpower of any single individual. Every security purchased is analyzed, written-up, carefully scrutinized by our entire team of nine investment professionals, and then voted on by the portfolio managers. Each investment candidate is subjected to a number of tests and screens before being purchased for the Fund. While the task of ongoing monitoring of our holdings is the responsibility of the analyst that proposed the stock in the first place, the entire team participates in the continuing debate (and decision) as to whether we stand pat with our holdings, add to them or sell them.

We have carefully expanded our investment research capability with the addition of two dedicated research analysts; first, Neeraj Bahl three years ago and more recently Ron Chan. We hired them due to their academic and industry credentials and because they appeared to be independent and critical thinkers. They have both made important contributions to our research efforts since joining us. In 2009, we also hired Christen Farrey as Appleseed's Sales Director. She is available and eager to discuss any questions that you might have about the Fund. Christen can be reached at 312-896-9660 or at christen@appleseedfund.com.

Warren Buffett has been quoted as saying that all you need to be a successful investor is to adhere to two

¹ *Through 6/30/11, the Appleseed Fund generated a one-year return of 16.7%, a three-year annualized return of 14.7%, and an annualized return of 8.7% since the Fund's inception on 12/08/06. The gross expense ratio of the Fund is 1.64%, and the net expense ratio after contractual fee waivers is 1.31%. The advisor has contracted with the Fund to waive fees to maintain a 0.99% expense ratio (excluding indirect expenses) through February 29, 2012. All data as of 6/30/11. Performance data quoted above represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment 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 is available by calling us toll free at 1-800-470-1029. The S&P 500 Index is a widely recognized unmanaged index of equity prices and are representative of a broader market and range of securities than is found in the fund's portfolio. The Index returns do not reflect the deduction of expenses, which have been deducted from the fund's returns. The Index return assumes reinvestment of all distributions and does not reflect the deduction of taxes and fees. Individuals cannot invest directly in the Index, however, an individual can invest in exchange traded funds or other investment vehicles that attempt to track the performance of a benchmark index.*



basic rules: Rule #1 is “Do not lose money” and Rule #2 is “Do not forget Rule #1”. These two rules are the very foundation of our modus operandi at Appleseed. This is not to say that we do not make decisions that turn out poorly from time to time, because we do. But it is not because we ignored Buffett’s two rules.

It is axiomatic that, without risk you have no return, and, when you take risks inevitably mistakes will be made, and money-losing investments do occur. Nonetheless, our view is that it is our job to minimize the downside risk to your capital. Our risk management efforts, as the Fund’s portfolio manager, begin with our conservative value-oriented investment philosophy. This philosophy can best be summed up by saying we purchase 65-cent dollars and expect that some time in the future other investors will pay us 100 cents for each dollar invested. By investing in companies at steeply discounted prices, we believe our downside risk is limited and the impact of mistakes we make remains in a tolerable range. In addition, we believe that buying responsible companies further limits the downside business risk of our investments.

Finally, we would be remiss if we did not say that a key component of our ability to serve our shareholders well is their patience with our approach to investing. Sometimes our investment thesis is realized in fairly short order. Other times, it takes years, and, when it does so, we have to give credit to the long-term orientation and trust of our investors.

Before closing, we wish to express our appreciation for your continued confidence in our ability to achieve long-term results that exceed the return of the market.

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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