February 1, 2017

Dear Appleseed Shareholder:

"Get the fundamentals down and the level
of everything you do will rise."

– Michael Jordan

The stock market has been ripping upwards ever since the U.S. election on November 9th, with investors pouring more than $100 billion into U.S. equity ETFs during the last two months of 2016. As stocks continued to rise into the close of 2016, several bullish Trump-centric investing narratives have been put forth to explain the increase in animal spirits behind this rally. These narratives, we believe, are overly optimistic and incorrectly dismissive of several important fundamental factors that are likely to stand in the way of strong U.S. stock market returns during the intermediate period ahead.

Before discussing the challenging economic fundamentals facing investors, let us first review the bullish stock market narrative we would like to dispel. The financial press, always ready to explain a stock market rally, eagerly suggests that "*it's time to buy U.S. stocks because…*"

- *Following the playbook of Ronald Reagan, Donald Trump is going to unleash a fiscal stimulus that will accelerate the current U.S. economic recovery; and*

- *Trump is going to create trade deals that will revive the U.S. manufacturing sector which will boost wages and the economy.*

These narratives, in our view, may be misleading and potentially harmful for an investor's long-term financial health.

In light of the recent stock market rally and a considerable increase in political and economic uncertainty since the election, we think that it is as important as ever for investors to "get the fundamentals down." With that goal in mind, we offer several counter-points for consideration:

- *New Presidents and Recessions*
  Newly elected Presidents are often greeted with recessions; this has been particularly true with respect to newly elected Presidents who are replacing a retiring two-term President. Barack Obama, George W. Bush, Ronald Reagan, and Gerald Ford all faced recessions in the early years of their administrations, and that was just in the past 50 years. Furthermore, the Great Depression, the Dot-Com Bubble, and the Financial Crisis all transpired just as new presidential administrations were taking office. We provide these data points as a warning that presidential turnover in modern times, have often coincided with economic slowdowns.

- *Economic Cycle Longevity*

  The U.S. economy has been expanding for the past eight years, which is a relatively long time. U.S. economic expansions have *never* exceeded ten years without a recession, and, historically, most U.S. economic expansions have lasted fewer than eight years. We do not know precisely when the next recession will begin, but we do believe that we are likely closer to the end of the current expansionary cycle than we are to the beginning.

- *2017 is not 1982*

  The U.S. stock market did indeed experience an enormous bull market during the Reagan administration. However, the bull market in stocks began under Reagan's watch only *after* a deep economic recession and a significant bear market in stocks transpired during Reagan's first two years in office. It is also important to note that stocks were much cheaper at the start of Reagan's tenure, with the S&P 500 trading at roughly 7x cyclically-adjusted earnings vs 26x today. Furthermore, a credit expansion began in 1982, supporting strong increases in both government and consumer spending during a time when both sectors had ample capacity to lever their balance sheets. Today, the opposite situation exists; interest rates are near a multi-generational low level, while debt levels are at record highs.

Economic and Financial Conditions, 1982 vs. 2017

	1982	2017
Fed Funds Rate	18.0%	0.5%
10 Year Treasury Yield	15.0%	2.5%
Mortgage Rate	16.3%	3.9%
Household Debt to Income	62%	130%
U.S. Government Debt/GDP Ratio	30%	105%
Total U.S. Debt/GDP Ratio	90%	360%
Productivity Growth	2.00%	0.25%
10 Year Treasury Yield	15.0%	2.3%
S&P 500 CAPE10 P/E Ratio	7x	26x
S&P 500 Median Price/Sales Ratio	0.5x	2.2x

Source: 720 Global

- *Fiscal Stimulus an Unlikely Savior*

  We are skeptical that a massive fiscal package will be passed without the impetus of a recession occurring first, given the reluctance of Republicans in Congress. We are similarly skeptical that a stimulus package will provide anything more than a moderate, short-term jolt to the economy, unless the package results in productivity-enhancing investments. Furthermore, if Trump is successful in his goal of reducing the trade deficit, foreign investors will be unlikely to supply the United States with much needed capital for a fiscal stimulus program, because the foreign capital inflows that the United States enjoys today only occur due to the country's current account deficit.

- *Financial Conditions Tightening*

The Federal Reserve raised interest rates in December 2016, a few weeks after the election, and Federal Reserve Chairperson Janet Yellen is setting an expectation that, barring unforeseen circumstances, the Federal Reserve will likely raise interest rates three more times in 2017. Unfortunately, as interest rates rise, so too will debt service costs for the Federal government, for local and state governments, for corporations, and for consumers. In an economic recovery where growth has thus far been driven largely by credit expansion, any increase in interest rates should lower economic growth as consumption and investment must be curtailed for increased interest payments.

- *Strong Dollar*

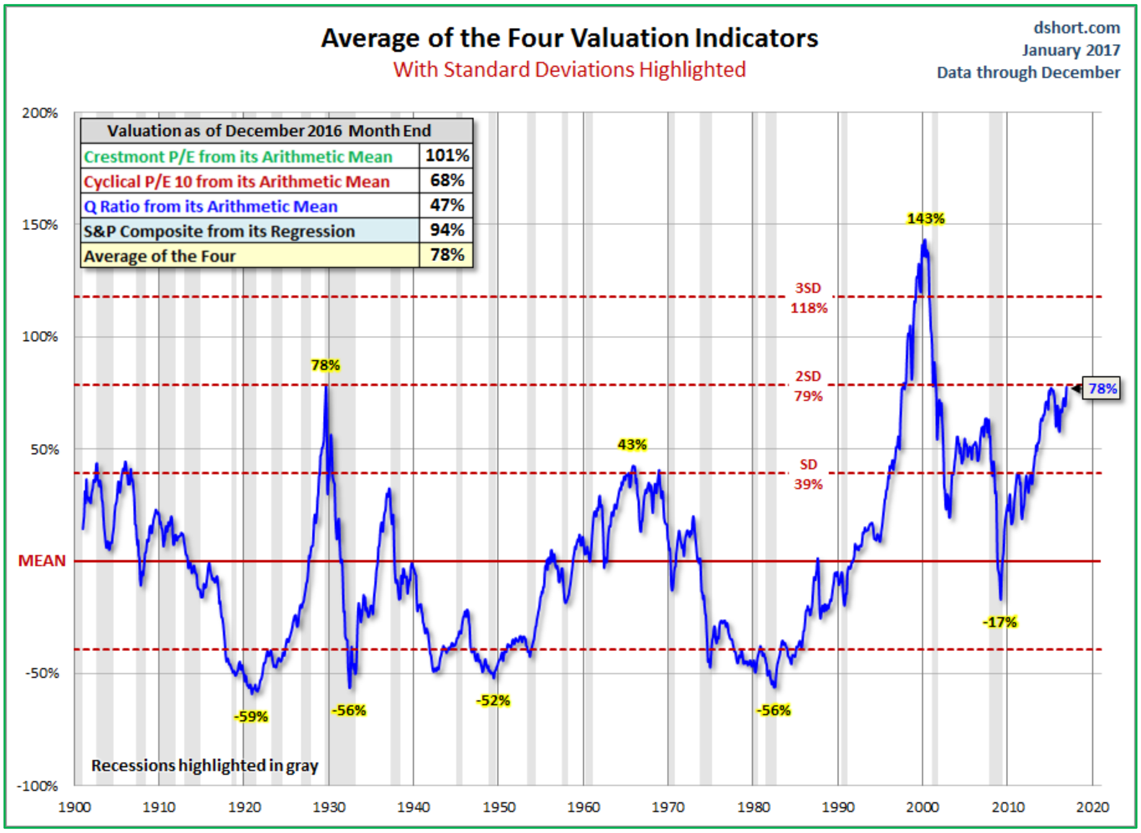
  During the presidential campaign, Donald Trump clearly voiced his interest in seeing a weaker dollar to boost U.S. exports and generate additional U.S. manufacturing jobs. Since the election, the U.S. dollar has not weakened; rather, it has *strengthened* considerably. A stronger dollar not only makes it harder for Trump to achieve his export goals, but it also reduces corporate profits due to a decline in the dollar value of the overseas profits of U.S.-based multinational corporations. If the dollar remains strong, we expect U.S. corporate profits to decline during 2017, all else equal. Indeed, it appears to us that the only plausible path for sustainable growth is an economic stimulus driven by a devalued U.S. dollar. However, U.S. trading partners, including Japan, China, and Europe, are trying to do the same with their currencies. We suspect that Donald Trump, behind the scenes, will be seeking trade agreements that limit the role of the U.S. dollar as the world's reserve currency, thereby reducing worldwide demand for U.S. dollars.

- *Profit Margin Pressure*

  Beyond the impact of a strong dollar, other sources of profit margin pressure include higher interest rates and increased labor costs, possibly mitigated by Trump's plan to cut corporate tax rates. Companies that choose to move their manufacturing operations back to the United States might create additional domestic jobs, but increased labor costs should reduce corporate profit margins. While Congress may reduce the corporate tax rate, we expect any tax rate reductions will be offset with fewer tax loopholes, resulting in an effective corporate tax rate that might not be significantly different in the aggregate from what U.S. corporations pay today.

- *U.S. Stocks are Historically Expensive*

  The chart on the next page depicts the simple average long-term valuation history of the S&P 500 using four different, but widely used, valuation techniques. Regardless of the measure used, U.S. stocks appear expensive on an absolute basis and relative to history; in the chart on the next page, the only two times that the S&P 500 Index was more expensive than the present time over the last century occurred in 1929 and in the period between 1998 and 2000. Passively investing in the S&P 500 Index during those two periods generated a poor investment return during the decade that followed, to say the least. While the U.S. stock market could become more expensive in the short-term than it is currently, we believe prudence and selectivity are currently warranted with regards to U.S. stocks.



- *Trade Wars Loom*

  Even before Trump was elected, global trade had been declining, driven by a slowdown in China, by lower commodity prices, and by lower oil prices. Trump appears serious about pursuing a more protectionist trade policy to strengthen the domestic job market and reduce the U.S. trade deficit. Increased global trade has been an enormous tailwind to the global economy over the past 30 years; it is difficult to imagine how a decline in global trade going forward would not represent an enormous headwind for the global economy and a significant source of geopolitical and economic risk.

Despite the short-term revival of investors' animal spirits since the election, we would suggest that long-term investors ignore the noise of the short-term market rally and pay closer attention to the long-term fundamentals which will have a more important influence on long-term investment returns. U.S. stock market valuations are elevated, while interest rates are historically low. High levels of debt continue to create a burden on many sectors of the global economy, and an increase in interest rates have only worsened this burden. Global trade has been declining, and there is the risk that developed counties either back away from globalization or inadvertently stumble into a trade war. We expect that idiosyncratic investment opportunities will continue to surface; nevertheless, now is a time to maintain investment discipline, in our view.

Renowned value investor, Benjamin Graham, once said that, "In the short run, the market is a voting machine but, in the long run, it is a weighing machine." Truer words have never been spoken. After U.S. voters finished voting at the ballot box, investors have been voting with their capital, driving up already-expensive U.S. share prices, at least for now. In the long-term, we expect the factors described in this letter will likely weigh on U.S. equities, resulting in sub-par broad stock market returns over the intermediate period ahead.

Portfolio Changes

During the recent market upturn, we have been trimming and selling many equity positions. During Q4, we liquidated our positions in **DSW Inc. (DSW)**, **Willis Towers Watson Ltd. (WLTW)**, **Rentech (RTK)**, **Air Lease (AL)**, **Sberbank (SBRCY)**, **Okuma (6103-Tokyo)**, and **Equity Commonwealth (EQC)**, most of which are U.S.-listed companies. All of these investments were profitable investments for Appleseed shareholders with the exception of Rentech, which we sold for a tax loss. We also trimmed our positions in **Titan International (TWI)** and **ScanSource (SCSC)** during the year; both companies experienced significant share price appreciation in 2016.

The only new equity position during the most recent quarter is **Grand Canyon Education (LOPE)**, a stock we purchased prior to the election due to the company's management quality, program quality, and excessive discount in the company's share price relative to our estimate of the company's intrinsic value. Since our initial investment, Grand Canyon's intrinsic value discount has compressed greatly, to the benefit of Appleseed Fund shareholders; although a recent addition to the portfolio, Grand Canyon turned out to be one of the Fund's most significant contributors to performance in 2016. We also initiated a small position in Mexican sovereign debt after the Mexican Peso declined in the aftermath of the U.S. election.

Should stock prices continue to rise, we expect to take advantage of additional selling opportunities. As mentioned earlier, while attractive investment opportunities in U.S. stocks currently appear to be few and far between, foreign stock valuations are generally more attractive. We are busy researching companies and preparing a shopping list for both foreign and domestic investment opportunities, readying ourselves for the time when the current climate of political and economic uncertainty spreads to the stock market and creates volatility for value-oriented investors.

With regards to the Fund's cash and fixed income investments, we think prudence is warranted here as well. Treasury bond yields are moderately more attractive compared to the record low yields reached in the summer of 2016, but corporate credit spreads continue to compress further, which means that corporate bond investors are presently being paid insufficiently for taking on corporate credit risk.

To the extent that gold tends to perform well during periods when uncertainty increases, we expect that Donald Trump's administration will contribute to higher gold prices during the coming years ahead. Since the election, this has not yet happened, but we are patient gold investors.

Portfolio Performance

Appleseed Fund Investor shares generated a 9.94% return during 2016. Since inception in December 2006, Appleseed Fund has generated an annualized return of 5.70% per annum. The most significant contributors to performance in 2016 were **United Natural Foods (UNFI)**, **Grand Canyon (LOPE)**, **McDermott (MDR)**, **Sberbank (SBRCY)**, **Okuma (6103-Tokyo)**, and **Titan International (TWI)**. The returns from these winners and other winners were partially offset in 2016 by the most significant detractors among the Fund's long positions, which included **Syntel (SYNT)**, **LPL Financial (LPL)**, **Oaktree (OAK)**, and **Herbalife (HLF)**. With the exception of LPL Financial, we increased our investments in these companies to take advantage of lower share prices and increased margins of safety.

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With 2016 behind us and 2017 just beginning, we want to take this opportunity to wish shareholders a happy, healthy, and prosperous New Year. We thank you for your long-term commitment to our investment philosophy, our investment approach, and our investment team, which in some cases exceeds a decade. We are only able to make the strategic decisions discussed in this letter because we have shareholders, like you, with patience and a long-term outlook. This support allows us to act and invest with prudence and discipline during markets that can sometimes be difficult to comprehend. Should you have any follow up questions, please do not hesitate to contact Colin Rennich (colin@appleseedcapital.com).

Sincerely,

William Pekin, CFA

Josh Strauss, CFA

Adam Strauss, CFA

Through 12/31/2016, the Appleseed Fund (APPLX) generated a one year return of 9.94%, a three year annualized return of -0.60%, a five year annualized return of 5.80%, a ten year annualized return of 5.70% and an annualized return of 5.70% since the Fund's inception on 12/08/06.

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.

Appleseed Fund has contractually agreed to limit the net expense rate to 1.14% of net assets of Investor shares through January 31, 2018. The gross expense ratio of the Fund's investor class is 1.41%, and the net expense ratio after contractual fee waivers is 1.24%. The Fund's ninety day redemption fee is 2.00%.

Diversification does not ensure a profit or guarantee against loss.

Investing involves risk, including loss of principal. There is no guarantee that this, or any investment strategy will succeed. Small and mid-cap investing involve greater risk not associated with investing in more established companies, such as greater price volatility, business risk, less liquidity and increased competitive threat. 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 and other financial standards. Fixed income investments are affected by a number of risks, including fluctuations in interest rates, credit risk, and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall.

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.

As of 12/31/2016 the following represent the fund's top ten holdings - Sprott Physical Gold Trust - 14.78%, Herbalife Ltd - 8.80%, United Natural Foods Inc - 7.15%, Oaktree Capital Group LLC - 4.83%, SK Telecom Co Ltd ADR - 4.06%, Aggreko PLC - 3.82%, Syntel Inc - 3.62%, Bayerische Motoren Werke AG - 3.15%, Verizon Communications Inc - 3.15%, Toyo Tanso Co Ltd - 3.02%.

Terms:

S&P500 CAPE10 P/E Ratio - Price earnings ratio is based on average inflation-adjusted earnings from the previous 10 years, known as the Cyclically Adjusted PE Ratio (CAPE Ratio), Shiller PE Ratio, or PE 10

S&P500 Median Price/Sales Ratio - Current price to sales ratio is estimated based on current market price and 12 month sales ending September 2016 — the latest reported by S&P.

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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