November 6, 2017

"This is an upsetting event to all of us here at United…
I apologize for having to re-accommodate these customers."

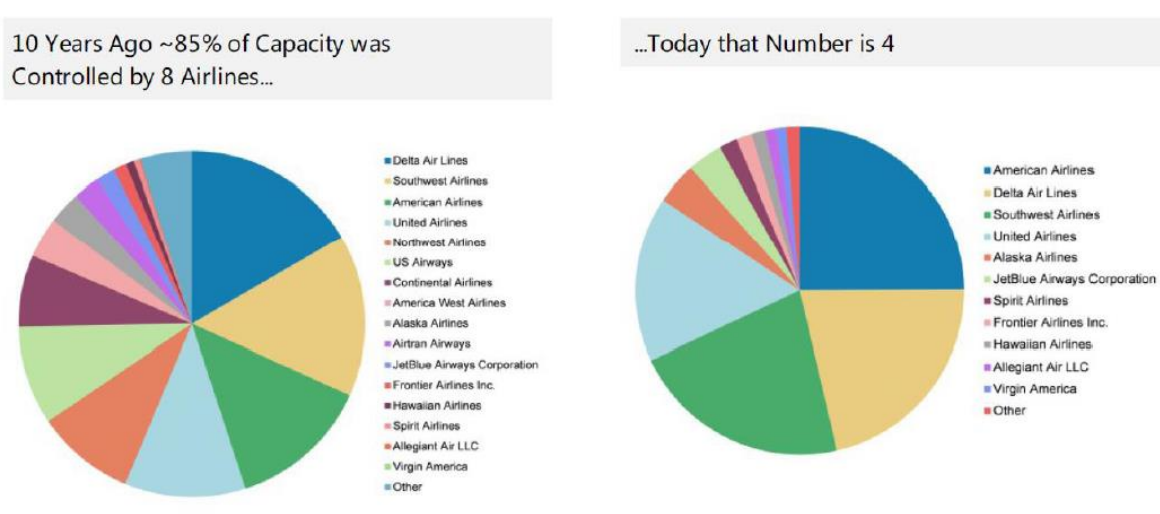
– Oscar Munoz
CEO of United Continental Airlines

Dear Appleseed Shareholder,

After refusing to give up his properly assigned airplane seat to an off-duty United Continental employee, Dr. David Dao was assaulted by O'Hare Airport security personnel this spring. Dr. Dao was subsequently pulled from his seat, thrown violently against an arm rest, and then dragged off the plane, much to the horror of the other passengers.

Many who watched the online video clip of this assault might have wondered, "How could this be allowed to happen?" The virtual mugging of Dr. Dao seems like the kind of incident which could only happen in a servile dictatorship lacking any rule of law. Just as shocking, United Continental's share price in the immediate aftermath was thoroughly, and surprisingly, unfazed. In fact, the company's share price *increased* during the four-week period immediately following United Continental's embarrassing demonstration of customer service. As we watched the uncanny resilience of the company's share price, we wondered, "How could United Continental's share price not decline in the face of such news?"

Figure 2. U.S. airline industry competitive landscape



Source: Morgan Stanley.

We surmise that the answer to our question is related to the U.S. airline industry having become somewhat of an oligopoly; the airline carriers, for the most part, do not depend on customer service to maintain market share. Today, just four airlines (United Continental, American, Delta, and Southwest) control over 85% of U.S. domestic routes, but that statistic underestimates the extent of industry concentration when it comes to airline carriers. Beyond the overall industry concentration that now exists across the country, consumers often have only one carrier option in many airports.

United Continental management likely believed that the incident with Dr. Dao would have a limited, if any, effect on the company's market share and earnings, which is probably why CEO Munoz's immediate response reflected a tin ear towards public concerns. Similarly, as demonstrated by the muted stock price reaction, investors also believed that any repercussions from this assault would have a minimal impact on United Continental's market share or earnings.

As a company that operates in an oligopolistic industry, United Continental's management knows that it can more easily generate earnings growth by taking advantage of its considerable market power; that might mean spending less on customer service, raising prices on uncompetitive routes, coordinating with other airlines on routes and airports to minimize competition, and/or leaning on regulators to allow for further industry consolidation over time. As a result, these actions have allowed the airlines to generate record profits today, despite levels of customer service which have arguably never been worse.

35+ Years of Corporate Consolidation

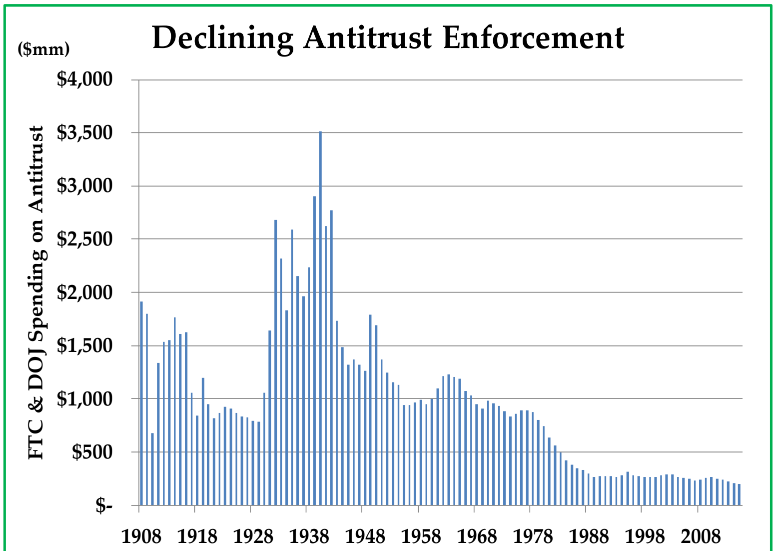
The seemingly inexorable trend towards corporate consolidation has been a multi-decade trend which goes far beyond just the airline industry. As a result of 35+ years of M&A activity essentially unchecked by antitrust enforcement, corporate concentration has increased in virtually every industry, including wireless telecom services, cable television, hospitals, pharmaceuticals, medical insurance, and many others. The biggest banks, now commonly known as "too-big-to-fail," are orders of magnitude larger than they were prior to the financial crisis due to increased consolidation, and the unchecked political power of the banking industry has become an increasing worry for voters, liberal and conservative alike.

Even relatively nascent industries such as online search, online retail, and social media have become enormously concentrated -- all of these categories are virtual monopolies today due to considerable network effects which have been made worse by unchecked M&A activity. Beyond its core service, Facebook now owns WhatsApp, Instagram, and Oculus through acquisition; similarly, Google acquired Android, YouTube, Waze, and DoubleClick. Even Amazon is using M&A to expand its market power; the company recently acquired Whole Foods, a company which represented approximately 50% of the market for natural groceries. Whole Foods, in turn, enjoys its leading market share as a result of buying out Wild Oats, Fresh Fields, and other competing natural grocery chains over the past two decades.

The U.S. economy has been in this place before. The late 19th century was also known as the "Gilded Age" because monopolies were blossoming at that time much like they are today. The Gilded Age term was coined by Mark Twain to describe a period where everything looked shiny on the surface but was corrupt underneath. Back then, railroads, steel, and oil were the major monopolies. Like today, the late 19th century was a period of incredible technological innovation, rapid economic growth, and increasing wealth inequality. Also, like today, the social instability caused by towering corporate concentration led to a rise in populism; William Jennings Bryant ran a very competitive election race for President in 1896 and in 1900 by attacking "moneyed interests" and American imperialism.

To limit the political power and destructive economic impact of corporate monopolies, the U.S. Congress passed the Sherman Antitrust Act of 1890. According to the Supreme Court, the purpose of the Sherman Act "…is to protect the public from the failure of the market. The law directs itself not against conduct which is competitive, even severely so, but against conduct which unfairly tends to destroy competition itself."[1] In 1911, the Supreme Court relied on this law to break up Standard Oil, which enjoyed ~90% market share in the oil and gas industry at the time.

However, during the past 35 years, antitrust has become a low priority for every Presidential administration, Republican and Democrat alike. Antitrust enforcement declined precipitously after the last major anti-monopoly enforcement case that was prosecuted successfully against AT&T in 1982. The chart set forth to the right illustrates how the importance of antitrust enforcement to policymakers has evolved over the span of the past hundred years. Since the 1980s, antitrust simply has not been a priority for policymakers.



Source: Ramsi Woodcock, "Per Se in Itself: How Bans Reduce Error in Antitrust" Figures in 2009 dollars adjusted for inflation, GDP, & productivity.

Weighing the Benefits & Costs of Corporate Concentration

Many would argue that strong antitrust enforcement could be bad for the economy. Certainly that has been the view of the U.S. Federal Trade Commission for the past few decades. We would suggest that one's view of corporate concentration probably depends in large part on the eye of the beholder:

- For *large company CEOs*, monopolies are fantastic. The larger the fiefdom that a CEO is able to oversee, the more market power the company wields, thus typically leading to higher CEO compensation. Large company CEO compensation has increased exponentially in recent decades, in part as a result of unabated M&A activity.

- For *consumers*, increased competition means more options from which to choose. A competitive market offers more options for consumers than an uncompetitive market with just one or two companies. Conversely, monopolistic markets such as the cable industry leave consumers with unattractive prices *and* poor service levels.

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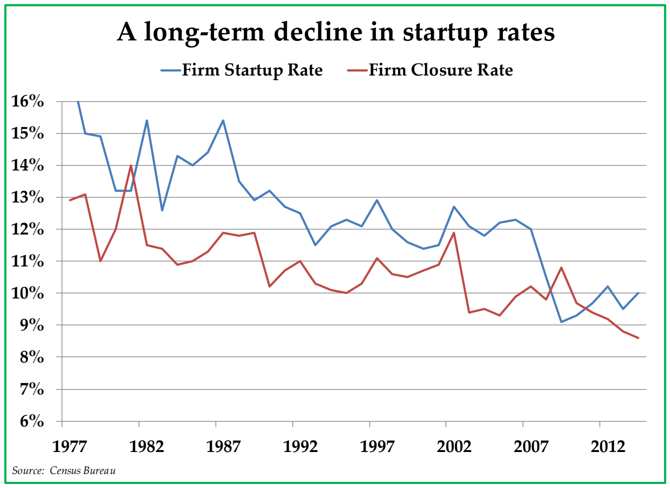
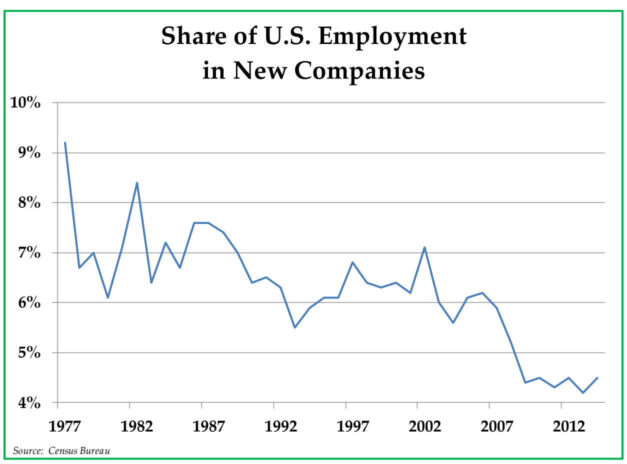
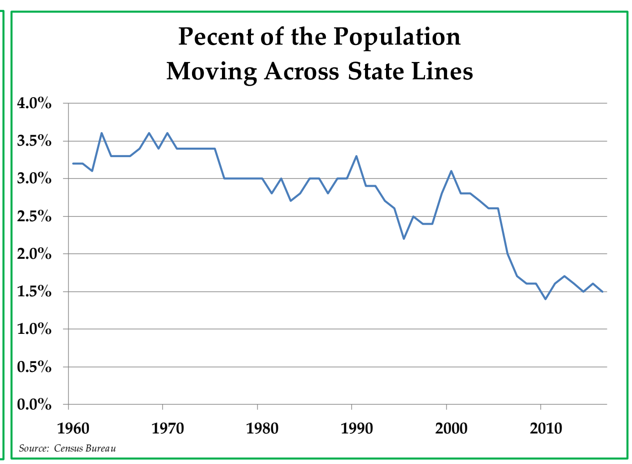
[1] Source: *Spectrum Sports, Inc. v. McQuillan*, (1993).

- For *entrepreneurs*, it has become increasingly difficult to form a new business due to increasingly high barriers to entry. While new companies are still being formed in isolated sectors such as the technology industry, the startup rate is near a record low across the wider economy. Lower new business formation reduces the dynamism of the U.S. economy.



- For *employees*, finding employment opportunities becomes more challenging in an economy dominated by oligopolies. Large companies tend to be net eliminators of jobs, while new companies tend to be net creators of jobs. With fewer new companies being formed, job turnover and job mobility have declined. In addition, fewer companies with increased bargaining power over employees has resulted in lower wages for many.





- For *small companies* trying to compete with large firms, the deck is unfavorably stacked. For example, we have long been critics of the Dodd-Frank financial reform act because it was largely written by lobbyists who were working to push the interests of the largest financial institutions. The most important development stemming from the implementation of Dodd-Frank has been the increase of barriers to entry; today, it is increasingly difficult for small banks and financial services companies to thrive. Meanwhile, the largest banks like Wells Fargo are able to disregard regulations and harm consumers without significant business repercussions.

- For *the economy*, less competition means less innovation and less productivity growth. Monopoly companies are less likely to invest in research & development or in capital improvements to enhance their competitiveness; indeed, both measures have grown anemically in recent years. Some companies, like Valeant Pharmaceuticals, have built their business models around acquiring companies and then cutting out all research & development expenditures immediately after the acquisition closes. With declining levels of investment and correspondingly weak productivity growth, robust economic growth is more difficult to achieve.

- For *the political system*, as economic power is concentrated in fewer hands, the political sway of American corporations is also far greater. Supreme Court Justice Louis Brandeis, a strong proponent of antitrust enforcement, once said, "We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can't have both." This important principle applies to both people and corporations alike.

- For *investors*, the impact of corporate concentration is mixed. As corporate concentration increases and the general level of competition declines, companies have an easier time exerting market power over customers, vendors, employees, and regulators to boost profits. On the other hand, increased monopoly power results in a less dynamic economy with lower economic growth. Lower economic growth negatively impacts earnings growth, while poor productivity growth makes it difficult for the general standard of living to improve.

When Does the Tide Turn?

As long as antitrust enforcement remains a tertiary policy priority, the economic status quo is likely to continue, characterized by high profit margins, low labor mobility, low business formation, weak productivity gains, and an increasingly sclerotic economy.

However, history is cyclical, just like markets. For 40 years, the FTC and the Department of Justice have generally taken a do-nothing approach towards corporate consolidation and anti-competitive behavior. Since the 1980s, the pendulum has been swinging in favor of corporate concentration. Eventually, as the political, economic, and social effects of increased corporate concentration become increasingly apparent to dissatisfied voters, a political backlash should become inevitable sometime in the intermediate period ahead.

Relatedly, populism has already increased materially in recent years, just as it did in the late 19th Century, on both the left and on the right; due in part to the economic harm caused by corporate concentration, an increasing number of politicians on both sides of the aisle are beginning to call for greater antitrust enforcement. As recently as this past December, Orrin Hatch, the senior Republican Senator from Utah, joined Democratic colleagues Elizabeth Warren and Bernie Sanders in an unusual bipartisan warning against the growing power of monopolistic companies, saying, "We no sooner trust concentrated private power than concentrated public power to dictate the direction of our economy."

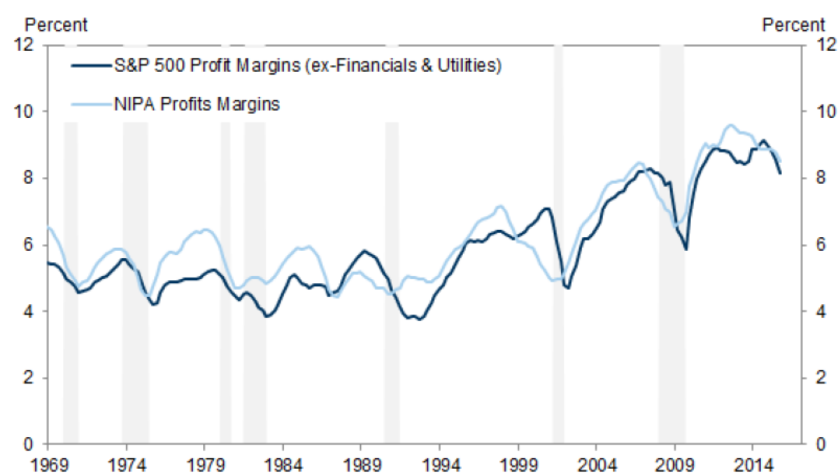
Thus far, antitrust speeches have not yet translated into any significant antitrust enforcement actions. The Trump administration, despite its self-described populist leanings, seems disinclined to pursue antitrust actions vigorously. Meanwhile, companies which enjoy monopolistic profits, such as Google, Facebook, and Comcast, continue to spend vigorously on lobbyists and monopoly-friendly economic studies.

That being said, we do expect U.S. antitrust enforcement to increase in the coming years, resulting in more limited power for monopolists and reduced barriers to entry for competitors. We do not know exactly when the tide will turn, and it likely will not occur during the current presidential administration.

Our Stock-Picking Approach

As demonstrated in the chart below, U.S. corporate profit margins have steadily increased due to declining interest rates, flat wages for workers, and increasing corporate concentration. Corporate profit margins, much like history, tend to be cyclical and mean reverting, and the fat profit margins of U.S. companies are one excellent reason to be less bullish of the investment returns that the U.S. equity market will likely generate over the next five to ten years.

Exhibit 1: Lower Profit Margins Presage Recessions



Source: Standard and Poor's, Bureau of Economic Analysis, Goldman Sachs Global Investment Research

When profit margins may be near a cyclical peak, the gains from further profit margin expansion, should that occur, are more limited, while the losses from profit market compression, should that occur, loom large. On behalf of our shareholders, we try to invest in individual companies where the investments are not dependent on high profit margins continuing or expanding further in order to justify our valuation. Rather, we seek to buy shares in companies where profit margins are depressed temporarily or where the market expects profit margins to compress and remain low.

In addition, we have been diversifying our equity holdings in recent years to increase Appleseed's allocation to foreign stocks. Ironically, profit margins are lower overseas due in part to stricter antitrust enforcement, exemplified by the record antitrust fine of $2.8 billion charged to Google by the European Commission (EC). Google got caught red-handed by the EC for scraping ratings and comments from Yelp and TripAdvisor in an anti-competitive and abusive manner. Due in part to a more rigorous antitrust environment overseas, we are increasingly attracted to foreign companies and U.S. companies with significant foreign operations whose profit margins generally reflect a more rigorous antitrust enforcement environment.

Indeed, whether it is in the United States or elsewhere in the world, investing in companies with lower than normal profit margins is often an attractive proposition. With lower than normal profit margins, the reward from improving profitability seems greater and the risk from compressed margins seems less worrisome. In monopolistic industries, these investment set-ups (where profit margins are low) are generally few and far between today.

Performance and Portfolio Changes

Year to date, through 09/30/2017, Appleseed Fund Investor Class has generated an absolute return of 10.31%, while the MSCI World Index has generated a total return of 16.01%. Our overweight position in gold, cash, and value-oriented stocks have contributed to our relative underperformance to the broad index.

Appleseed Fund continues to exceed our long-term goal of outperforming the market. Through 9/30/17, Appleseed Fund Investor Class has outperformed the MSCI World Index by more than 1.25% per annum on average since its 2006 inception.

Within our equity portfolio, the biggest contributors to the Fund's performance over the past year were **Grand Canyon Education (LOPE)**, **Oaktree Capital (OAK)**, **Herbalife (HLF)**, and **Toyo Tanso (5310-Japan)**.

- Oaktree and Herbalife are run by experienced, high quality management teams that are focused on generating enduring value for stakeholders. Oaktree largely ignored by investors because, as a master limited partnership in the somewhat esoteric area of alternative investment managers, it is not owned in many of the popular passive investment vehicles that investors have been buying en masse during the past few years. While not ignored, Herbalife remains a hated company due to a sustained but ill-conceived public relations campaign driven by hedge fund manager Bill Ackman, who is attempting to profit from his large short position. The share price of both companies have risen during the past twelve months, but they continue to be undervalued in our view.

- In addition to its strong underlying fundamentals, Grand Canyon rallied significantly in the aftermath of Donald Trump's unexpected election victory; we sold our Grand Canyon shares after it exceeded our estimate of intrinsic value.

- Toyo Tanso, a Japanese manufacturer of isotropic graphite, had been a dog in Appleseed's investment portfolio for years. We have tried to remain patient in holding the stock, and we are relieved to say that pricing has finally begun to firm up. Toyo Tanso shares are in the midst being re-rated by investors accordingly; in a very short period of time, the company's shares have moved from severely undervalued to nearly fully valued.

Within our long equity portfolio, the most significant detractors to performance over the past year have been **Mosaic Company (MOS)**, **Syntel (SYNT)**, and **United Natural Foods (UNFI)**.

- On our most underperforming stock list for the second year in a row, Mosaic continues to be hurt by weaker than expected demand for fertilizer. Fertilizer demand will firm up eventually, but not until corn prices strengthen due to a change in the supply and demand dynamic for grains or due to a further weakening in the U.S. dollar. In short, the agricultural industry remains mired in a veritable depression, and, as long as that continues, Mosaic remains in the doghouse.

- Syntel's business has experienced revenues and profit declines over the past year due to spending retrenchment on the part of its largest customer, American Express, and Syntel's share price has declined far in excess of any intrinsic value decline. In the midst of Syntel's share price weakness, we have added to our position accordingly.

- United Natural Foods, which was one of our biggest winners last year, saw a significant share price decline in the wake of Amazon's announcement that they planned to acquire Whole Foods. We hoped the FTC would prevent the acquisition from going forward, but our hope turned out to be misguided. For reasons discussed in depth within this letter, the FTC chose to approve the deal with barely any investigation. Ironically, we initially invested in United Natural Foods under the assumption that the company was largely insulated from competition with Amazon; needless to say, when the facts changed, so, too, did our investment thesis. We now expect that Amazon will eventually remove United Natural Foods as the primary distributor for Whole Foods, and, based on that expectation, we determined that the company's shares were no longer inexpensive. During the most recent quarter, we liquidated our UNFI position.

Besides UNFI, we did not sell out of any other equity holdings this quarter.

During the recent quarter, we initiated new positions in **Qualcomm (QCOM), Spirit Airlines (SAVE),** and **CF Industries (CF).** While the broad market continues to increase in price, we have been active finding new opportunities, and our efforts have borne fruit, even in a quickly rising market.

Billions of people use Qualcomm's products daily and yet few consumers have ever heard about this company. Qualcomm makes money in two ways. First, it receives royalties for its vast intellectual property portfolio, which makes high-speed wireless communication possible. Secondly, Qualcomm's Snapdragon chipsets power numerous electronic devices including Samsung Galaxy S8 and Google Pixel smartphones. Ever increasing technological and capital intensity protects Qualcomm's strong level of profitability, whereas growing global prosperity and booming demand for sophisticated artificial intelligence applications (such as self-driving cars, cloud computing, internet of things, and virtual reality) provide ample room for growth in the years to come.

At the same time Qualcomm's stock price went from high $60s to low $50s after Apple filed a lawsuit against the company in January 2017. We view this legal battle purely as an attempt to renegotiate royalty rates on the part of Apple. Qualcomm has had to deal with similar complaints and investigations many times in the past and has fended them off rather successfully. At our purchase price, the company was trading at EV/FY2016 EBIT of only 8.0x and a dividend yield of more than 4%, which we find attractive for a high quality company like Qualcomm.

With our investment in Spirit Airlines, we are making a bet that, even with the FTC asleep at the switch, a new entrant positioning itself as an ultra-low cost carrier similar to that of Ryanair in Europe should be able to profitably grow market share. For reasons discussed in depth within this letter, the legacy airlines are focused on increasing economic rents rather than improving their customer value propositions. As a relatively new entrant with a lowest cost, lowest price business model and the most fuel efficient fleet in the airline industry, we think there is a good chance that Spirit will succeed in taking market share from high-cost, customer-unfocused airline carriers during the coming decade.

Our overall asset allocation remains roughly the same as it was on June 30. We continue to have a fair amount of dry powder in the form of cash, bonds, and gold, which we hope to deploy when stock buying opportunities increase. In addition, we have purchased puts on the S&P 500 Index and on the Russell 2000 Index in recent months in order to take advantage of all time low levels of volatility.

* * * * * * *

While this has nothing whatsoever to do with investing, we want to provide the fantastic news that one of our valued colleagues, Matt Blume, competed in the Berlin Marathon in September with a time of 2:18:54; this personal record allowed Matt to qualify for the U.S. Olympic trials. We are beyond thrilled for Matt, and we are proud of him too. For those of you who might not know Matt, he has been commuting with his legs for years in his quest to make the Olympic trials; this is a life-long dream come true for him. Congratulations, Matt!

We very much appreciate having your trust to manage your investment in Appleseed Fund, and we similarly are deeply appreciative of your investment patience, which is such a critical factor in generating attractive long-term returns.

If you have any questions about this letter or about Appleseed Fund's investment portfolio, please do not hesitate to contact Colin Rennich, our Director of Sales. His email address is colin@appleseedcapital.com.

Thank you again for your continued support and your trust in our ability to manage your Appleseed Fund investment.

Sincerely,

Billy Pekin, CFA
Adam Strauss, CFA
Josh Strauss, CFA

Through 09/30/2017, the Appleseed Fund (APPLX) generated a one year return of 8.37%, a three year annualized return of 2.76%, a five year annualized return of 5.62%, a ten year annualized return of 6.37% and an annualized return of 6.25% 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.

As of 09/30/2017, Top 10 Portfolio Holdings: Sprott Physical Gold Trust - 13.92%, Herbalife Ltd - 5.89%, Oaktree Capital Group LLC - 4.49%, SK Telecom Co Ltd ADR - 4.03%, Mexico Utd Mex St 4.75% 2018-06-14 - 3.90%, Hyundai Home Shopping Network Corp - 3.58%, China Mobile Ltd ADR -2.96%, COSCO SHIPPING Ports Ltd - 2.88%, Syntel Inc - 2.86%, Bayerische Motoren Werke AG - 2.83%.

The gross expense ratio of the Fund's investor class is 1.48%, and the institutional class is 1.23%; the net expense ratio after contractual fee waivers through January 31, 2018 is 1.25% and 1.06%. The Fund's ninety day redemption fee is 2.00%. 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.

Diversification does not ensure a profit or guarantee against loss.

Definitions

EV/FY EBIT - Forward EV / EBITDA shows how many dollars of enterprise value a company is worth per dollar of estimated EBITDA at the end of the current fiscal year.

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 no associated with investing in more established companies, such as greater price volatility, business risk, less liquidity and increased competitive threat. Investment in international markets present special risks including currency fluctuation, the potential for diplomatic and political instability, regulator and liquidity risks, foreign taxation and difference in auditing and other financial standards. Fixed income investments are affected by overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes and international economic and political developments.

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.

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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