July 31, 2016

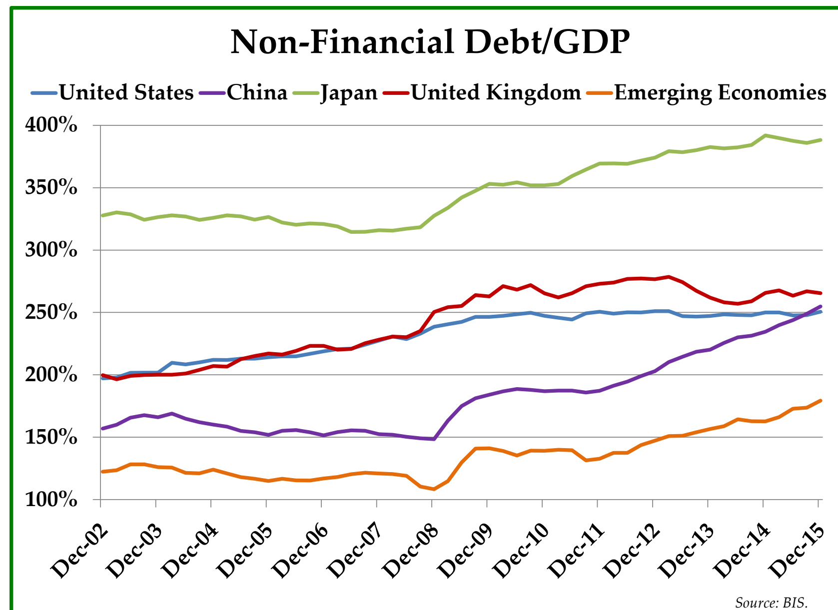
Dear Appleseed Shareholder:

"In March 1853 she was afflicted with a pain in the chest; her tongue seemed to be covered with a film; leeches failed to make her breathing any easier."

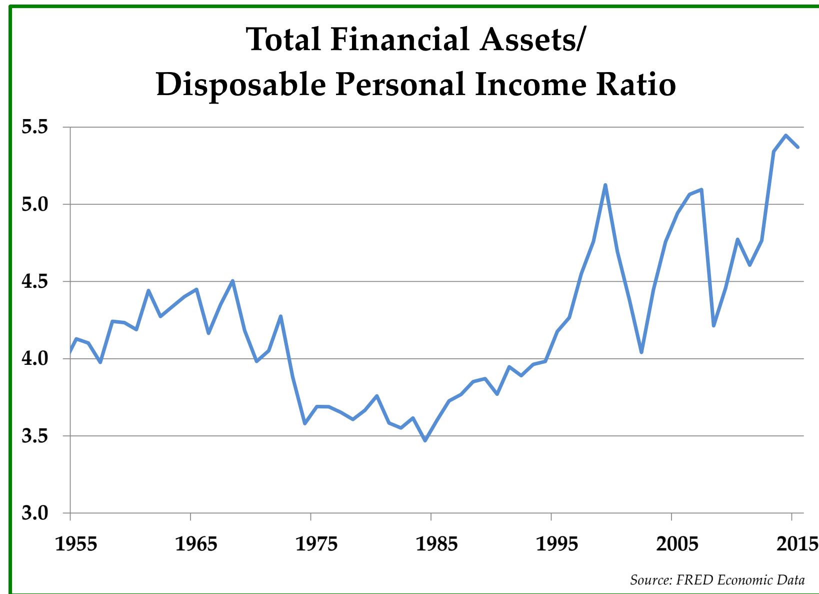
– Gustave Flaubert, *A Simple Heart*

The practice of bloodletting in order to cure health ailments originated thousands of years ago. Bloodletting was used to address just about any health disorder, from leprosy and the Plague to herpes and even acne. As time progressed, bloodletting techniques evolved, and its usage peaked in the early 19th century. One of the most notable bloodletters was Dr. Francois Broussais, a French physician who often recommended a treatment of 30 to 50 leeches at a time. According to the New York Medical Journal, in 1833, France imported 41.5 million leeches, more than 10 times the number of leeches imported just a decade earlier. Looking back at medical history from our modern perspective, the widespread use of leeches as a cure-all during the 19th Century seems nothing short of madness.

Monetary easing is experiencing, or at the very least approaching, its own zenith, in our view. The 700 or so Ph.D.s at the Federal Reserve along with their counterparts at the European Central Bank (ECB), the Bank of Japan, and the Bank of England have never seen an economic problem that cannot be alleviated with monetary easing, central banking's monetary bloodletting remedy. Today, thanks to the easy money environment of the past couple of decades, non-financial debt to GDP stands at a record high, not just in the United States but across the world, while, not coincidentally, centrally managed interest rates are at a record low level and seemingly going lower.[1]

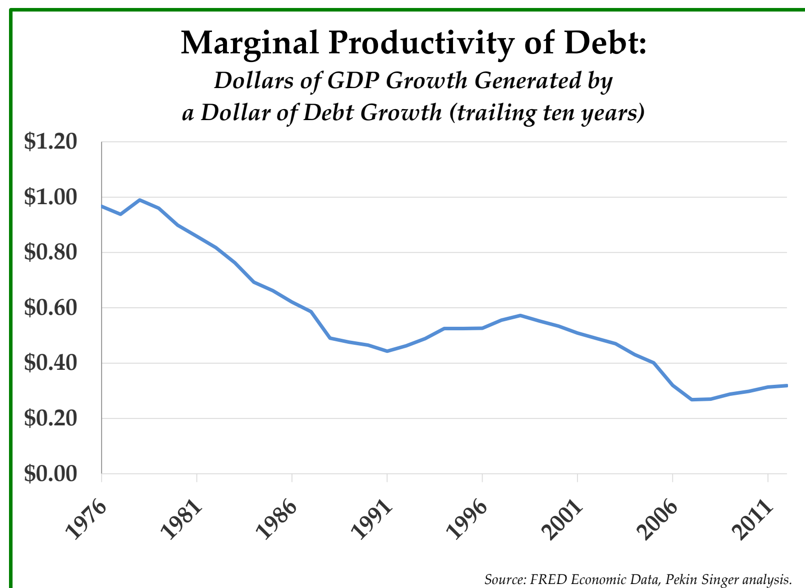


[1] The term non-financial debt is used to refer to the aggregate of debt owed by households, government agencies, non-profit organizations, or any corporation that is not in the financial sector.



Since the Financial Crisis, global markets have experienced multiple waves of easy money experimentation, including, but not limited to 1) zero percent interest rate policies, 2) currency wars in which central bankers purposefully devalued their currencies, and 3) multiple rounds of quantitative easing. Some argue that these unprecedented policy moves have achieved their goals; indeed, financial asset prices have increased as a result of persistently low interest rates kept in place since the Financial Crisis. However, as demonstrated on the chart to the right, the increase in financial asset prices has occurred without a corresponding increase in disposable personal income. In our judgment, the disparity between these two measures is a good indicator that the increase in the price of financial assets since the financial crisis is unsustainable and is likely to unwind once interest rates eventually rise.

Ironically, the remedies of the central bankers have contributed much to the weakened global economy. Low interest rate monetary policies have contributed to poor balance sheets among households, governments, and corporations alike because of the ability to increase borrowings without greater interest payments. Simultaneously, rising financial asset prices across multiple asset classes have created increased levels of wealth inequality, which in turn is contributing to deteriorating social stability. With an economy saturated with too much debt, U.S. GDP has been growing at an anemic rate for several years. As debt leverage continues to increase faster than GDP, mal-investment abounds, and the marginal dollar of increased credit is becoming increasingly less effective in generating GDP growth (see chart to the left). At the same



time, with the middle class shrinking quickly due to globalization, the Financial Crisis, and the easy money policies of the Federal Reserve, many are seeking economic restitution from non-establishment politicians such as Bernie Sanders and Donald Trump. The saturation of debt in the global economy has become more than an economic issue; it has increasingly become an important social issue.[2]

Our view of the financial system remains critical, to be sure, but even the Bank of International Settlements (BIS), an institution that essentially acts as a central bank for central banks, is expressing concern. In their recently published annual report, the BIS concluded:

> A shift to more robust, balanced and sustainable expansion is threatened by a "risky trinity": debt levels that are too high, productivity growth that is too low, and room for policy manoeuvre that is too narrow. The most conspicuous sign of this predicament is interest rates that continue to be persistently and exceptionally low and which, in fact, have fallen further in the period under review. The global economy cannot afford to rely any longer on the debt-fuelled growth model that has brought it to the current juncture. A shift of gears requires an urgent rebalancing of the policy mix [to fiscal policies and structural reform]. Monetary policy has been overburdened for far too long.[3]

Because GDP continues to grow at a rate far lower than Fed forecasts, more unconventional remedies appear to lie around the corner. If 10 leeches do not provide a cure, then perhaps 50 leeches will do the trick. If the global economy remains weak, or weakens further, we expect central bankers to force interest rates down further and implement even more unconventional monetary policy measures:

Sovereign Bond Yields

Country	Maturity					
	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
USA	0.59%	0.70%	1.00%	1.28%	1.47%	2.28%
UK	0.10%	0.16%	0.34%	0.50%	0.86%	1.69%
Australia	1.58%	1.55%	1.64%	1.80%	1.98%	
Belgium	-0.54%	-0.59%	-0.50%	-0.31%	0.10%	0.92%
Canada	0.56%		0.63%	0.84%	1.13%	1.72%
Denmark	-0.58%	-0.52%	-0.36%		0.07%	0.44%
France	-0.53%	-0.50%	-0.35%	-0.19%	0.19%	0.92%
Germany	-0.66%	-0.69%	-0.59%	-0.51%	-0.14%	0.32%
Ireland	-0.32%	-0.24%	-0.17%		0.46%	
Italy	-0.06%	-0.05%	0.15%	0.56%	1.30%	2.35%
Japan	-0.31%	-0.31%	-0.32%	-0.33%	-0.24%	0.12%
Netherlands	-0.60%	-0.59%	-0.55%	-0.39%	-0.03%	0.50%
New Zealand	2.01%		2.02%		2.34%	
Norway	0.50%		0.61%	0.77%	0.99%	
Portugal	0.26%	0.57%	1.57%	2.57%	3.00%	
Spain	-0.24%	-0.20%	0.19%	0.50%	1.19%	2.30%
Sweden	-0.65%	-0.47%	-0.51%	-0.30%	0.25%	1.12%
Switzerland	-1.08%	-1.12%	-1.02%	-0.82%	-0.58%	-0.13%

Source: FactSet, 6/30/16

From ZIRP to NIRP[4]

In 5,000 years of monetary history, interest rates have never been negative until recently; intuitively, that makes sense, as lenders take risks when they lend their capital, and they normally expect to get paid a positive rate of return for bearing such risks. Today, however, more than $11 *trillion* of sovereign debt, representing approximately 30% of global government debt outstanding, are priced to generate negative returns to its bond holders. Negative interest rates have not yet arrived in the U.S. bond markets, but, without improved GDP growth, negative interest rates may be around the bend.

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[2] In Appleseed Fund's 10/25/13 letter to investors we discussed the driving factors behind the decline of the middle class.

[3] Source: BIS 86th Annual Report, 6/16/16.

[4] ZIRP is an acronym that stands for "zero interest rate policy" and NIRP is an acronym that stands for "negative interest rate policy."

Larry Summers, the former U.S. Secretary of the Treasury, recently argued in The Washington Post that the U.S. Treasury should phase out the $100 bill in order to "make it harder for the bad guys", and, for similarly stated reasons, the European Central Bank recently announced its intentions to phase out the 500 Euro note. Make no mistake -- Larry Summer's $100 bill proposal has nothing to do with fighting crime, but, rather, it has everything to do with clearing the way for negative interest rates in the United States. If savers can easily hoard physical cash with large denomination bills, negative interest rate policies would lead to depositor withdrawals, which would have a destabilizing impact on the banking sector.

Unfortunately, negative interest rates are unlikely to stimulate the economy, given that 0% interest rates have failed to stimulate the economy thus far. Besides being ineffective, NIRP will likely be unpopular in our view and could lead to all kinds of unintended consequences. For example, negative interest rates could cause savers to increasingly turn to financial instruments outside the banking system, such as gold or bitcoin, in order to mitigate the detrimental effects of negative interest rates. Gold has been rallying this year in part due to the rise of negative nominal interest rates across the developed world and negative real interest rates in the United States; relative to many sovereign bonds, gold has become a high yield investment.

Helicopter Money
The other central banking innovation being discussed in earnest is the launching of what is being called "helicopter money." Helicopter money is a theoretical construct conceived by the economist Milton Friedman who postulated that a central bank could create inflation whenever it desired just by handing out money to everyone, seemingly by a helicopter drop. The idea was revived as a practical policy option by former Fed Chairman Ben Bernanke who, in a now famous 2002 speech, announced that the United States could initiate helicopter money to combat deflation and stimulate the economy.

One way of approaching helicopter money would be for the Treasury to issue 0% interest perpetual bonds to finance fiscal stimulus, and then the Fed would purchase those bonds with freshly printed money. This policy, in theory, would stimulate GDP growth because the money supply would increase and, in addition, the velocity of circulation would finally accelerate, because the government would immediately spend the freshly printed helicopter money.

Helicopter money would, in all likelihood, provide quite a bit of short-term GDP stimulus, depending on the level of fiscal spending involved. We suspect that helicopter money would likely provide a short-term boost to financial asset prices, but we hesitate to make a definitive forecast because the unintended consequences are so difficult to predict. We are in uncharted waters, indeed.

In previous letters, we have suggested that "this time is different" is a dangerous phrase in finance, because almost always "this time" is likely not different at all. However, in today's centrally planned economic world with record indebtedness and record low interest rates, it is harder to avoid saying that this time truly is different. The monetary remedies being unveiled are unsettling and unprecedented phenomena to witness. Math and history suggest that all may not end well when these policies are implemented and/or when these policies are reversed; generations from now, economists and historians will be studying this period of economic history in wonderment, much as modern physicians look back today at 19th century health cures.

In the current investing environment, the Appleseed Fund portfolio remains diversified across stocks, bonds, cash, and precious metals. If the Fed follows Europe and Japan in implementing negative interest rates, the Fund's bonds, dividend-yielding stocks, and precious metal positions should perform well as interest rates decline. Helicopter money should be favorable for equities and precious metals, because inflation and nominal GDP growth would presumably accelerate. In a volatile and uncertain monetary environment, we

believe the Fund's investment portfolio is well positioned by being diversified across asset classes.

Policy matters aside, the U.S. stock market remains expensive. As always, we look to deploy Appleseed Fund's equity capital in out-of-favor businesses, in out-of-favor industry sectors, and in out-of-favor foreign markets, trying to generate attractive investment returns by identifying mispriced securities. Most of our new equity purchases fit into one or more of these categories, with out-of-favor and undervalued being the common denominators for new investments.

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Portfolio Changes

New Long Equity Positions	*Sold Long Equity Positions*
BMW (BMW-ETR)	Western Union (WU)
Jones Lang LaSalle (JLL)	McDermott International (MDR)
Air Lease Corporation (AL)	Suncor Energy (SU)
Okuma Corporation (6103-Tokyo)	Nabors Industries (NBR)
The Joint Corporation (JYNT)	

We had an active quarter, adding five new positions and exiting four positions. In the current market environment we are finding more opportunities to invest in what we feel are attractively priced businesses than usual.

BMW competes in the luxury segment of the auto market ($30,000+) and has held the title of the best-selling luxury brand for every year going back to 2005. [5]In 2014, the company held the #3 luxury brand market share in Europe (behind Audi and Mercedes), the #2 market share in the United States (behind Mercedes), the #2 market share in China (behind Audi), and the #1 market share in the rest of the world. In 2015, BMW was ranked as the world's 11th most valuable brand and the 2nd most valuable auto brand (behind Toyota) by Interbrand.

The company annually spends roughly 6.0% of sales on research and development (similar to Daimler but well ahead of the non-luxury automakers). An example of this technology leadership can be seen in the company's rise in electric vehicles. The BMW i3 became the 4th best-selling electric vehicle in 2015 despite being released in 2014 as the company's first electric vehicle offering. The company noted that 80.0% of BMW i3 owners have never owned a BMW before. In the long-term, and clearly against conventional wisdom, we expect BMW and Daimler to win the market share battle for electric vehicles rather than Tesla.

Putting this iconic brand and technological leadership together has allowed BMW to be one of the few automakers to earning an ROIC above their historical weighted average cost of capital. Nevertheless, BMW's stock price has been hit by a number of factors including: 1) a weak global macroeconomic environment, 2) worries of Tesla taking market share, and 3) the uncertainty of the global auto industry given the impending

[5]https://www.theguardian.com/business/2015/jan/09/bmw-named-world-top-selling-carmaker-10th-consecutive-year

http://www.wsj.com/articles/daimlers-mercedes-benz-set-to-reclaim-top-spot-among-premium-car-brands-1460465896

rise of autonomous vehicles. At current levels, BMW is trading at a 1x Price/Book ratio and less than a 7x Price/Earnings ratio. For such a strong franchise, we believe this valuation is unwarranted, and we are thrilled to be new shareholders. While we wait for Mr. Market to re-examine his pessimistic assumptions about BMW, Appleseed Fund will be compensated with a 4.6% dividend yield.

Jones Lang LaSalle's (JLL), a new top ten holding in Appleseed Fund, has a history that spans more than 200 years since its origin as a London auctioneer house, although the company is now headquartered in Chicago. Since inception, the company has grown through a series of partnerships, mergers, and strategic acquisitions, coupled with considerable organic growth initiatives. Today, JLL is a premier global provider of commercial real estate services and real estate-related investment management services; the company offers an integrated range of commercial real estate services to occupiers, owners, lenders, and investors. The company boasts considerable competitive advantages attributable to its well-respected brand, its global scale, and high customer switching costs. Besides JLL, the only other commercial real estate companies with comparable global reach and a full breadth of service offerings are CBRE Group (CBG) and, to a lesser degree, privately-held Cushman & Wakefield.

JLL's share price has declined by over 30% during the past twelve months. In our view, weak investor sentiment is currently driven by global economic and political uncertainty, concerns related to a possible turn in the credit cycle, and record high pricing in many core markets. We share these concerns, but, in our opinion, the JLL share price more than discounts these concerns. Supporting our view that JLL's modest valuation is likely unwarranted, JLL CEO Colin Dyer purchased over $500,000 worth of JLL stock for his own account in the open market in recent months.

We were also active in selling this quarter; we liquidated four positions during the course of the quarter. We sold the Fund's Western Union position and all of its energy-related positions after these holdings generated significant appreciation during the first half of 2016. Western Union, which we sold after the stock reached our estimate of intrinsic value, has been a solid long-term holding; the Fund has generated a double-digit IRR on its ownership of the company, which began in 2011. We sold our energy-related stocks once oil appreciated to $50 per barrel in the face of a significant global oversupply situation.

Portfolio Performance and Positioning

Appleseed Fund's performance was strong during the second quarter. Strong returns in United Natural Foods (UNFI), Titan International (TWI), Sberbank (SBRCY), and Samsung Electronics (005930-Korea) were only partially offset by weakness in DSW Inc. (DSW), Jones Lang LaSalle, Oaktree (OAK), and Yusen Logistics (9370-Tokyo). Through 06/30/2016, Appleseed Fund (APPLX) generated a total return during the year of 10.07%, versus a return in the MSCI World Index of 0.66%. We are always focused on long-term returns, and Appleseed Fund's total return since inception is 6.03% per annum versus an average total return in the MSCI World Index of 3.40%. We are pleased to see the market finally recognizing the value that we see in some of the businesses that Appleseed Fund holds.

At quarter end, stocks represented 63.8% of the portfolio, gold represented 14.2% of the portfolio, and our cash/bond position represented approximately 22.0% of the portfolio. With the addition of several new undervalued equities, and with U.S. equities trading at nosebleed valuations, we think Appleseed Fund is well positioned to outperform going forward. We are experiencing a choppy market, and that choppy market adds to the Fund's volatility, but a choppy market also helps us in finding new ideas. For example, our initial purchase of BMW shares occurred during the market swoon that occurred in the wake of the Brexit vote.

As always, we thank you for your enduring trust in our ability to manage a portion your investable assets

through calm as well as difficult waters, however uncharted they may be. We remain honored with the privilege of managing Appleseed Fund's investment portfolio.

Sincerely,

Josh Strauss, CFA
William Pekin, CFA
Adam Strauss, CFA

TOTAL RETURNS					
	2016 YTD	1yr	3yr	5 yr	Since Inception
Investor Class (APPLX)	10.07%	-2.11%	2.31%	4.17%	6.03%
Institutional Class (APPIX)	10.29%	-1.79%	2.58%	*4.43%*	*6.18%*
MSCI World Index	0.66%	-2.77%	6.95%	6.62%	3.40%

Table above as of 06/30/2016. APPLX Inception Date – 12/08/2006. Source: Morningstar

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. Italics indicate extended performance, as APPIX did not exist until 01/31/2011. APPIX extended performance is an estimate based on the performance of APPLX, adjusted for the difference in fees. Performance data current to the most recent month end may be obtained by calling 1-800-470-1029.

At the end of the Fund's reporting period on June 30, 2016: BMW (BMW-ETR)-2.96%, Western Union (WU)-0.00%, Jones Lang LaSalle (JLL)-3.51%, McDermott International (MDR) – 0.00%, Air Lease Corporation (AL)-3.16%, Suncor Energy (SU) – 0.00%, Okuma Corporation (6103-Tokyo)-1.39%, Nabors Industries (NBR) – 0.00%, Joint Corporation (JYNT)-0.03%, United Natural Foods (UNFI)-6.53%, Sberbank (SBRCY)-1.73%, Samsung (005930-KR)-3.55%, DSW Inc. (DSW)-3.48%, Oaktree (OAK)-4.17%, and Yusen Logistics (9370-Tokyo)-1.66%, Mosaic Company (MOS)-3.30%, Titan International (TWI)-3.11%, Sprott Physical Gold Trust (PHYS)-14.65%, Daimler AG (DDAIF) – 0.00%, Audi AG (NSU) – 0.00%, Toyota (TM) – 0.00%, Tesla (TSLA) – 0.00%, CBRE Group (CBG) – 0.00%.

Appleseed Fund has contractually agreed to limit the net expense rate to 1.14% of net assets of Investor shares and 0.95% of net assets of Institutional shares, through January 31, 2017. 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%.

The MSCI World Index is a widely followed, unmanaged group of stocks from 23 international markets and is not available for purchase. These indices provide total returns in U.S. dollars with net dividends reinvested. These index returns do not reflect the deduction of expenses, which have been deducted from the Fund's returns. These index returns assume reinvestment of all distributions and do not reflect the deduction of taxes and fees. Individuals cannot invest directly in these indices, however, an individual can invest in exchange traded funds or other investment vehicles that attempt to track the performance of a benchmark index.

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 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.

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.

P/E (price/earnings) is computed by taking the price of the stock dividend by the current earnings-per-share. Companies with high P/E ratios are more likely to be considered "risky" investments.

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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