Appleseed Fund Portfolio Manager Conference Call

02/27/2013

Colin Rennich: Good afternoon and thank you for joining us for the Appleseed Fund conference call. This is Colin Rennich and I'm the Director of Sales here at Appleseed.

We have muted all of the lines and the call will be in listen only mode, so thank you to those individuals to submitted questions in advance. At the end of the call, we'll do our best to answer these questions.

We will begin today's call with an update on our current investment thinking by Portfolio Managers Adam Strauss, Billy Pekin, and Josh Strauss.

Before I turn the call over to the team, I'd like to review the performance of our various funds for the calendar year ending December 31st, 2012.

In 2012, the Appleseed Fund's Investor shares returned 13.37% and the I shares returned 13.57% compared to the S&P 500's return of 15.99%.

More detailed information on our funds' performance and holdings can be found on our website at www.appleseedfund.com.

I want to thank you for your continued support and we look forward to many rewarding years ahead. Now I will turn the conversation over to Adam.

Adam Strauss Thank you Colin, and thank you everyone who is joining us on this telephone call today.

This is our first Appleseed Fund conference call. Although we founded the fund in 2006 it has now been more than six years since the fund was launched, we still find we are sometimes experimenting with new ways to improve our communication with shareholders, and so that is why we are running this conference call for you today. We hope it is helpful, and we hope that you communicate and let us know whether you want more of it, less of it, or some of it but perhaps approached in a different way. We really want to encourage you to provide feedback to Colin at colin@appleseedfund.com

Also, we have received some questions from investors ahead of the call, but if you have questions you would like us to answer, if you email Colin we will make sure we answer them one way or another. Hopefully we will find a way to squeeze them into this call, but if we don't for whatever reason, we will make sure to get back to you and answer your questions in one way or another.

With that out of the way, I want to start out the call by talking about our investment philosophy and investment approach at Appleseed Fund. I'll start with the statement that you'll find on the home page of our website and that is on the back of all of our business cards, "we are value investors who seek to generate market-beating returns by making prudent, disciplined, and sustainable investments." That sentence really says it all but there are a lot of moving parts behind that philosophy and investment approach.

The goal itself is that we set the S&P 500 Index as our long-term benchmark as we use that as the most commonly considered notion of "the market" for U.S.-based investors of mutual

funds. There is a key descriptor in there which is our description of the S&P as a "long-term" benchmark. We have no goal of beating the S&P 500 Index every year. Our goal is to generate compound returns that beat the market over time.

Another comment worth making about benchmarks is that make absolutely no attempt at mimicking the S&P 500 Index from either an industry sector standpoint or from a stock selection standpoint. There are sectors which we own that do not exist in the S&P 500 Index, such as our exposure to Japanese stocks, and there are sectors that the S&P 500 owns which we do not own at all currently, such as utilities. What that means is that Appleseed Fund is more likely than not going to outperform or underperform the S&P 500 Index by a lot every year. We are perfectly comfortable with that approach and our goal is to find long-term investors who are similarly comfortable with that approach. There are many vehicles out there for investors who want to hug an index – Appleseed Fund is a vehicle that we use to express our investment opinion on assets which we think are inexpensively priced. Generally that opinion has little to no correspondence to the index constructors at Standard and Poors and for those investors who have been with us for a while none of this is coming as a surprise.

We had a conversation with an advisor last week who asked us what period he should use as a measurement period for Appleseed. Our firm, which is the advisor to the Fund, Pekin Singer, tends to take a fairly risk adverse approach which has performed well over a market cycle, with more outperformance occurring during bear markets and slight underperformance occurring during bull markets. So that suggests to me that the best measurement period is probably over a market cycle, and that is what I suggested to the investment advisor who asked me that question.

Just as important as the goal, or perhaps more important than the goal, is our approach towards achieving that goal, which is to make prudent, disciplined, and sustainable investments. All of those descriptors are suggestive of a risk adverse approach towards investing, and that is probably an accurate description of the way that we like to invest. We try to manage risk in as many ways as we can, but they are not necessarily the same way that other managers might manage risk.

We manage risk by trying to buy into stock at a very low price. For us, that means that when we buy a stock we are looking for at least a 50% upside and minimal downside. If we can buy a stock that offers that kind of risk reward profile, then we think that over time we are more likely than not going to generate attractive returns for our shareholders.

We look for certain indicators that help give us confidence that the downside of a particular stock is minimal. For example, if we are buying a stock below tangible book value or below the replacement value of their assets, our confidence about minimal downside risk increases. Some examples of such stocks in our portfolio include John B. Sanfilippo and Mabuchi Motors. In the case of Mabuchi, when we bought into this stock, we paid a price that was lower than the value of the company's cash and investments. We bought a large position not because we thought the upside was so great but because we slept so well knowing that it would be so hard to lose money on this investment.

Another indicator of downside risk protection for us is a company that pays a healthy dividend with an attractive yield where the dividend is sustainable and supportable from the company's earnings power. We have a number of holdings that today generate more than a 3% dividend such as Tesco PLC, the Fund's largest holding, Staples, Western Union, Novartis, Microsoft, and SK Telecom.

To manage our downside risk, we spend a lot of time looking at the balance sheet and cash flow statement of a company, because this is where investors can sometimes find unforeseen risk. Our companies all have a level of debt that is either minimal or that is at a level we have a high level of comfort around and is well supported by the free cash flows of the company. When we look at some of the investing mistakes that we have made, and particularly since 2007, it has often occurred in situations where we made a mistake in assessing the risk of a company's balance sheet. When we talk about trying to own quality companies, an important part of quality for us is not just the health of the business and the caliber of the management team, but importantly the health of the balance sheet and the ability of the company to generate cash flow over time.

And sustainability for us is a risk management tool as well. Identifying companies with responsible operators who operate their businesses with a view of minimizing safety risks, environmental risks, and regulatory risks helps us sleep better at night, again knowing that our downside risk is being protected by good managers.

There are some things that we don't do to manage risk that we think are worth mentioning. We don't seek out low volatility stocks per se. Appleseed's portfolio has historically been a lower volatility portfolio than, say, the S&P 500 Index. There are different reasons for this, but our primary goal in buying a stock is not to manage volatility. And in fact we own some highly volatile stocks, and have so since the Fund's inception. Our goal is to manage risk, not volatility. So a stock that goes down by 50% whose intrinsic value remains intact during a market correction represents volatility but not risk. We are comfortable owning such stocks and generally speaking we will add to our position in such circumstances.

A perfect example worth mentioning in this regard is gold, which has declined by almost 10% over the past three weeks alone. We will talk about gold more later in the call, but there is absolutely nothing different about the intrinsic value of gold today compared to three weeks ago. So we have added to our position. The volatility of an attractive asset does not bother us, and if anything if it's an asset we want to buy, downside volatility provides us with an opportunity to buy more of an asset we already want to own at a cheaper price than before. But the same is true of stocks. If we do our homework and are careful about all of the risks we already discussed, that usually give us an opportunity to buy more of a stock when it goes down in price.

Our portfolio typically includes somewhere between 20 and 30 holdings. Our thinking here is that if there is a sector of the market that is overvalued, or excessively risky, why own it at all? Similarly, if there is a sector of the market that is particularly undervalued, or excessively safe, why not invest a lot of capital in that area? That has been our thinking with, for example, Japanese stocks over the last couple of years, or Agency mortgage REITs during the credit crisis. This is not a conventional view of risk and I'm sure that we will never get any awards for the proper application of modern portfolio theory, but we think it's a better approach towards risk management. We would rather own what we know well and focus on our best ideas, than own a diversified portfolio of stocks that we understand only superficially.

Another thing we don't do is stay invested in order to minimize the risk of being left behind by a surging stock market. When we buy an undervalued asset, our plan is to sell that asset just as soon as it reaches our estimate of intrinsic value. Hopefully when that occurs, we have other cheap assets to buy with the proceeds. However, if we cannot find a cheap stock to buy, we do not compromise our investing discipline. We husband our capital and wait for the right opportunity to deploy that capital.

Today the capital that we don't have invested in undervalued stocks is held in the form of cash equivalents and gold. In the current market, where we are doing a fair amount of selling and trimming, and not much buying, our position in stocks has declined markedly since the beginning of the year. At the present moment, our equity exposure is less than 60%. While many view our holding an excessive cash position as a defensive posture, and indeed it is a defensive posture, it also has the potential to be offensive, because during periods of downward volatility we have the capital to deploy in buying cheap assets.

Our lower than average equity exposure at the moment is not a reflection of a top down view. Our equity exposure is always a function of our ability to find undervalued equities. We are not even into the second month of the year and we have already sold three positions. We are approving new ideas, and in fact have taken a new position in two new stocks, but in both case the stocks quickly appreciated above our buy limit before we were able to take a full position. So our allocation to equity really is just purely a function of the opportunity set we see, and that is more a function of value than any of our views on the economy. Our cash position was in the very low single digits in the spring of 2009 and that was not due to the fact that we liked what we were seeing in the economy – it was due to the fact that asset prices had become so inexpensive and we were seeing opportunity everywhere.

Another risk that we try to manage somewhat is currency risk. We take a fairly dim view of fiat currencies in general, and we have hedged our currency exposures to the Euro, the yen, and the British pound using currency exchanged futures. Our thinking here is that we don't want to be right in picking an undervalued stock but miss our opportunity to generate an attractive return because the local currency declines in value. So we use a currency hedge, not just for our foreign stocks, but also for the foreign earnings component of our U.S. stocks. And that has been the right call lately in a country like Japan, for example, where the stock market rally has not been all that significant in dollars because the rally was driven by a weaker yen. Our yen hedge allows us to generate the local market return of our Japanese stocks, which has been very strong over the past three months.

I mention the Euro, the yen, and the British pound, but we take an equally dim view of our own U.S. dollar. Our dim view on the dollar is based on our position that the credit market debt of the U.S. grew exponentially during the housing bubble to unsustainably high levels relative to U.S. GDP and it has really not yet come down. We think that by far the most likely outcome to this predicament is that policymakers will depreciate the dollar so that the value of those debts decline in nominal terms. If you are a borrower with fixed rate debt, this is very good news. If you are a saver with a large cash position or a large bond position, this presents a challenging situation today because you are likely to be generating a negative real return on those assets.

The media, which always provides an important role as a contrary indicator, is calling loudly for an end to the bull market in gold. Just as the media has been wrong in calling an end to the bull market in gold after every correction that has occurred over the past ten years, so too the media is wrong today. If you are a Japanese investor in gold, you are plenty happy for the insurance policy you have purchased, not because gold has gone up in value, but because the yen has gone down in value. So too have U.S. investors since 2000. The price of gold and the price of milk and the price of oil have not gone up in value since 2000 – it just seems that way. What has really happened is that the dollar has gone down in value.

I've been spending a lot of time talking about risk, but we think about risk a lot, and so we thought it was worth communicating some of the many ways that we do and don't think about risk.

And now I will turn it over to Billy to talk a little about Appleseed's investment team. Billy?

Billy: Thanks Adam. Over the past twelve months or so there really have not been many organizational changes to report. Our firm has been stable over the past year and over the course of the Fund's six year existence. Our five-person portfolio management team remains the same.

Having said that our team has been stable, I want to just mention that one of the reasons we have a team investment process at Appleseed is to ensure that our investments are driven by a strong investment culture and a disciplined investment process rather than being driven by a single investor. As time goes on, we expect there will be occasional succession events where a person leaves the portfolio management team or a new person joins the portfolio management team. We believe that we have an internal promotion process and a succession process in place that allows such changes to occur seamlessly and with little effect on our investment approach.

A little over a year ago, we hired Colin Rennich after Christen Farrey left the firm on an extended trip to Australia. She had a great adventure and came back to visit us in our offices about a month ago after her return. In the meantime, Colin has done a fantastic job of helping existing and prospective investors in getting the help they need. We really appreciate the value that Colin has added to the sales process.

Ron Chan and Neeraj Bahl, our two analysts, continue to do a great job of expanding our search for undervalued stocks. Neeraj's most recent pick, Suzuki Motors, appreciated by 55% in a period of about 100 days. In January of 2013, we sold our entire position in Suzuki Motors. Well done on the part of Neeraj I would say!

In 2012, we increased the size of our compliance department, hiring a second compliance manager in Jennifer Dunlap. While our service provider, Huntington Asset Services and Unified Financial Securities, provides us with a lot of analytical and regulatory assistance when it comes to compliance, we felt that we needed more internal resources in order to get ahead of the additional regulatory requirements we are seeing in the wake of Dodd Frank.

We are also in the process of hiring an additional person for our trading desk. We are hoping that this hire will allow us to improve our trading execution, and particularly our trading execution with some of the small cap stocks that we are buying and selling for Appleseed Fund.

Now Josh is going to discuss some of our views of the current market and economic environment.

Josh: Thanks Billy. The market has been quite strong over the past six months driven in large part by Federal Reserve provided liquidity. There has indeed been some level of recovery, but it has been amazingly tepid in light of the fiscal and monetary stimulus that is occurring not just in the U.S. but worldwide. The weakening global economy in the face of unprecedented stimulus speaks again to the elephant in the room which is that there is just too much credit market debt out there.

The economy's strength, to the extent that there has been strength, have been driven by low interest rates, which have helped to boost asset prices from junk bonds to stocks to houses. However, it seems like interest rates cannot go much lower, and if interest rates go up then asset prices are likely to come right back down again. And the economy's strength has been aided by deficit spending, paid for increasingly by the Fed who uses newly printed dollars to

buy U.S. treasuries. We don't know how long this trend can last, but there is certainly a limit out there that we don't want to come anywhere near.

We continued to be concerned about macroeconomic risk. There is geopolitical risk seemingly everywhere, and particularly among the oil exporting nations of the Middle East and Northern Africa. We think it's unlikely that the Fed is going to cause the next Recession by raising interest rates too quickly but that probably makes it more likely that the next Recession will likely be caused by a spike in oil prices. Europe, too, is a risk, as they too have too much credit market debt, an unstable banking system, and a political union which threatens the stability of the Euro.

So in the context of the macroeconomic environment which we have described, we search to buy cheap stocks in an era where we expect currency depreciation, an elevated level of geopolitical risk, excessive credit market debt levels, natural resource constraints, and lower than normal expected GDP growth.

Let's turn now to a discussion of a few of Appleseed's holdings. Billy?

Billy: We'll start with Western Union. Western Union, a top ten holding of Appleseed Fund, is the global leader in money transfer and payment services, which includes consumer-to-consumer transfers, bill payment and business-to-business payments. The Company's services are available through a network of over 500,000 independent agents in more than 200 countries.

Western Union demonstrates a myriad of admirable investment characteristics. Its 18% global market share ranks it as the clear #1 player in the large and attractive market for money transfer services – a market where the size and scope of the network bestows considerable competitive advantages. The *Western Union* brand carries tremendous brand equity, and the Company also operates several other brands that have significant regional brand-name recognition. The combination of its strong brand equity, giant existing agency network, targeted local marketing, exposure to long-term migration trends, and well-established behavioral patterns among its consumers should help the Company to sustain and grow its global market presence.

Given its high barriers to entry, recurring and highly diversified revenue base, lightly levered balance sheet, and robust cash flows, it should not come as a surprise that Western Union traded at a market premium for the first two years of being public after its spin-off from First Data in 2006. As a result of the global economic slowdown, results were pressured somewhat and the valuation compressed. And then, more recently, the Company made a bold decision to reduce prices sizably in the 4th quarter of 2012, and the stock price fell considerably on those news. However, given the low valuation, impressive barriers to entry and intense focus on shareholder value, investors are well compensated to own this stock.

The business generates impressive free cash flows, and the Western Union has used this cash to support its growth and return a significant portion to shareholders. Not only is the Company currently paying a 3.5% dividend yield, and, between dividends and share repurchases, the Company plans to return roughly 8.5% of current market cap to shareholders.

While there are near-term uncertainties surrounding transactions trends, economic growth, and transnational migration patterns, it should not be forgotten that this business model is rather stable with a high level of recurring cash flows. While certain near-term risks have put a dark cloud over the stock, the valuation is compelling and the Company is aggressively pouring its free cash flow into dividends and buybacks to bolster the share price. It seems to us that WU shares offer a compelling risk/return for our investors. Josh?

Josh: Shimano, based in Japan, used to be a top ten position for Appleseed, but we have trimmed our position as the stock price has increased in value. Shimano manufactures and sells gears, braking systems, other bicycle components such as wheels, chains, and cranks, and other performance-enhancing bicycle accessories like clothing and shoes through their Pearl Izumi brand; essentially, Shimano's cycling component systems are used to improve the smoothness of the ride and the extreme ease in which a rider can change gears and brake, particularly at high speeds and/or under intense pressure (such as changing gears smoothly while mountain biking up a steep, rocky path with poor traction). Shimano sells bike components for bicycles that retail for as little as $150 to as much as $10,000 or more. The company also produces and sells reels, rods, and fishing gears that capitalize on their competences with precision machinery.

Shimano is unlike many Japanese companies in that business performance has been impressive over the past 10 years even in the face of extreme yen strength. Some of this business strength relies on the fact that the Company is well diversified geographically with only 13% of total sales generated in the domestic market with broad exposure to both developed and developing markets across the globe. On a yen-denominated basis, revenues have grown at roughly a 6.5% CAGR since 2001. However, faced with significant currency headwinds, the sales growth on a local currency standpoint has been far faster. On a local currency basis, Shimano has been growing its top line at a ~12% CAGR since 2001. And the popularity of cycling demonstrates little signs of letting up.

Due in part to entrenched macro-economic factors that have plagued Japanese stocks, Shimano's stock had really gone nowhere in the five years prior to Appleseed taking a position in the stock, despite the fact that sales and EPS have increased considerably over that period even though the yen's strength has been a major headwind.

Shimano has a number of extremely positive investment characteristics – namely, a well-recognized global brand, dominant market share in growing categories, a robust balance sheet, a top-notch engineering squad, clearly defined target markets, balanced exposure between both developing and developed markets, a well-respected management team, a shareholder-friendly corporate culture, and very little direct exposure to the consequences of the Tohoku earthquake of 2010 (among other things). Furthermore, as inflationary forces take hold and consumers become less reluctant to drive their cars with the soaring price of oil, transportation techniques like biking to work are becoming increasingly popular globally, and we think that this is a sustainability trend that will continue to play out over the next several years.

As such, we took a position in Shimano in November/December of 2011, and the stock has nearly doubled since our initial position. Furthermore, given our concerns on the unsustainable strength of the yen, we have 100% hedged the yen exposure that Shimano has brought to Appleseed investors. Adam?

Adam: I'm going to talk about John B. Sanfilippo, which we call JBSS after its stock ticker. John B. Sanfilippo is a small cap company, and its stock is currently a top ten holding for Appleseed Fund. It is also one of the few holdings that we have owned ever since the inception of the Appleseed Fund. We own it because the stock is still very cheap in our opinion.

The stock price of JBSS has appreciated somewhat since we first bought it, but the company's intrinsic value has appreciated as well. Since 2006 we have seen a number of improvements including the company's exit out of unprofitable, capital intensive businesses like the almond handling business, a significant upgrade in the company's management team, a new facility

that replaced several smaller facilities, a better balance sheet, and a new produce brand in Orchard Valley.

Each of these improvements have increased the company's intrinsic value, but we still think the company is severely undervalued.

We discussed earlier that we spend a lot of time looking at balance sheets and free cash flow statements before we buy a stock. In the case of JBSS, the free cash flow that the company generates is usually far in excess of GAAP earnings because non-cash depreciation is far higher than the company's capital expenditure needs. The company spent a lot of money building a new facility with long-lasting manufacturing machines that need little more than maintenance capex going forward.

Based on current levels of depreciation and our forecast of capex needs over the next five years, I would forecast that JBSS should be able to generate about $23mm/year in normalized free cash flow, which represents a double digit free cash flow yield based on the current stock price. To the extent that this free cash flow is more than what the business needs, I expect management will return capital to owners. Over the past twelve months JBSS has generated $34.5mm in free cash flow, which is far better than normalized, and in December the company paid out a special dividend to shareholders of $1/share, which represents a special dividend yield of 5%.

Management owns a meaningful percentage of the company, which is one of the reasons we trust them to make prudent capital allocation decisions. Right now they are investing capital in growing market share of the company's Fisher brand of baking nuts. In the baking nut category, Fisher is the #2 brand with a share in the high 20s and Diamond is the #1 brand with a share in the low 30s, but Fisher is significantly outperforming Diamond and, as a result, grocery chains are kicking out Diamond and replacing Diamond with Fisher. So far this fiscal year, Fisher's volume is up 20% due to share gains, and I would not be surprised to see Fisher take over Diamond's #1 spot at some point during the next 24 months.

And this branded baking nut opportunity is really a once in a generation opportunity for JBSS. While Diamond's management is focused on its own turnaround, baking nuts are not really a priority for Diamond. But it is a priority for JBSS, as branded Fisher sales generate much better gross margins than the company's unbranded private label revenues. So we think there is a revenue growth and profit margin expansion opportunity that did not exist when we bought the stock, but we are certainly happy to see it surface today. Josh?

Josh: Like JBSS and Western Union, SK Telecom is a top ten holding of the Fund. SK was Korea's first wireless telecommunications operator, and the Company has done an outstanding job in maintaining a dominant position over the years as more competition has entered the fray. The company currently commands a 50%+ market share of the domestic wireless telecommunications Korean market, which, along with its superior network system, provides the firm with the highest ARPU among its peers.

The company is part of the SK Holdings chaebol; a chaebol is a Korean term for conglomerate or business family where there is significant cross-ownership and business ties within the family – much like the Japanese keiretsu. SK Holdings owns 23.2% of SKM and essentially controls the Company. SKM is the 19th largest company listed on the Korean KRX KOSPI stock market based on market capitalization.

Despite having a balance sheet with light levels of leverage and demonstrating strong and consistent free cash flows, the stock price is trading at an attractive valuation. Although they

have maintained a high dividend payout, SK's stock price has roughly halved since its 2007 peak. Notwithstanding the persistent stock weakness, the main investment premise is that the current valuation amply discounts all of the major concerns that are well known in the market, including the following:

First, despite advances in smartphones and tablets in opening up new, profitable markets, SKM's end markets for voice-based wireless and broadband service plans are saturated and mature. Second, margins have compressed and may experience further pressure. Third, the geopolitical threat coming from North Korea is a constant risk for investors in the South Korean stock market. Finally, the Company has been an unpredictable capital allocator with regards to acquisitions, exemplified by the recent Hynix Semiconductor purchase in 2012.

Our view is that these risks are built into the share price of SK Telecom and then some. In the final analysis, SKM shareholders are purchasing a business whose cash flows are denominated in a relatively healthy currency, the Korean Won. The business is essentially acyclical, and SKM is paying shareholders a dividend yield north of 5%. The stock trades at book value and less than 3x EBITDA with a high quality balance sheet, and we anticipate EPS gains of 15%+ over the next two years.

Colin: Thanks Josh. Now let's go through some of the questions I have received. Josh, could you talk little about the firm's history, investment team dynamic, and Strauss family relationship having three family members on the team?

Josh: The advisor to Appleseed Fund, Pekin Singer Strauss Asset Management, has been around since 1990 and outside of Appleseed we have a separate account business for high net worth individuals and institutional clients. Our equity strategy on the separate account side includes many of the same stocks and we leverage the same investment process. So when we approve a stock for purchase such as SK Telecom, we buy it in Appleseed Fund and also in our separate accounts.

In terms of the investment team dynamic, it's pretty good. Obviously you have three family members on the team with me, Adam my brother, and Ron my father. And going beyond the three of us, you also have a group of people who have known each other for a very long time. Rick has known me and Adam our whole lives, and Ron has known Billy his whole life. So that creates a very open atmosphere where we are not afraid to fight and criticize over a stock pick. The worst possible dynamic for an investment culture is a groupthink culture, and I think because of the high level of comfort we have around each other, it makes for less politics and more frank and honest discussion and decision making. And we think over the long term that is likely to lead to better stock picking.

Colin: Let's talk a little bit about Appleseed's over and under performance years and causes. Billy?

Billy: Well, I'll talk about the last five years. In 2008 we enjoyed a very strong first half of the year due to a couple of good stock picks which appreciated quite nicely and we sold for a realized profit. But our outperformance was driven much more so by the fact that we very purposefully went underweight overleveraged companies, and particularly leveraged financials with exposure to credit risk. At the same time, we were overweight financials – we actually took quite an oversized position in agency mortgage REITs. Our thinking was that there was no credit risk with agency mortgage REITs, their assets should remain financeable due to the backing of the U.S. government, and the Fed would have to drop rates to 0% in response to the crisis, and agency mortgage RIET earnings would surge as a result of lower borrowing costs. That turned out to be a good call and helped us a lot in 2008.

At the end of 2008 and in early 2009, we were picking up small cap stocks such as Gaia and PDI Inc. (which we still own) that were trading below the value of the cash on their balance sheet at the time. When the market turned, we ended up having just a stellar year in 2009.

So those were two very strong years for Appleseed Fund from a performance standpoint, and we warned investors in our shareholder letters not to get used to it. And indeed we have underperformed the S&P 500 Index since 2010. Our relative underperformance has been related to a number of factors since then – in 2010 we were very defensively positioned, and that hurt is in a surging stock market. In 2011, our international exposure hurt our relative performance compared to the S&P 500, which far outperformed international stock markets. And in 2012 our overweight position in cash and gold hurt our relative performance. So far we have started out the 2013 year with a nice lead on the S&P 500 Index, driven by strong performance with our Japanese holdings.

Overall since we started the fund we are beating the market by about 4.7% per year through yesterday's close. If we can keep that up going forward, we will be plenty happy.

Colin: Are you planning to continue to hold at current levels of cash and gold in 2013, if so why and what is your market outlook?

Billy: Regarding our market outlook, we don't think stocks are particularly cheap right now when we look at valuation measures, although it seems in the short run that the market has been driven more by Fed provided liquidity than by valuation or fundamentals. I would also say that in every market there should be cheap stocks out there. It's just that there are fewer and farther in between at the current moment, so we have been taking advantage of the recent market strength by doing more selling than buying. Right now our net stock exposure is less than 60%, as Adam already mentioned, and so we are certainly hoping for a market correction so that we can put some of this capital which is currently on the sidelines to work buying undervalued stocks.

Colin: Adam, with Appleseed's "go anywhere" value approach how do you fit into a portfolio of other funds?

Adam: This is a difficult question. I personally consider it as a core equity strategy and employ it as such with my own investable assets. And I think the same thing is true for all of the portfolio managers in the room here. After all, Appleseed owns small, medium, and large cap stocks, Appleseed owns domestic companies and international companies. We have commodity exposure. We have liquid capital to put to work. So there is a wide variety of exposure there, and I think it can play a core role.

Appleseed's correlation to the market is lower than other funds out there, and I know some investors use us also for diversification purposes to lower overall portfolio volatility.

Colin: What is an appropriate benchmark/category for Appleseed? Billy?

Billy: I would compare us to other go anywhere, flexible mandate value funds. We have investors who own Appleseed and compare us to other go anywhere value funds such as First Eagle Global or IVA Worldwide. We use the S&P 500 Index as our long term measuring stick although, as we discussed earlier, there are many differences between Appleseed's holdings and the holdings in that index.

Colin: How many holdings do you want to own and what would be the largest in one security?

Josh: We set up the fund to maximize our flexibility so we in theory have the ability to go to 100% cash, or to put as much as 25% of the Fund in a single holding. Now we have not done either of things nor do I expect to do so, but our view is that we would rather manage the portfolio through good investment judgment rather than pre-determined limitations. Historically we have owned somewhere in the range of 20-30 equity securities, and our largest holding has probably maxed out around 15% of the fund. Our largest equity holding at the end of Q4 was Tesco at around 8% of the portfolio.

Colin: Josh, what sectors is Appleseed looking at now?

Josh: One of the interesting developments is that over the past year we have accumulated a meaningful position in large cap tech companies. We bought Google a little under a year ago, right around the time of the Facebook IPO, and we initiated a position in Microsoft a few months ago. These are great franchises with strong competitive advantages who happen to also compete with each other, but we think both companies should do very well over the next decade, and both companies are cheap, too.

Our Japanese exposure is lower than it was at the end of December, due to the recent sale of Suzuki Motors and Dr. Ci Labo. We have also initiated a new position in Japan and we hope to have the opportunity to make that a full position but we need lower prices first. But overall we think Japan still presents a lot of good buying opportunities, if for no other reason because stock market values in Japan are still very compelling.

Colin: What is Appleseed's average holding period?

Josh: When we buy shares in a company we expect to hold our shares for many years if that is what it takes for the share price to appreciate and eventually hit our intrinsic value estimate. Hopefully if we are buying a high quality, well managed company, intrinsic value will increase over time. With that said, if a stock appreciates right away, we are not afraid to sell. I think we spoke earlier in the call about Suzuki Motors, where the holding period was measured in months rather than years.

Colin: You consider yourself bottom up investors, has the recent economic environment changed your investment style and if so how? Adam?

Adam: Given the high level of credit market debt that is out there, dragging the economy down, it appears to us that the global economy has never been more dependent on fiscal and monetary stimulus. So that makes us somewhat wary, and our view is that we are in a stagflationary environment. And that view gets factored into our sales and profit forecasts when we are trying to value a company. It probably makes us more careful about the price we are willing to pay for a stock.

Colin: That was the last question. If you sent me an email with a question that we did not answer on the phone call, we will make sure we get back to you individually so that your question is answered.

We hope you found this call to be helpful. Thank you very much for joining us. We really appreciate your continued confidence and support of the Appleseed Fund.

Small- Cap investing involves 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. Risks of foreign investing are generally intensified for investments in emerging markets.

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. Past performance is no guarantee of 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.

Given the significant differences between separately managed accounts and mutual funds, investors should consider the differences in expenses, tax implications and the overall objectives between separately managed accounts and mutual funds before investing. Past performance of the strategy/separately managed account is not indicative of future performance of the fund.

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Through 12/31/12, the Appleseed Fund (APPLX) generated a one year return of 13.31%, a Five year annualized return of 8.71%, and an annualized return of 6.85% since the fund's inception on 12/08/06.

The following holding percentages are for each equity mentioned on the call as of 02/27/2013; John B. Sanfilippo & Son 4.33%, Mabuchi Motors 3.84%, Tesco PLC 7.30%, Staples 2.37%, Western Union 4.85%, Novartis 3.39%, Microsoft 3.39%, SK Telecom 4.12%, Suzuki 0.00%, Shimano 2.70%, Gaiam 0.00%, PDI 1.60%, Google 2.87%, Dr. Ci Labo Co 0.00%, Gold – ticker symbols PHYS 9.93%, GTU 5.40%, SGOL 1.75%, GLD 1.46%.

The gross expense ratio of the Fund is 1.70%, and the net expense ratio after contractual fee waivers is 1.35%. The advisor has contracted with the Fund to waive fees to maintain a 1.24% expense ratio (excluding indirect expenses) through February 28, 2013.

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.