January 29, 2019

Dear Appleseed Shareholder:

"Just cause you got the monkey off your back
doesn't mean the circus has left town."

– George Carlin

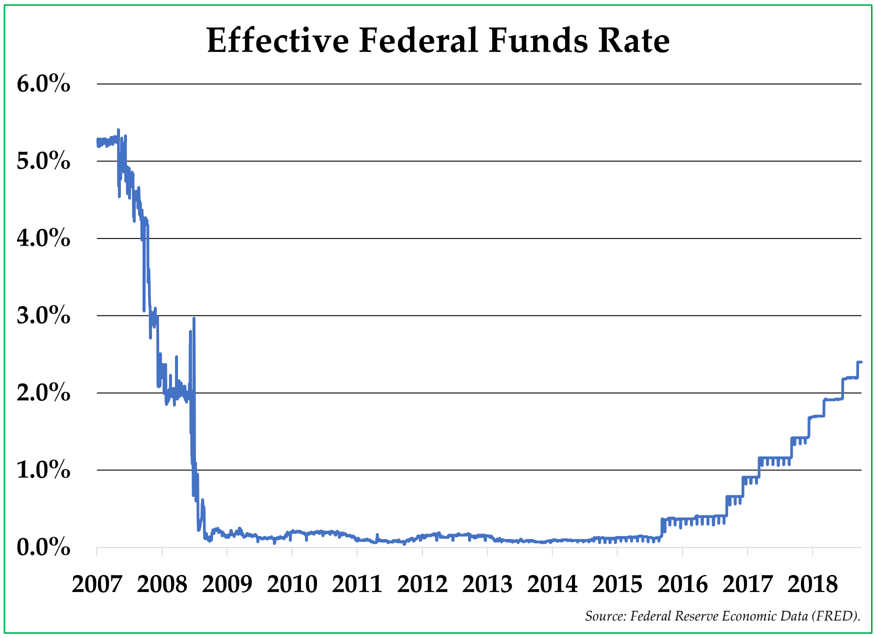
The S&P 500 Index generated a total return of -9.0% in December, which was the worst December return since 1931 in the midst of the Great Depression. The quarterly return of the S&P 500 Index was -13.5%, representing the worst fourth quarter return since 2008, which was in the midst of the Financial Crisis. Outside of cash, there was no place to hide for investors in 2018, which was just the opposite of 2017 when nearly every asset class generated a nicely profitable return. Judging by the December decline in market prices, it appears that the wheels may be coming off the bus.

We are being asked by some shareholders, "What the heck just happened?" It is still too early to answer this question with certainty. However, until we see evidence to the contrary, we are attributing the decline in asset prices in 2018 and the U.S. market chaos in Q4 to monetary tightening on the part of the Federal Reserve. Our operating hypothesis is that higher interest rates and recent reductions in the size of the Federal Reserve's balance sheet are reducing liquidity and causing asset prices to fall. Given the high level of leverage of consumers, corporations, and governments, the financial system has become addicted to the Federal Reserve *providing* excessive liquidity; with the reverse now occurring, bad things are starting to happen in the financial markets.

For now, we think it is unlikely that the United States has entered a recession. To be sure, the economy is not firing on all cylinders; for example, the auto and housing sectors are experiencing particular weakness. If interest rates keep rising and markets continue to weaken, it is likely the United States will go into a recession due to the (reverse) wealth effect. In other words, as stocks decline in price, consumers will feel less wealthy and will be inclined to spend less and save more, thereby reducing economic growth.

Importantly, the recent decline in the U.S. stock market follows even greater stock market declines which took place in foreign equity markets earlier in the year, so the problem appears to us to be far more than just a U.S. problem. Central banks have been tightening around the world, and the U.S. economy outperformed the economies of many other countries in 2018. With that said, President Trump's communication and management style does not enhance investor confidence, to put it mildly, while geopolitical frictions are seemingly increasing every day.

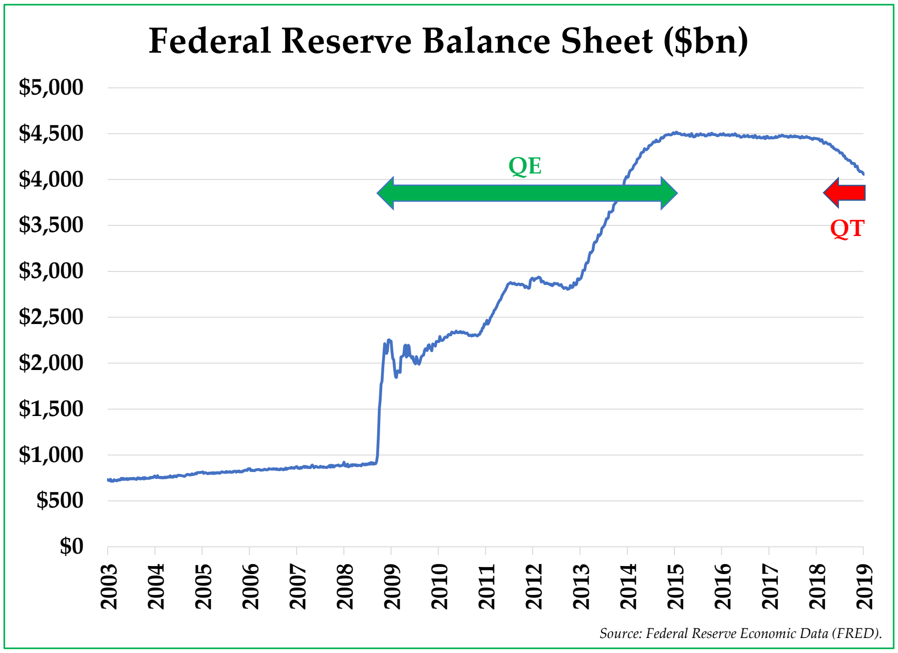
The Primary Culprit: Monetary Tightening
In the wake of the Financial Crisis, the Federal Reserve took two important actions to reflate the economy: it cut interest rates to zero percent, and it provided an enormous amount of additional liquidity by printing money to buy U.S. securities, described by the euphemistic term "Quantitative Easing" or "QE."



By the end of 2015, the Federal Reserve finally decided to begin hiking interest rates at a slow and gradual pace. Janet Yellen, Chairperson of the Federal Reserve at the time, believed it was time to begin preparing for the next recession. The thinking of the Federal Reserve has been that raising rates in anticipation of the next recession would provide the Federal Reserve with the ability to cut rates when the next recession eventually occurs. Since then, the effective Federal Funds rate has continued to increase gradually, even after Jerome Powell became Chairperson after Janet Yellen stepped down.

Quantitative easing was also central to the Federal Reserve's strategy between 2009 and 2014. The size of the Federal Reserve's balance sheet increased by quantum leaps to $4.5 trillion by 2014 as the Federal Reserve printed money and used it to purchase U.S. Treasuries and mortgage-backed securities. During this time, QE kept interest rates low and nudged investors who wanted to generate better returns into higher risk investments; investors flocked to junk bonds, emerging market debt, stocks, bitcoin, real estate, and collectibles. The Federal Reserve's asset purchases created financial asset price inflation that exists today across many different asset classes.

In 2018, coincident with a peak in world stock prices, the Federal Reserve finally began to unwind QE by *reducing* the size of its balance sheet, letting maturing bonds in its bond portfolio convert into cash – essentially selling down its bond portfolio and withdrawing some of the money it had previously injected into the financial system during the 2009 to 2014 period. The reversal of quantitative easing is being called "quantitative tightening" or "QT." Similar to the logic behind the Federal Reserve's interest rate increases, the logic behind QT is that reducing the size of the Federal Reserve's balance sheet now will give the Federal Reserve more room to increase its balance sheet later when the next recession arrives.



The problem is that, just as QE provided liquidity which juiced financial asset prices, QT withdraws liquidity and *deflates* financial asset prices. Many years of QE and depressed interest rates created unprecedented increases in debt on the part of consumers, corporations, and governments, as the world became addicted to easy money and low interest rate debt. We discussed the problem of excessive debt during our August 2018 letter to shareholders in which we calculated that private and public financial obligations in the United States alone now exceed $100 trillion. It no longer takes much of an interest rise to have a discernible impact on borrowing costs for those entities that have far too much leverage, whether it be a household, a company, or a government.

By raising interest rates and simultaneously withdrawing money by selling down its bond portfolio, the Federal Reserve is again trying to normalize policy and reduce the availability of money to which the world economy and world markets have become addicted. In 2018, and especially in December, investors experienced the withdrawal symptoms. Investors in high-risk corporate debt pulled their money en masse, driving down leveraged loan and junk bond prices and increasing interest costs for corporations that have been issuing debt to buy back stock so aggressively over the past decade.

In our view, the policy decisions during and after the Financial Crisis created the problems that are evident today. Due to the Federal Reserve's efforts to withdraw liquidity from markets that have become addicted to liquidity, a new liquidity crisis could very well be brewing. In our view, that is why markets were so volatile during Q4, and that is also why the only asset class that generated a positive return in 2018 was cash. Without a reversal in monetary policy on the part of central banks, our prediction is for more investor pain to come.

Policy Changes Coming

We do not envy the job that Jerome Powell has before him; he has no good options from which to choose. QE was an untested experiment in 2009, rolled out by Ben Bernanke and continued by Janet Yellen. In hindsight, it clearly worked to keep interest rates low, and it also worked to stabilize and then inflate financial asset prices. Moreover, it did keep the economy growing, albeit at a lower than normal pace. QE did not, however, create any kind of sustainable economic growth, and it greatly exacerbated wealth inequality. It also resulted in *even more* debt issuance so that the world economy is currently more leveraged than ever.

Just as QE was a policy experiment, undoing QE via QT is also a policy experiment. We would speculate that, if continued until its planned policy conclusion, QT could generate economic results which appear to be the opposite of QE's results, such as higher interest rates; asset price deflation; a credit-induced recession; and less debt as consumers, corporations, and governments default on their financial obligations.

Markets will probably remain weak without a reversal in QT, but we also expect a policy reversal if stocks continue to decline much further. After all, it is important to remember the following:

- The largest banks in the United States own the Federal Reserve, and those banks profit from lending money. The Federal Reserve is not going to want to manage through another deflationary financial crisis because its policy decisions blew a hole in banks' balance sheets.
- In reaction to the violent downward spikes in asset prices, the Federal Reserve is signaling that it is open to slowing its interest rate increases going forward. Ending and then reversing QT would likely occur soon thereafter.
- The U.S. current account deficit is large, problematic, and growing. To fund the U.S. current account deficit, the United States must import capital from foreign investors seeking a profit on that capital. Without continued foreign investment, the United States could soon find itself in a balance of payments crisis.
- A U.S. recession would greatly reduce tax revenues and greatly increase the budget deficit, making it even more difficult for the U.S. government to fund itself.
- Other central banks, including the Bank of Japan, the People's Bank of China, and the European Central Bank could provide additional liquidity even if the Federal Reserve does not. Indeed, the People's Bank of China has already indicated a shift from monetary tightening to monetary easing in recent weeks.

- President Trump will be seeking re-election in 2020. He needs a strong economy to have any hope of being re-elected, and he has shown little hesitation to break historical conventions. If the Federal Reserve does not act to reverse policy in the face of a continued stock market decline, President Trump may decide to take actions to reliquify the financial system, possibly in the form of a dollar devaluation.

We do not have a crystal ball, but, for the reasons stated above, we would be surprised if the Federal Reserve did not end QT and begin QE again sometime in 2019. Our best guess is that another 15% decline in the S&P 500 Index (from its year-end level) would result in a significant policy reversal. Should that occur, the dollar would likely respond by weakening in value relative to foreign currencies and commodities.

Appleseed Portfolio Strategy

Our investment strategy is not changing significantly in the midst of this volatility. We continue to maintain an overweight position in foreign stocks, gold, and companies whose earnings should benefit from a weaker dollar. We are continuing to look for high quality companies whose share prices are significantly undervalued, in our estimation.

We are also making additional efforts to make sure that the balance sheets of those companies to which we have committed capital remain healthy. We would rather not own investments in companies that do not generate cash flow and that are reliant upon capital markets to fund their ongoing operations through debt issuance.

Our precious metal allocation remains the same. As the frailty of the financial system increases and as the fiscal condition of the U.S. government worsens, we think the chances that gold becomes the ultimate safe haven asset in the next crisis are increasing rather than decreasing. Today, it simply makes enormous common sense to maintain a currency and financial system hedge with gold.

We held a small put position as a short-term hedge against market volatility, and we continue to hold a small position. This hedge contributed to Appleseed Fund's Q4 performance, offsetting temporary price declines elsewhere in Appleseed's equity portfolio.

Other Portfolio Changes

Despite the market volatility during the fourth quarter of 2018, we sold three investments whose share price appreciated to our estimates of intrinsic value. We liquidated Appleseed's investments in **Verizon (VZ)**, **Novartis (NVS)**, and **Spirit Airlines (SAVE)**. In all three cases, Appleseed Fund shareholders generated what we believe is a satisfactory return over multiple years on its capital invested. The fundamentals of these companies remain strong, but their share prices now reflect these strong fundamentals. All things being equal, we would rather own companies with strong fundamentals whose share prices reflect Mr. Market's expectation of weak fundaments.

We took advantage of the recent market volatility by investing in two new equity holdings, **Despegar.com (DESP)** and **Coherent (COHR)**.

Coherent has exposure to a wide variety of industrial laser applications, the future growth of the organic light-emitting diode (OLED) flat panel display industry is entirely reliant on Coherent's know-how. The OLED display market is only in the beginning stages of its development and we believe it should have many years of double-digit growth ahead of it.

Coherent's stock price has fallen significantly in the last 12 months for two reasons. First, technology stocks have declined in value, and Coherent has traded down in sympathy. Second, after the first wave of development of commercial OLED displays drove a record year in 2017, new purchases of laser annealing equipment for OLED displays have temporarily paused. With its 10-year head start in development, Samsung (also owned by Appleseed Fund) is the only company that can economically commercialize mobile OLED flat panel displays today. Rather than chasing volume, Samsung is pursuing a profit maximization strategy with OLED displays. As a result of these two issues, Coherent sales and earnings growth decelerated significantly in 2018, and momentum-oriented investors have been exiting their positions in the stock.

As a result, Coherent's valuation stands near five-year lows across a number of valuation metrics. Its shares are trading well below the valuation of the leader in industrial fiber lasers, IPG Photonics; Coherent trades at ~10x earnings, while IPG Photonics trades at roughly 18x earnings. Coherent's operating profit margin is well below that of IPG Photonics (40% EBIT margins), but Coherent has plenty of room to expand as the OLED display market grows. Finally, Coherent is an attractive acquisition candidate for a number of semiconductor companies and robotics/tool manufacturers.

We also purchased an initial position in Despegar, the leading online travel agency in Latin America. Despegar's biggest problem in 2018 was that the dollar strengthened considerably against most emerging market currencies. Despite growing market share and continuing to generate double-digit volume growth, Despegar experienced a share price declined of more than 50% since its 2017 IPO. With approximately $5 per share in cash on the balance sheet, a well-respected management team, a strategic partnership with Expedia, and a leading market share across most Latin American travel markets, we are pleased to be investors in Despegar at the current share price.

Portfolio Performance

Appleseed Fund Investor shares generated a -3.41% return during calendar year 2018. Since its inception in December 2006, Appleseed Fund has generated an annualized return of 5.84% per annum. The most significant contributors to 2018 performance among the Fund's long equity positions were **Herbalife (HLF)**, **Fabrinet (FN)**, and **Syntel**. All of these positions were sold once their share prices exceeded our estimates of intrinsic value. Unfortunately, the returns from these winners were more than offset by the most significant detractors among the Fund's long equity positions, which included **Hudson Technologies (HDSN)**, **Sina Corporation (SINA)**, and **Titan International (TWI)**. During the year, we increased our investments in these companies to take advantage of lower share prices and increased margins of safety.

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Thank you for your continued trust in asking us to manage your Appleseed Fund investment. We are working harder than ever right now to make sure that our decisions on your behalf are good ones. We wish you and your families a happy, healthy, and prosperous 2019. We deeply appreciate your trust in asking us to manage your capital and plan your financial future.

Should you have any follow up questions, please do not hesitate to contact Colin Rennich (colin@appleseedcapital.com).

Sincerely,

William Pekin, CFA

Josh Strauss, CFA

Adam Strauss, CFA

Shaun Roach, CFA

AVERAGE ANNUAL TOTAL RETURNS					
	1yr	3yr	5yr	10yr	Since Inception*
Investor Class (APPLX)	-3.41%	7.63%	2.18%	9.41%	5.84%
Institutional Class (APPIX)	-3.19%	7.83%	2.39%	*9.60%*	*5.99%*
MSCI World Index	-8.72%	6.30%	4.56%	9.67%	4.20%

Fund Inception Date: 12/08/2006

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.

As of 12/31/2018 the Funds's Top Ten Holdings can be found at: www.appleseedfund.com

The gross expense ratio of the Fund's investor class is 1.57%, and the institutional class is 1.32%; the net expense ratio after contractual fee waivers through January 31, 2020 is 1.36% and 1.17%. The Fund's ninety day redemption fee is 2.00%.

The S&P 500 Index is a widely recognized, unmanaged group of stocks that is representative of a broad market. The index provides returns in U.S. dollars, assumes reinvestment of all distributions, and does not reflect the deduction of taxes and fees. 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.

Investing involves risk, including loss of principal. There is no guarantee that this, or any, investing strategy will be successful. 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.

Diversification does not ensure a profit or guarantee against loss.

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.

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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