April 25, 2023

Dear Appleseed Shareholder:

"Winter is coming."

— Ned Stark, "Game of Thrones"

In the investment world, "winter" can be viewed as a synonym to recession, and, technically, winter is always coming at an uncertain point in the future. However, a number of recent economic signals highlight concerns that winter may be coming sooner rather than later, even though we most certainly do not have a crystal ball to forecast exactly when winter will come nor how severe it may well become.

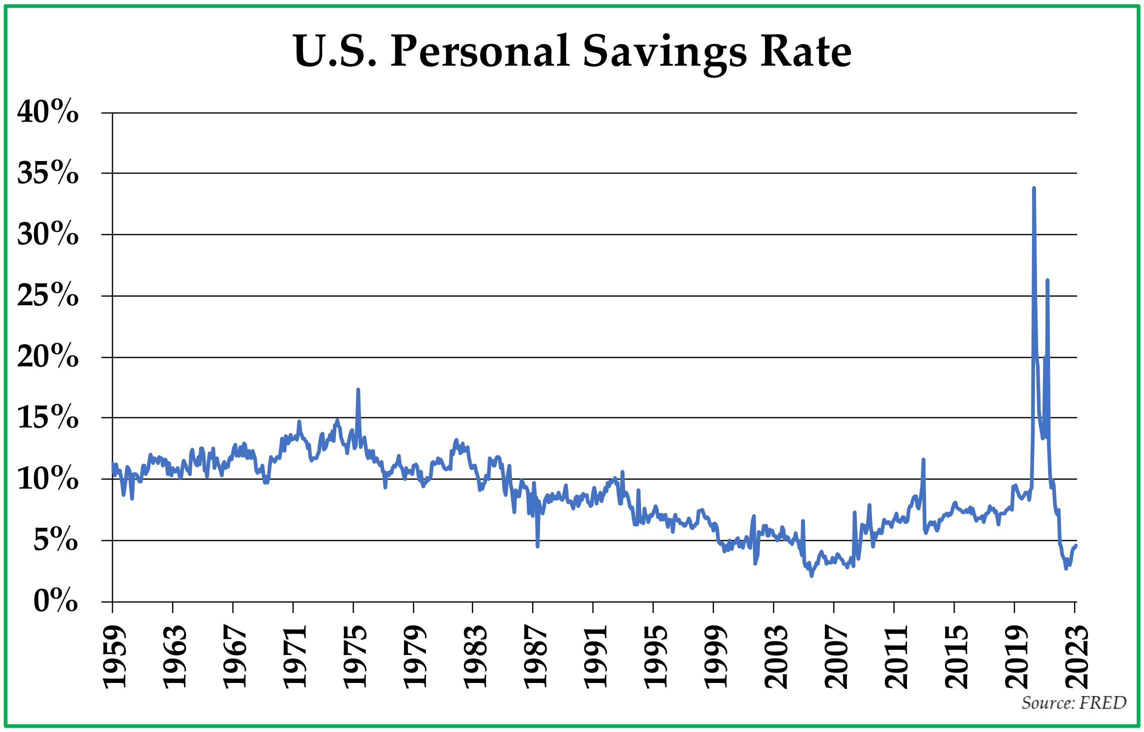
We have been closely watching the economic indicators and trends provided below:

- <u>Inflation is hitting consumers hard</u>.
  Since 2021, prices in the United States and elsewhere in the developed world have risen at a mid-to-high single-digit clip. The world is paying more for the same amount of goods and services and yet getting less for their money. In short, the quality of living has diminished with lower consumer purchasing power. Across the board, savings rates have fallen in the face of inflation, making the average person less prepared for financial emergencies, forcing many to rely on expensive loans or credit card debt to address unexpected expenses. Demand for discretionary items is falling, which should dampen economic growth.

  With inflation squeezing the economy, consumers are more reliant on credit cards to afford increasingly expensive necessities like rent and food (and pricey discretionary items as well). As a result, total U.S. credit card debt spiked to a record $931 billion at the end of 2022, an 18.5% increase relative to 2021.[1] Juxtaposed against this increased credit card debt is an unemployment rate that stands at a 53-year low, yet credit card delinquency rates are rising.

  The personal savings rate, which is an important component of the financial security of U.S. households, measures how much of Americans' disposable income remains after spending on food, rent, debt, and bills. As demonstrated in the chart at the top of the next page, the personal savings rate stands near all-time lows, reflecting the financial struggles of the average household. While some Americans are temporarily draining their savings by spending more to enjoy life post-lockdown, others are reducing savings to cover essentials because their wages simply are not maintaining pace with inflation.

[1] Source: TransUnion.



- <u>Noteworthy bank closures are inciting fears</u>.
  In March, the rapid shut-down of Silicon Valley Bank, Silvergate Capital, and Signature Bank, along with the take-under of 166-year-old Credit Suisse, stoked concerns about the health of the banking system. In response, regulators took surprisingly aggressive steps to stem the contagion. Additional banking regulation and increased expenses for the banks are in the queue, thus placing incremental obstacles for credit formation and economic growth. Moreover, instability in the financial services sector negatively impacts the allocation of resources as well as the assessment and management of financial risks.

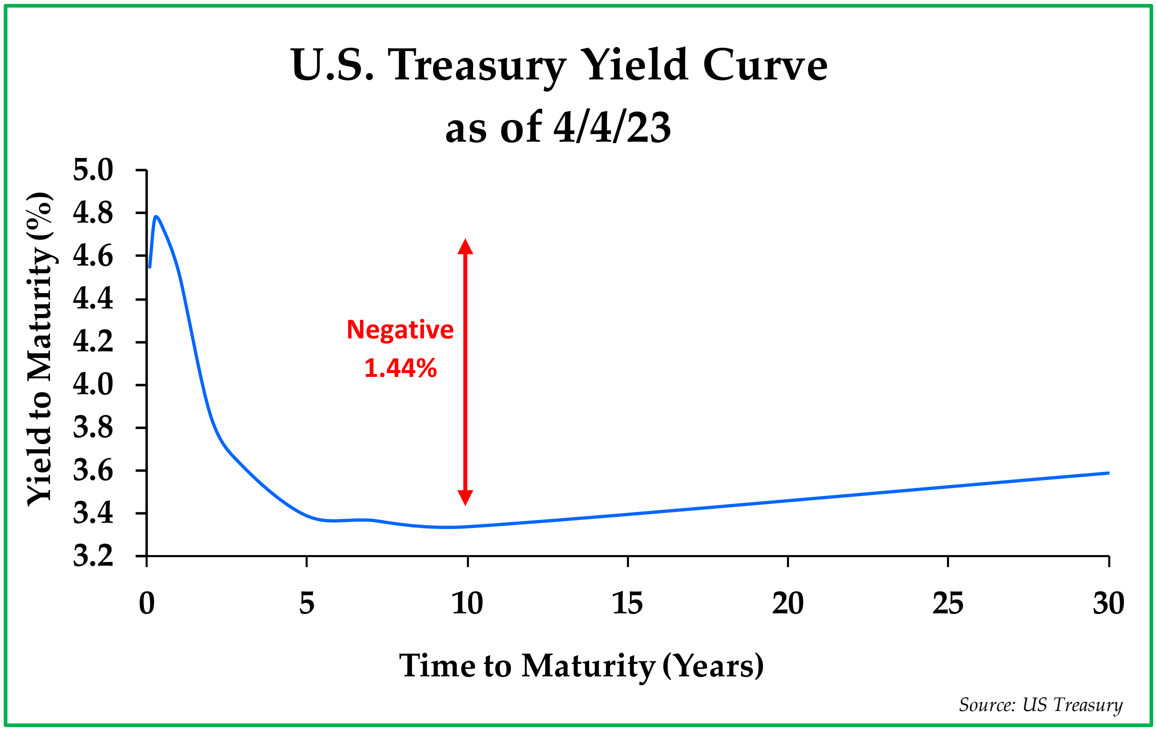
- <u>Corporations are tightening their belts.</u>
  Despite the well-publicized difficulty of hiring over the last few years, even highly profitable companies like Apple, Goldman Sachs, McKinsey, and Disney have announced material cuts in their respective, highly paid work forces. In February 2023, the U.S. Bureau of Labor Statistics announced that there were just 9.9 million job openings; this report represented the first sub-10 million print since May 2021 and was 1.3 million lower than the December 2022 print. Moreover, companies are tapping the breaks on capital spending with particular weakness in more economically sensitive sectors; essentially, corporations are signaling that they are preparing for muted demand and pressured profit margins.

- <u>The return of student loan payments looms ominously</u>.
  During the coronavirus pandemic, the Federal government issued regulations that allowed student loan payments to be temporarily paused. Ceased student loan payments are set to resume in September 2023, which will impact aggregate discretionary spending with more capital directed towards debt paydown. Notably, certain cohorts of Generation Z have never made a single debt repayment in their lives, and those people should feel this loss of discretionary capital more acutely than most.

- <u>The inverted yield curve portends an ominous future</u>.

  The yield curve is a chart that plots the interest rates of a specific type of debt at differing maturities. The slope of the yield curve is normally upward sloping, which indicates that investors require more return to invest capital for a longer period. Typically, an upward-sloping yield curve shape indicates stable economic conditions.

  An inverted yield curve occurs when short-term interest rates exceed long-term rates, which is unusual because investors normally would not require a higher return to tie up their capital for shorter periods of time. As of April 4, 2023, the 90-day to 10-year U.S. Treasury yield spread stood at *negative* 1.44%, which is quite wide as compared to historical norms. Notably, an inverted Treasury yield curve has been one of the most reliable leading indicators of an impending recession.[2]



  The current shape of the yield curve has serious implications for credit formation. With the Fed Funds target rate currently at 5% and banks' estimated earnings yield on assets below that rate, depositors are moving capital to money market funds, and banks are responding by tightening their lending standards.

- <u>The Federal Reserve's posture remains hawkish</u>.

  Despite the recent banking turmoil, the Federal Reserve raised the Fed Funds interest rate by another 0.25% in late March, pushing forward with its aggressive campaign to rein in inflation. Federal Reserve officials are now forecasting just one more interest rate increase this year but doing so with an increasingly uncertain tone. These interest rate increases slow economic activity, as they drive up the cost of credit for credit cards, adjustable-rate mortgages, and other variable loans.

[2] https://www.chicagofed.org/publications/chicago-fed-letter/2018/404.

Moreover, in June 2022, the Federal Reserve began to passively shrink its assets as the underlying securities on its balance sheet matured -- a process called Quantitative Tightening, which drains liquidity out of the financial system. The objectives of Quantitative Tightening are deflationary in nature and are similar to that of raising borrowing costs because it cools down an overheated economy by reducing the amount of money in circulation.

- The U.S. stock market performance is increasingly narrow.
  During the first quarter of 2023, investors rotated back into the beaten-up stocks of technology giants like Apple and Nvidia, leading to massive price gains in the worst-performing sector of 2022. Despite significant volatility, defensive stocks suffered, as stocks in consumer defensive, healthcare, and utility sectors all ended the quarter with losses. Plus, the energy sector, which led the stock market in 2022 by a large margin, was the worst-performing sector of the stock market. The narrow nature of the recent stock market moves is rather perplexing and is likely indicative of unhealthy, anemic growth as well as a possible recession looming. If the economy was exhibiting healthy growth, then the move in the stock market would be far more broad-based in nature.

- The Federal debt ceiling simply cannot be breached.
  Created by Congress in 1917, the debt ceiling is the approved debt limit for the U.S. government, which now stands at $31.4 trillion. The U.S. Treasury reached the current limit earlier this year, so it has no room to borrow incremental capital, other than to replace maturing debt. Further, Treasury Secretary Janet Yellen is pursuing "extraordinary measures" to keep the government funded. Bumping against the debt ceiling is not necessarily a new issue, as the debt limit has been increased many dozens of times over the years. Both political parties all too often engage in contentious battles with regard to this issue, usually about spending and taxing priorities.

  We expect that a debt ceiling agreement will be reached after significant negotiation. However, in today's highly polarized political environment, it could be a publicly contentious process that could exacerbate market volatility and weaken confidence in the economy. Given that the Federal Reserve is trying to tame inflation, a protracted debt ceiling battle that undermines confidence would be counterproductive.

On the other side of this dizzying myriad of headwinds, certain countervailing forces play roles in positively impacting the economy. Next year is an election year, and Congress and the Executive branch will likely use fiscal policy to stimulate the broader economy in order to attract votes. Also, Federal Reserve Chairman Jerome Powell might have to reverse course in its monetary tightening campaign if financial instability increases sufficiently. While it is a backward-looking economic indicator, unemployment rates do stand near all-time lows. In our view, despite these possible countervailing forces, we believe that a recession beginning later this year is more likely than not.

Performance and Portfolio Changes

Over the six months ended 3/31/2023, Appleseed Fund Investor Class has generated an absolute return of 5.42%, outperforming the Morningstar Global Small/Midcap Index, which generated a total return of 3.57%. Performance was driven by strong performance by the equity portion of the portfolio and by physical gold but partially offset by weakness in financial services stocks and by our hedging activities with index puts.

During the most recent quarter, Appleseed Fund added three new equity holdings: Medtronic (**MDT**), Stanley Black & Decker (**SWK**), and Synovus Financial (**SNV**). Medtronic is the world's largest device manufacturer, and it holds the number one or number two market share in most of its product segments. Medtronic's business is heavily weighted towards complicated in-patient procedures, which are typically quite profitable. Industry dynamics are quite attractive with an aging global population and the growth of improved healthcare in emerging markets; furthermore, most of its segments are highly concentrated with just 2-3 players that split each segment's market share, affording the key participants with significant economies of scale and pricing power. The Company has been recently addressing several temporary headwinds including a strong dollar, inflation, a delayed recovery in surgical volumes from the coronavirus pandemic, and supply chain issues. Once these issues reach the rearview mirror, the Company's growth and margin expansion plans should transform into reality.

Stanley Black & Decker is the world's largest tool manufacturer. It produces power tools, hand tools, storage, digital tool solutions, lifestyle products, outdoor products, engineered fasteners, and other industrial equipment. 2022 was quite a forgettable year for the Company with its stock price falling by roughly 60%. Due to supply chain issues, bloated inventories, inflationary pressures, and weaker demand, the Company badly missed its original 2022 guidance. With recessionary fears, waning earnings momentum, a more elevated leverage profile, and reliance on the U.S. construction market, it is of no surprise how poorly the stock price behaved last year. In our view, the sell-off has been excessive with the stock price trading near March 2020 pandemic lows and at levels otherwise not seen since early 2014. We view the stock at washed-out levels with a favorable profile going forward.

In February 2023, Appleseed Fund took a position in Synovus, a Georgia-based regional bank; retrospective vision being 20/20, our timing with this initial purchase was poor. Synovus' business performed admirably in 2022 with an expanding net interest margin, achievement of its annual cost and revenue benefits from its 2020 restructuring program, improved non-performing loans, and accelerating loan growth. The business clearly was performing well, and the stock market had not given the Company much credit when we took a partial position earlier this year at attractive valuations.

Indeed, the banking crisis that began the next month wiped out several well-respected regional banks (*e.g.*, Silicon Valley Bank, Signature Bank) and a global bank (*e.g.*, Credit Suisse). The instability in the financial services sector caused investors to throw the baby (Synovus) out with the bath water, despite the attractive economics and compelling valuation associated with Synovus. Today, we believe Synovus to be well capitalized and with strong risk controls. At current levels, we think the risk/return characteristics of this business are that much more attractive, but the entry point on this investment has thus far proved to be early and a little painful.

During the quarter, Appleseed Fund sold two equity investments: Adidas AG (**ADS-DE**) and Allstate Corporation (**ALL**). Adidas aggressively made the decision to wind-down the highly profitable Yeezy business due to Kanye West's anti-Semitic commentary, which was a painful blow to Adidas' revenues and earnings. That issue, combined with continued weakness in its China business, lowered our long-term expectations in Adidas. However, the stock price reacted very positively to the Yeezy exit, and we subsequently sold our Adidas shares at an attractive price. Allstate's stock price reached our estimate for intrinsic value, so Appleseed Fund exited its position.

Within the equity portion of the portfolio, the three biggest contributors to the Fund's performance over the six months were Ardelyx (**ARDX**), Samsung Electronics (**005930-KR**), and Adidas. The most significant detractors to the Fund's performance over the past six months have been Synovus (**SNV**), CNB Financial (**CCNE**), and Rockley Photonics (**RKLY)**.

Currently, Appleseed Fund is generally positioned defensively in light of this bearish outlook on the economy. With regards to equities, we are favoring companies in the consumer staples, healthcare, and agriculture sectors as well as inexpensive, out-of-favor value stocks.

Beyond equities, Appleseed Fund is overweight U.S. Treasury Inflation Protected Securities (TIPS) and physical gold trusts. We own TIPS because, in the current environment, real yields have become attractive for the first time in years. We own gold because gold should help to reduce portfolio volatility and is likely to perform well in an environment where inflation remains persistently elevated even while real growth is slowing.

Appleseed Fund thanks you for your continued support in asking us to manage your investable assets.

Sincerely,

Adam Strauss, CFA
William Pekin, CFA
Joseph Plevelich, CFA
Shaun Roach, CFA
Joshua Strauss, CFA

ANNUALIZED RETURNS- as of 03/31/23					
	1 Year	3 Years	5 Years	10 Years	Since Inception
Investor Class (APPLX)	-10.73	16.85	3.88	3.93	5.60
Institutional Class (APPIX)	-10.54	17.09	4.07	4.13	5.76
Morningstar Gbl SMID Cap Index	-8.82	16.83	4.67	7.18	5.90

Top 10 Holdings – as of 3/31/2023	*Portfolio Weighting %*
Sprott Physical Gold Trust	*13.37*
Boardwalk Real Estate Investment Trust	*4.44*
Samsung Electronics Co Ltd.	*4.09*
Ardelyx Inc.	*3.99*
The Mosaic Co.	*3.82*
MRC Global Inc.	*3.74*
CF Industries Holdings Inc.	*3.71*
AerCap Holdings NV	*3.60*
Ituran Location and Control Ltd	*3.49*
Sony Group Corp ADR	*3.48*

Fund Inception date: 12/08/2006

The gross expense ratio of the Fund's investor class, as found in the Fund's prospectus dated January 28, 2023, is 1.57%, and the institutional class is 1.32%; the net expense ratio after contractual fee waivers through January 31, 2024 is 1.23% and 1.04%. The Fund's ninety day redemption fee is 2.00%.

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 consider the fund's investment objectives, risks, charges, and expenses carefully before you invest. The Fund's prospectus contains important information about the Fund's investment objectives, potential risks, management fees, charges and expenses, and other information and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus or performance data current to the most recent month by calling 1-800-470-1029.

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

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