Shelton International Select Equity Fund

QUARTERLY

Commentary

As of March 31, 2025

Market Commentary

Performance Highlights

Throughout the globe, the common theme across all markets was a shift in momentum. That which led markets in the past year or two trails so far in 2025. At the highest level that meant that markets were dragged down by the weakness in concentrated large U.S. growth stocks, and led by…just about everything else.

The continuous flow of investor dollars into a select number of U.S. growth stock (and a couple of non-U.S. as well) has been driven by three key factors. 1) Expectations of higher interest rates in the U.S. for a longer period of time, 2) stronger growth in the U.S. economy, led by AI, and 3) a pro-growth election result.

What came to pass in the first quarter of 2025 is skepticism that these three factors may continue going forward. As the quarter drew on, markets came to realize that the tariff program would be stronger than expected, and such policies would be damaging to economic growth, potentially pushing the U.S. into stagflation if such tariffs are passed on to consumers. International stocks fall in the 'everything else' category, especially Europe and Japan. And for good reason.

Regional Insights[1]

- **Europe**: The MSCI Europe Index returned 10.8%, leading global regional markets. European economies are already in a flat growth state, but U.S. policy changes led European governments to undertake stimulative measures, notably deficit spending (a first for EU members under EU limitations) to improve defense and infrastructure. The European Central Bank has already been lowering rates and should continue to do so. And the growing hope for an end to the war between Russia and Ukraine has buoyed equities, especially those in eastern Europe, with the hope of lowered risk, opportunities for reconstruction, and possibly lower energy prices.

- **Japan**: MSCI Japan trailed international markets rising only 0.42%. Japan has been the beneficiary of good news for the past few years, and thus the tariff news hit their equity markets harder than before. While stock exchange driven reforms continue and the economy remains solid, Japan is now experiencing the highest interest rates in 17 years. Initial reactions to higher rates were positive, but the economy has reached a point where further increases in rates create concerns over unwanted Yen strength and accompanying inflation.

- **Emerging Markets**: The MSCI Emerging Markets index rose 2.99%, led mainly by Latin America on the strength in commodity prices, and Eastern Europe. Soldi returns in these regions offset weakness in Asia Pacific brought on by tariff fears.

Outlook

We believe there are three key elements necessary for an extended period of outperformance in international markets:

1. Better valuations
2. Dollar weakness
3. Shift from market preference for growth-oriented stocks to defensive stocks.

International markets have underperformed for the past 15 years, leading to more attractive valuations compared to developed markets. Before the last quarter, these valuation differences had reached historic levels.

[1] Bloomberg

Portfolio Managers

Derek Izuel, CFA

Derek Izuel, CFA is Chief Investment Officer and a Portfolio Manager of the International Strategies. He has over 24 years of portfolio management experience at Invesco, HighMark Capital and Vitruvian Capital. Derek earned his MBA from the Ross School of Business at the University of Michigan and a B.S. in Computer Science from the University of California at Berkley.

Justin Sheetz, CFA

Justin Sheetz, CFA is a Portfolio Manager of the International Strategies. His experience includes 12 years as an Investment Strategist at Blackrock/BGI's Scientific Active Equity Group, 3 years as VP and Equity Analyst at HighMark Capital and 3 years as partner at Vitruvian Capital.

Tony Jacoby, CFA

Tony Jacoby, CFA is an Equity Analyst of the International Select Equity Fund. He has a B.A. in Economics from the University of Colorado Boulder and is currently pursuing an M.S. in Applied Mathematics with an Applied Probability concentration at the University of Colorado.

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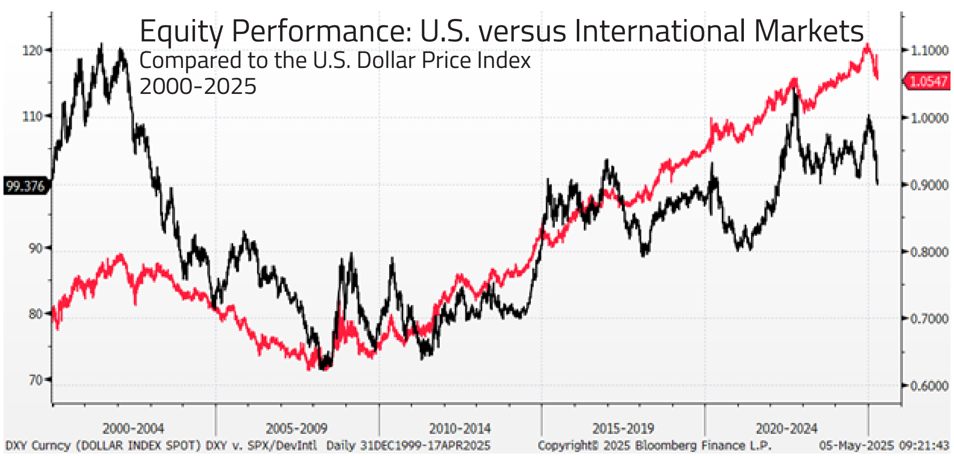
Outlook (continued)

The question was always what would trigger this gap to close?

The dollar has been strong for fifteen years as well, but volatility and weakness is beginning to show due mostly to trade uncertainty. The last extended rally in international was 2002 to 2008, driven by a consistently weak dollar.



The momentum shifted away from large U.S. growth stocks to lower volatility, more defensive stocks. This is typical in a moderating growth environment. If trade uncertainty continues, expect these trends to continue as well. Trade uncertainty continues to pile on to a host of leading indicators all pointing to slowing growth.

There remains one factor that continues to be supportive: fiscal spending. There are no signs of a reduction in government spending in the U.S. despite deficit levels unseen except during times of war. If this is keeping the U.S. economy afloat, the key question will be whether the headwind of regressive trade policy in enough to overcome it.

If this sounds like a U.S. heavy perspective for an international fund, it is. The dominance of the U.S. market over the past 15 years put all the other markets in a reactionary state, where the primary drivers of their performance is not the fundamentals of the international markets themselves, but how those markets are affected by the fundamentals of the U.S.

Fund Commentary

The Shelton International Select Fund returned 5.54%, outperforming the MSCI World ex-USA index return of 5.23% by 0.31%.

The biggest drivers of performance this quarter were the county exposures of the portfolio, especially in Asia Pacific. Overweight's in China and Korea, and an underweight in Taiwan benefitted the portfolio, while the only large drag on performance was an underweight to France.

Much of the country's exposure was offset by industry weightings. Positions in semiconductors and hardware were weighed down by tariff concerns, while the fund lacked enough exposure in materials to benefit from commodity strength.

The fund's portfolio returned 6.02% for the quarter versus the benchmark's return of 5.40%. Our portfolio was underweight Royal Bank of Canada due to poor financial statement quality which ultimately contributed positively to the fund's performance. Through RBC generally beat estimates on earnings, the company increased provisions for credit losses stemming from changes in economic forecasts. In response, analysts adjustments to price targets were a mixed bag of price target increases and decreases.

[1] Bloomberg

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Fund Commentary (continued)

An overweight position in Smiths Group Plc also contributed positively to the fund's performance for the quarter, which was overweighted due to a mix of earnings estimates, quality financial statements, and the potential for price appreciation. At the beginning of the year, Engine Capital Management targeted Smiths with an activist campaign to encourage the manufacturing conglomerate to sell off parts of its business, potentially a total sale of the company, to unlock shareholder value. Smith responded to the activist campaign a couple of weeks later with the announcement of plans to divest its Smiths Detection and Smiths Interconnect segments and to use the proceeds to help finance an additional GBP 350million in share buybacks.

Detractors to the portfolio's performance included Henkel AG and Genmab AS. Despite posting positive FYE numbers in March, approving a EUR 1billion share buyback plan between ordinary and preferred shares, and announcing a proposed dividend increase, Henkel tempered growth expectations of investors by stating that they were expecting a slow start to the year, citing volatility and uncertainty in the overall macroeconomic and geopolitical environment. This led to analysts lowering earnings estimates and resulted in a selloff which carried into quarter end, and the company finishing Q1 down about 10%.

Genmab A/S detracted from performance for the period after they announced that they would halt testing of one of the antibody therapeutics in their development pipeline. Johnson & Johnson held an option to receive a worldwide license to develop, manufacture, and commercialize HexaBody-CD38, to treat myeloma and other blood cancers, which they decided not to exercise. As a result Genmab announced that they would not pursue further clinical development of the treatment and the company ended the quarter down over 12%.

[1] Bloomberg