SHELTON CAPITAL MANAGEMENT

Shelton Emerging Markets Fund

QUARTERLY
Commentary
As of September 30, 2026

A Reversal in Market Leadership

The concentration that defined the second quarter unwound during the third. The MSCI Emerging Markets Index returned -0.37% for the quarter as the AI- and semiconductor-related companies that had driven the second-quarter advance gave back ground, while leadership rotated toward areas of the market that had lagged. The Shelton Capital Emerging Markets Equity Fund returned 1.23% for the quarter, ahead of the benchmark by approximately 1.6 percentage points.[1]

The drivers of the quarter's relative result were, in several respects, the mirror image of the prior quarter. The Fund's underweight position in SK Hynix, which accounted for more than half of the second quarter's relative shortfall, was among the largest contributors to relative performance in the third quarter as the stock declined. More broadly, the valuation and position-sizing framework that detracted when benchmark leadership was narrow contributed when that leadership reversed. We would caution that a single quarter does not validate an investment process any more than a single quarter invalidates one, and the same discipline will continue to produce periods of underperformance.

Portfolio Managers

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Market Overview

The AI Trade Pauses
Asian technology shares, which had driven the second-quarter rally, were volatile and ultimately negative over the period. Samsung Electronics declined 8%, Kioxia 37%, Tokyo Electron 20%, and SK Hynix 23%, while Taiwan Semiconductor Manufacturing posted a modest gain. South Korea's Kospi fell 7.8% for the quarter. Taiwan's Taiex advanced 4.9% to finish at a record high, and Hong Kong's Hang Seng gained 8.6% as healthcare, bank and energy shares outperformed. In mainland China, the CSI 300 declined 10.6% and the Shenzhen index 19.1%. India's Sensex fell 6.3% amid investor outflows and higher oil prices, while Indonesia's market recovered 8.1% from second-quarter declines.[2]

Investor attention shifted during the period from the pace of AI-related demand toward questions about returns on capital expenditure, monetization, competition from open-source models, and the financing of AI infrastructure. Sentiment was also affected in September by increased focus on AI model safety, including calls from several developers to slow the pace of frontier-model development and a reported pause in training of one leading model to strengthen controls. Underlying demand indicators remained firm, with exports from Korea, Taiwan and Singapore continuing to grow strongly on AI related shipments, but share prices in the complex did not follow.[3]

Yields, Energy and Monetary Policy
Sovereign bond yields across emerging Asia rose to multi-year, multi-decade or record highs during the quarter, with most peaking near quarter-end. Korean yields reached three-year highs, Indian yields two-year highs, and Australian yields 15-year highs. Contributing factors included elevated oil prices, concerns about central bank tightening, and high government and corporate issuance. China was the notable exception: yields there declined to a more than one-year low following weak economic data and expectations of additional stimulus. [4]

Energy prices were an important driver. The June memorandum of understanding between the United States and Iran did not hold beyond mid-July, and WTI crude rose 30.1% over the quarter while diesel prices rose 45.2%. For the energy-importing economies that represent a meaningful share of the emerging-market universe, higher energy costs weighed on inflation and, in India's case, contributed to currency pressure and investor outflows. Central banks responded: the Federal Reserve raised rates 25 basis points in September, its first increase since July 2023; the Bank of Korea raised rates at two meetings and signaled that further increases were possible; the Philippine central bank raised rates; and Singapore's monetary authority tightened policy settings. Central banks in China, India, Indonesia, Malaysia and Thailand left policy unchanged. Emerging-market currencies strengthened in aggregate against a roughly flat U.S. dollar, a reversal of the second-quarter pattern, with the Korean won among the stronger performers. [5]

China's Divergent Economy
Chinese economic data continued to show a divergence between a strong industrial and export base and weak domestic demand. Industrial production grew between 4.5% and 5.3% year over year in the June-to-August period and exports grew between 23.9% and 26.9%, while retail sales growth ranged from only 0.4% to 1.0% and fixed asset investment contracted between 5.7% and 7.2%. House prices declined further and credit metrics weakened. Third-quarter GDP growth of 4.3% missed expectations, and an increasing number of economists now view the full-year growth target of 4.5% to 5.0% as at risk. Policy responses during the quarter included a CNY 300 billion recapitalization of major banks and insurers and, on the final day of the quarter, targeted reductions in some lending rates together with subsidies for first-time home buyers. [6]

[1] Source: Morningstar, MSCI
[2,3,4,5,6] Source: StreetAccount, Bloomberg

Fund Performance

The Shelton Capital Emerging Markets Equity Fund returned 1.23% in the third quarter of 2026, compared with -0.37% for the MSCI Emerging Markets Index.

Our strategy dictates that we do not chase the AI-led momentum unless our signals support it, and that position paid off this quarter. Instead, positions in IT services, electronic equipment, multiline retail, technology hardware and automobiles contributed. Country positioning was modestly positive on balance: an overweight to Taiwan was the largest contributor, while Turkey and Korea detracted.

Individual contributors were diversified across geographies and sectors, including a Polish utility, Korean and Taiwanese financials, a Chinese biotechnology company and Turkish consumer and industrial holdings. Detractors were concentrated in two areas: the Fund's overweight to Samsung Electronics, and overweight positions in Indian financials and IT services companies including HDFC Bank, ICICI Bank, Wipro and Infosys. Underweight positions in MediaTek and Alibaba Group also detracted as both outperformed the benchmark.

Key Contributors

SK Hynix Inc. (000660 KS) was among the largest contributors to active return during the quarter, with the Fund maintaining an underweight position compared to the benchmark. The South Korean memory manufacturer, which had returned 224.7% in the second quarter and was the benchmark's strongest contributor during that period, declined 23% over the third quarter as the AI- and memory-related trade paused. Korean technology shares were volatile throughout the period amid questions about valuation, capital-expenditure returns and AI model development, and the Fund's position below the benchmark weight contributed to relative performance. This position reflects the same valuation and position-sizing framework that detracted materially from relative performance in the prior quarter. [7]

PGE Polska Grupa Energetyczna S.A. (PGE PW), Poland's largest power producer, was among the largest contributors to active return, with the Fund maintaining an overweight position throughout the period. In mid-September the company reported second-quarter results that exceeded expectations, with revenue of PLN 15.26 billion compared with PLN 13.80 billion a year earlier and recurring EBITDA rising approximately 21% year over year to PLN 3.96 billion. The company also reported a substantial reduction in net debt and raised its recurring EBITDA outlook for several segments, while continuing capital investment in offshore wind, battery storage and gas-fired generation. Shares traded near 52-week highs late in the period. Utilities and regulated-asset businesses remain subject to regulatory, commodity-price and policy risks. [8]

Key Detractors

HDFC Bank Limited (HDB), India's largest private-sector lender, offers retail and wholesale banking and treasury services to individuals and businesses. The fund held an overweight position, on average, during the quarter ended September 30, 2026, and the holding was a detractor from active return. On July 18, 2026, HDFC Bank reported fiscal first-quarter net income of ₹190.6 billion, up 5% year-over-year but below the analyst estimate of ₹197.2 billion. Net interest margin contracted and shares in Mumbai fell as much as 4.8% on July 20. On August 30, 2026, CEO Sashidhar Jagdishan announced he would not seek reappointment and would retire on October 26, a move described as a surprise, moving at least five brokerages lowered their price targets in response. [9]

MediaTek Inc. (2454 TT), the Taiwan-based fabless semiconductor company, detracted from active return as the Fund's underweight position lagged the stock's outperformance relative to the benchmark. The company remained a focus for investors during the quarter in connection with its AI application-specific integrated circuit business, and sentiment was supported in early September by reports that Nvidia would invest approximately $3.5 billion in the company. Taiwan's market outperformed the broader emerging-market benchmark during the period and finished the quarter at a record high, which compounded the effect of the Fund's underweight. [10]

Outlook

The third quarter illustrated how quickly leadership can rotate in emerging markets. A benchmark that rose more than 24% in the second quarter on the strength of a narrow group of securities declined modestly in the third as that same group gave back ground. For a diversified, valuation-aware portfolio, the second quarter was costly and the third was helpful. We would emphasize that neither outcome reflects a change in process, and we expect both patterns to recur.

The three conditions we monitor have shifted. Global growth remains resilient in aggregate, supported by strong export activity across Asia's technology supply chain, but domestic demand in China has continued to weaken and higher energy prices present a headwind for energy-importing economies. The dollar was roughly flat over the quarter and emerging-market currencies strengthened on balance, an improvement from the prior quarter. Valuations remain dispersed. The de-rating of the Korean and broader memory complex has improved the valuation case in parts of Northeast Asia, while India's underperformance has reduced some of the premium that market carried entering the quarter.

[7] Source: Bloomberg, StreetAccount, Shelton Capital Management internal attribution
[8] Source: Company reports, Bloomberg
[9] Source: Bloomberg, Newswire
[10] Source: Bloomberg, StreetAccount

Outlook Continued

We believe the behavior of long-dated sovereign bond yields is likely to be an important variable in coming quarters. Emerging-market equities absorbed a substantial move in crude oil during the period without a broad decline, but the global rise in yields pressured rate-sensitive sectors and contributed to currency stress in markets with external financing needs. Should yields stabilize, conditions could become more supportive for emerging-market assets broadly; should they continue to rise, pressure on valuations and currencies could persist. The Fund is not positioned around a specific interest-rate forecast. China presents a particular set of questions. The divergence between a strong industrial and export economy and weak consumption, property and investment activity is now well established, and policy support has to date been targeted rather than broad. Additional stimulus in the fourth quarter appears likely given the risk to the official growth target, though its scale and effectiveness remain uncertain. The Fund's underweight to domestic Chinese A-shares contributed during the quarter; we continue to evaluate opportunities in China on a company-specific basis.

The trajectory of the Iran conflict and energy prices remains unresolved and continues to influence inflation, policy and currency outcomes across the emerging-market universe. We continue to monitor the energy futures curve as one indicator of market expectations.

What has not changed is the structural evolution of the emerging-market opportunity set we have described throughout 2025 and 2026. Technology supply chains in Korea and Taiwan, infrastructure and financial deepening in India, Brazil and Southeast Asia, and the energy transition reshaping several markets all remain important areas of focus. The breadth of that opportunity set, and the dispersion of outcomes within it, is what we believe makes patient security selection worthwhile.

Important Information

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Holdings are subject to change.

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For more information, visit www.sheltoncap.com The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,441 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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