Article Excerpt From Barron's:

A Little-Known Green Fund Soared 114% in 2020. We Caught Up With Its Manager.

By
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Garvin Jabusch
Courtesy of Garvin Jabusch

Thanks to its investments in disruptive technologies, the little-known Shelton Green Alpha Fund (ticker: NEXTX) soared 114% in 2020, winning a coveted five-star Morningstar rating. The fund's manager, Garvin Jabusch, has done this with a buy-and-hold strategy (turnover is just 24%) in winners like Moderna, Tesla, and Vestas Wind Systems.

Jabusch, 54, originally trained as a biological anthropologist, before working at Morgan Stanley in its strategy division evaluating acquisitions, which gave him a good grounding in private equity valuation. In 2002, he left Morgan Stanley and found his way into investment management—and in 2007, he and his partner, Jeremy Deems, founded Green Alpha Advisors near Boulder, Colorado. Traditional socially responsible investing meant screening companies from the S&P 500, he observes, "but you're not going to get in front of interesting, innovative solutions that way. All my private equity work says that rather than using screens to hack away at the legacy index until it's a little greener, the only way to arrive at an indefinitely sustainable economy is to start from the floor."

So far, this strategy has $700 million in assets, including $306 million in assets for Shelton Green Alpha. This year, the fund is up 16.4%, for a five-year average annual gain of 34.6%. *Barron's* recently asked Jabusch to share his outlook. An edited version of our conversation follows.

***Barron's*: What's driving performance?**

Gavin Jabusch: The top five contributors last year were Moderna (MRNA), Tesla (TSLA), Vestas Wind Systems (VWDRY), JinkoSolar (JKS) and Daqo New Energy DQ). Daqo is an upstream supplier to the solar industry, and an interesting way to have exposure to the secular growth of solar without taking a chance on an individual producer. SunPower (SPWR), another big contributor to performance, is the same story.

What's your process?
We try to be early and identify names that are disruptive innovators or have a very legitimate potential to be the incumbent and have every chance of stealing a bunch of market share away from legacy providers, to give us confidence that there's a moat around the innovation. We look for companies that own a lot of intellectual property.

Moderna is an example. It has a ton of IP. I was initially drawn to them more on the therapeutics side than the vaccine side. They can do gene edits and other kinds of therapies using messenger RNA. The CEO talks about revascularizing the heart after a heart attack. It has so many interesting non-vaccine therapeutics in the pipeline. Solving for human disease is one of the big system-level risks. We were in it before the pandemic. It provided a short-term catalyst, but the long-term prospects are much greater. It has an inexhaustible total addressable market.

What you have in the S&P 500 is 500 winners of the legacy economy. It's backwards looking. It's very hard for humans to look for innovators with the most credible ability to disrupt. We want to own the S&P 500 constituents of five years from now.

Your fund is also sustainable.
It has to be a disruptive innovation and very economically competitive. It's safe to say that wind wouldn't have grown from zero to 7.5% of U.S. utility-scale electricity generation only because it's a climate solution; it's also hugely economically competitive. Vestas is not only solving for the crisis, but owning all the patents. In addition to evaluating economic competitiveness, you have to give yourself the best chance of being accurate, evaluating the IP estate, looking carefully at the company's commitment to keeping that moat and widening it. We look at research and development as a percentage of revenue, custodianship of capital, at companies spending on [mergers and acquisitions] and R&D to maintain their lead instead of doing buybacks.

Where I try to add additional value is impact. The market over time knows we need to lower the risk in the global economy, not raise it. It's hard for us to own things that will make the economy and social cohesion less good. By definition, something that has the ability to undermine the economy probably won't thrive indefinitely. Ideology isn't going to help you with returns. Innovative solutions in the service of mitigating system level risk gives us our best shot at long-term competitive returns.

Are the holdings in your fund, like Tesla, overheated?
That's a valid question. It depends on two things: The individual company and also your time frame. Everyone wants to know about Tesla. If you look at 2021 revenues, it's visibly overvalued. On 2025, not so much. Its plan is to grow vehicle shipments and revenue 50% year on year through 2025 and the energy business is growing even faster. Some of the analysts you read fail to put that on at all. In the fourth quarter, we saw the car business grow 25% quarter on quarter, and the energy side grew eight times. When [Tesla CEO Elon Musk] says he thinks energy will be bigger than the automotive side by 2030, it's easy to believe him. You do see him selling Megapacks to utility systems all over the world. They're gaining great market penetration.

I love innovation combined with mitigating effect on climate change. They have the ability to have a $1 trillion market cap and ultimately up to $3 trillion before 2030. We've been in it for so long that I don't want to sell: It will create more tax consequences. But I had to trim it twice last year: The position was too much for a mutual fund.

Important Information

It is possible to lose money by investing in a fund. Past performance does not guarantee future results. Any projections or other forward looking statements regarding future events or performance of markets, companies, or otherwise are not necessarily indicative or differ from, actual events or results.

Fund information is not intended to represent future portfolio composition. Portfolio holdings are subject to change and should not be considered a recommendation to buy individual securities.

Shelton Green Alpha Fund's environmental focus may limit investment options available to the Fund and may result in lower returns than returns of funds not subject to such investment considerations. There are no assurances that the Fund will achieve its objective and or strategy. Investing in securities of small and medium-sized companies, even indirectly, may involve greater volatility than an investment in larger and more established companies.

Investors should consider a fund's investment objectives, risks, charges, and expenses carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, visit www.sheltoncap.com or call (800) 955-9988. A prospectus should be read carefully before investing.

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A list of the 10 best and least performing securities is available upon request. Please call our office at (800) 955-9988.

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