SHELTON CAPITAL MANAGEMENT

Fixed Income

Quarterly
Commentary
As of June 30, 2021

Market Commentary

There is no playbook for what a post-pandemic recovery should look like. Unlike prior emergences from recessions, the average consumer is in excellent financial condition on account of forced savings from an inability to spend, the wealth effect from the rise in asset prices, low interest rates, rising home prices, and a strengthening job market. However, the incoming economic data will likely be all over the map. Expanded jobless benefits are distorting the employment picture, and shortages in labor, material and logistics capacity are keeping a lid on raging demand. Amid these muddy waters, the willingness and ability to be tactical continues to be crucial.

The DEBIX portfolio is constructed in a way to be relatively agnostic to changes in rates or the slope of the yield curve. We do our fundamental research and due diligence on companies and municipal issuers and generate our returns from credit rather than duration or moves in rates. The fund is hedged against rising interest rates using low-cost out of the money options, which minimizes drag but maximizes protection. This strategy is repeatable and should generate attractive risk-adjusted returns throughout the economic cycle.

While long-duration rate-sensitive funds outperformed during the quarter as the inflation and rising interest rates narrative backed off a little, we continue to believe that it is nearly impossible to have strong conviction in any direction on the transience or persistence of inflation and thus the level of interest rates. We would rather invest in our experience in identifying undervalued, mis-priced, complex, out-of-favor and otherwise underpriced securities to purchase and generate total returns.

In Q2 the Fund generated strong absolute and relative returns of +2.29% (DEBIX) and +2.25% (DEBTX), bringing year-to-date returns to +7.21% and +7.08% respectively.

Description	Returns 2Q2021	YTD
Shelton Tactical Credit Fund (DEBIX)	+2.29%	+7.21%
Bloomberg Barclays U.S. Aggregate Bond Index	+1.83%	-1.60%
Bloomberg Barclays U.S. Investment Grade Corporate Bond Index	+3.55%	-1.27%
Bloomberg Barclays U.S. High Yield Corporate Bond Index	+2.74%	+3.62%
Bloomberg Barclays U.S. Investment Grade Municipal Bond Index	+1.42%	+1.06%
Bloomberg Barclays U.S. High Yield Municipal Bond Index	+3.93%	+6.12%
Morningstar Nontraditional Bond Fund Category	+1.37%	+1.82%

Performance figures represent past performance and are not a guarantee of future results. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than the performance data quoted. For more current month-end Fund performance information, please call our office at (800) 955-9988.

These returns were driven by favorable asset class and sector allocations, and effective security selection. Portfolio weightings were higher in high yield corporate bonds, and lower in municipal bonds and short positions. Almost all positions generated positive returns during the quarter – the few exceptions were short positions and a few special situations which retraced modestly after strong performance earlier in the year. The top 5 contributors and detractors for the quarter are listed below:

Top 5 Contributors	**Top 5 Detractors**
Transocean Ltd.	Navient Corporation (short)
CalPlant I LLC	Pyxus International Inc.
Rialto Bioenergy Facility LLC	Wynn Las Vegas LLC (short)
EnVen Energy Corp.	CBL & Associates Properties, Inc.
Talos Energy Inc.	CHC Group LLC

Portfolio Management

Jeffrey Rosenkranz
Portfolio Manager

Jeffrey Rosenkranz has over 23 years of experience investing in the credit markets, with an emphasis in high yield, distressed debt, and special situations and has worked at firms including Cedar Ridge Partners, LLC, Durham Asset Management, Cooperstown Capital Management and Ernst & Young LLP. He holds an MBA from the Stern School of Business at New York University and a B.A. from Duke University. He is also a Certified Public Accountant.

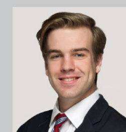
David Falk
Portfolio Manager

David Falk has over 30 years of broad-based fixed income experience as a trader, research analyst and investment banker for firms including Cedar Ridge Partners, LLC, Bear, Stearns & Co. Inc. and Lazard Freres with a focus on the municipal securities market. He is also a Portfolio Manager for the Green California Tax-Free Income Fund and fixed income managed accounts. He holds a Master of Regional Planning from the University of North Carolina at Chapel Hill and a B.A. from Northwestern University.

William Mock
Portfolio Manager

William Mock has over 20 years of experience as a trader and portfolio manager of fixed income and derivatives portfolios, working at Citibank, Societe Generale, and TKI Capital prior to joining Shelton Capital in 2010. He is also lead portfolio manager of Shelton Capital's other municipal and government bond mutual funds. William holds a B.S. in Electrical Engineering from Kansas State University and an MBA from University of Chicago Booth School of Business.

Chris Walsh
Portfolio Analyst



Chris Walsh has over six years of experience analyzing credit and equity markets. He has been with Shelton Capital since November 2016. Chris earned a B.A. in Economics, Villanova University.

Kyle Johnson
CFA - Fund Analyst

Kyle has been with Shelton Capital Management since July 2019. He has nine years of industry experience and previously worked with OppenheimerFunds, ALPS, and an independent RIA. He has a B.S. in Finance with a certificate in Entrepreneurship from Florida State University and is also a CFA® charterholder.

Corporate Commentary

The corporate credit markets continued to gather substantial assets, while at the same time supporting record levels of new issuance. We have found the quality and mix of recent new issues to be mostly unappealing, especially when compared to the incredible opportunities during 2020 and the early part of 2021. Rest assured we will stay disciplined and opportunistic. Flows were strong into investment grade at $101 billion, while high yield suffered outflows of $-2.5 billion. Investment Grade issuance totaled $384 billion and High Yield issuance totaled $135 billion. Spreads grinded tighter yet again, and now sit towards the low end of historical ranges, leaving little room for additional spread tightening. Even after adjusting for mix and quality, overall valuations are uninspiring. However, we continue to identify compelling opportunities in complex, out-of-favor, misunderstood credits, many of which are going through secular or regulatory changes or have cycles that are not aligned with the traditional economic cycle.

Municipal Commentary

Like everyone else, municipal investors have concerns about whether inflation will be transitory or persistent. But while they try to both mind-read the Fed and predict the components, size and timing of infrastructure plans and changes to federal tax policy, they have benefited from the protective cover provided by the continued strong technical factors supporting the market. Tax-exempt mutual funds saw total inflows of $27.8 billion in the quarter bringing year-to-date inflows to $59.5 billion. Against this backdrop of strong flows, primary market new issue supply has remained very manageable. For the second quarter long-term municipal issuance totaled $116.1 billion of which approximately 78% consisted of tax-exempt bonds. Municipal market participants compare projected new issuance to funds available for reinvestment from maturing bonds and bonds called bond for redemption to determine whether supply is "positive" or "negative" over the next 30 days. For example, as of June 30th, new issue supply is projected to be $10.8 billion while funds available for reinvestment are projected to be $27.9 billion. Therefore, net supply for the next 30 days is negative $17.1 billion, indicating continued favorable technical conditions for the near-term. Municipal yields ended the second quarter at 0.44%, 0.96% and 1.50% for the "AAA" 5-, 10- and 30-year maturities, declining 5, 14 and 25 basis points, respectively over the period. The 2s-30s municipal yield curve flattened 26 basis points over the quarter. Respective AAA Muni/Treasury ratios at quarter-end were 56%, 69% and 73% indicating continued historical richness (excluding the early months of the pandemic).

The end of the quarter produced a bipartisan framework for an infrastructure plan. The plan totals $579 billion with $312 billion focused on transportation and $266 billion allocated for other "traditional" infrastructure along with broadband. Financing sources remain to be finalized but would include unused emergency and unemployment insurance relief funds. Successful completion of the legislation will no doubt require a great deal of gnashing of teeth, finger pointing and hyperbole by both parties. But it is certain that municipal bond tools are on the table with direct pay taxable bonds, private activity bonds, public-private partnerships, and potential reinstatement of advance refunding tools all in the mix. Both municipal issuers and investors will be watching closely as the ultimate features of the infrastructure plan and its financing sources can alter the supply/demand technical landscape of the municipal market. For example, reinstatement of tax-exempt refunding capabilities could significantly add to tax-exempt new issue supply. Similarly, implementation of a direct pay subsidy program could fuel issuance of taxable bonds. The relative advantage of each of these different tools will ultimately depend on market conditions as they become available.

Changes to tax policy may also affect the demand side of the municipal bond market. Expectations of increases in personal and corporate tax rates as initially proposed by the Biden administration provided additional support for recent interest in tax-exempt bonds. However, potential push-back on these proposals as part of negotiations over the infrastructure plan and other administration initiatives could temper demand. In addition, the "Global Minimum Tax" plans can also impact demand for tax-exempt bonds among important institutional investors including banks and insurance companies.

Outlook

While the recovery will not be without friction, we are seeing signs in many areas of a healthy and lasting rebound. As the lingering logistical kinks get smoothed out and supply meets demand, we anticipate a strong remainder of the year economically. Covid variants are a risk to the pace of recovery, along with increasing government regulation, cyberattacks, OPEC discord, and China relations. As always, we will be cognizant of valuations, while continuing to find value and compelling risk/reward investments in the corporate and municipal bond markets.

IMPORTANT INFORMATION

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

Credit-related instruments typically decrease in value when interest rates increase. Concentration in a small number of issuers increases the risk that one issuer could have a large adverse impact on the Fund's return. Borrowing and frequent trading could increase the Fund's operating expenses. High-yield bonds involve greater risk of default, and may be more volatile and less liquid, than investment grade securities. Subordinated and unsecured loans may be disproportionately affected by default and downgrade. Foreign investments may be adversely affected by currency fluctuations, lower liquidity, tax regulation, and political instability. Derivatives can be highly illiquid and difficult to unwind. The Fund's short positions may equal up to 100% of the Fund's net asset value. Short sales theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The Bloomberg Barclay U.S. Aggregate Bond Index is an unmanaged index of the U.S. dollar-denominated investment grade fixed-rate taxable bond market. It includes government, corporate, mortgage-backed, and asset-backed debt securities with a maturity of at least 1 year. It is not possible to directly invest in an index.

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