Shelton International Select Equity Fund

QUARTERLY
Commentary
As of March 31, 2024

Market Commentary

Whence the Pivot?

First Quarter 2024 Macroeconomic Commentary

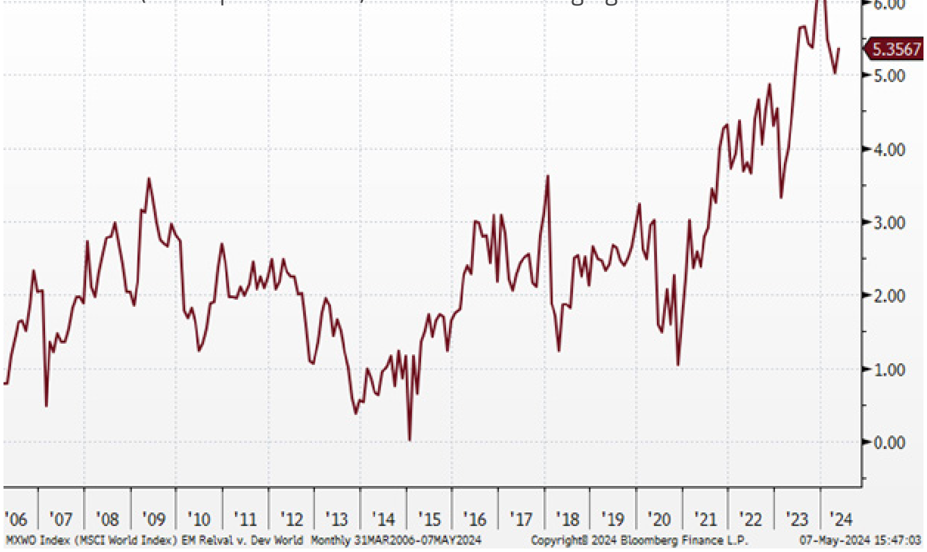
The first quarter was a solid quarter for markets around the world. The MSCI World index of developed markets was up 8.9% in USD, led by Japan and the US at 10.4% each (note Japan was actually up 18% in local currency).

Emerging markets lagged developed market, only returned 2.2%, dragged down by the continued decline of the Chinese stock market.

US investors are focused on the actions of the Federal Reserve, watching every employment and price data point for clues on what the governors might do next. They have not been alone. International investors are keen to see what the Fed does, especially in emerging markets.

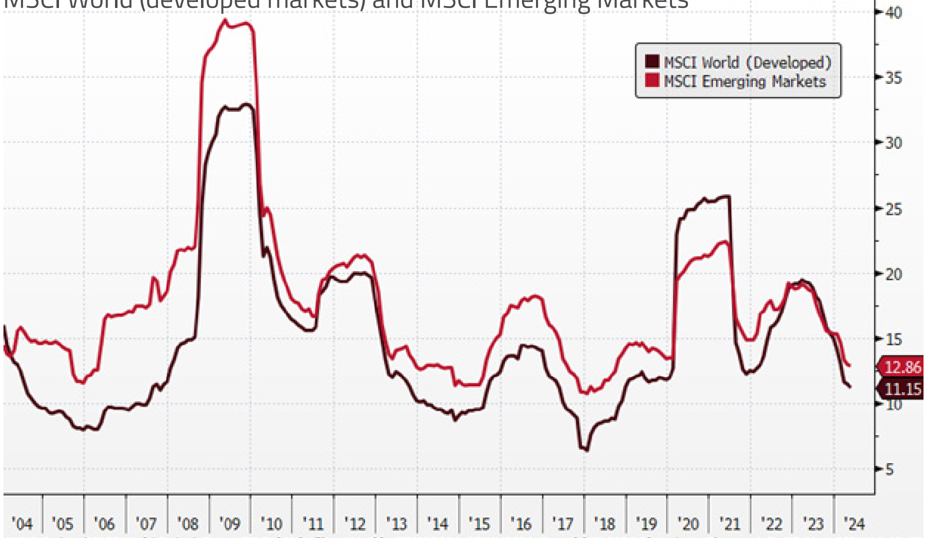
Emerging markets are primed for investors looking for value. While the US valuations reach record levels, valuations at emerging markets continue to languish at historically low levels compared to the rest of the world.

Relative Valuation: 12-month Forward Price to Earnings Ratio
MSCI World (developed markets) minus MSCI Emerging Markets



Even though Emerging Markets present similar, and at times lower risk levels.

Trailing 12-month Equity Volatility
MSCI World (developed markets) and MSCI Emerging Markets



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.

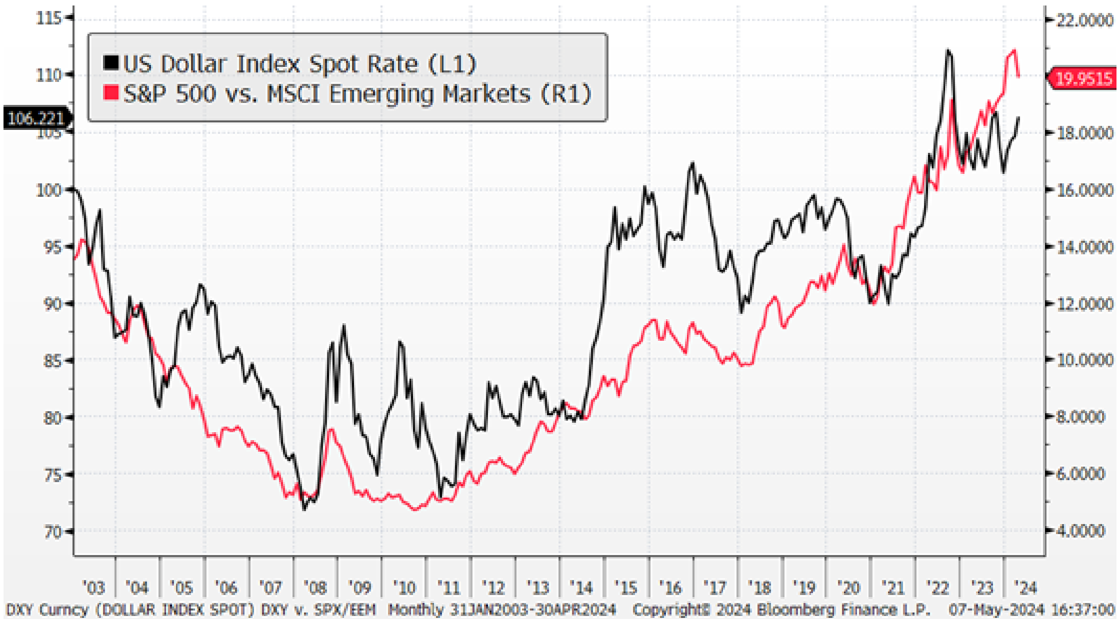
Justin Sheetz, CFA

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.

With all this in place the primary force keeping emerging markets from performing well is the US dollar. The strong dollar increases leverage levels (much of which is denominated in US), and international investors want confidence that currency changes will not serve as a headwind to the total returns on their investments.



Differences in interest rates drive changes in currency values, so the decline in expectations for cuts in the Federal Funds Discount Rate disappointed investors waiting for a decline in the dollar. Markets expected six rate cuts in 2024 at the first of the year only to see stubborn inflation and robust employment numbers bring those expectations down to five, four, three, and now some concerns we may not see any rate cuts at all.

Momentum

Momentum has been another characteristic of the current market. Stocks that have led the market in 2023 continued to lead in 2024. Beyond the Magnificent Seven, pharmaceutical stocks developing semaglutides for weight control (Novo Nordisk (NOVO DC), Eli Lilly (LLY US)), AI stocks (a whole host of firms beyond just MSFT and NVDA such as Super Microcomputer (SMCI US)) have extended their performance.

Momentum is a way to describe parts of the equity market - it is not a true market force like style or size. But it reflects a trend, often belies a greater market force that is driving the market, and begs the question once that force is identified, when will it end? Because once momentum breaks, the market reversal can be quite dramatic.

Over the past 25 years, economic growth has been the primary driver of the momentum cycle. Since the end of near-zero interest rates and elevated inflation, inflation and interest rates have been the primary trend setters. The first signs that these trends might be turning happened last October, but the expected 'pivot' has done nothing but disappoint.

Until the full effect of such a pivot occurs, expect the current trends to continue. And while some cracks in the armor have shown themselves in some of the momentum stocks (notably TSLA and AAPL), in an election year expect the US government to do everything in their power to keep the party going at least through election season.

International Select Equity Fund - Performance Commentary

The Shelton Capital International Select Equity Fund returned 4.29% in the first quarter of 2024, underperforming the MSCI All-Country World ex-USA index return of 4.69% by 0.40%. The largest drag on performance was our exposure to China, the only large market to experience negative performance during the quarter. While China does face considerable issues in their economic growth, we believe at current levels the equity market there offers value. Some of this performance was offset by our exposure to Japan, which led all developed markets in the quarter.

CRH Corp – The CRH Corp returned 25.2% in US Dollars during the first quarter. After completing shifting their primary stock listing to the NY Stock Exchange, CRH Corp completed a share buyback which began in the fourth quarter and announced an additional plan to buy back up to $300M more in shares through the next quarter. Additionally, it announced a $0.35 dividend which grew over 12% from the prior year.

Denso – The Japanese parts manufacturer returned 27% in US Dollars in the first quarter, 10% less than it returned in Japanese Yen. Denso Corp had moderate gains leading to its 2/2 earnings and then increased ~25% through the end of the quarter coinciding with the news that it will again partner with TSMC, Sony, and Toyota to construct a 2nd chip fabrication plant in Japan with the intention to begin operations by the end of 2027. The announcement came weeks before the first plant in the partnership opened in Japan via cooperation with the Japanese government.

AIA Group – The Hong Kong based insurer lost 22.9% in US Dollars. Though AIA Group reported increases in some key metrics, YoY, many analysts cut their price targets with Huatai Research noting that while new business value in AIA's Hong Kong market rose 82% YoY, and 33% overall, "markets outside the Chinese mainland and HK saw only moderate double-digit growth YoY." The cuts coincided with the stock finishing the quarter down about 20% between earnings and quarter end.

HDFC Bank – Largest bank in India, and one of 10 largest in the world, lost 16.6% in the first quarter of 2024. The private sector lender was one of the biggest detractors to the fund's performance due to its mid-January earnings that underwhelmed analysts. UBS's analyst noted a slowdown in deposit growth, which taken in context with the HDFC CFO's comments regarding a lack of liquidity in the market, "So we do need deposits to be kicking in for the loans to be operating," likely contributed to the firm's post earnings sell off. That said, even with analyst concerns over the bank's deposit growth and market liquidity headwinds stemming from central bank policy, the supermajority of analysts maintained their buy recommendations post-earning with UBS noting, "We expect NIM to improve by 20bps over next 5 quarters, which could accelerate if interest rate/liquidity environment eases faster."

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