Quarterly Commentary
As of June 30, 2025

Shelton Tactical Credit Fund

Market Commentary

"All right, move on…Nothing to see here…please disperse…" Officer Frank Drebin, The Naked Gun

Trade battles erupted after Liberation Day, and it was a volatile quarter for all assets. After interest rates began the second quarter with the 10Yr UST at 4.21%, they dropped to their year-to-date lows of 3.99% before moving sharply higher and reaching an intra-quarter high of 4.6% on concerns around the inflationary impact of tariffs and fiscal profligacy, especially at the long end of the yield curve. These moves were amplified by fears that foreign investors could reduce their holdings as vengeance for harsh treatment on trade. Later in the quarter, nerves abated as growth slowed, the job market softened a bit, oil prices retreated and 10-year rates ended the quarter at 4.23%, practically unchanged from where the quarter began. Equity markets bottomed out on April 8th, when the outline of a deal with the UK was announced. Further agreements were teased as imminent yet had still not materialized by quarter-end. Markets did not care and were off to the races. Even a war in the Middle East caused a brief spike in oil prices but did not stop the rally.[1]

The Fed remained on hold at their May and June meetings, choosing to wait for more clarity on the inflationary impact of tariffs, while taking comfort that the economy and job market were resilient enough to wait. The updated Summary of Economic Projections at the June FOMC meeting showed a wide range of views with little confidence around any of them. At his post-meeting press conference, and again during his late June congressional testimony, Chair Powell suggested that the delayed impact from the soft data should start to appear in the hard data over the next two months, which suggests that September could bring sufficient clarity to cut rates. As we will discuss in the outlook section, where we go from here could almost be anywhere, and this wide range of potential outcomes warrants caution, dexterity, and active management.[1]

GDP decelerated from 2.4% in Q4 to -0.5% in Q1. As of July 1st, Q2 was trending to a 2.55% figure according to the Atlanta Fed GDPNow Forecast. In isolation, this would be decent growth, but in the context of the weak Q1 figure, the recovery is muted. This is understandable as businesses faced unprecedented uncertainty, pulled-forward orders ahead of tariffs, and were more cautious on replenishment. The key question now is whether enough visibility emerges soon enough to prevent a deeper and longer downturn.[1]

At quarter end, markets are pricing 2.67 rate cuts in 2025, and almost another three cuts in 2026. The long end of the curve will also be impacted by philosophical issues like R* and the terminal rate, and by expectations around fiscal policy, deficit spending and budgets. As 2025 progresses, we will get more clarity on fiscal policy, tariffs, immigration reform and other factors which will all bear upon inflation, employment, and growth.

Although the balance of risks has shifted back into an equilibrium between inflation and full employment after recent employment reports, the FOMC still has a very difficult task of ensuring inflation does not reappear or reaccelerate, while also protecting the labor market from further deterioration. Fed governors have spoken about how they do not want any further weakening of the labor markets from here. These hard data points operate with a lag, so if all the cumulative tightening over the last several years is still impacting hiring and firing decisions, we won't know until later that employment had still been deteriorating. At the same time, the Fed indicated that while slower growth would ordinarily prompt an easing response, they are hamstrung due to the uncertainty of trade policy and its potential effect on inflation.

In Q2 2025, the Fund posted returns of +3.68% (DEBIX) and +3.62% (DEBTX). Below is a table of returns for the Fund, various relevant indices, and the Morningstar Non-traditional Bond category. Performance in the quarter was strong across all measures – exceeding the Morningstar Non-Traditional Bond Category and all the indices that we track. Our positioning had been a bit cautious coming into the quarter, expecting uncertainty and volatility. When markets sold off rapidly, we used the volatility to add risk at attractive prices. The Fund's returns were enhanced by our credit selection and ability to find unique, uncorrelated investments, and our dynamic and tactical adjustments to the portfolio as macroeconomic and single-name data evolved, while protecting downside with both interest rate and credit hedges. Our longer-term performance remains very strong and is a testament to our ability to overcome the vagaries of the rates markets and the occasional idiosyncratic hiccups by stringing together significantly more idiosyncratic winners than losers over time. In December 2023, the fund reached its 10-year anniversary, and the performance of the Fund since inception stands very tall relative to peers, relevant indices, and the Non-traditional bond category.

1 Bloomberg

Continues on page 2

Portfolio Management

Peter Higgins
Head of Fixed Income & Sr. Portfolio Manager

Peter Higgins has over 25 years of experience in fixed income investing, most notably as Partner and Lead Portfolio Manager at both Ares Management and BlueBay Asset Management. Previously, Peter specialized in global leveraged finance at investment banks such as Deutsche Bank AG, Goldman Sachs & Co. and Credit Suisse in both London, England, and New York City. Peter earned a bachelor's degree in Economics-Political Science from Columbia University.

Jeffrey Rosenkranz
Portfolio Manager

Jeffrey Rosenkranz has over 25 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.

William Mock
Portfolio Manager

William Mock has over 25 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 ten 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.

	2Q25	YTD	1YR	3YR	5YR	10YR
Shelton Tactical Credit Fund (DEBIX)	3.68%	5.07%	7.78%	6.11%	5.50%	3.76%
Bloomberg U.S. Aggregate Bond Index	1.21%	4.02%	6.08%	2.55%	-0.73%	1.76%
Bloomberg U.S. Investment Grade Corporate Bond Index	1.82%	4.17%	6.91%	4.34%	0.14%	2.94%
Bloomberg U.S. High Yield Corporate Bond Index	3.53%	4.57%	10.28%	9.92%	5.96%	5.37%
Bloomberg U.S. Investment Grade Municipal Bond Index	-0.12%	-0.35%	1.11%	2.50%	0.51%	2.20%
Morningstar Non-traditional Bond Fund Category	1.67%	2.94%	6.20%	5.34%	3.26%	2.55%

Sources: Bloomberg; Morningstar Direct

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.

The Fund's Advisor, Shelton Capital Management (the "Advisor"), has contractually agreed to reimburse expenses incurred by the Fund to the extent that total annual fund operating expenses (excluding acquired fund fees and expenses, certain compliance costs, interest and broker expenses relating to investment strategies (including commissions, mark-ups and mark-downs), leverage interest, other transactional expenses, annual account fees for margin accounts, taxes (such as income and foreign withholding taxes, stamp duty and deferred tax expenses), and extraordinary expenses such as litigation or merger and reorganization expenses, for example) exceed 0.73% and 0.98%, for the Institutional and Investor class shares, respectively, until May 1, 2026.

Fund Expenses - DEBIX (gross): 1.18% | DEBIX (net): 0.74%
DEBTX (gross): 1.43% | DEBTX (net): 0.99%

Portfolio weightings were higher in corporate bonds and lower in municipal bonds. Although we appreciate the all-in high yields for corporate bonds, spreads are still relatively tight by historical standards and uncertainties increased during the quarter, so we maintained our portfolio hedge on the IG CDX index during the quarter and added another hedge later in the quarter using out of the money put options on HYG.

Corporate bond long positions were the primary positive contributor to performance overall during the quarter. At the ratings level, our lower-rated high yield bonds were the biggest contributors as dislocation early in the quarter turned into a risk-on rally. Our higher quality bonds also produced solid total returns as well from the coupon income and were further aided by the move lower in interest rates later in the quarter. Favorable credit selection allowed us to avoid any major surprises. We continued to strike a good balance between prudent credit selection in single B and select CCC credits we believe are underappreciated by the market and rating agencies, while avoiding weaker single Bs and CCCs which could be severely punished in a downturn.

The borrowers in our portfolio reported solid Q1 earnings generally across the board. Some of them offered guidance only for the proximate quarter, or wider than normal ranges for the full year, given the dynamic changes in trade policy. We enjoyed some single-name outperformance where better than expected earnings were applauded, credit improvement was recognized by the markets and rating agencies, or corporate transactions were announced. We expect this dispersion, where strong performance is rewarded, and poor performance is penalized, will accelerate going forward. Issuers that materially miss earnings, call off corporate transactions, or otherwise disappoint their investors will be severely punished. This kind of market is highly conducive to our strategy, when markets are generally rangebound or sideways and individual credit selection is rewarded or punished.

The Fund benefitted from idiosyncratic gains in i) JBS Foods, which finally completed their long-awaited listing on the NYSE in June; ii) Sun Communities, which closed the divestiture of its Safe Harbor marinas division and surprised the market by tendering for our bonds at the make-whole premium; iii) Rise Banking Company, which issued a solid inaugural earnings report following their Fall 2024 LBO; and iv) AMC bonds recovered strongly as the theatrical box office improved in the second quarter with a strong slate scheduled for the balance of the year.

The top 5 contributors and only 4 modest detractors for the quarter (3/31/25 - 6/30/25) are listed below:

Top Contributors	**Top Detractors**
Pyxus International, Inc.	The Kraft Heinz Company.
PetSmart Inc.	Alaska Air Group, Inc.
AMC Entertainment Holdings Inc.	Cumins Inc.
Uniti Group Inc.	Mars Inc.
Iron Mountain Inc.	

Corporate Commentary

It was a volatile quarter right from the start for corporate credit. Liberation Day on April 2nd was the defining event of the quarter, and quite possibly the year. Taking the market by surprise, high yield spreads widened from 334bp on April 2nd to 453 bp on April 8th. The volatility in rates equally matched that of risk assets as markets tried to recalculate changes in trade, Fed policy, and an existential question of U.S. Treasury notes supremacy and place in the world. As the market's worst fears of tariffs cooled off and deal deadlines were pushed down the road, markets rallied rapidly, with spreads astonishingly finishing tighter on the quarter at +280bp. By rating, CCC's returned +4.01%, B's +3.62%, and BB's +3.44%.

In investment grade, risk won out, with BBB's returning +2.00%, A's +1.80%, AA's +0.97%, and AAA +1.62%. Investment-grade funds had an overall quarterly outflow of -$15.40 billion, and high yield funds had an outflow of -$3.19 billion. New issuance for investment grade was a substantial $368 billion, edging out $349 billion in Q2 '24. High yield new issuance was solid with companies bringing $81 billion in new supply, beating out $77 billion in 2Q24. The market was skewed towards higher quality high-yield issuers, with the majority coming from the BB cohort, and a lower than typical amount from single B and CCC names. This was due to the tariff-induced uncertainty which prohibited riskier issues for most of April and May and then led to a flood of them as rhetoric cooled into June. June was in fact the busiest single month for HY issuance since September 2021. Refinancing or repayment of debt continued to be the most common use of proceeds, accounting for ~67% of YTD issuance. Year to date, the sectors that brought the most in issuance were Industrials with $29 billion followed by TMT with $27 billion, and Consumer with $24 billion.[1, 2]

1 Bloomberg
2 CreditSights

Continues on page 3

Corporate Commentary (continued)

The balance sheets of HY issuers continue to appear in good shape, despite a modest tick down in credit metrics. Leverage ticked higher for the fourth time in 5 quarters to 4.08x from 3.98x. Leverage is 0.33x higher than 1Q23's record low, although still well below the long-term average of 4.29x, and well below the peak in 1Q21 at 5.92x. EBITDA expanded from a year ago at a pace of +0.7%, with the strongest gains in the Food, Energy, and Technology sectors. Retail, Housing, and Media saw the largest declines in EBITDA. Leverage for BB, B, and CCCs is 3.5x, 4.7x, and 6.8x versus the past decades' average of 3.5x, 5.0x, and 7.6x, respectively. Interest coverage ratios decreased 0.03x to 4.70x, still well off a 2.5-year low and well above the historical average of 4.50x.[1,2,3]

The HY default rate ticked up by 8bp to 1.41%, which is down 142bp from a year ago. This is modestly higher than the recent multi-year low seen in November of ~1.15%, and for context, the 25-year HY default rate is 3.4%. Notably, leveraged loans are still seeing a significantly higher default rate, at 3.86%, which is above their long-term average of 3.0%, although it has come down 66bps from a recent four-year high. The spread of 238bp over HY narrowed again, moving off the high since 2000 seen at the beginning of this year. Despite the enormous volatility seen this quarter, all-in yields of around 7.0% in HY are at the lowest they have been since mid-2022 (they also touched here in September 2024). While this is perhaps less tantalizing than the 8-9% offered in 2023, it is still substantial, and the case can be made for significant further compression if macro fundamentals were to hold. Furthermore, it is becoming clear that volatility is here to stay and that playing the peaks and troughs can generate significant alpha.[2]

Municipal Commentary

The municipal market followed the U.S. Treasury market volatility over the quarter, at quarter end steepening with a pivot point around the 10-year tenor with shorter rates going lower and longer rates moving higher. Investment grade municipals returned –0.12% for the quarter, lagging U.S. Treasury returns of +0.85% and taxable municipal bond returns of +0.81%. Market fundamentals continue to be secondary to tariff related headline risk. The table below shows the change in AAA municipal yields in basis points across the curve during the quarter.[1]

Maturity	April	May	June	Full Quarter
2 Years	26	-14	-17	-5
5 Years	19	-18	-16	-15
10 Years	16	-5	-10	1
30 Years	18	10	-2	26

Source: Bloomberg

From a relative value perspective, AAA Muni/Treasury ratios were little changed over the quarter, rising from 68% to 70% at 2 years, declining from 73% to 72% at 5 years, unchanged at 76% at 10 years, and increasing from 93% to 95% in 30 years. Nominal municipal bond yields remain near the highest yields of 2023, at levels last seen in 2009 prior to the 2023 peaks.[1]

Very little has changed regarding the outlook since last quarter, though some questions have been answered with the passage of One Big Beautiful Bill Act. There is still uncertainty about which tariffs will actually be implemented and the impact they will have in both the short and longer term. Although fundamental macro analysis is still overshadowed by news and rumors on tariffs and trade negotiations, we still know that issuance levels will be impacted by yields, and flows will be impacted by the strength of the economy. Fund flows will dictate the degree to which new issuance continues to put upward pressure on ratios. History tells us that if the economy remains strong, capital flows will trend to riskier sectors and poor municipal flows could result in rising ratios. Should the economy exhibit signs of weakness, the credit quality of municipal bonds relative to corporates has historically driven strong flows to the municipal market, which will support strong relative value and lower ratios.

Outlook

Confusion and uncertainty are bad for decision makers, and we had ample amounts of both throughout the quarter. Consumers faced the prospect of higher prices, so some of them accelerated purchases of cars, appliances, or other large durable goods to get ahead of potential increases. They also faced higher prices for groceries and other household staples. This caused them to pull back on spending as the quarter moved along and was reflected in lower consumer confidence, personal spending, and retail sales readings.

Corporate management teams faced higher prices for imported goods but did not know where the ultimate tariff rates would be nor when they might take effect. Many pre-purchased inventories before higher levies took effect and are in varying stages of working through those lower-priced goods. When that safety stock begins to run out, these companies will face a difficult choice on whether to (1) adjust their supply chains, if even possible, to a potentially lower tariff jurisdiction, (2) maintain supplier relationships but ask for price reductions, (3) raise prices on their products to offset higher costs but depending on elasticity potentially lose sales, or (4) maintain prices but face lower margins and profitability. Each company will face unique variables in making these difficult choices, and we firmly believe that it will be a true test of management competency on how well they navigate this process. Additionally, it should reveal which companies, and their products, have true barriers to entry or competitive advantages which allow them to raise prices without losing sales (low price elasticity) versus those who may be more commoditized and perhaps not as special as assumed (high price elasticity). As the tide goes out, much will be revealed, and bond prices will react accordingly.

At the same time, both fundamental and technical factors have been causing gyrations in the interest rate market. The fundamental drivers are tariff-induced inflation, and the potentially higher cost of re-shored production versus lower-cost production abroad. Technical factors include continued issuance of U.S. Treasuries to support deficit spending, and the selling of U.S. Treasuries by foreign countries (for liquidity, higher hedging costs, or potentially for retaliation on trade).

The rate of tariffs, how they will ultimately be structured, and the debate as to whether tariffs are even inflationary at all are uncertain. Tariffs might provide a 1-time boost to prices, but not a continuing expectation of future price increases, so they are a step higher in prices but not a persistent inflation threat. Also, if the retaliatory response crimps demand for exports, it could also favorably affect the supply / demand balance and ease pricing pressures domestically.

1 Bloomberg
2 JPMorgan
3 Creditsights

Continues on page 4

Outlook (continued)

Action on immigration could also have a varied impact, depending on the amount and structure, on not just the cost of labor, but whether shortages are occurring in certain industries or at specific companies and perhaps creating business disruptions. The likely candidates would be agriculture, construction, and hospitality. Although parts of the U.S. labor force depend on immigrant labor, especially in certain industries, we are not yet confident that this risk has been mitigated in the approach to enforcement and deportations. Perhaps just the threat of crackdowns is keeping workers away from workplaces.

On the flip side, there are the potential positives of tax reform and de-regulation. The One Big Beautiful Bill provides stimulus in the form of tax cuts and other incentives for investment in U.S. manufacturing, while also having potentially negative consequences for deficits. Risk remains for bond vigilantes to resurface again and drive the term premium that U.S. Government bond investors demand to hold 30-year bonds higher. Since we do not think we are out of the woods yet on possible interest rate shocks, we have maintained rate hedges using out of the money put options on U.S. Treasury futures.

Relative valuation between stocks and bonds is a further consideration. The equity risk premium (defined as the excess return that investing in the stock market provides over a risk-free rate) is very unfavorable, and if this relationship normalizes, bonds could regain some of their attractiveness as a source of income and a haven from turbulence and volatility, especially if or when there is a correction in equities.

Buying more of the positions we like and adding some new ones proved to be a good strategy in the quarter as dislocation receded and the rally continued almost unabated. However, as the rally stretched on and credit spreads compressed to levels that are relatively low by historical standards, we added more credit risk hedges to protect against the next inevitable bout of headline-driven volatility. Complacency in the markets later in the quarter allowed us to add these hedges at low levels of implied volatility, giving us the confidence to maintain positions we like in single name securities.

We thought that there were cracks forming in the labor market last fall. More recently, continuing claims for unemployment started spiking in late April from below 1.9 million to 1.974 million as a possible early harbinger of future labor market weakness. We recognize that all of this is backwards looking, and we need to wait a few months to get past the trade policy uncertainty to see where companies' employment decisions are headed for a true read on the health of the labor market. Employees are difficult and expensive to hire and train, so companies are reluctant to fire them. However, if tariffs start to affect their sales, or more likely their margins, at some point they will have to cut costs. The lower hanging fruit of trimming travel and entertainment expenses or advertising only helps a bit, and therefore because labor is typically one of the largest components of a company's cost structure, eventually many companies will start firing workers. This should be particularly acute for small and medium sized businesses, who do not have the scale or access to the capital of larger companies, and do not have the resources to re-shore production in the U.S. or are not large enough to put pressure on overseas suppliers for lower costs. Either way, wages should not be a source of future inflation, as the Employment Cost Index has fully normalized and sits at 0.9%, consistent with inflation readings at or below 2%. The more salient issue is that if we start to see weakness in the labor market, it would be the impetus for the Fed to cut rates sooner, as opposed to feeling confident that they can wait out the tariff uncertainty longer.

We believe the sweet spots for future total returns are threefold: i) high quality shorter duration BBB and BB corporate bonds; ii) certain lower rated single-B and CCC corporate bonds that we believe are stronger and more resilient than the market and have an identifiable path to credit improvement, even in a slowing growth environment; and iii) some event-driven investments where that are not totally dependent on wide-open credit markets to facilitate the transactions to drive these catalysts. Considering rate uncertainty, higher-rated investment grade bonds with duration sensitivity are a bit trickier. Ordinarily, into a slowing economy where rates decline and credit spreads widen, we would look to sell higher quality and rate sensitive bonds into that strength and add more credit risk at wider spreads. Perhaps that is how things play out, but now there are more wildcards and uncertainty given much of this is being driven by policy, which can change abruptly, so we will be nimble and responsive. As discussed, periods of volatility and drawdowns have typically been opportunities to create outsized total returns and alpha out the other side, and we do expect that there will continue to be headline-driven selloffs for the foreseeable future.

There are valid reasons to believe spread widening might stop short of previous recessions, as the index has a better-quality composition (more BBs, fewer CCCs), beginning all-in yields are higher than the onset of a typical recession, and the average dollar price of bonds is much lower and much closer to recovery rates. However, if spreads were to blow out to levels above +800 basis points that are often reached in severe recessions, total returns would likely be quite negative. Navigating these bouts of volatility by adjusting credit quality overall and selecting the right individual securities will be the keys to success, and we are confident in our ability to thrive in such an environment.

We welcome uncertainty and volatility, as it creates opportunities to buy bonds at cheaper prices when others panic and sell. As always, we will be cognizant of valuations, while continuing to seek value and compelling risk/reward investments across fixed income credit products with a focus on the corporate and municipal bond markets.