SHELTON CAPITAL MANAGEMENT

Shelton International Select Equity Fund

QUARTERLY Commentary

As of June 30, 2026

Market Overview

The second quarter of 2026 was, in almost every respect, the mirror image of the first. Where Q1 had begun with strength and ended in a sharp, energy-driven selloff, Q2 opened from a deeply oversold position and delivered a strong recovery across international markets. As the acute phase of the Iran conflict gave way to a ceasefire and then the June memorandum of understanding, oil prices retraced much of their war-related spike, and the AI hardware and materials complex that had been punished in the March selloff resumed its leadership. Global equities advanced: the MSCI World Index rose 13.5% for the quarter, and the MSCI AC World Ex USA Small Cap, our benchmark, recovered sharply from its first-quarter decline. [1]

The rebound was broad but uneven across international developed markets. The STOXX Europe 600 gained roughly 10% over the quarter as investors looked through near-term geopolitical uncertainty and refocused on a corporate earnings backdrop that remained largely intact. Continental markets led, with Germany's DAX and France's CAC 40 both recovering strongly from their first-quarter losses, while the more energy-heavy UK FTSE 100 lagged the rebound, rising about 3.2%, a reversal of the relative resilience it had shown during the Q1 shock. Eurozone GDP grew 0.4% sequentially in the second quarter, above expectations, and the reversal in ECB rate-hike expectations as oil prices fell reduced a meaningful overhang for European risk assets.[2]

Japan was one of the quarter's most important stories for the portfolio. Japanese equities posted strong gains in local-currency terms, supported by AI, semiconductor, and precision-manufacturing themes. But the yen's continued weakness reduced those gains in U.S. dollar terms, and the price-weighted Nikkei's 3.5% dollar return exceeded the return of the broader, market-cap-weighted TOPIX. The Bank of Japan raised its benchmark rate by 25 basis points to 1.0%, its highest since 1995, and signaled continued normalization, even as producer prices rose at their fastest pace in three years on elevated energy costs. For dollar-based investors in Japanese small caps, strong underlying business performance was partially offset by currency translation.[3]

Portfolio Managers

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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.

Tony Jacoby, CFA

Tony Jacoby, CFA, joined Shelton Capital Management in November 2017. He has a B.A. in Economics and a M.S. in Applied Mathematics with an Option in Applied Probability and Uncertainty Quantification from the University of Colorado Boulder.

The Iran Ceasefire and Energy Prices: Implications for International Developed Markets

The easing of the first quarter's energy shock was an important macro driver of the Q2 recovery. The June memorandum and subsequent developments reduced some near-term concerns about global energy supply, while Brent crude moved back toward pre-conflict levels by quarter-end. For energy-import-dependent developed economies, lower energy prices helped relieve some of the margin and consumption pressures that had weighed on markets in March.

The reversal in central bank expectations was also consequential. As oil prices fell, the market moved from pricing potential ECB hikes toward a more neutral-to-easing stance, Bund and gilt yields retreated from their first-quarter peaks, and rate-driven pressure on interest-sensitive sectors eased. This same dynamic cut both ways within the portfolio: several energy-linked positions that had helped offset weakness during the Q1 shock gave back ground as crude prices normalized. The quarter illustrated that macro forces affecting small caps can move in multiple directions and that company-specific fundamentals can become more important as market shocks subside.

Fund Performance

The Shelton International Select Equity Fund returned 10.96% in the second quarter of 2026, compared with 8.12% for the MSCI AC World Ex USA Small Cap — a relative gain of approximately 1.2 percentage points. The portfolio benefited from exposure to areas that led during the quarter, including Japanese specialty chemicals, precision instruments, semiconductor-related manufacturing, and select European and UK industrials.

In contrast to the first quarter, security selection was a significant driver of relative performance in Q2. The rebound was consistent with themes discussed in our first-quarter outlook: several businesses tied to AI-related structural demand that declined during the March risk-off environment recovered as the memory and AI-infrastructure cycle strengthened. Several names that detracted in late Q1 were among the portfolio's stronger contributors in Q2.

On the factor side, industry positioning contributed, led by technology hardware and equipment, semiconductors and semiconductor equipment, and media. Country positioning also contributed, with Italy, Hong Kong, and Singapore additive. Israel was the largest single-country detractor amid the ongoing regional conflict. Yen weakness detracted from returns given the portfolio's overweight to Japanese stocks.

[1] Source: Morningstar, MSCI

[2,3] Source: Bloomberg

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Key Contributors

Fuji Corporation was one of the top contributors to active return during the quarter, with the Fund maintaining an overweight position throughout the period. The Japanese manufacturer reported full-year fiscal results on May 14, 2026. The company disclosed an extraordinary loss of ¥9,691 million tied to impairment of goodwill and intangible assets at its semiconductor equipment subsidiary, Fasford Technology Co., Ltd., citing heightened uncertainty in the semiconductor market and competitive environment. At the same time, the board resolved to raise the year-end dividend to ¥50.00 per share, up ¥10.00 from the prior forecast, bringing the total annual dividend to ¥90.00 per share, consistent with the company's stated 50% payout ratio policy. Shares responded positively following the announcement. [4]

Nissan Chemical Corp. was one of the top contributors to active return during the second quarter of 2026, with the Fund maintaining an overweight position throughout the period. On May 15, 2026, the company released full-year fiscal results alongside several capital-allocation announcements. The board resolved to initiate a share repurchase program of up to ¥10.5 billion, representing up to 1.56% of shares outstanding, while declaring a year-end dividend of ¥132 per share for the fiscal year ended March 31, 2026, an increase from the prior forecast of ¥110 per share announced on February 9, 2026, and above the ¥104 per share paid in the prior fiscal year. Separately, on June 1, 2026, the company announced plans to construct a new herbicide manufacturing facility at its Indian subsidiary, representing a planned capacity expansion in the Indian agrochemical market. These developments coincided with positive share-price performance during the period. [5]

Key Detractors

Resolute Mining Ltd., an Africa-focused gold producer, was a detractor from active return during the second quarter of 2026. On May 13, 2026, the company released a scoping study for its ABC gold project in Côte d'Ivoire, which it said indicated potential project economics and projected average annual gold production of approximately 141,000 ounces per year over a 12-year mine life. On May 14, 2026, Resolute requested a trading halt and subsequently retracted the study, stating that it did not have a reasonable basis for some forward-looking statements. Shares fell on the first trading day following the retraction and continued to decline over the remainder of the quarter. [6]

Trainline PLC, an independent digital rail and coach ticketing platform operating across the United Kingdom and Europe, was a detractor from active return during the second quarter of 2026. When the company reported full-year results on May 6, 2026, full-year adjusted EBITDA was broadly in line with expectations, but management issued forward guidance that analysts viewed as below consensus, citing a UK government rail fare freeze that constrained revenue growth and risk to leisure and tourism demand stemming from the Middle East conflict. Shares fell on the day of the announcement as investors weighed these headwinds alongside regulatory uncertainty surrounding the UK government's Great British Railways online retail procurement process. The stock continued to decline over the remainder of the period, adding to the position's negative active return relative to the benchmark.

Outlook

The second quarter was a strong one for the strategy and illustrated a different market environment from the first quarter. After a first quarter in which security selection was offset by an energy-driven factor shock, the second quarter rewarded patient security selection. We do not expect every quarter to develop in the same way. In international small caps, where dispersion between winners and losers can be wide, we believe disciplined security selection remains an important component of the investment process. Current dispersion levels may create opportunities for fundamental research, although they can also increase stock-specific risk.

The macro backdrop entering the second half remains two-sided. The easing of the first quarter's energy shock supported energy-importing developed economies, but subsequent developments have underscored that the situation remains uncertain and energy prices can remain volatile. At the same time, a shift toward more restrictive Federal Reserve policy expectations has supported the dollar and contributed to a higher global rate environment. Higher-for-longer rates can pressure valuations, while companies with stronger balance sheets and profitability may be better positioned to navigate tighter financial conditions. The profitability factor contributed to results this quarter, but there is no assurance that this factor will remain additive if financial conditions tighten.

Japan, at roughly two-fifths of the portfolio, deserves specific comment. Japanese holdings concentrated in specialty chemicals, precision instruments, and materials and equipment serving semiconductor and AI-infrastructure demand were important contributors to relative performance this quarter. Currency remains a complication. The Bank of Japan has begun policy normalization, raising its policy rate to 1.0%, while the yen has remained weak; that weakness reduced U.S.-dollar translated returns. A stabilization or strengthening of the yen could improve U.S.-dollar translated returns, while further yen weakness could remain a headwind. The portfolio is not positioned around a specific currency forecast.

Europe and the United Kingdom present a more idiosyncratic set of opportunities. Continental markets reached new highs late in the quarter amid resilient earnings and easing ECB-tightening concerns as energy prices fell. A framework trade agreement between the EU and the United States also reduced some uncertainty for European exporters. In the United Kingdom, political and policy changes add uncertainty, while selected UK small caps trade at valuations we consider attractive relative to their underlying fundamentals. We continue to identify company-specific opportunities across both regions that do not depend on a single macroeconomic outcome.

[4,5,6] Source: Bloomberg

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Outlook Continued

The AI theme has been important to both markets and the portfolio. We have expressed exposure through companies supplying chemicals, precision components, test equipment, and specialty materials used in AI infrastructure rather than focusing primarily on semiconductor and platform companies. We believe this positioning provides exposure to a potential multi-year capital-investment cycle, but demand, valuations, competitive dynamics, and technology obsolescence remain important risks. If AI-related capital spending broadens or matures, some suppliers could benefit; if spending slows or technology requirements change, these holdings could be adversely affected.

The near-term path for international equities will be influenced by developments in the Iran conflict, energy prices, interest rates, currencies, and company fundamentals. We monitor these factors while maintaining a bottom-up investment process. International small caps offer a broad and dispersed opportunity set that can reward fundamental research but also involves meaningful market, currency, geopolitical, liquidity, and company-specific risks. We remain committed to disciplined security selection through changing market conditions.

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