SHELTON CAPITAL MANAGEMENT

Shelton Emerging Markets Fund

QUARTERLY
Commentary
As of June 30, 2026

A Concentrated Rally in Emerging Markets

Emerging markets delivered a strong quarter. The MSCI Emerging Markets Index returned 24.05% in the second quarter of 2026, as easing concerns around the first quarter's energy shock coincided with a broad risk-asset recovery led by AI- and semiconductor-related companies in Northeast Asia. The Shelton Capital Emerging Markets Equity Fund participated in the advance, returning 14.95% for the quarter. [1]

The benchmark return was highly concentrated. A relatively small group of memory and semiconductor companies, particularly Korean and Taiwanese chipmakers, accounted for a significant portion of the benchmark's advance. The Fund owned several of these AI-hardware-related companies, and several were among its largest contributors. However, the Fund's lower weighting in SK Hynix, the benchmark's strongest contributor during the period, accounted for more than half of the Fund's relative shortfall. In a quarter when benchmark leadership was concentrated in a small number of securities, a diversified portfolio captured a substantial portion of the benchmark's gain but lagged the index.

Market Overview

A Strong and Concentrated Rally

The June memorandum of understanding between the United States and Iran reduced some near-term concerns about global energy supply and the Strait of Hormuz. Oil prices declined from conflict-period highs during the quarter, with Brent and WTI each falling more than 20%. For energy-importing economies that represent a meaningful share of the emerging-market universe, including India, Korea and much of Southeast Asia, lower energy prices provided relief from some of the margin and consumption pressures that had weighed on markets earlier in the year.

The rally was uneven. Korea was the standout, with the MSCI Korea Index gaining more than 85% for the quarter, while Taiwan gained nearly 49% on the strength of its semiconductor supply chain. [2] These two markets, and the memory-and-logic complex within them, drove a large share of the index's return. Elsewhere, results were more mixed: China's offshore market declined for the quarter, India lagged despite oil-price relief, and Indonesia and several smaller markets also fell. The quarter showed substantial dispersion between AI-related leaders and many other areas of the market.

That dispersion is the essential context for the Fund's results. Returns this quarter were influenced less by broad emerging-market exposure than by the degree of concentration in a narrow set of Northeast Asian technology names. The MSCI Emerging Markets Information Technology sector returned roughly 73% for the quarter, while many areas outside that sector delivered more modest or negative returns. [3]

The Federal Reserve and Market Dispersion

The monetary backdrop added a second layer of dispersion. At its June meeting, the Federal Reserve's updated projections and communications contributed to more restrictive market expectations for monetary policy. The dollar strengthened, emerging-market currencies weakened, and precious and industrial metals sold off. For markets already lagging the AI trade, including parts of Latin America, the Gulf and more rate-sensitive areas of emerging markets, the more restrictive rate backdrop was an additional headwind. The effect was less pronounced among several memory and semiconductor companies, where AI-related demand remained an important driver of returns.

Portfolio Managers

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Tony Jacoby, CFA is an Equity Analyst of the Emerging Markets Fund. He joined Shelton Capital Management in November 2017. Tony earned a B.A. in Economics and an M.S. in Applied Mathematics with an Applied Probability concentration from the University of Colorado Boulder.

[1] Source: Morningstar, MSCI

[2] In USD. Source: Bloomberg

[3] Source: MSCI

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2Q 2026 Shelton Emerging Markets Fund Commentary

Fund Performance

The Shelton Capital Emerging Markets Equity Fund returned 14.95% in the second quarter of 2026, compared with 24.05% for the MSCI Emerging Markets Index [4]. In contrast to the first quarter, when factor and sector headwinds offset positive stock selection, the second quarter's shortfall was driven primarily by security selection.

The largest driver of underperformance was the Fund's underweight to SK Hynix. The Korean memory manufacturer returned 224.7% during the quarter amid strong high-bandwidth-memory pricing and AI-related demand [5]. That underweight cost approximately 3% of relative performance on its own. As SK Hynix's benchmark weight and valuation increased, the Fund maintained a position below the benchmark weight, consistent with its valuation and position-sizing process. That positioning detracted materially from relative performance during the quarter.

The Fund's overweight positions in Ping An Insurance, Infosys, Zijin Mining and Itaú Unibanco also detracted from relative performance as those securities lagged the benchmark's strongest AI-related constituents. This pattern contrasted with the first quarter, when stock selection added value against a more challenging factor backdrop. In the second quarter, the narrowness of the rally penalized a diversified, valuation-aware portfolio.

Several AI-related portfolio holdings contributed positively, but those contributions were insufficient to offset the effect of the Fund's underweight to SK Hynix and detractors elsewhere in the portfolio. Samsung Electronics, the Fund's largest position, was the top contributor. SK Square, Realtek Semiconductor, ASE Industrial and a group of Taiwanese semiconductor companies also contributed positively. Industry positioning added to relative performance, led by semiconductors, oil and gas, and automobiles. These contributions were more than offset at the country level, where exposures to India, Indonesia, Brazil and domestic China detracted.

Key Contributors

Samsung Electronics was one of the top contributors during the quarter, with the Fund maintaining an overweight position throughout the period. The South Korean chipmaker is one of the world's leading memory chip manufacturers and a supplier of high-bandwidth memory (HBM) used in AI accelerator hardware. Two product developments drew investor attention during the period: on May 28, Samsung shipped 12-layer HBM4E samples to major customers, which the company said offered faster data-processing speeds and greater capacity than the prior generation. Less than a week later, on June 2, Samsung's chip division CTO presented a mock-up of its eighth-generation HBM5 architecture at the Computex trade show in Taipei, featuring proprietary thermal management technology.

GEK Terna S.A., a diversified Greek infrastructure and construction conglomerate, was a contributor to active return over the quarter. During the period, the company announced partnerships with global defense and aerospace companies. On April 28, GEK TERNA and Airbus signed a memorandum of understanding to collaborate on advanced defense and space solutions for Greece, including military satellite communications and technology transfer, according to a stock exchange filing. On June 24, Rheinmetall Landsysteme GmbH and GEK TERNA signed a separate partnership agreement aimed at strengthening Greece's defense industrial capabilities. The agreements expanded GEK TERNA's participation in defense- and aerospace-related initiatives in Greece and coincided with positive share-price performance during the quarter.

Key Detractors

SK Hynix was a detractor from active return over the quarter, with the Fund's underweight position failing to keep pace with the stock's outperformance relative to the MSCI Emerging Markets Index. The South Korean chipmaker is the world's second-largest memory semiconductor manufacturer and a leading global supplier of high-bandwidth memory chips. A strategic development during the period came on June 8, when Nvidia and SK Hynix announced a multiyear technology partnership to co-develop next-generation memory for AI factories and accelerate semiconductor design and manufacturing. Under the agreement, SK Hynix will co-develop next-generation memory with Nvidia across AI servers, CPUs, AI PCs and robotics platforms.

MediaTek Inc. is a Taiwan-based fabless semiconductor company best known for designing mobile chipsets and, more recently, AI-focused system-on-chip solutions for data-center applications. The Fund's average underweight position in MediaTek during the quarter detracted from relative performance, as the stock was among the strongest contributors to the benchmark during the period. The Google TPU partnership was a recurring focus for investors during the quarter, with interest building into the company's first-quarter earnings report and accelerating after AI ASIC revenue guidance. Investor sentiment was further supported when Nvidia named MediaTek as a partner on its new RTX Spark Superchip at Computex.

Outlook for Q2 2026

The investment backdrop entering the second half of 2026 is defined by a tension: emerging markets have delivered a strong advance, but gains have been concentrated, and the headline index return does not fully reflect the range of outcomes beneath the surface. Our task in the coming quarters is to navigate the gap between the index and the broader opportunity set while continuing to apply the Fund's valuation and position-sizing framework despite the relative-performance impact during the quarter.

The three conditions we monitor — resilient global growth, a weaker dollar, and attractive valuations — have become more mixed. Global economic activity has remained resilient, but it is again under pressure from energy markets: the June memorandum of understanding with Iran has since frayed, strikes have resumed, and Brent crude has retraced a meaningful part of its post-ceasefire decline. The dollar has firmed amid more restrictive Federal Reserve policy expectations, and emerging-market currencies have given back ground. Two of the three conditions have weakened. The third, valuation, is more nuanced.Reserve policy expectations, and emerging-market currencies have given back ground. Two of the three conditions have weakened. The third, valuation, is more nuanced.

[4] A note on performance measurement. As in prior quarters, a NAV-timing effect influences the comparison. Because overseas markets had already begun trading on April 1 when U.S. fund NAVs for March 31 were struck, both the Fund and its benchmark captured a portion of April 1's move (a +4.33% gain in the MSCI Emerging Markets Index) in their March 31 values. That effect flattered the first-quarter relative result and correspondingly weighs on the second-quarter starting point; adjusting for it, a portion of the reported second-quarter shortfall reflects the unwinding of that first-quarter timing benefit. The underlying driver of the quarter's relative result — our underweight to the index's most concentrated AI-memory gains — is unaffected.

[5] Bloomberg

Important Disclosures Continue on page 3

Outlook for Q2 2026 Continued

After a rally of this magnitude, one might assume emerging markets are now expensive. In aggregate, the index trades at roughly 11.3x forward earnings, modestly below its 15-year average, because price gains have been accompanied by a sharp increase in earnings expectations. Consensus now looks for emerging-market earnings growth above 60% in 2026, and above 70% excluding China. Korea, the epicenter of the rally, trades near 7x forward earnings despite its quarterly advance, because memory-cycle earnings expectations have risen sharply. Beneath the aggregate valuation, however, dispersion is wide: Taiwan trades at more than 22x, China sits near 10x, and much of Latin America, the Gulf and rate-sensitive Asia trades at larger discounts. Based on our valuation framework, we see comparatively more attractive valuations in several areas that have lagged the AI-related rally. [6]

For a valuation-conscious manager, that dispersion can create opportunity, but it also creates risk. The same discipline that held the Fund underweight to the largest memory names this quarter provides flexibility if market leadership broadens as the cycle develops. If the AI-hardware complex continues to advance, the Fund's positions in Samsung and selected Taiwanese semiconductor supply-chain companies may participate. If leadership broadens toward financials, industrials and consumer companies that have lagged, selected holdings in those areas could benefit, although there is no assurance that such a rotation will occur or that those securities will outperform. We are not trying to time a rotation; we are seeking to own businesses at valuations we believe are reasonable across a range of market environments.

The central near-term question remains, as it was entering the second quarter, the trajectory of the Iran conflict and the Strait of Hormuz. A durable settlement could relieve pressure on energy-importing emerging-market economies, reduce some inflation pressure and support broader market participation. Renewed escalation could sustain inflation and rate pressures and keep leadership narrow. We continue to monitor the energy futures curve as one indicator of market expectations around the conflict and energy supply.

What has not changed is the structural evolution of the emerging-market opportunity set we have described throughout 2025 and 2026. Today's emerging markets are not solely the commodity-driven, China-dependent universe of the early 2000s. Technology supply chains in Korea and Taiwan, infrastructure and financial deepening in India, Brazil and Southeast Asia, and the energy transition reshaping the Gulf all remain important areas of focus. This quarter demonstrated that a narrow rally can penalize a diversified portfolio in the short run. It did not change our commitment to patient, valuation-aware security selection across a broad emerging-markets opportunity set. We believe that approach provides a disciplined framework for evaluating opportunities and risks, although it may underperform the benchmark over any given period.

[6] MSCI

IMPORTANT INFORMATION

The stated opinions and views in the commentary are for general informational purposes only and are not meant to be predictions or an offer of individual or personalized investment advice. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles.

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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, https://www.sheltoncap.com/wp-content/uploads/2026/07/SCM-Trust-Prospectus_Web.pdfor call (800) 955-9988. A prospectus should be read carefully before investing.

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SHELTON CAPITAL MANAGEMENT

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The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,441 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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