

BOUTIQUE OF THE WEEK

WE SHOWCASE A LESSER-KNOWN MANAGER FROM A SMALLER SHOP RUNNING A UNIQUE OR IMPRESSIVE STRATEGY

MAR
11
2019

INSIDE... SHELTON CAPITAL MANAGEMENT

LOCATION



VICKY GE HUANG

HOW THE FIRM WAS FOUNDED:

Korean War veteran Richard Shelton started Shelton Capital Management after a long career as a traditional stockbroker. In 1985, he set up a municipal bond-focused investing firm to serve high-net-worth individuals.

Shelton was interested in what was then considered an innovative investment vehicle – an index fund – and launched a series of them to serve clients. Shelton passed away in 1998, but his legacy of serving clients directly and building relationships with them remains part of the firm’s core values. Today, his son-in-law Steve Rogers serves as the chief executive of the firm.

FLAGSHIP FUND OR STRATEGY:

The \$53.3 million Shelton International Select Equity fund was launched in December 2008 and has been managed by Andrew Manton (below) since its inception. The fund, which invests in a concentrated portfolio of between 35 and 45 stocks, aims to identify mid- to large-cap foreign companies that produce consistent and superior returns on capital.

The fund is ranked second out of 41 International Large-Cap Growth funds tracked by Citywire for three-year total returns to the end of January. Over that period, it returned 40.5%, compared with the average fund in the category’s 23.7% gain and the MSCI AC World ex USA index, which rose by 31.61%.

INVESTMENT PROCESS:

To select the best international companies, Manton and his two analysts start with a universe of about 28,000 names from the MSCI AC World ex USA index and beyond it.

The team then utilizes its proprietary quantitative models to determine the lifecycle stage of each company in the investment universe, screening for the top 20% ranked by different metrics. This leaves about 600 companies. From

there, the analysts pick stocks based on fundamental factors such as company business plans, management teams and structure.

‘The lifecycle stage that a company is in helps to determine the approach to fundamental analysis that we take, because we look for different traits in each stage. This approach allows us to find a unique set of companies in all stages of the lifecycle,’ Manton said. ‘As a team, we discuss the merits of each investment thesis for the companies that our analysts recommend, and the ones that pass are placed on our buy list.’

INVESTMENT PHILOSOPHY:

Manton’s investment philosophy has been shaped by the process used on the international equity strategy, he said. ‘By analyzing a company according to its lifecycle stage, we can effectively evaluate its risk and return potential and more accurately forecast the likelihood of it generating value for shareholders.’

ONE THEY GOT RIGHT:

In 2009, the team invested in French auto supply company Valeo, which was then in the ‘distress’ lifecycle phase after the global financial crisis. The company brought in a new management team and chief executive with the aim of restructuring the firm into profitability.

‘We met with the management team not long after the chief executive stepped into the job. We heard him explain his restructuring plan and determined that even if he was only able to succeed at a small part of the plan, the stock should have a much higher valuation,’ Manton said. ‘However, if he was able to execute the entire plan over time, the stock should be able to multiply in value.’

The team has held the stock ever since. Having compounded at an annual rate of 17% per year, the stock has grown by an average of 36% per year to the end of 2017, Manton said.

ONE THAT COULD HAVE BEEN BETTER:

Last year, the team selected a Chinese pharmaceutical company called Sino Biopharmaceutical. At the time of investment, the company was competitive in China’s hepatitis and oncology drugs space. However, in August 2018, the Chinese government implemented regulations to curtail the pricing power of many pharmaceutical companies after a faults scandal rocked the country.

‘We saw those reforms as damaging to the company’s business plan, so we sold out, but not before the stock took a sharp drop,’ Manton said. ‘The Chinese government’s heavy hand is often a risk when investing in the country.’ ■

SPECIALTY

INTERNATIONAL EQUITIES

FUNDS

- SHELTON CORE VALUE
- SHELTON REAL ESTATE INCOME
- SHELTON BDC INCOME
- SHELTON INTERNATIONAL SELECT EQUITY
- SHELTON US GOVERNMENT SECURITIES
- SHELTON GREEN CA TAX-FREE INCOME
- SHELTON SHORT-TERM GOVERNMENT BOND
- SHELTON TACTICAL CREDIT
- CEDAR RIDGE UNCONSTRAINED CREDIT

FOUNDED

1985

AUM

\$2bn

EMPLOYEES

33

PORTFOLIO MANAGERS

8



Shelton Capital Management is the Fund's advisor. Shelton Capital Management has served as the investment advisor and administrator to the Shelton Funds since 1985. All performance figures reflect an expense reimbursement. Without the expense reimbursement, the performance figures would be lower. 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.

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, visit www.sheltoncap.com or call (800) 955-9988. A prospectus should be read carefully before investing. Distributed by RFS Partners, a member of FINRA, and affiliate of Shelton Capital Management.

INVESTMENTS ARE NOT FDIC INSURED OR BANK GUARANTEED AND MAY LOSE VALUE.