Insights on Sustainable Investing:

Conversation with Nancy Sagar and Garvin Jabusch

Nancy Sagar, President & Co-Founder of Brighter Investing, a full-service RIA that specializes in sustainable and impact investing

Garvin Jabusch, Co-Portfolio Manager of the Shelton Green Alpha Fund (NEXTX)

Sustainable investing in the United States continues to accelerate at a rapid pace. According to U.S. SIF Foundation, the total U.S. domiciled AUM surpassed $17 trillion at the start of 2020, an increase of over 40% from 2018. Sustainable investing now represents 33% of all U.S. professionally managed assets (U.S. SIF Foundation). Today, advisors need to be prepared to address these changing investor preferences.

Shelton Capital Management offers mutual funds and SMA strategies for clients seeking an environmental, green or sustainable focus.

Here, Nancy Sagar dives into the sustainable investing landscape, the "Next Economy™," and how the Shelton Green Alpha Fund (NEXTX) fits in a client portfolio with Garvin Jabusch.

NANCY: Let's jump right in. We have clients who are very passionate about climate change and social issues. Others want to invest sustainably because they believe it's a smart thing to do. Along the spectrum, we've found that people really respond to your investment thesis. There is actually excitement around it. Could you tell us about your investment thesis and how it fits into the landscape of sustainable funds?

GARVIN: First of all, thanks. Excitement around an investment thesis isn't a sentence you hear every day. Our thesis is a little different. And not only is it different from traditional ways of looking at markets and investing, but also as you know, it differs a little bit from traditional ESG as well. We think of it as being very much directed at the climate crisis and at other big system level risks. We call it Next Economics, so as to make it distinct from ESG or Impact. On the impact side, we think that our thesis revolves around identifying a model of how we think an economy could, theoretically thrive indefinitely. And obviously that's not going to be tomorrow as much as we might wish that could be the case.

We look out between 5 and 10 years, so we do have a long-term orientation. I think it is necessary when we're really talking about tackling the big system level risks that have the power to undermine the global economy and also biodiversity to the extent that you should even disentangle those things. If an economy that can thrive indefinitely can exist, what are the parts that it has to have? And then we go about building a portfolio that looks like that economy right now, if you like, it's 10 years early.

We do see a sustainable economy unfolding around us all the time, especially in the last couple of years, it's started to gain more traction. That's what the thesis revolves around, what are the big system level risks that we want to find solutions for and then in turn, invest in companies providing those. Well, the grandaddy of course, is the climate crisis, and then that's kind of the king of all risks. Because if that gets away from us, whatever else we're concerned about may not matter that much.

But then other big system level risks that we try to invest for - are resource degradation, primarily water and topsoil, the resources we really need. Worsening inequality is extremely dangerous and has been known to undermine civilizations in the past. And human disease burden is a big one that, pandemic notwithstanding, has always been one that we've worried about just because it places an enormous toll on the global economy and just the quantifiable suffering among people. Ultimately, it's really about investing to defuse those risks.

NANCY: So on that note, there's this term Socially Responsible Investing or SRI which tends to refer to values-based decisions to screen out specific companies or industries. Is that part of your approach?

GARVIN: It is, but we have our priority stack arranged in a slightly different way. We want to really hit the existential risks, to borrow your term back, first and foremost. Because we think that's where the value is going to roll up. There's another part to that in terms of portfolio management around making sure we own the best innovation and the best intellectual property assets for how to tackle those risks. But leaving that aside for a minute, the other ESG parameters, such as better diversity, being a better place to work, being a good corporate citizen on the governance side and on the social side, providing educational opportunities. All those wonderful things are in our evaluation, but they come after what does the company actually do?

What you'll see in a lot of ESG strategies, is focusing on ESG score ahead of what the company does. And we view that as a mistake. We think that the clearest line of site to whether a company has impact is seeing where it gets paid. Where does it earn its revenue? What does is actually get paid to do? It's almost like bringing a private equity approach to public stock equity management. It means we need to evaluate each individual company on its merits as opposed to just filtering down an index via ESG scores. That approach isn't going to work as well because again, it puts your priority stack out of order. We want a company that is going to solve for a system level risk and then once we've convinced ourselves that a company is doing that, then we will turn up its weighting or its sizing in a portfolio including NEXTX on the basis of its other ESG criteria.

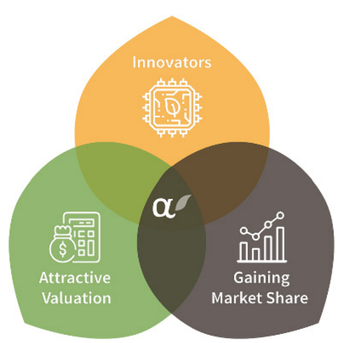
NANCY: There are active and passive approaches to sustainable investing, and you take an active approach. Can you tell us more about that?

GARVIN: Right now, I think passive is tough because there aren't good indexes that reflect what an economy that could thrive indefinitely looks like. What you have with ESG indices are, again, these relativistic scoring systems overlaid over existing indices. If you grab the S&P 500 and push it through an ESG filter and end up with most of the holdings of the S&P 500. As opposed to looking for the best solutions wherever they might sit inside or outside of an index. We find that the best solution sets end up giving you actually a really high active share. Which is interesting for a couple of reasons. One, it's a fresh look at markets that gives clients, such as you guys and your clients, a different exposure to the markets than they're going to have with the rest of their holdings, almost whatever those may be. It's a great way for folks to diversify.

And then secondly, it means I have every opportunity to earn some alpha. If you subscribe to modern portfolio theory, cold-hot and want to correlate with your benchmark, by definition you're saying, I'm not even going to try to earn much alpha. Maybe a little, maybe I'll outperform my benchmark by a few basis points, but basically, you're going to get beta. So it's interesting to me on two fronts. One, it takes away any indexing to get impact. It takes away any opportunity to earn alpha, or much alpha anyway. And it also locks up your investment dollars in indexed companies and doesn't give you a shot to grab any active share and therefore go after the most interesting, brightest, disruptive, best IP-owning stacks of solutions. Many of those sit outside of the indices still.

NANCY: What role do sustainable/Next Economy™ investments play within a portfolio? Is this a core strategy? Is it a sleeve? Something to explore?

GARVIN: You know, some advisors do think of us as a satellite. I think it should be core. We're perfectly well diversified. We're in every sector and industry. Not subindustry, because within energy, no, we're not in oil and gas or coal, but we do have tons of energy exposure. On a 40 Act basis, yeah, we're perfectly diversified and in compliance with all those regulations. Now, if what you want to do is grow your purchasing power into the future, the point of investing, then you need to be in front of the innovations that define the future. And therefore, I believe our strategy should be core if what you want to do is have more purchasing power in the future than you do today. The reason indices have had a hard time keeping up with us the last couple of years is because what you see is tech and renewable energy and biotech gaining market share. You have a little bit of that in the old time indices, but you also have the oil and the gas.



And not so much coal anymore because they have fallen so much and been kicked out of the indexes. However, a lot of legacy companies that are just giving up market share to the new way of doing things. I can say the same of biotech for that matter, within the realm of big pharma and healthcare. In terms of positioning yourself to grow your money going forward, it makes sense to be in front of the stocks that are gaining the market share going forward. Indexes don't contemplate that. They wait until a company has grown so much that it qualifies for the index at which point you've missed a great chunk of the company's long-term growth.

NANCY: The Next Economy™, NEXTX....you're referring to the future. But is this happening right now as well?

GARVIN: Thanks for asking that, because yes. We launched our first strategy on New Year's Eve of 2008 so we would have full year track record for 2009. And back then, Next Economy™ as a term, that was what we were calling it. And it made sense because it was just starting. Solar and wind weren't an appreciable percentage of the world energy mix. Now they're about 20% of the US energy mix. While, still not nearly where they need to be to get us to zero carbon, but wow, from 0 to 20% in 12 years? That's phenomenal growth. Talk about grabbing market share, this is what I mean when I talk about stock picking and returns.

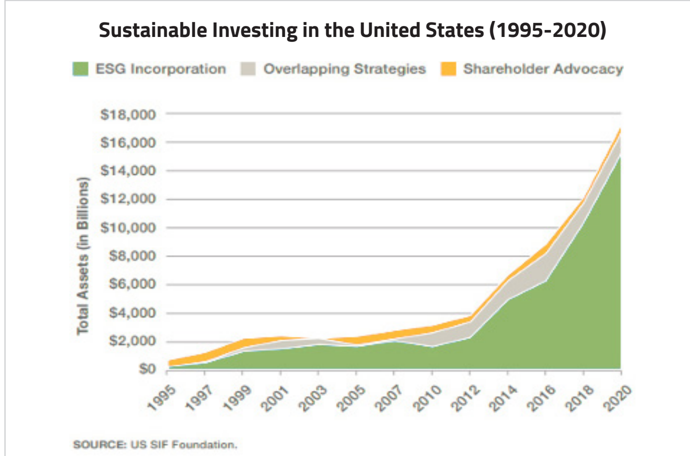
We do see it unfolding all around us. 12 years ago, when we did launch that first strategy, we thought, this transition is taking longer than we thought. We thought we'd be a lot further by now. I think that this is a mistake, was a mistake on my part, I think I underestimated the strength and conviction of the resistance to change. Internal combustion makers in particular fighting CAFE standards, fossil fuel companies spreading disinformation. These things turned out to be very powerful and really slowed the transition much more than was really necessary.

And not only do we see it unfolding, but I see the advance of the Next Economy™ accelerating from here. The last few years have been great performance years for us and I attribute that to widescale adoption of solutions. Both because of their economic competitiveness, but also because the risks we face are much more evident and acute now. The pandemic is just one example. It is more clear to people everywhere that the climate crisis is worse than they thought, more rapidly than they thought.

The innovations that can help us meet those challenges are accelerating faster than ever. A really interesting thing came out of Deep Minds recently that they solved the 5-decade old protein solving problem with AI. This will advance things like modeling new therapeutic discovery from months, because they would have to fold the proteins in, in the lab and see what they looked like and how they worked, to hours. This is like what happened when Autodesk automated construction from having to be physical models to just rendering it on your desktop. It advanced building construction from taking months to hours.

Well, this is what we're now seeing in genomics and in medicine and it's this confluence of artificial intelligence and genomics that has empowered that. This is a huge deal and it's those sorts of synergies between seemingly disparate fields that are going to cause this acceleration and innovation to kick up yet another notch.

"It already looks like a hockey stick. It's going to pretty much look vertical from here. And if you're a stock picker, you're a little bit crazy if you aren't trying to be in front of that. If your goal is to grow your clients' wealth, then that's where you need to be. And so that's where we are."



NANCY: I have one last question for you. We often tell our clients that we want them to be proud of their investments. When you think about the impact that you're creating through the Shelton Green Alpha Fund, what are you most proud of?

GARVIN: With NEXTX, we're glad that we have a low minimum vehicle. Because owning things is where wealth comes from. Being able to own shares in these fantastic stocks is going to help diffuse inequality. Having a mutual fund, a 40 Act mutual fund out there in the world where you can start with $1,000 or with an automatic investment plan with $500, is cheap. Unfortunately, not every American can afford that, but at least it's within reach of a lot more folks. So that's a big deal. Everyone needs a shot to own a piece of the future and this is one way to do that. So, I'm extremely proud of that.

Secondly, just sending the market signal. The more assets we have under management, that's sounds a little bit self-serving, but it's true, the more we are sending the market signal that fixes have value.

Markets are unambiguous in their love of the signal. Something that goes up has value, something that goes down, doesn't. Every dollar that we don't put in fossils and we do put in renewables, or we don't put in legacy pharma and we do put in innovative biotech, name your sector, then we are sending a market signal that that is where the forward value is. And that in turn becomes a self-fulfilling prophecy. And that in turn means we're solving problems and defusing systemic risks. I'm extremely proud of our work.

Green Alpha Advisors, LLC owns the trade to Next Economy.

Important Information

Fund information is not intended to represent future portfolio composition. Portfolio holdings are subject to change and should not be considered a recommendation to buy individual securities. The Fund is subject to several risks, any of which could cause the Fund to lose money. These risks, which are described more fully in the prospectus, include stock market risk, economic and political events risks, sector risks, large and medium sized company risks and value investing risks.

Green Alpha's environmental focus may limit investment options available to the Fund and may result in lower returns than returns of funds not subject to such investment considerations. There are no assurances that the Fund will achieve its objective and or strategy. Investing in securities of small and medium sized companies, even indirectly, may involve greater volatility than investment in larger and more established companies.

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.

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