Reaves Asset Management

Market Commentary
First Quarter 2021

REVIEW AND OUTLOOK

Reaves' Dividend Income Strategy began the year on a positive note, led by its holdings[1] in the communications services and utilities sectors. The composite, tracking the strategy in multiple portfolios, generated a return, net of fees[2], of 3.4% for the three months ended March 31, 2021. The dividend yield at quarter's end was 4.1%.

The strategy's objective is to generate a high level of current income plus capital appreciation in its quest for high single-digit total returns[3] over time with lower market volatility. Performance this past quarter was especially pleasing in the context of a sharp rise in interest rates with the yield on the U.S. 10-Year Treasury Note[4] surging from 0.93% at year end to 1.74% just three months later.

As seen in the table below, equities outperformed fixed income by a wide margin during the quarter. Investors, in our view, recognized that the economic rebound underway in the wake of the pandemic will support earnings and dividend growth for many companies but inflationary pressures may prove to be a headwind for most fixed income portfolios.

	Q1 2021
Equity Indices+	
Russell 1000 Value Index[5]	11.26%
S&P 500 Index[6]	6.17%
S&P Global Infrastructure Index[7]	3.00%
Fixed Income Indices+	
Bloomberg Barclays US Corporate High Yield[8]	0.85%
Bloomberg Barclays US Intermediate Treasury[9]	-1.76%
Bloomberg Barclays US Aggregate Bond Index[10]	-3.37%
Bloomberg Barclays US Corporate Investment Grade[11]	-4.65%
ICE BofAML 10+ Year US Treasury Index[12]	-13.24%

We continue to believe that the ongoing environment of historically low interest rates will compel many investors to shift funds out of fixed income and into equities. The central focus of our investment team continues to be on the quality and durability of the cash flow generated by the companies owned in the portfolio.

UTILITIES SECTOR

Utilities stocks (51% weighting in the portfolio as of 3/31) generated a return of approximately 2.7%. Dividend increases were announced by three companies during the quarter:

	Quarterly Dividend		
	Q1 2020	Q1 2021	% increase
NextEra Energy	$0.3500	$0.3850	10.0%
Eversource Energy	$0.5675	$0.6025	6.2%
Public Service Enterprise Group	$0.4900	$0.5100	4.1%

We believe each of the companies listed above is well positioned to deliver consistent earnings and dividend growth in coming years due to a myriad of available investment opportunities related to the ongoing global transition to renewable sources for electricity generation. The weather-related disaster in Texas, which left millions without power during days of freezing temperatures, did not financially impact any of the companies in the portfolio. The episode has raised the national level of consciousness about the need for reliable energy infrastructure and should serve the utility industry well as we enter into a period of extreme grid transformation.

COMMUNICATIONS SERVICES SECTOR

Holdings in the communications services sector (34% weighting) performed well with a return of approximately 6.1%. Shares of Cogent Communications, which owns and operates intercity fiber networks and is one of the largest carriers of internet traffic in the world, rose by over 16% during the quarter. Dividend increases were announced by the following companies:

	Quarterly Dividend		
	Q1 2020	Q1 2021	% increase
Cogent Communications	$0.6600	$0.7550	14.4%
Comcast Corp	$0.2300	$0.2500	8.7%
BCE, Inc.	$0.8325	$0.8750	5.1%

REAL ESTATE SECTOR

The portfolio owned three companies structured as real estate investment trusts (14% weighting) which generated a positive return of less than 1.0% in the first quarter. In February, portfolio holding Digital Realty Trust, an operator of data centers, announced an increase of 4% to its quarterly dividend, the 16th consecutive increase since the company came public in 2004.

SUMMARY

We were encouraged by how well most of the portfolio holdings performed during a quarter when markets remained in a bullish mode in anticipation of a rebounding economy. While interest rates moved higher due to inflationary concerns, the portfolio was able to generate a competitive level of total return in contrast to the losses experienced in most areas of the fixed income market. We remain confident that the long-term trends driving steady growth in the utilities and communications sectors will continue to support the ability of many companies to increase future dividends.

Reaves Asset Management is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Reaves is a privately held, independently owned "S" corporation organized under the laws of the State of Delaware.

Reaves Asset Management claims compliance with the Global Investment Performance Standards (GIPS®). The verification reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

[1] Reaves' portfolio characteristics, holdings and sector weightings are subject to change at any time and, unless otherwise noted, are based on our Dividend Income Strategy. Holdings, sector weightings and portfolio characteristics of individual client portfolios may differ, sometimes significantly, from those shown. Portfolio holdings are rounded to the nearest whole percent, and returns are rounded to the nearest tenth of a percent. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities and sectors listed. Reaves' Dividend Income Strategy does not represent all of Reaves' assets under management.

[2] Net performance reflects the deduction of advisory fees which are described in detail in Reaves' Form ADV Part 2A. For fee schedules, please contact your financial professional for a copy of our Form ADV Part 2A.

[3] Total Return includes dividends and capital appreciation .

[4] The 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity. The U.S. government partially funds itself by issuing 10-year Treasury notes.

[+] Equity Indices: We selected the 3 major equity indices because they are typically used when comparing the performance of Reaves' portfolios which are 100% equity. Reaves' portfolios are focused on infrastructure and are tilted more toward value than growth. Fixed Income Indices: The fixed income indices were chosen to give a broad representation of fixed income markets. The Barclays US Aggregate is the most common index used to measure a diversified portfolio of bonds. The others represent: (1) corporate bonds; (2) high yield bonds, and (3) government bonds.

[5] The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 1,000 largest companies in the Russell 3000 Index. Reaves' portfolios are far less diversified, resulting in higher sector concentrations than found in the broad-based Russell 1000 Value Index.

[6] The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The typical Reaves portfolio includes a significant percentage of assets that are also found in the S&P 500. However, Reaves' portfolios are far less diversified, resulting in higher sector concentrations than found in the broad-based S&P 500 Index.

[7] The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

[8] Bloomberg Barclays US Corporate High Yield Index is an unmanaged, U.S. dollar– denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million.

[9] Bloomberg Barclays US Intermediate Treasury Index is an unmanaged index that includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value.

[10] The Bloomberg Barclays US Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

[11] The Bloomberg Barclays US Corporate Investment Grade Bond Index is an unmanaged market-value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

[12] The ICE BofAML 10+ Year US Treasury Index measures the total return performance of U.S. Treasury bonds with an outstanding par that is greater than or equal to $25 million. The maturity range of these securities is greater than ten years.

Past results do not guarantee future performance. *Further, the investment return and principal value of an investment will fluctuate; thus, investor's equity, when liquidated, may be worth more or less than the original cost. This document provides only impersonal advice and/or statistical data and is not intended to meet objectives or suitability requirements of any specific individual or account.*

All investments involve risk, including loss of principal.

All data is presented in U.S. dollars.

Cash is cash and cash equivalents.

An investor cannot invest directly in an index.

Important Tax Information: *Reaves Asset Management and its employees are not in the business of providing tax or legal advice to taxpayers. Any such taxpayer should seek advice based on the taxpayer's own individual circumstances from an independent tax adviser.*

Fees: *Net performance reflects the deduction of advisory fees which are described in detail in our Form ADV Part 2A.*

Please contact your financial professional, or click the following links, for a copy of Reaves' Form ADV Part 2A and Form CRS.

Additional information about Reaves may be found on our website: www.reavesam.com.

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