

Market Commentary

Second Quarter 2021

REVIEW AND OUTLOOK

<i>Performance as of 6/30/21</i>	Q2 2021	YTD 2021	5-Year Annualized
Reaves LTV Wrap Composite ¹ , gross of fees	5.62%	7.65%	9.58%
Reaves LTV Wrap Composite ¹ , net of fees	4.97%	6.33%	6.84%
S&P 500 Index ²	8.55%	15.25%	17.65%
Russell 1000 Value Index ³	5.21%	17.05%	11.87%

INTRODUCTION

The Reaves LTV Wrap Composite returned 5.6%, gross of fees, in the second quarter of 2021, bringing the year-to-date return to 7.7%, gross of fees. REITs and communications were strong positive contributors in the quarter, while utilities and industrials generated a slightly negative return. COVID-19 recovery and economic growth remain the dominant themes in the market, while the Federal Reserve maintained its accommodative policy indicating the economy needed substantial further progress before any tightening was necessary.

We aim for a portfolio that delivers an annualized total return in the low double digits with below market volatility. The companies in which we invest provide essential infrastructure services with consistent earnings generation and steady growth potential. In other words, the portfolio owns utilities and companies that act like utilities. We believe these companies provide reliable compounding and competitive returns through market cycles, especially on a risk-adjusted basis.

PERFORMANCE REVIEW

The portfolio's investments in the real estate sector, which are primarily focused on wireless tower, data center, and industrial logistics companies, were the top performers in the second quarter. Digital REITs, such as wireless towers and data centers, were relative beneficiaries of reduced inflation concerns given their comparably long-dated customer contracts. From a micro perspective, data centers experienced a continued flood of private capital into the industry. This was highlighted by Blackstone's \$10bn deal to acquire QTS Realty Trust at a supportive valuation premium to some of its higher-quality peers. For towers, the rally that began in early March continued into the second quarter. Some investors had been concerned

about the timing of spectrum deployment on towers given that major wireless carriers have stretched balance sheets. The enhanced capital spending budgets laid out by carriers during the analyst days in March put these concerns to rest.

On the industrial side, Prologis was a strong contributor. Demand for warehouse space, especially assets located near urban centers, is growing tremendously because of the increasing popularity of e-commerce. Companies are also re-thinking just-in-time inventory practices in the wake of pandemic-induced shortages. Rather than rely on complicated global supply chains, many companies are opting to increase inventory levels as a matter of practice. All this should keep warehouse demand strong.

Our cable investments produced more idiosyncratic results in the quarter. Charter Communications was a standout, as its solid business fundamentals were rewarded by the market. For Comcast, a steady upward trend in shares was interrupted late in the quarter by renewed investor concern about the company's appetite for media acquisitions. Shares of Altice USA lagged the group as management indicated business strength was likely to be weighted to the back-half in 2021.

On the negative side, transports performance was mixed in the second quarter as demand for direct beneficiaries of economic reopening began to wane. The ISM Manufacturing Index⁴ peaked in March and prices for many industrial goods like lumber, steel and microchips peaked in May and June, indicating that productive capacity was starting to catch up with demand. Despite this, prices of raw materials remain at elevated levels versus long-term averages, begetting concern about inflation and economic overheating. As a result, talk of rate increases and monetary tightening by central banks grew more frequent, and much of the transport space consolidated prior gains, especially in June.

In rails, the saga over Canadian National's proposed purchase of Kansas City Southern remained the central driver. Canadian National spent most of the second quarter trying to convince shippers and regulators that the deal would be positive for competition, and it is working towards approval of a voting trust. However, it remains unclear if they will be successful. The stock fell largely due to arbitrage pressure and general weakness in the sector. Shipping volumes for the sector continued to improve, albeit with significant service volatility due to residual pandemic effects on global supply chains.

Finally, while utilities lagged in the second quarter, we remain positive about the prospects for many companies based on both fundamentals and current levels of valuation. Energy transition represents a multi-decade growth opportunity for the sector. Nearer term, proposed U.S. legislation to increase infrastructure spending should be a positive catalyst once a bipartisan compromise is reached. On a valuation basis, the sector is trading at one of its lowest relative levels of the past decade. The portfolio's utility holdings continue to grow earnings and dividends, while stock prices have remained flat. Eventually, we believe the combination of improving long-term growth prospects plus attractive valuations should induce investors to focus on the sector. In the meantime, we plan to remain patient and utilize the growing income stream for reinvestment opportunities.

SUMMARY

The weighted average dividend increase of stocks held in the portfolio as of 6/30/21 was 8.3% over the past 12 months. Beyond the increased cash flow, the dividends speak volumes about managements' confidence in the growth trajectories of their companies going forward. We share this confidence and remain optimistic about our ability to deliver steadily compounding results.

¹ Reaves' Long Term Value Strategy (Reaves LTV) seeks a high risk-adjusted total return. The strategy tends to be invested in relatively larger companies with strong balance sheets, good cash flow and a history of dividend growth. Core positions are accumulated in financially strong, high-quality companies and generally have the following characteristics: strong management, above industry-average growth rates, large/mid-market capitalization and low price-earnings multiples.

Beginning December 2019 Reaves Long Term Value Strategy (LTV) is represented by the LTV SMA Wrap Composite. This composite contains those LTV discretionary portfolios with wrap (bundled) fees. Wrap accounts are charged a bundled fee which includes the wrap sponsor fee, as well as Reaves' investment advisory fee. Gross-of-fees returns are considered "pure" gross-of-fees returns and are presented before the bundled wrap and custodial fees. Due to compliance requirements, the net-of-fees calculation is computed based on the highest annual fee assigned by any wrap sponsor who utilizes this portfolio in an investment wrap program (300 basis points from 1/1/03 through 12/31/16 and, effective 1/1/2017, 250 basis points). LTV SMA Wrap Composite performance consists of time-weighted returns and it includes the reinvestment of all dividends and other earnings. The inception date of the composite is January 2003; however, the composite was created in January 2013. This composite has been managed in a similar manner to the Reaves LTV ERISA Composite which ended in December of 2019. The LTV SMA Wrap Composite does not represent all of Reaves' assets under management.

² 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.

³ The Russell 1000 Index, a subset of the Russell 3000 Index, represents the 1,000 top companies by market capitalization in the United States. The Russell 1000 typically comprises approximately 92% of the total market capitalization of all listed stocks in the U.S. equity market and is considered a bellwether index for large-cap investing.

⁴ The ISM manufacturing index or PMI measures the change in production levels across the U.S. economy from month to month.

Arbitrage = the simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of differing prices for the same asset.

REITs = real estate investment trusts

Weighted Average = a calculation that takes into account the varying degrees of importance of the numbers in a data set.

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' portfolio characteristics, holdings and sector weightings are subject to change at any time and, unless otherwise noted, are based on our Long Term Value Strategy SMA Wrap Composite portfolio. Holdings, sector weightings and portfolio characteristics of individual client portfolios may differ, sometimes significantly, from those shown. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities and sectors listed.

An investor cannot invest in an index.

Past performance is no guarantee of future performance. Further, the investment return and principal value of an investment will fluctuate; thus, an 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 the objectives or suitability requirement of any specific individual or account.

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 for a copy of Reaves' Form ADV Part 2A and Form CRS.

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Reaves Asset Management

10 Exchange Place, 18th Floor
Jersey City, NJ 07302
www.reavesam.com

For further information, please contact:

Thomas M. Grimes, Director of Investor Relations
Email: tgrimes@reavesam.com • Phone: 201.793.2384