

# Market Commentary

## Second Quarter 2021

### REVIEW AND OUTLOOK

The Reaves Dividend Income Strategy returned 4.2% in the second quarter, bringing year-to-date returns to 7.7%. The portfolio's dividend yield, as of 6/30/21, was 4.0%; four out of nineteen portfolio holdings<sup>1</sup> increased dividends by an average of 7.6% during the quarter. Within the strategy, real estate and communication services were strong performers in the quarter, while utilities were slightly negative.

### REAL ESTATE SECTOR

The portfolio's investments in the real estate sector, focused on wireless tower and data center companies, were the top performers in the second quarter. Digital infrastructure 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 \$10 billion 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 major wireless carriers have stretched balance sheets. The enhanced capital spending budgets laid out by carriers at analyst days in March put these concerns to rest.

### COMMUNICATIONS SERVICES SECTOR

In the communications services sector, Canadian bellwethers BCE and Telus each generated double-digit gains in the quarter in the wake of reporting steady earnings growth and strength in the Canadian dollar. Management teams at both companies have made massive investments in fiber, future-proofing their networks. As a result, customer churn decreased and pricing is stable. Those investments in fiber are expected to slow down in the coming years, pointing towards higher free cash flow generation and the potential for acceleration in the rate of future dividend growth. Notably, Telus announced an 8.6% increase in its distribution during the quarter.

## UTILITIES SECTOR

Turning to the utilities sector, companies that had underperformed in 2020 generally performed better in the quarter while most others declined in the low single-digit range. We remain positive about the prospects for many companies based on both fundamentals and current levels of valuation despite utilities lagging most other sectors in the quarter. 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 it becomes law.

On a valuation basis, the utilities sector is trading at one of its lowest relative levels of the past decade. The portfolio's utility holdings continued to grow earnings and dividends while stock prices 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.

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A real estate investment trust (REIT) is a company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors. This makes it possible for individual investors to earn dividends from real estate investments—without having to buy, manage, or finance any properties themselves.

**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.**

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Additional information about Reaves may be found on our website: [www.reavesam.com](http://www.reavesam.com).

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# Reaves Asset Management

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10 Exchange Place, 18<sup>th</sup> Floor  
Jersey City, NJ 07302  
[www.reavesam.com](http://www.reavesam.com)

**For further information, please contact:**

Thomas M. Grimes, Director of Investor Relations  
Email: [tgrimes@reavesam.com](mailto:tgrimes@reavesam.com) • Phone: 201.793.2384