Reaves Asset Management

Market Commentary
Third Quarter 2021

REVIEW AND OUTLOOK

Performance as of 9/30/21	Q3 2021	YTD 2021	5-Year Annualized
LTV Wrap Composite[1], gross of fees	-1.92%	5.59%	9.30%
LTV Wrap Composite[1], net of fees	-2.54%	3.63%	6.59%
MSCI USA Infrastructure Index[2]	0.13%	5.06%	6.25%
S&P 500 Index[3]	0.58%	15.92%	16.90%

Performance for the **Reaves LTV Wrap Composite** was strong in July and August before a change in sentiment due to worries about inflation and a slowing economy led to a selloff in September. The portfolio was down approximately 1.9% in the third quarter reducing year-to-date performance, before fees, to about 5.6%.

The 10-Year U.S. Treasury rate[4] rose from 1.30% to as high as 1.55% during September as Federal Reserve officials indicated they were planning to taper the pace of asset purchases, sparking the selloff. Several companies issued earnings warnings due to supply chain issues and a tight labor market which added to the anxiety. All but one sector in the S&P 500 Index fell in the month, with income sectors generally performing worse.

The outlook remains strong for the strategy's stocks despite the recent below average performance. We invest in companies with a high degree of certainty for compounding earnings and cash flow growth, characteristics that could become more appealing in an unsettled economic environment. We believe many of the companies in the portfolio can grow earnings in the mid-to-high single-digit range, which when combined with dividends and/or share buybacks, may provide the potential to generate low double-digit type returns. Valuations across the portfolio remain attractive, especially relative to the S&P 500 Index. The beta of the portfolio relative to the S&P 500 Index over the past five years remains low at 0.71.

PERFORMANCE REVIEW

At quarter's end, the portfolio remained concentrated in dividend-paying stocks of companies which own essential infrastructure assets. Most income-oriented sectors were impacted by volatility in interest rates during the quarter, which declined in July and August before rising sharply in September. On the following pages, we briefly highlight factors we believe influenced the performance of the best and worst performers in the quarter.

Top 5 Contributors in Q3	*Symbol*	*Contribution (basis points)*
American Water Works	AWK	+50 bps
Alphabet	GOOGL	+43 bps
GXO Logistics	GXO	+ 42 bps
Canadian National Railway	CNI	+ 37 bps
NextEra Energy	NEE	+ 35 bps

American Water Works appears to be a beneficiary of the bipartisan infrastructure bill. The company plans to grow its earnings and dividends in the 7-10% range annually, driven by pipeline investments and acquisitions. Several states have enacted legislation to encourage companies like American Water Works to buy struggling municipal water systems, leading to better economics than most other M&A[5] activity in the utility space.

Alphabet continued its rally after a very strong second quarter earnings report that saw most segments exceed expectations. The healthy state of consumers as the economy reopens has led to a surge in advertising budgets that has benefitted the core search and YouTube products in an outsized way. It is likely to face increased regulatory scrutiny, but continued market share gains, an improving suite of cloud services, and healthy share buybacks compensate investors for the risk, we believe.

GXO Logistics, a company spun out of XPO Logistics during the quarter, performed well during its first few months of trading. GXO is the only publicly traded, large scale logistics provider in the transportation space and benefits from growth in e-commerce, automation, and outsourcing. Ongoing supply chain disruptions could benefit the company as demand for warehouse space and the need to maintain higher inventory levels increases. As a leader in warehouse automation, GXO seems well positioned in the current environment.

Canadian National recovered its underperformance earlier in the year after the termination of its merger agreement with Kansas City Southern. Without the overhang of a potential financing transaction for the acquisition, investors can focus on the upside from improving operating ratios and positive catalysts from a recent shareholder activist investment.

We believe the outlook for electric utilities remains strong. Energy transition is the driver of growth for the next decade and beyond. Billions of dollars of investment, if not trillions, will be required to reach carbon reduction targets, and utilities have a major role to play in everything from renewable energy generation and electric vehicle charging to grid stability and reliability. Portfolio holdings NextEra Energy and Exelon performed well in the quarter and both companies potentially stand to benefit from infrastructure bills if passed.

NextEra's stock rallied after announcing a settlement in its Florida rate case, helping it to bounce back from its underperformance earlier this year. The constructive outcome should continue to allow the company to invest aggressively in renewable power and grid reliability. Exelon may be a beneficiary of an anticipated nuclear tax credit in the infrastructure bill.

Optimism about nuclear technology has rebounded recently as lawmakers have begun to acknowledge the important role 24-hour power production with zero-emissions has in energy transition. High costs and low power prices have pressured operators to shut down plants in recent years, so a tax credit is needed to keep nuclear operational.

Top 5 Detractors in Q3	*Symbol*	*Contribution (basis points)*
Altice USA	ATUS	-190 bps
Americold Realty Trust	COLD	-70 bps
T-Mobile US	TMUS	-48 bps
Crown Castle	CCI	-46 bps
Discovery	DISCA	-37 bps

Most notably this quarter, shares of **Altice USA** gave back all its gains and then some after a very strong 2020 performance. The bull vs. bear debate in Altice has led to exaggerated moves in the stock price at times. The bears have long argued that Altice's high product penetration in competitive broadband markets would lead to inferior results. The bull case has been predicated on a largely benign competitive environment, ongoing margin expansion, and an outsized share repurchase program. This is a playbook that has been familiar to and effective for cable investors for the last decade. During the quarter, management indicated at a conference that subscriber momentum had reversed, that they intended to reallocate capital to longer-duration growth projects, and that they could no longer commit to near-term share repurchase guidance. In some stocks, a reinvestment in growth is greeted warmly. The narrative-shift for Altice was understandably punished. Indeed, it was thesis-changing for us. Still, we think the dislocation in price was far too severe. Even after consensus revisions, Altice is projected to grow its earnings per share roughly 30% between now and 2023, leaving the stock trading at less than 8 times the 2023 projected earnings. Given the asset quality, the setup looks compelling to us from here.

Americold's poor performance came after two separate negative guidance revisions during the quarter. The company seems to have been caught off guard by tightness in the labor market and low inventory levels. We believe that the cold storage industry has many positive characteristics of a long-term holding, including secular growth and steady demand, but the near-term labor and inventory restocking challenges have been hard to overcome.

The issues causing weakness for **T-Mobile US** are more nuanced. The stock has nearly tripled over the past five years on improving network quality, strong marketing execution, and ongoing synergies from its merger with Sprint. While we think many of the components necessary for T-Mobile to continue to outperform remain in place, the quarter presented some challenges. The security breach that resulted in millions of stolen customer records is brand-tarnishing, especially for corporate buyers who are a key growth driver for T-Mobile. Second, AT&T's wholesale deal with DISH is a long-dated contract that allows DISH time to build out a competitive network. Whereas the merger with Sprint seemed to lead to market repair in U.S. wireless, the AT&T/DISH agreement could lead to a more challenging competitive environment going forward.

Shares of **Crown Castle** were hurt by a late-quarter spike in interest rates, but relative underperformance can best be explained by business mix. Crown's investments in fiber and small cells over the years are unique amongst macro tower operators and are best suited for later stages of wireless generations whereas the market is in the early days of 5G deployments. While Crown is seeing significant demand for its macro towers, small cell activity has ground to a halt making for a less favorable near-term setup when compared to peers.

Lastly, **Discovery** fell after the second quarter report showed streaming subscriber additions below expectations. The pending combination of WarnerMedia and Discovery has the potential to create meaningful value as the third largest direct-to-consumer media company by subscriber count, but investors are waiting for the deal to close to gain clarity on the go-to-market strategy. Concerns about the post-deal balance sheet also linger.

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[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 discretion¬ary 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. 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 money-weighted, time-weighted returns and it includes the reinvestment of all dividends and other earnings. The inception date of the composite is December 2002; 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 MSCI USA Infrastructure Index captures the opportunity set of U.S. companies that are owners or operators of infrastructure assets. Constituents are selected from the equity universe of the MSCI USA Index, the parent index, which covers large and mid-cap securities in the U.S. All index constituents are categorized in one of thirteen sub-industries, which MSCI aggregates and groups into five infrastructure sectors: Telecommunications, Utilities, Energy, Transportation and Social. Reaves' portfolios may at times be more diversified by including companies classified as operating in the Real Estate and Industrials sectors.

The MSCI USA Infrastructure Index was launched on Jan 22, 2008. Data prior to the launch date is back-tested data (i.e., calculations of how the index might have performed over that time period had the index existed). There are frequently material differences between back-tested performance and actual results. Past performance -- whether actual or back-tested -- is no indication or guarantee of future performance.

During the third quarter of 2021, we began using the MSCI USA Infrastructure Index as the new benchmark for the Reaves LTV Strategy. We believe the MSCI USA Infrastructure Index, with its large weightings in companies that operate in the utilities and communications services sectors, will provide a better way to measure the relative performance of the Reaves LTV Strategy.

[3] 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.

[4] The 10-Year U.S. Treasury Note (UST) is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-Year U.S. 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 U.S. Treasury Notes.

[5] Mergers and acquisitions (M&A) is a general term that describes the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets, and management acquisitions.

GXO Logistics is a company that spun out of XPO Logistics during the 3rd quarter of 2021. As of our most recently filed 13F on 6/30/2021, portfolios managed by Reaves did not own GXO Logistics.

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. The securities mentioned in this commentary does not represent all the securities held in the Reaves LTV SMA Wrap Strategy. Reaves' LTV SMA Strategy does not represent all of Reaves' assets under management.

This document is a supplement to the Fact Sheet for the Reaves LTV Strategy Third Quarter 2021.

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

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

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