Reaves Asset Management

Market Commentary
Fourth Quarter 2021

REVIEW AND OUTLOOK

The **Reaves Dividend Income Strategy's**[1] composite performance ended the year on a strong note. The strategy was up 10.7% in the fourth quarter, net of fees, bringing the total return for the year to 18.2%. Both the quarterly and annual performance exceeded the MSCI USA Infrastructure Index[2]. The yield of the composite portfolio was 3.8% as of 12/31/21 and, in the calendar year of 2021, the portfolio generated dividend income that was about 4.2% of average invested capital[3].

Performance as of 12/31/21	Q4 2021	1 Year	Since Inception*
Reaves DI Composite, gross of fees	10.82%	18.82%	21.77%
Reaves DI Composite, net of fees	10.69%	18.23%	21.16%
MSCI USA Infrastructure Index	6.04%	11.40%	14.53%

**Annualized, Incpetion date: 10/31/20*

The Federal Reserve's signal to raise the Fed Funds rate indicated a shift from the prevailing low interest rate dynamic over the past ten-plus years. Volatility increased, with the strength of indexes masking significant deterioration of many individual stocks. For example, 30% of Russell 1000 Index[4] members, as of 12/31/21, are down 20% or more from highs reached earlier in 2021. Strong performance from heavily weighted, mega cap companies hid what's been a challenging market for many companies. We believe the performance of the strategy in the fourth quarter speaks to the value investors are beginning to place on defensive stocks given the uncertainty in the market.

Investments in the strategy remain well positioned as fundamentals continue to be strong, and valuations relative to the broad indexes are attractive. Within the portfolio, utilities continue to benefit from investment opportunities relating to renewable energy transition and the infrastructure required to support that switch. Longer term, rising electric vehicle adoption has the potential to increase electricity demand. On the communications side, unabated data consumption and the need for faster speeds continues to support massive capital investment and opportunities for future growth. We believe this earnings growth should continue to support large and growing dividend yields for investors.

PORTFOLIO REVIEW

At quarter's end, the portfolio remained concentrated in dividend-paying stocks of companies which own essential infrastructure assets.

Top 3 Contributors in Q4	*Symbol*	*Contribution (basis points)*
Edison International	EIX	+ 197 bps
CoreSite Realty	COR	+ 192 bps
Southern Company	SO	+ 103 bps

EIX was one of the top performing utilities in the entire sector in the fourth quarter. The stock had been trading at a depressed multiple heading into the quarter because of worries about the upcoming wildfire season, but an uneventful season sparked a 24.3% rally in the fourth quarter. Once thought of as a possible dividend-cut candidate, the company boosted its payout by 5.6% in December, showing confidence in its capability to handle any future wildfire damages.

COR rallied after American Tower announced a deal in November to acquire the company in an all-cash transaction worth $170 per share. The deal culminated a spectacular public market run for the company. We believe shareholders benefitted along the way from a disciplined management team that refused to sacrifice on strategy or asset quality, demanded fair value on rents, and paid a generous distribution. COR's management sold a generational franchise with industry-leading returns and still healthy growth prospects because they believed they were offered a premium to fair value, which hardly surprised us. We wish there were more assets and management teams out there like this one.

SO performed in line with the utilities sector in the quarter. The stock was helped by bipartisan support for a nuclear tax credit. Southern is currently building two new nuclear units and is hopeful that the first unit will be operational by the end of 2022. The project has been troubled, with multiple delays and cost overruns, but the project finally seems to be near the end.

Top 3 Detractors in Q4	*Symbol*	*Contribution (basis points)*
Comcast	CMCSA	-21 bps
Verizon	VZ	-14 bps
Pinnacle West	PNW	-9 bps

CMCSA fell thanks to an ongoing slowdown in broadband subscriber growth that continued in the fourth quarter, leading to negative revisions and analyst downgrades. The pandemic turbocharged demand for broadband, as it forced the global economy to rely on home broadband connections. In response, policymakers subsidized users, who would otherwise not be able to afford broadband, so that they could participate in the work-from-home economy. Broadband penetration shot up, but looking forward, the unit growth outlook may be tested, not only by high product penetration but also by would-be telecom challengers seeking to build more competitive alternatives to cable broadband. Significant private capital is now chasing telecom upgrade projects that historically have had poor success rates. We acknowledge that competitive dynamics have changed, yet we think sentiment on cable has shifted far too radically in the wrong direction. A combination of reasonable topline growth, continuous improvement of cash conversion rates, and an increase in share repurchases leads us to like the setup from here.

VZ, similar to Comcast, was negatively impacted by competitive threats. Cable companies have started to gain mobile subscribers at the expense of wireless companies. On the horizon, DISH Network is building out a competitive network that will effectively create a fourth wireless company. These challenges have pressured VZ's valuation in the fourth quarter, leading to nearly the lowest P/E ratio of the last decade.

PNW fell after a poor rate case outcome led to 2022 EPS guidance that is much lower than what the company earned over the past 12 months. Arizona's utility commission found that an investment several years ago in a coal power plant scrubber was imprudent and decided to cut nearly $120 million of annual revenue from its rates. That decision, as harmful as it was, was much better than the worst-case scenario. The stock rallied after the decision, especially once the company raised its dividend in the fourth quarter and noted that it could grow earnings five to seven percent off the reduced 2022 base[5].

Thank you for your continued support of our investment management services. Please let us know if you have any questions about the market developments and stocks discussed in this commentary. We look forward to hearing from you.

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, employee-owned "S" corporation organized under the laws of the State of Delaware.

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[1]Performance is based on the Reaves Dividend Income Global Composite and includes the reinvestment of dividends and other earnings. 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. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities and sectors listed. The inception date of the Reaves Dividend Income Global Composite is 10/31/20. The securities mentioned in this commentary does not represent all the securities held in the Reaves Dividend Income Strategy. Reaves' Dividend Income Strategy 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.

[3]Average invested capital is the average amount of money that was invested in this investment strategy in the calendar year 2021. The calculation is the total dollar amount of dividends received in 2021 divided by the average of the total capital invested each quarter.

[4]Russell 1000 Index represents the top 1,000 companies by market capitalization in the United States and is a subset of the larger Russell 3000 Index. Reaves' portfolios are far less diversified, resulting in higher sector concentrations than found in the broad-based Russell 1000 Index.

[5]Source: PNW's Third Quarter 2021 Results and Future Outlook - slide 21- November 5, 2021.

Due to the size and composition of the Reaves Dividend Income Strategy, the contributors and detractors are limited to 3 positions each.

Total Return is the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes capital appreciation and the reinvestment of dividends and any other distributions.

The price/earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock.

This document is a supplement to the Fact Sheet for the Reaves Dividend Income Strategy Fourth 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.

***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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