Reaves Asset Management

Market Commentary
Fourth Quarter 2021

REVIEW AND OUTLOOK

The Reaves LTV Strategy[1] advanced strongly in the final quarter of 2021 and finished the year with a total return before management fees of 16.6%. Over the past five years, total annualized return, before fees, was 11.2%. In all three time periods, the strategy outperformed the MSCI USA infrastructure Index[2] but lagged the more broad-based S&P 500 Index[3]. Importantly, the portfolio's beta of 0.72 over the past five years continued to reflect the defensive nature of the portfolio. The strategy's returns were in line with our expectations given the growth in net income and dividends that were generated by the companies owned over the period.

Performance as of 12/31/21	Q4 2021	1 Year	5-Year Annualized
LTV Wrap Composite, gross of fees	10.40%	16.56%	11.18%
LTV Wrap Composite, net of fees	9.73%	13.72%	8.45%
MSCI USA Infrastructure Index	6.04%	11.40%	7.13%
S&P 500 Index	11.03%	28.71%	18.47%

Our goal is to construct portfolios with the potential to generate high single or low double-digit returns over any five-year period with lower than market volatility. We believe that a portfolio of utilities and utility-like companies with high barriers to entry, high capital intensity, and non-cyclical cash flows is well positioned to accomplish this. Over its history, the Reaves Long Term Value Strategy Wrap Composite has had positive total returns in almost all five-year rolling return periods, achieving this even in times of extreme market stress.[4]

The benefit of such a strategy became apparent in recent months. The Federal Reserve signaled its intent to raise the Fed Funds rate multiple times in 2022, indicating a shift from the prevailing low interest rate dynamic of 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[5] 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.

The Reaves LTV Strategy performance in the fourth quarter speaks to the value of defensive stocks as investors fear that the types of companies that delivered market-beating gains in the last decade may struggle in a rising interest rate environment.

The good news is that the fundamentals of companies in the portfolio continue to be strong and their valuations relative to the broad market 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. Other investments in the portfolio benefit from similar long-term trends, like the shift to e-commerce. We believe many of the companies in the portfolio can grow earnings in the mid-single-digit range, which when combined with dividends and/or share buybacks, provides the potential to generate competitive returns.

PORTFOLIO REVIEW

Top 5 Contributors in Q4	*Symbol*	*Contribution (basis points)*
Prologis	PLD	+153 bps
Rexford Industrial Realty	REXR	+146 bps
CoreSite Realty	COR	+ 106 bps
NextEra Energy	NEE	+ 97 bps
SBA Communications	SBAC	+ 95 bps

PLD: Demand for warehouse space, especially assets located near urban centers, is growing at a rapid pace due to increasing e-commerce adoption. 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. Prologis is no longer an undiscovered name though, and after its 72% gain in 2021, valuation is at the high end of its historic range.

REXR: We initiated a position in Rexford Industrial at the end of the third quarter of 2021. The stock has performed exceedingly well since, as the attractive characteristics of the industrial real estate space were amplified by Rexford's unique geographic exposure. Specifically, Rexford's portfolio of warehouse space is located entirely in the supply-constrained southern California markets. When coupled with material secular demand, this regional scarcity dynamic has led to industry-leading growth in re-leasing spreads and, likewise, growth in cash flow.

COR: In mid-November, American Tower announced a deal to acquire CoreSite Realty in an all-cash transaction worth $170 per share. The deal culminated a spectacular public market run for the company. 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. That 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 hardly surprised us. We wish there were more assets and management teams out there like this one.

NEE: NextEra is one of the premier utility companies in the U.S. We believe the distribution company in Florida is one of the best managed utilities in the country; its renewable energy development company is the largest in North America. During the quarter, Congress worked through infrastructure legislation which, among other initiatives, included significant support for renewable and clean energy resources. Though the Senate was ultimately unable to pass the Build Back Better bill, support for energy transition policy components remain robust and contributed to NextEra's strong performance.

SBAC: Towers led the continued surge in real estate stocks to close out the year. The fundamental backdrop continues to be strong as many tower owners cite the most robust demand environment they've seen in over a decade. The three main wireless carriers are all sitting on significant spectrum that is waiting to be deployed on towers. Channel checks indicate DISH Networks' efforts to build a network from scratch are ramping. The higher-than-expected results in the 3.45Ghz spectrum auction in November indicates carrier demand to acquire and deploy ever more spectrum continues unabated.

Top 5 Detractors in Q4	*Symbol*	*Contribution (basis points)*
Altice USA	ATUS	-78 bps
Charter Communications	CHTR	-43 bps
Liberty Latin America	LILA	-37 bps
Comcast	CMCSA	-35 bps
T-Mobile US	TMUS	-34 bps

ATUS: Capital allocation decisions have generally dictated share price performance for Altice. In the fourth quarter, management effectively abandoned its aggressive share repurchase program and committed instead to accelerated investments in long-term growth. To close followers of the industry, the plan appears imminently achievable and represents the type of about-face that long-term investors typically embrace. In the nearer term, however, the shift in strategy helped underwrite the bear narrative that Altice had underinvested in its network and services, thus leading to chronic over-earning. We believe the asset quality here remains high but acknowledge that significant recovery in shares may take time and have sold the stock from portfolios. We think it's a "show-me" story from here.

CHTR and **CMCSA**: A slowdown in the rate of broadband subscriber growth 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 order to continue churning. In response, policy makers subsidized users who would otherwise not be able to afford broadband so that they could participate in the work-from-home economy. The result is broadband penetration that increasingly seems utility-like. Looking forward, the unit growth outlook is challenged 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 many of the dynamics that have led to telecom failures in the past have changed, yet we think sentiment on cable has shifted far too radically in the wrong direction. A combination of reasonable topline growth, continually improving rates of cash conversion, and growing share repurchases leads us to like the setup from here.

LILA: A combination of somewhat uninspiring third quarter results and an unfavorable macro backdrop hurt shares of Liberty Latin America during the quarter. Notably, shares struggled to recover after Omicron was first detected, given the economic exposure to travel and leisure in LILA territories. Additionally, the evolving political environment in Chile, one of LILA's larger markets, challenged hopes for constructive consolidation in what has been a tough competitive market for cable and telecom. We remain positive, as short-term catalysts include sizable deal synergies, a ramping share repurchase program, and clarity on the strategic direction for LILA's valuable subsea cable business.

TMUS: Not mentioned in the cable narrative above is one even more grandiose element of the bear case – what investors are calling the "convergence apocalypse." The idea here is that as telecom operators, long-focused most exclusively on their wireless businesses, try to move in on cable's territory in home broadband, cable will respond by being more aggressive in wireless. This dynamic has played out in other parts of the world. The result is often declining subscriber growth and falling prices. Layering on top of that the pending emergence of DISH Network's wireless business and the competitive landscape in wireless, it seems downright brutal. What we believe this narrative ignores for both cable and T-Mobile is the asymmetric competitive advantage in assets relative to other competitors. For T-Mobile, outsized spectrum ownership and a great team of engineers positions the company to build one of the best wireless networks on the planet. When combined with competitive prices, we expect T-Mobile will continue to take share in wireless. Ongoing synergies from the deal with Sprint will lead to strong cash flow growth and, soon enough, material share repurchases. From here, we believe the risk/reward is favorable.

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.

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' 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 Index. However, Reaves' portfolios are far less diversified, resulting in higher sector concentrations than found in the broad-based S&P 500 Index.

[4]Data is based on Reaves LTV Wrap Composite 12/31/02 (inception) through 12/31/21. For 167 out of 169 five-year rolling returns periods, the composite's net performance was positive.

[5]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.

Spectrum refers to the invisible radio frequencies that wireless communications signals travel over. In November 2021, the Federal Communications Commission auctioned off specific spectrum frequencies to wireless carriers that will be used in the future to provide advanced, high speed wireless services.

Beta measures a stock's volatility relative to the broad market. A stock with a beta higher than 1.0 has historically been more volatile than the market, while a stock with a beta lower than 1.0 has been less volatile.

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.

An annualized total return is the geometric average amount of money earned by an investment each year over a given time period. The annualized return formula is calculated as a geometric average to show what an investor would earn over a period of time if the annual return was compounded.

Rolling returns reflect the cumulative return on a continuously held investment over a number of consecutive periods, calculated monthly.

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 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.

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