Reaves Asset Management

Market Commentary
First Quarter 2022

REVIEW AND OUTLOOK

The defensive characteristics of the Reaves Dividend Income investment strategy proved to be popular during a volatile first quarter of 2022. The Reaves Dividend Income Composite increased by 4.0% in the quarter, before fees. Over the past twelve months, the portfolio increased by 19.3% before fees. The current yield on the portfolio is 3.7%, below the 4.0% target because of portfolio appreciation.

Performance as of 3/31/22	Q1 2022	1 Year	Since Inception*
Reaves DI Composite, gross of fees[1]	3.96%	19.30%	20.88%
Reaves DI Composite, net of fees[1]	3.83%	18.71%	20.28%
MSCI USA Infrastructure Index[2]	4.40%	11.89%	15.27%

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

The invasion of Ukraine along with spiking commodity prices, rapidly increasing interest rates, and changing Federal Reserve policies led to deteriorating market conditions. From peak to trough, the S&P 500 Index[3] declined 13% before rallying in the last two weeks of the quarter. The 10-Year U.S. Treasury Note yield jumped from 1.52% at the end of 2021 to 2.32%, while Brent crude oil spot prices doubled from a low just after Thanksgiving to the high in early March. Natural gas, corn, wheat, soybeans, and other commodities experienced similar increases, driving inflation above 8% during the quarter.

What may have been surprising to many investors was that utilities were the second-best performing S&P 500 industry sector during the quarter despite the increase in interest rates. Often seen as a bond proxy, the defensive nature of utilities proved to be an important factor as the fear of recession trumped rising rates.

Another factor supporting the positive performance of the utility sector may have been the decline in bond funds. This was highlighted by investment grade bond fund, iShares Core U.S. Aggregate Bond ETF (AGG)[4], posting the worst quarterly performance in its history. Investors may have rotated from fixed income to sectors like utilities because of their higher dividend yield, but more importantly, their ability to grow those dividends and potentially keep pace with inflation.

Energy transition and grid resiliency investments, we believe, should support long-term capital deployment opportunities and add to investor confidence for continued income growth in the sector.

PORTFOLIO REVIEW

Top 3 Contributors in Q1	*Symbol*	*Contribution (basis points)*
Telus Corp	TU	+ 89 bps
NextEra Energy Partners	NEP	+ 66 bps
NiSource Inc	NI	+ 66 bps

TU: Telus found itself in a sweet spot in the first quarter as a defensive, high-yielding company with a strengthening currency in dollar terms. Like utilities, Canadian telecom companies generally performed well in the first quarter. In conjunction with its defensive qualities, the company traded higher on optimism that it was nearing the end of a capex cycle which could lead to accelerating free cash flow generation.

NEP: NextEra Energy Partners was purchased during the quarter at an opportune time. The business consists largely of long-term contracted renewable energy assets, but rising interest rates caused investors to worry about its cost of capital at the beginning of the quarter. After the purchase, the invasion of Ukraine and potential energy supply disruptions highlighted the important role renewable energy could play from an energy security perspective and boosted the stock from its lows.

NI: After finding itself on the wrong end of ESG investment trends for much of the past couple years, NiSource had a strong first quarter. Defensive-oriented investors sought the attractive valuation, dividend yield, and growth potential of the company rather than focusing on the end game for natural gas distribution. The invasion of Ukraine seems to have started a conversation about the need for energy security, highlighting the role natural gas can play for the next several decades and easing concerns that NiSource's business would cease to exist in the near future.

Top 3 Detractors in Q1	*Symbol*	*Contribution (basis points)*
Digital Realty	DLR	-95 bps
Cogent Communications	CCOI	-33 bps
Crown Castle	CCI	-27 bps

DLR: Digital Realty declined because of a generally weak trading environment for REITS and disappointing guidance from the company. Rising interest rates may have been the catalyst to sell REITS, especially after a very strong year of performance in 2021. Demand for data center space continues to be high, but rising costs gave investors cause for concern. DLR was sold from portfolios during the quarter.

CCOI: Cogent is a provider of fiber capacity to offices in major metropolitan areas and should benefit as the economy re-opens, but that recovery seems to have been delayed by the emergence of the Omicron variant. The business model is durable, with cash flows continuing to grow at high rates despite the delayed re-opening. The dividend should continue to grow, and we added to the position during the quarter.

CCI: Another REIT, Crown Castle was further hurt by a slowdown in its small cell and fiber businesses. The base wireless tower business is so strong that spending on small cells and fiber has seemed like a misallocation of capital, and moderating growth has highlighted that concern. On the plus side, contract timing means CCI's tower business should be the fastest growing this year among its peers while the new master lease agreement with T-Mobile de-risks the fiber business in the coming years.

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, independently 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]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]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]The iShares Core U.S. Aggregate Bond ETF seeks to track the investment results of an index composed of the total U.S. investment-grade bond market.

Peaks and troughs are patterns that are developed by the price action experienced by all securities. Peaks and troughs can be seen on a chart by recognizing the higher peaks, or tops, and higher troughs, or bottoms, creating an uptrend or downtrend.

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.

Brent Crude Oil may refer to any or all of the components of the Brent Complex, a physically and financially traded oil market based around the North Sea of Northwest Europe; colloquially, Brent Crude usually refers to the price of the ICE Brent Crude Oil futures contract or the contract itself.

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.

This document is a supplement to the Fact Sheet for the Reaves Dividend Income Strategy First Quarter 2022.

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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