Reaves Asset Management

Market Commentary
Second Quarter 2022

REVIEW AND OUTLOOK

In a challenging quarter for equities, the Reaves Dividend Income Strategy declined by 8.2%, net of fees, outpacing the S&P 500 Index but lagging the MSCI USA Infrastructure Index. Over the past 12 months, the strategy has generated an annualized return of 4.7%. The composite portfolio had a dividend yield of 4.2% at the end of the second quarter.

Performance as of 6/30/22	Q2 2022	1 Year	Since Inception*
Reaves DI Composite, gross of fees[1]	-8.04%	5.19%	11.73%
Reaves DI Composite, net of fees[1]	-8.16%	4.66%	11.17%
MSCI USA Infrastructure Index[2]	-3.74%	6.70%	10.29%
S&P 500 Index[3]	-16.10%	-10.62%	10.83%

**Annualized; Inception date: 10/31/20*

For the second consecutive quarter, utilities were one of the top performing sectors in the market, despite the rise in interest rates. Inflation and the potential for a slowing economy are top of mind. Investors have been allocating more to the sector for its defensive characteristics as well as its potential to perform well in inflationary periods.

Energy and other commodity companies rightfully garner most of the attention as inflation hedges, but the utility sector has also been a store of value in the past. From 1973 through 1982, the U.S. Consumer Price Index (CPI) averaged 8.7% per year, with several years in the double-digits. The Dow Jones Utility Average compounded at 9.2% per year during the ten-year period, outperforming the S&P 500's return of 6.7% per year despite the yield on the U.S. 10-year Treasury note rising from 6.4% to a high of 15.8% in 1981. A similar pattern may be emerging today, since the annualized CPI first went above 5% in May of 2021, the Dow Jones Utility Average is up 11.0% while the S&P 500 is down 7.9%.

Regulated utilities can generally recover the cost of providing service in customer rates. As expenses rise, utilities can request the public utility commission to increase customer bills to cover the higher level of costs. While there may be a lag between when a company incurs an increase in costs and when a commission approves higher rates, this recovery mechanism offers a better inflation hedge than most other industries.

Another important reason why utilities can perform during periods of high inflation is dividend income. Many utilities grow the distribution at the same pace of earnings growth, which today averages 5% to 6%. Investors today, particularly those with fixed income exposure, seem to accept the higher volatility that comes with an equity investment to own an income stream that can keep up with inflation.

In the 1970's, it was that growing income stream which provided much of the appeal. The Dow Jones Utility Average began and ended the ten-year inflationary period at almost the exact same price. Nearly all of the return came from the dividend yield and the growth of that distribution. Back then, it was enough to outperform the S&P 500. So far in this cycle, it seems to be playing out the same way.

PORTFOLIO REVIEW

Top 3 Contributors in Q2	*Symbol*	*Contribution (basis points)*
Verizon Communications	VZ	+4 bps
Southern Company	SO	-8 bps
Entergy Corp	ETR	-11 bps

VZ and SO: Verizon and Southern are both ideal defensive stocks. Both are large capitalization equities with significant liquidity. They both yield well above average, and earnings are steady and predictable in all economic cycles. Verizon has been weak over the past year on concerns of increased competition in both wireless and fixed broadband, but the result was that it entered the quarter at an attractive valuation. Southern, meanwhile, continues to make progress on completing two new nuclear units, de-risking the stock each time it passes a project milestone.

ETR: Entergy hosted its long-awaited analyst day during the quarter. The company raised its EPS growth rate to 6-8%, above industry peers, and provided incremental detail on avenues for growth throughout the remainder of the decade stemming from industrial customer de-carbonization and electrification and enhanced storm resiliency.

Top 3 Detractors in Q2	*Symbol*	*Contribution (basis points)*
Lamar Advertising	LAMR	-141 bps
Edison International	EIX	-90 bps
Telus Corp	TU	-89bps

LAMR: Lamar fell in sympathy with most advertising-supported companies on recession fears. We believe that the nature of the assets being mostly rural billboards makes the company more defensive, but few advertising companies have been spared in this downturn. Lamar increased its dividend 10 cents in the quarter after increasing 10 cents in the first quarter as well, so management has confidence in its cash flows, but the market hasn't reflected that confidence.

EIX: Edison International fell after an early start to wildfire season and likely some profit taking after a strong performance through the end of the first quarter. Even with the 9.8% decline in the second quarter, the stock is still up 14.2% over the past 12 months.

TU: Telus fell after reaching a high valuation level towards the end of the first quarter. Valuation on a number of metrics reached 10-year highs at the end of the first quarter. We sold 1/3 of the position in late March, though it wasn't enough to keep the position from being on the detractors list. The company is nearing the end of a large capex cycle which should result in accelerating free cash flow. Some increase in valuation is warranted, though it did get ahead of itself towards the end of the first quarter.

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.

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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.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Dow Jones Utility Average aims to represent the stock performance of large, well-known U.S. companies within the utilities industry.

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.

Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment.

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