Reaves Asset Management

Market Commentary
Second Quarter 2022

REVIEW AND OUTLOOK

In a challenging quarter for equities, the Reaves Long Term Value Strategy declined by 10.8% before fees, outpacing the S&P 500 Index but lagging the MSCI USA Infrastructure Index. Over the past five years, the strategy generated an annualized return, before fees, of 7.2%. Persistently high inflation, Fed tightening, rising interest rates, and a slowing economy were the primary factors impacting financial markets in recent months. Notably, dividend growth, for stocks owned in the strategy, continues to be positive. The weighted average growth rate of cash distributions from portfolio companies was 9.8% over the past 12 months.

Performance as of 6/30/22	Q2 2022	1 Year	5-Year Annualized
LTV Wrap Composite, gross of fees[1]	-10.84%	-5.61%	7.21%
LTV Wrap Composite, net of fees[1]	-11.42%	-7.96%	4.57%
MSCI USA Infrastructure Index[2]	-3.74%	6.70%	7.24%
S&P 500 Index[3]	-16.10%	-10.62%	11.31%

For the second consecutive quarter, utilities were one of the top performing sectors, despite the rise in interest rates, as investors became concerned about a slowing economy. Notably, most utilities performed better than the strategy's non-utility defensive investments despite similar business characteristics. This phenomenon accounted for most of the performance dispersion versus the MSCI USA Infrastructure Index. The strategy is more defensively positioned than the index, but the index has a greater weight in utilities. The sector's stronger performance versus other defensive industries led to the strategy underperforming the benchmark.

Part of the reason for the strong performance may be related to the sector's record during past periods of high inflation. 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 10-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 reason utilities can perform well during periods of high inflation is growing income streams. Utilities, like most companies in our strategy, aim to raise their distributions at the same pace as earnings growth. Investors today, particularly those with fixed income exposure, seem willing to accept the higher volatility associated with an equity investment to own an income stream that can grow and 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. 100% 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 5 Contributors in Q2	*Symbol*	*Contribution (basis points)*
Atmos Energy	ATO	+22 bps
T-Mobile US	TMUS	+20 bps
Constellation Energy	CEG	+5 bps
Xcel Energy	XEL	-5 bps
Entergy Corp	ETR	-10 bps

ATO: Geopolitical & U.S. energy supply concerns continued throughout the quarter putting major upward pressure on the forward natural gas pricing curve. Consequently, investors broadly reassessed the importance of natural gas to our economy and energy complex while re-evaluating recent concerns about gas infrastructure's terminal value. Atmos remains the largest pure natural gas utility with among the most constructive regulation in the US.

TMUS: When T-Mobile announced its deal to acquire Sprint, the company promised to repurchase $60bn in stock over a three-year period beginning in 2023. Several data points from the quarter reinforced investor confidence in the company's ability to deliver on this plan. First, financial results and forecasts continue to surpass consensus expectations. Related, deal integration remains ahead of plan. Next, momentum has accelerated in the company's nascent fixed wireless business. Additionally, a restructured wholesale agreement with Dish Networks helped to pull forward cash flow. Lastly, competitors have raised prices to manage margins in an inflationary environment. On this last point, while we are deeply skeptical that price increases can endure in the hyper-competitive US wireless market, we think the improved pricing umbrella creates opportunities for T-Mobile to accelerate share gains. In sum, the company is firing on all cylinders and looks poised to deliver on its outsized shareholder remuneration plan.

CEG: Constellation outperformed during the quarter as investors continued to appreciate the exposure provided by its large zero emission nuclear fleet amid the high energy price environment and shifting structural perception of the role of nuclear within the energy transition. The company is well positioned coming into the second half of this year with several positive catalysts, including an updated capital allocation strategy that could include special dividends and share repurchases as well as potential for a federal nuclear production tax credit via a slimmed down reconciliation package.

XEL: Xcel filed multiple settlements with regulators across its footprint in CO, TX, NM, MN that should serve to de-risk its capital spending and growth plan. Further, several sources of earnings upside continued to materialize during the quarter with increased MISO transmission needs gaining more color and granularity

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 5 Detractors in Q2	*Symbol*	*Contribution (basis points)*
Prologis	PLD	-141 bps
Union Pacific	UNP	-92 bps
Rexford Industrial Realty	REXR	-88 bps
Alphabet	GOOGL	-81 bps
Warner Bros Discovery	WBD	-77 bps

PLD and REXR: Prologis and Rexford underperformed during the quarter as Amazon's earnings release created concern of industrial oversupply while concerns of a broader economic slowdown and rising interest rates led to underperformance in the broader industrial warehouse space. The fundamentals of each company remain strong, though. Prologis announced an acquisition of Duke Realty during the quarter which we believe should create significant value for shareholders. Rexford operates in land constrained markets in Southern California where market rent growth continues unabated and at rates well above average.

UNP: Union Pacific fell in the quarter largely due to a deteriorating macro-economic environment. High energy costs and ongoing covid-related supply chain issues, such as the month long shut down of Shanghai, led to a reduction of transportation volumes. Despite the more challenging macro environment, UNP still has an attractive long-term outlook. The rail industry is consolidating, going from six major carriers to five, and remains well poised to improve operating ratios. Volumes, while negatively impacted near term, should remain resilient due to rail's relative cheapness as a mode of transportation.

GOOGL: Growing recessionary concerns have hurt most advertising-supported business models over the past few months. Google may see a slowdown, but its proposition is so valuable to businesses that it is likely to gain market share in a recession as it has in past downturns. The stock is down with the general concerns about a recession but has performed better than many other advertising-supported businesses.

WBD: The combination of increasing costs to acquire and develop new content, a tricky business model transition from linear TV to streaming video, a heavily leveraged balance sheet, and a darkening outlook for TV advertising has been too much to overcome for the newly merged Warner Brothers Discovery. Despite what seems like a favorable valuation, we liquidated our position during the quarter. Longer term, we believe the company's depth and breadth of content will ensure it remains a formidable competitor in media. Near term, the increasingly uncertain business model, deal integration, and economic outlook make this a tough stock to own.

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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[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.

Weighted average is a calculation that takes into account the varying degrees of importance of the numbers in a data set. In calculating a weighted average, each number in the data set is multiplied by a predetermined weight before the final calculation is made.

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.

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

Reaves' portfolio characteristics, holdings and sector weightings are subject to change at any time and, unless otherwise noted, are based on our Long Term Value 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 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.

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***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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