Reaves Asset Management

Market Commentary
Fourth Quarter 2022

REVIEW AND OUTLOOK

The Reaves Long Term Value Strategy closed out a volatile year on a positive note with a gross return of 8.2% in the fourth quarter. For the year, the strategy lagged its infrastructure benchmark but outperformed the broad market as represented by the S&P 500 Index. The 10-year U.S. Treasury yield declined from 4.3% in late October to 3.5% in December as economic data suggested slowing inflation which propelled markets higher.

Performance as of 12/31/22	Q4	1 Year	5-Year*	10-Year*	Since Inception*+
LTV Wrap Composite, gross[1]	8.21%	-13.36%	5.81%	8.50%	10.19%
LTV Wrap Composite, net[1]	7.55%	-15.53%	3.20%	5.62%	7.11%
MSCI USA Infrastructure Index[2]	9.84%	0.61%	6.24%	7.93%	8.16%
S&P 500 Index[3]	7.56%	-18.11%	9.42%	12.56%	9.80%

**Annualized* *+Composite's inception date is January 1, 2003*

Utilities performed well in the quarter and were one of the few asset classes to generate positive returns in a challenging year for the U.S. equity market. The better news on inflation in the October CPI report allowed investors to once again focus on the stability of utility earnings, their steady dividend growth, and the significant new investment and growth opportunities ahead of them in the wake of recent favorable legislation.

The quarterly performance of the strategy's holdings in other essential infrastructure businesses were mixed as the broader market was led higher by energy and industrials, while consumer discretionary and communication services underperformed. Within the strategy, companies with questions around growth rates weighed on performance, while those with cyclical exposure outperformed.

Looking forward, we expect investor focus on inflation, Federal Reserve policy, interest rates, and recession fears to continue, and choppy markets to persist. While 2022 was a challenging year, the strategy's performance in the fourth quarter and into the start of 2023 has been encouraging. We remain confident that our defensively positioned portfolios, focused on essential service infrastructure companies with durable earnings and dividend growth, have the potential to perform well in all types of economic environments.

PORTFOLIO REVIEW

Top 5 Contributors in Q4	*Symbol*	*Contribution (basis points)*
Linde PLC	LIN	+85 bps
American Water Works	AWK	+65 bps
Equinix	EQIX	+ 64 bps
Entergy	ETR	+ 50 bps
Rogers Communications	RCI	+48 bps

LIN: The company reported a strong third quarter with topline growth well above expectations, belying global economic weakness. In addition, the company continues to make progress improving margins, as synergies from its 2018 merger with Praxair work their way to the bottom line. Greater profitability translated into more available cash for share repurchases, which the company is doing aggressively. In addition, Linde will likely be a key provider of carbon capture services to US Gulf of Mexico petrochemical companies, enabling the capture of the $85/ton tax credit provided in the Inflation Reduction Act.

AWK: The company was a top performer for the quarter as the stock recovered from its 3rd Quarter lows. The company issued lackluster guidance that was driven by inflation and higher interest rates present at the time. Slowing inflation and declining interest rates beginning in October led to demand for the stock.

EQIX: Shares rallied on the heels of a strong earnings report that mitigated wide-ranging investor concerns about macroeconomic impacts on the business. Specifically, Equinix continues to display meaningful pricing power, while customer demand for its services remains durable. We expect secular tailwinds and high barriers to entry to, over time, deliver attractive compounding of value in shares of this critical global telecommunication infrastructure provider.

ETR: Entergy outperformed during the fourth quarter. The company serves the Gulf Coast region of the U.S. where large commercial and industrial customers have begun a decades long electrification and decarbonization initiative in which Entergy, as the vertically integrated utility in the area, is positioned to benefit. In the near term, the company is embarking upon a new multi-year storm resiliency program that will upgrade and modernize the system to protect from more frequent severe hurricanes. That program, plus exiting 2022 without any significant hurricane damage, seems to have given investors incrementally more confidence in realizing the long-term vision for above average earnings and dividend growth.

RCI: Continued strength in its core cable and wireless businesses and increasing optimism around the prospects for a favorable legal ruling in its effort to acquire Shaw Communications led to a steady grind higher in Rogers Communication shares throughout the quarter. Shares rallied further on the final trading day of the year as the Canadian Competition Tribunal rejected the Competition Bureau's challenge to the Shaw acquisition. We think the deal is transformational for the Canadian wireless industry, and while uncertainty about its outcome persists, we continue to view the risk/reward to be quite favorable.

Top 5 Detractors in Q4	*Symbol*	*Contribution (basis points)*
Alphabet	GOOGL	-21 bps
Crown Castle	CCI	-18 bps
OGE Energy	OGE	-11 bps
BCE	BCE	-7 bps
Telus	TU	-6 bps

GOOGL: A weak earnings report reinforced investor concern about the potential impact of an advertising recession on Alphabet's business. Additionally, while digital advertising continues to take share of marketing budgets, competition for digital dollars has intensified. Specifically, Amazon's success in advertising continues unabated, while Microsoft and Netflix, amongst many others, appear to be ramping up their own efforts. Given the macroeconomic uncertainty, we materially reduced our position in the stock during the quarter.

CCI: Crown Castle Inc. underperformed the broader market, as well as REIT and tower peers, during the quarter. The company issued uninspiring guidance for 2023 due to churn from the T-Mobile US acquisition of Sprint and macroeconomic uncertainty associated with its enterprise fiber business. Qualitative commentary on new leasing was less favorable than tower peers as well. Given the significant visibility inherent in the tower business model, we were a bit surprised by the market's reaction to these forecasts. Nonetheless, we continue to view towers to be amongst the best asset class within our, or any other, investment universe and would expect them to continue to outperform broader market benchmarks over long periods of time.

OGE: The company was up 9.8% in the quarter, but the stock produced a negative return for the composite as it was sold in October to realize a tax loss. The proceeds of the sale were used to purchase American Electric Power (AEP), a stock which rallied 11.5% from date of purchase through the end of the year. AEP is a large utility that may have meaningful opportunities to build renewable generation and electric transmission. It is in the process of completing several transactions that we believe will simplify the business, strengthen the balance sheet and should set the company up to finance its growth opportunities.

BCE: Bell performed as anticipated during the quarter. The underperformance relative to the balance of our portfolio can be explained by the timing of our acquisition of the shares – we created a position in late October following a broader market rally. Shares of BCE were purchased to replace shares of Rogers sold for tax considerations at the time. The BCE position was then sold, and the Rogers' s position bought back as soon as we were able. The portfolio participated in the year-end rally in Rogers as a result.

TU: Shares of the company began to weaken during the second half of the quarter as investors increasingly priced greater likelihood that Rogers Communication would win approval to acquire Shaw Communications. Shaw is the incumbent cable operator in western Canada, where it competes with Telus for subscribers. Shaw has long been thought of as a subscale competitor, and thus Rogers represents a greater competitive threat. With deal uncertainty hanging in the balance, we value the natural hedge of owning both Rogers and Telus. That said, we believe both operators can thrive with time as Rogers benefits from enhanced scale, while Telus reaps the rewards of significant investment in its network during this time of uncertainty for its competitors. To that point, capital expenditures at Telus are set to materially decline this year. This will enable balance sheet improvement from a position of strength and enhance an already compelling dividend yield and growth story.

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.

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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 discretionary 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.

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.

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.

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.

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 Fourth 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.*

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Additional information about Reaves may be found on our website: www.reavesam.com.

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