Reaves Asset Management

Market Commentary
Second Quarter 2023

REVIEW AND OUTLOOK

The Reaves Dividend Income Strategy declined by 2.1% in the second quarter. Midstream energy and select communications companies showed strength but were offset by weakness in utilities and companies involved with the U. S. wireless telecommunications industry.

The yield for the strategy stood at 4.6% at the end of the quarter. Dividends paid by the 21 companies held in the strategy grew by a weighted average of 5.7% over the last 12 months.

Performance as of 6/30/23	Q2	YTD	1 Year	Since Inception*
Reaves DI Strategy, gross of fees[1]	-2.00%	-0.33%	-4.06%	5.52%
Reaves DI Strategy, net of fees[1]	-2.13%	-0.59%	-4.56%	4.98%
MSCI USA Infrastructure Index[2]	-2.70%	-3.86%	-3.75%	4.80%
S&P 500 Index[3]	8.74%	16.89%	19.59%	14.04%

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

The utility sector has been the weakest in the S&P 500 year-to-date, despite a slight move lower in the U.S. 10-year Treasury Note's yield, making it the sector's worst first half of performance relative to the S&P 500 Index in 35 years. This outcome contrasts sharply with utilities' exceptional performance in 2022, during which it had its best year relative to the S&P 500 in 20 years.

The sector's behavior deviated from expectations as utilities, traditionally interest-rate sensitive securities, ignored the rise in rates in 2022. Investors instead focused on the potential for a recession and sought refuge in defensive stocks. Given the resilience of the economy, investors this year have backed away those recession fears. Consequently, the sector seems to have gone back to its traditional relationship with interest rates, albeit with a several month lag.

Utilities are now exhibiting one of the widest valuation discounts relative to the S&P 500 in the last two decades, while the outlook for growth has improved with the passing of the Inflation Reduction Act and the easing of renewable equipment supply chain issues. While the utilities will likely continue to face challenges if interest rates rise as rapidly as they have over the past two years, we believe their stocks have reached an attractive valuation that may attract attention should interest rate gains decelerate or even decline.

PORTFOLIO REVIEW

Top 3 Contributors in Q2	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
Williams Companies	WMB	+51 bps	+50 bps
Cogent Communications	CCOI	+46 bps	+45 bps
BCE Inc	BCE	+20 bps	+19 bps

WMB: Williams had a strong second quarter, helped by the recovery in the price of natural gas and the debt ceiling deal to allow for the construction of the Mountain Valley Pipeline. While not an owner of the pipeline, once it is in service, it should allow for higher production volumes, helping the company's gathering and other pipeline assets in the Marcellus region.

CCOI: Shares of Cogent continued to grind higher with analyst estimates as the impact from its deal to acquire wireline assets from T-Mobile USA begins to be reflected in forecasts. The narrative at legacy Cogent is broadly unchanged – concerns about delayed recovery in the corporate segment persist, while the strength in the net centric business endures. Meanwhile, the T-Mobile deal provides balance sheet recovery, enhances the existing shareholder renumeration policies, and creates growth avenues into adjacent business lines.

BCE: Shares of Bell advanced and then declined with equally uncharacteristic alacrity during the quarter. Specifically, an earnings-induced rally was largely reversed due to concerns about heightened future competitive intensity. We remain largely sanguine. While we acknowledge that competition has increased, we think favorable demographic trends will mitigate the impact to Bell. Additionally, as capital intensity begins to fall, management can be more flexible towards competitive threats while still growing its large distribution.

Top 3 Detractors in Q2	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
AT&T	T	-74 bps	-75 bps
Crown Castle International	CCI	-56 bps	-57 bps
Entergy	ETR	-43 bps	-44 bps

T: AT&T shares fell after reporting first quarter results as investors swiftly grew uncomfortable with the company's 2023 target for free cash flow. The weak start to the year and a credibility issue lingering from 2022 guidance missteps ensured management's efforts to assuage investor concern would be in vain. Despite the attraction of a 7.0% dividend yield, we exited the position during the quarter as the stock transitioned into being a "show-me" story and the company is facing an increasingly challenging competitive backdrop.

CCI: Tower stocks continue to languish against the unfavorable backdrop of rising rates and peak demand rolling over. Notably, all four major US wireless customers have paused spending in some material way – T-Mobile and Verizon have completed the early phases of their 5G network builds, AT&T is still waiting for the right authorizations and equipment, and DISH has hit an initial buildout deadline amidst questions about its viability. For CCI, the timing of the slowdown is especially unhelpful as a projected recovery would begin to occur coincident with the timing of future contract cancellations. As a result, growth could stay depressed for years. This said, we think the current valuation poorly reflects the enduring high-quality nature of the asset.

ETR: Entergy underperformed as resolution of a long-drawn-out regulatory issue at its SERI subsidiary remains elusive. The beginning of hurricane season also carries some seasonal risk to its Gulf Coast assets.

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]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 S&P 500 Utilities Index is a capitalization-weighted index containing electric and gas utility stocks (including multiutilities and independent power producers). Prior to July 1996, this index included telecommunications equities.

The Portfolio Impact of the Top 3 Contributors and Detractors are determined by the stock impact. Stock impact is determined by how much that individual stock either increased or decreased the total performance for a specific time period.

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.

This document is a supplement to the Fact Sheet for the Reaves Dividend Income Strategy Second Quarter 2023.

***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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