Reaves Asset Management

Market Commentary
Second Quarter 2023

REVIEW AND OUTLOOK

The Reaves LTV Wrap Composite declined slightly in the second quarter. Strength in communications and industrial companies was offset by poor performance in utility and wireless tower stocks. The 10-year U. S. Treasury Note yield rose from 3.48% to 3.81% while the yield of the 2-year Note increased from 4.06% to 4.87%, pressuring many interest rate sensitive stocks. After a very strong year of relative outperformance in 2022, the utility sector lagged all other sectors in the first half of 2023, offsetting gains in non-utility holdings.

Performance as of 6/30/23	Q2	YTD	1 Year	3-Year*	5-Year*	10-Year*	Since Inception*+
LTV Wrap Composite, gross[1]	-0.16%	0.15%	-0.46%	5.44%	5.63%	7.57%	9.94%
LTV Wrap Composite, net[1]	-0.79%	-1.10%	-2.93%	2.84%	3.03%	4.75%	6.88%
MSCI USA Infrastructure[2]	-2.70%	-3.86%	-3.75%	6.33%	5.86%	6.44%	7.75%
S&P 500 Index[3]	8.74%	16.89%	19.59%	14.60%	12.31%	12.86%	10.39%

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

The dominant topic in markets and media alike during the second quarter of 2023 was a coming-of-age moment for Artificial Intelligence ("AI"). Within our portfolios, the principal beneficiary of AI trends should be Equinix, a large data center company which has been a core holding since 2019. During the quarter, investors bid up shares of the stock in anticipation of future demand for its highly coveted real estate. The expectation is that AI will require more space and power than prior digital deployments and that Equinix will see an acceleration in leasing accordingly.

As long-term investors in Equinix, we view the company as an internet utility. The company houses many of the world's most critical telecommunication network exchange points, engendering powerful network effects across industry verticals and horizontals. An Equinix facility often provides the shortest, fastest, safest connection to a telecom network. The results the company delivers, which include a more than two decade run of quarterly revenue growth that is the longest in the S&P 500, therefore tend to be steady and durable.

At its analyst day in June, Equinix management was not deterred by AI hype. There is a concept in the cloud computing industry known as "data gravity" that implies that as data sets grow, so too do their use cases, thus attracting additional applications and services. This virtuous cycle tends to be housed in Equinix facilities, and management believes AI workloads will benefit from this very dynamic. Nonetheless, management advised patience, believing that AI workloads will initially be trained in less differentiated, hyperscale facilities before they are ready for Equinix's prime locations. In the interim, the megatrend of cloud-native applications driving demand for Equinix's real estate endures. The combination of cloud today and AI tomorrow illustrates the favorable long-term story for the company. It may be some time before Equinix's record streak of growth is interrupted.

The fundamentals of our utility and infrastructure holdings remain firmly intact. Dividend growth of portfolio holdings grew nearly 7% from a year prior, highlighting the confidence of many companies in their future earnings outlook. We are encouraged by recent inflation data and look forward to the end of the Federal Reserve's current rate hiking cycle.

PORTFOLIO REVIEW

Top 5 Contributors in Q2	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
Cogent Communications	CEG	+74 bps	+71 bps
Comcast	CMCSA	+39 bps	+37 bps
Equinix	EQIX	+37 bps	+34 bps
Cogent Communications	CCOI	+31 bps	+28 bps
Linde PLC	LIN	+31 bps	+28 bps

CEG: After giving back some of its 2022 outperformance in Q1, Constellation was a notable outperformer during the second quarter. Outperformance was sparked after the Q1 earnings call in early May where management expressed confidence in the outlook by raising 2023 and 2024 financial guidance while repurchasing its own stock at an accelerated pace. Further, on June 1st the company announced the acquisition of a large interest in a Texas nuclear plant. The favorable terms are accretive to financial guidance and provided investors with confidence in CEG's capital allocation discipline.

CMCSA: Comcast reported a strong set of first quarter financials. Notably, broadband results were sturdy, while significant upside came from market share gains in wireless and pent-up demand for theme parks. Management's constructive tone contrasted with the market's bearish sentiment towards the stock. This tension led shares to rally, thus enhancing the year-to-date outperformance.

EQIX: Momentum accelerated in shares of Equinix as investors bet that data centers would capture growth from artificial intelligence-linked workloads. Management used its biennial analyst day in late June very effectively to manage these expectations. Essentially, the message was that while upside from AI is not built into existing plans, AI should accelerate demand in the years to come. Meanwhile, the secular trend towards cloud-native applications continues to drive a strong outlook.

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.

LIN: Linde had strong performance following its Q1 earnings report in which it increased annual EPS guidance. The company has been able to pass through higher prices to customers while enjoying lower feedstock costs, resulting in higher margins. The company also talked about the long-term growth potential of hydrogen, a market management believes could be $50 billion over the next ten years.

Top 5 Detractors in Q2	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
SBA Communications	SBAC	-47 bps	-50 bps
Entergy	ETR	-39 bps	-41 bps
Rexford Ind'l Realty	REXR	-37 bps	-39 bps
American Elec Power	AEP	-29 bps	-30 bps
Xcel Energy	XEL	-25 bps	-27 bps

SBAC: Tower stocks continue to languish against the unfavorable backdrop of rising rates and peak demand rolling over. Notably, all four of SBA's 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. With the least robust contractual protections against this slowdown, SBA is somewhat disproportionately exposed amongst tower peers. Still, we expect the pause to be short-lived given the long history of carriers racing to satisfy persistently strong demand growth in mobile broadband.

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.

REXR: Rexford Industrial underperformed as the cost of capital continued to rise during the quarter, creating some investor concerns about Rexford's heavy acquisition activity. The market continues to be weary of a slowdown in the hot Southern California industrial real estate market, which has thus far been insulated from broader industrial weakness. We are confident in management's ability to make accretive acquisitions, maintain balance sheet strength and invest for growth throughout the market cycle.

AEP: American Electric Power underperformed during the quarter as the company faced a series of regulatory setbacks in several states regarding a large solar, wind and transmission project. It is also facing cost recovery challenges relating to significant power & fuel costs that are weighing on the company balance sheet.

XEL: Xcel Energy underperformed while the market awaits clarity on regulatory decisions from its two largest subsidiaries in Minnesota & Colorado. We believe that constructive outcomes are likely in both states owing to significant clean energy policy goals in each state, attractive renewable resource availability, and cost-effective capital spending programs, but the uncertainty has pressured the stock.

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 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 5 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.

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 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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