Reaves Asset Management

Market Commentary
Third Quarter 2023

REVIEW AND OUTLOOK

Rising interest rates were a headwind for equities in the third quarter with the utility and real estate sectors lagging all other industry groups. Income-oriented investors allocated funds into money market and other short duration fixed income securities with higher yields, resulting in lower equity valuations. The Reaves LTV Wrap Composite, before fees, declined by -5.4% in the third quarter, bringing the year-to-date return to -5.3%, outperforming the MSCI USA Infrastructure Index in both periods.

Performance as of 9/30/23	Q3	YTD	1 Year	3-Year*	5-Year*	10-Year*	Since Inception*+
LTV Wrap Composite, gross[1]	-5.43%	-5.30%	2.48%	0.65%	3.83%	6.62%	9.52%
LTV Wrap Composite, net[1]	-6.03%	-7.07%	-0.05%	-1.84%	1.27%	3.83%	6.47%
MSCI USA Infrastructure[2]	-7.39%	-10.97%	-2.21%	2.13%	3.25%	5.75%	7.25%
S&P 500 Index[3]	-3.27%	13.07%	21.62%	10.15%	9.92%	11.91%	10.08%

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

Despite the weak relative performance of the S&P 500 Utilities Index this quarter, we believe that the financial impact of the current macroeconomic backdrop to most companies in the sector will be small. For regulated utilities, expenses are passed through to customers, leaving profitability intact and previously forecasted growth rates achievable. Where higher interest rates have made a difference is in renewable development. These projects are highly contracted, but also highly levered. Elevated cost of capital has led to higher pricing for new wind and solar projects, in stark contrast to the steady decline we saw over the last decade. Development will likely continue at an exponential pace over the next decade, but in the current interest rate environment would-be buyers of renewable power have moved to the sidelines.

Our goal in portfolio construction has always been to include some stocks with the potential to perform well when inflation and interest rates rise. The portfolio today includes investments in the midstream energy, transportation, and materials sectors in an effort to achieve this. Our holdings in these sectors performed well in the quarter and have produced positive returns year-to-date. Further, our data center and cable investments have been strong performers this year. This has enabled the portfolio to outperform the MSCI USA Infrastructure Index.

Looking forward, we believe the Federal Reserve is near the end of its tightening cycle. Historically, lower interest rates have followed the last Fed rate hike. While there is no guarantee that we will experience the same this time, we believe that valuations have corrected enough that if rates stabilize, our portfolio is well-positioned.

PORTFOLIO REVIEW

Top 5 Contributors in Q3	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
Constellation Energy	CEG	+99 bps	+96 bps
Comcast	CMCSA	+31 bps	+28 bps
DT Midstream	DTM	+28 bps	+26 bps
T-Mobile US	TMUS	+3 bps	+0 bps
Union Pacific	UNP	+1 bps	-1 bps

CEG: Constellation had another strong quarter as investors continue to appreciate the structurally unique attributes of nuclear power with a strong balance sheet and growing free cash flow. Management raised guidance on its second quarter earnings call, while also pointing to several sources of upside in future years. Nuclear energy is carbon free, baseload power that is extremely reliable and critical to power market functionality and energy transition objectives. Management continues to seek out avenues to monetize these attributes at increasingly premium prices while benefiting from federal government support provided in the Inflation Reduction Act.

CMCSA: Large-cap cable stocks have performed well during 2023. We believe this mostly reflects deeply oversold conditions entering the year. Investor sentiment has shifted somewhat more favorably as the worst fears about broadband competition have thus far failed to materialize. We continue to believe that these fears are largely misplaced, and that the upside from cable's wireless opportunity is underappreciated. When combined with manageable risk in media, a compelling parks business, a strong balance sheet, and an undemanding valuation, we think the setup for Comcast continues to be attractive.

DTM: DT Midstream recovered in the quarter as the commodity backdrop improved and investors became more confident about the company's development plans. The company is in the process of expanding its interstate pipeline network in the Haynesville shale areas of Louisiana and Texas. The development is significant for the company, begetting concerns about execution and capital costs. However, investor confidence has improved as the project has successfully reached the 50% completion milestone. Additionally, improving natural gas prices have helped drive more supply development, which ultimately can spur more pipeline demand.

TMUS: In addition to continued strong operating performance, T-Mobile US initiated a dividend during the quarter. The new capital allocation strategy seemed to attract a broader class of investors to TMUS. We view the recurring distribution to be confirmation of our assumptions about the durability of the underlying cash flows of the business. We also think the dividend improves the visibility of total return expectations.

UNP: Union Pacific held up well despite a deteriorating shipping environment. Much of this is a result of a new CEO being named, one who we believe has strong efficiency and cost control credentials. Investors are betting that new management will reinvigorate the organization and better focus the company on margin improvement and precession railroading principles. In addition, while shipping conditions have generally worsened, recoveries in economic indicators like the ISM helped investors to be optimistic about future improvement.

Top 5 Detractors in Q3	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
NextEra Energy	NEE	-109 bps	-112 bps
Rogers Communications	RCI	-59 bps	-61 bps
SBA Communications	SBAC	-51 bps	-53 bps
Telus Corp	TU	-49 bps	-51 bps
American Water Works	AWK	-38 bps	-40 bps

NEE: On September 27th NextEra Energy announced that it was cancelling its planned sale of assets to NextEra Energy Partners, LP (NEP) because of higher interest rates. In connection with the announcement and because of the broader implications of higher funding costs, NEP slashed its distribution growth guidance. NEE also disclosed that higher funding costs were a headwind for their own renewables business. Those announcements and the uncertainty around NEE's ability to use sales to NEP to finance their expansion exacted a major toll on investor confidence.

RCI & TU: Canadian telecom stocks have come under pressure as Quebecor has communicated an aggressive posture following its deal to acquire Freedom Mobile. While we acknowledge some increased risk to the status quo, we have thus far observed reasonably benign promotional activity and broadly constructive updates from incumbents. We will continue to monitor the situation but for now we view the weakness to be overdone. In addition to the broader industry overhang, we note that shares of Telus came under some pressure due to a profit warning at its IT services subsidiary, while execution risk at Rogers will be scrutinized as it integrates the recently acquired Shaw assets.

SBAC: The rising interest rate environment has proved particularly unkind to tower stocks. This dynamic has been made worse by a slowdown in wireless carrier capital spending. We believe carriers will need to spend significantly more with towers in future years as they continue to make 5G technology and infrastructure ubiquitous, but we acknowledge that a reacceleration in spending may take a few quarters to develop.

AWK: American Water Works fell due to higher interest rates and rotation out of stocks associated with green energy and ESG. Utilities in aggregate were under pressure as the US 10-year Treasury yield breached 4.50%, causing a reset in price/earnings multiples lower. Additionally, for AWK, a reversal in investor appetite for companies with strong ESG credentials further negatively impacted the price/earnings multiple. This stood in contrast to an improving fundamental backdrop and a better outlook for long-term growth. Water quality remains a key challenge for the country, particularly when PFAS are considered. The water business remains highly fragmented and in dire need of the professional management that a company like American Water can bring.

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 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 Third 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.

Reaves Asset Management

10 Exchange Place, 18th Floor
Jersey City, NJ 07302
www.reavesam.com

For further information, please contact:
Tom Grimes, Director of Investor Relations
Email: tgrimes@reavesam.com • Phone: 201.793.2384