Reaves Asset Management

# Market Commentary
## First Quarter 2024

### REVIEW AND OUTLOOK

The Reaves Long Term Value Wrap Composite advanced by 4.02% before fees in the quarter, continuing the rally that started in last year's fourth quarter. Over the past five years, the strategy has generated an annualized return, before fees, of 5.23%.

Dividend growth of equities owned in the strategy increased in the quarter, with the weighted average growth rate of cash distributions from portfolio companies growing by 8.5% over the past 12 months.

| *Performance as of 3/31/24* | Q1 | 1 Year | 3-Year* | 5-Year* | 10-Year* | Since Inception*+ |
|---|---|---|---|---|---|---|
| LTV Wrap Composite, gross[1] | 4.02% | 7.21% | 2.14% | 5.23% | 6.80% | 9.94% |
| LTV Wrap Composite, net[1] | 3.38% | 4.57% | -0.38% | 2.64% | 4.03% | 6.89% |
| MSCI USA Infrastructure[2] | 6.91% | 6.02% | 4.15% | 5.22% | 6.39% | 7.90% |
| Russell 1000 Value Index[3] | 8.99% | 20.27% | 8.11% | 10.31% | 9.01% | 9.28% |
| S&P 500 Index[4] | 10.56% | 29.88% | 11.49% | 15.05% | 12.96% | 10.92% |

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

The exuberance surrounding artificial intelligence (AI) continued into the new year. The total amount of data center usage is expected to rise by two and a half times globally by 2030, creating huge power and infrastructure needs. According to McKinsey & Company, increased usage of data centers is likely to lead to an incremental 250 terawatts of power demand in the United States by 2030, a compound annual growth rate of 15%. For perspective, this is equivalent to the amount of electricity currently used by one third of the homes in the United States.

The amount of new power generation needed to support the build-out of AI should be a significant growth driver for most utilities. At least 30 gigawatts of new generation are needed, though the ultimate amount may be significantly higher. The initial growth phase is focused on utilizing clean, 24/7 power, so companies that own existing nuclear plants are at tremendous advantage. Renewable energy with battery storage will also be in demand, as will eventually natural gas with carbon capture and advanced new nuclear.

Besides new generation, utilities will likely need to make investments in transmission and distribution equipment to support the increase in electric demand. Southern Company, for example, expects electric sales growth to average 6% from 2025 through 2028 after being close to flat for the last couple decades. Growth like this has not happened since air conditioning first became popular. All told, we expect rate base growth for most utilities to accelerate in the second half of the 2020's.

Until now, AI has had a positive influence on our data center and power generation investments. The potential increase in growth for the average utility has mostly been ignored, probably because of the distraction from higher interest rates. As growth potential turns into reality, the benefit for the average utility may no longer go unnoticed.

## PORTFOLIO REVIEW

| *Top 5 Contributors in Q1* | *Symbol* | *Portfolio Impact gross(basis points)* | *Portfolio Impact net(basis points)* |
|---|---|---|---|
| Constellation Energy | CEG | +323 bps | +320bps |
| Quanta Services | PWR | +64 bps | +63 bps |
| Linde PLC | LIN | +62 bps | +60 bps |
| DT Midstream | DTM | +49 bps | +46 bps |
| Canadian Pacifc KC | CP | +47 bps | +44 bps |

**CEG:** CEG was our top-performing stock in the quarter. The company is the largest producer of carbon-free power in the US and owner of over 50% of the country's competitive nuclear generating capacity. Nuclear power has become increasingly valued for its capability to provide reliable, around-the-clock energy without producing carbon emissions. In a February business update, CEG outlined a new long-term growth strategy, targeting a minimum annual earnings growth of 10%, with the potential to reach 20% through innovative nuclear attribute monetization strategies. The update also provided transparent disclosures, highlighted a strong balance sheet, and healthy free cash flow generation. The quarter also witnessed a continued surge in demand for AI-driven data centers. This growing demand translates into a significant need for reliable, clean power, a niche that nuclear energy is well-positioned to fill. Notably, Amazon and Talen Energy made headlines with a groundbreaking first of its kind nuclear power purchase agreement, indicating a nuclear power premium of at least 50% to market prices. As the largest owner of existing nuclear capacity, CEG is well positioned to capitalize on this scarcity value and secure similar lucrative agreements within its own portfolio.

**PWR:** Quanta Services provides a scaled platform offering specialized infrastructure construction services catering to electric and gas utilities, renewable energy development, and communication services. The demand for Quanta's services within these sectors continued to rise in the quarter, driven by secular long-term trends shaping the energy transition. Capital expenditures by utilities to modernize, electrify & meet escalating demand, grew double digits year over year. This trajectory is anticipated to continue well into the foreseeable future. Additionally, the growing demand for power, interconnection, and transmission stemming from the rise of data centers represents a promising new opportunity for growth.

**LIN:** Linde continued to benefit from the combination of strong pricing and cost control. Since the company's combination with Praxair, it has delivered on efficiency efforts, slowly adding to its profit margins in a deliberate manner. Despite weakening global economic conditions, especially in China, demand for the company's products has generally been strong largely due to secular growth in healthcare, technology (chip manufacturing) and energy.

**DTM:** DT Midstream benefitted from a positive environment for pipeline operators. Oil prices rose, and the sale of regional competitor Equitrans highlighted DTM's own M&A potential

**CP:** Transport companies were generally strong in the quarter as optimism grew that the U.S. would avoid recession. We believe Canadian Pacific outperformed the group largely because of strong execution, continuing to offer substantial synergy savings as the company passed the one-year anniversary of its merger with Kansas City Southern Railway.

| *Top 5 Detractors in Q1* | *Symbol* | *Portfolio Impact gross(basis points)* | *Portfolio Impact net(basis points)* |
|---|---|---|---|
| Charter Communications | CHTR | -68 bps | - 69 bps |
| Cogent Communications | CCOI | -67 bps | -70 bps |
| SBA Communications | SBAC | -58 bps | -61 bps |
| Rogers Communications | RCI | -45 bps | -48 bps |
| American Water Works | AWK | -26 bps | -27 bps |

**CHTR:** Charter failed to deliver on lowered expectations when it reported fourth quarter results. Execution in legacy markets has been uninspiring, and management credibility has been called into question. Additionally, Congress failed to renew a popular government subsidy program that disproportionately assisted Charter. We exited the position early in the quarter.

**CCOI:** Integration of Cogent's Sprint wireline deal led to a quarter that was poorly explained to investors. Notably, the motivation for doing the transaction lies in the nascent opportunity created by the wavelengths business segment. Management talked down the near-term revenue run-rate in wavelengths as the company prepares its data center footprint to handle the product. At the same time, management once again cited immense sequential growth in the related backlog. We think the near-term hiccups are frustrating but continue to feel confident in the long-term opportunity created by wavelengths.

**SBAC:** Rising interest rates led real estate to be the weakest performing GICS sector during the quarter. A subdued demand environment dragged towers on a relative basis. Demand should build back up over time since towers remain the most inexpensive and fastest way for carriers to enhance mobile broadband capacity, but the lack of near-term catalysts is a source of frustration for investors.

**RCI:** Canadian telecom sentiment deteriorated during the quarter, as competition for wireless customers intensified. Given that the most aggressive promotional activity has taken place in Quebec, a province where Rogers has less exposure, it appears relatively well-positioned. Additionally, volumetric momentum, deal synergies, and an asset sale program create a favorable balance sheet repair dynamic for Rogers moving forward.

**AWK:** Despite strong execution and continued earnings growth, American Water Works underperformed in the quarter as high interest rates impacted many utilities. We believe the company's growth remains robust and the future outlook strong.

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]Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 1,000 largest companies in the Russell 3000 Index. Reaves' portfolios are far less diversified, resulting in higher sector concentrations than found in the broad-based Russell 1000 Value Index.*

*[4]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 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 First Quarter 2024.*

***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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