Reaves Asset Management

Market Commentary
Second Quarter 2024

REVIEW AND OUTLOOK

The Reaves Long Term Value Wrap Composite was relatively flat in the second quarter on both a gross and net of fees basis. Dividend growth continued to be strong, with the weighted average increase of cash distributions from portfolio companies growing by 8.7% over the past 12 months.

Performance as of 6/30/24	Q2	1 Year	3-Year*	5-Year*	10-Year*	Since Inception*+
LTV Wrap Composite, gross[1]	0.39%	7.80%	0.43%	4.17%	5.93%	9.84%
LTV Wrap Composite, net[1]	-0.24%	5.15%	-2.06%	1.60%	3.19%	6.79%
MSCI USA Infrastructure[2]	4.42%	14.08%	5.42%	5.48%	6.09%	8.03%
Russell 1000 Value Index[3]	-2.17%	13.06%	5.52%	9.01%	8.23%	9.06%
S&P 500 Index[4]	4.28%	24.56%	10.01%	15.05%	12.86%	11.01%

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

The strategy's utility and pipeline holdings continued to drive performance in the quarter as the market anticipated the potential impact of artificial intelligence (AI) on future power demand. As discussed in our Q1 letter, the United States will likely see electric demand growth for the first time since 2007 largely due to AI, but also the reshoring of manufacturing and decarbonization of energy. We believe the expected power needed to support these projects will require a significant amount of new electric generation. Companies with excess power capacity, including merchant generation companies, should stand to benefit immediately, while most utilities should benefit in the medium to long term from infrastructure investment opportunities necessary to support electric demand growth.

We believe the setup for the utility sector is attractive. The sector has underperformed the S&P 500 in four of the last five years, with 2023 being the worst relative performance of utilities versus the broad market ever. Despite this, fundamentals have remained strong throughout this period, with utility sector EPS growth slightly higher than the S&P over the last five years. Relative valuations are now near the lowest point in the last two decades. The shift in narrative for the sector to an AI beneficiary with may change this.

The rest of the portfolio struggled in the second quarter as much of the market did. While the S&P 500 was up nearly 7% in the quarter, the performance was driven by several large technology companies. The average company in the S&P 500 fell 2.4%. Outside of the incredible growth in AI, uncertainty about US and European elections, stubborn inflation, and signs of a slowing global economy impacted most non-AI stocks, as it did in our portfolio.

The strategy's defensive characteristics have historically benefited in periods of uncertainty. We expect that earnings, cash flow, and dividends will continue to grow, and believe several holdings will opportunistically repurchase shares and provide price support if the market declines.

PORTFOLIO REVIEW

Top 5 Contributors in Q2	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
DT Midstream	DTM	+71 bps	+68 bps
Constellation Energy	CEG	+68 bps	+63 bps
Public Service Ent Group	PEG	+39 bps	+37 bps
T-Mobile US	TMUS	+38 bps	+35 bps
Southern Company	SO	+34 bps	+32 bps

DTM: Gas pipeline companies were especially strong in the quarter, faring better than underlying oil and gas prices with which they are typically correlated. This is largely due to investor recognition that demand for natural gas is likely to remain stronger for longer driven by near-shoring/industrialization and LNG growth over the next few years. Moreover, there is growing likelihood that AI driven data center growth will also be a positive demand driver, although the extent to which this is the case remains unclear. DTM was an especially strong performer in this context because the company's expansion projects in Appalachia and Haynesville shale producing areas have largely come in ahead of schedule and budget. This time last year investors were concerned about balance sheet strain as a result of the construction program. That is no longer the case.

CEG: Constellation reported another strong quarter, with investors anticipating the likelihood of securing agreements to sell power to data centers at premium prices. Despite notable outperformance, we believe Constellation's shares still have substantial upside potential, especially as additional data center-related transactions are anticipated as soon as the third quarter. The company also has growing opportunities to add new nuclear capacity to its existing fleet and increase its share repurchase program.

PEG: Similar to Constellation Energy, investors in Public Service Enterprise Group grew increasingly optimistic about the opportunity to contract the company's 3.6 gigawatts of unregulated nuclear capacity at premium prices.

TMUS: Shares of T-Mobile US were bid up during the quarter when the company announced a deal to acquire the wireless business of US Cellular. US Cellular had long been considered an attractive strategic target for T-Mobile given its complimentary geographic footprint. Investors are enthusiastic about the deal's valuation and management's stellar execution track record when it comes to integrating new assets.

SO: Southern is positioned to benefit from an acceleration of data center demand relative to its peers. Sales growth was front and center in its strong first quarter report. The company indicated that data center sales grew an astonishing 12%, with ¾ of that growth coming from existing facilities. There are 12 data centers currently under construction in its service territory totaling 2,400 megawatts of demand: similar to a medium-sized city (e.g. Indianapolis) or two million homes.

Top 5 Detractors in Q2	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
Old Dominion Freight Line	ODFL	-64 bps	- 66 bps
Cogent Communications	CCOI	-52 bps	-55 bps
Canadian Pacific KC	CP	-45 bps	-48 bps
Equinix	EQIX	-34 bps	-37 bps
Comcast	CMCSA	-32 bps	-34 bps

ODFL: During the first quarter 2024 investors bid up ODFL shares in anticipation that the rate cycle was turning and the US economy would return to growth. Instead, persistently hot economic numbers pushed out the potential for rate hikes and the gains in ODFL shares were largely reversed in the second quarter. The industry is facing acute headwinds as truck load (TL) overcapacity has limited pricing potential for less than truckload (LTL) carriers like ODFL. The company has strategically maintained higher than normal excess capacity in anticipation of turn in the shipping environment that has yet to materialize.

CCOI: Ongoing delays in standing up the nascent wavelengths business led to a material sell-off in shares of Cogent Communications. The timing issue seemed to renew investor concerns about the sustainability of dividend growth and the future health of the balance sheet. While we find the wavelength timing and messaging to be frustrating, we continue to believe that Cogent has a material trove of unmonetized assets that create a favorable asymmetric setup for the shares in the medium to long-term.

CP: The Class 1 rails have been languishing due to poor freight conditions as the domestic industrial economy remains in contraction. The ISM has been negative for 19 of the last 20 months. Hopes for a mid-summer rate cut were largely pushed back as labor markets have remained too strong for the Fed to reverse course. CP shares were a bit worse than domestic peers, but about the same as its main Canadian rival in the quarter. Both were negatively impacted by the prospect of this year's grain harvest likely being smaller than last year's record crop. Also, CP shares were impacted by a weak Canadian dollar.

EQIX: Shares of Equinix came under pressure late in the first quarter when a well-publicized short report questioned some of the company's business and accounting practices. On the first quarter earnings call, management delivered a solid set of results and displayed great confidence in reporting practices following a thorough third-party audit that revealed no wrongdoing. Nonetheless, the overhang of an obligatory SEC investigation lingers, as does uncertainty around management changes. We remain sanguine – EQIX owns and operates some of the most critical assets in the digital economy, and supply / demand dynamics appear to be extremely favorable.

CMCSA: Cable stocks remain out of favor over concerns associated with broadband unit volume growth. We believe the prevailing narrative on volumes seems unduly dire and the pricing environment remains favorable. A subtle softening of trends in the company's standout theme parks business also weighed on sentiment during the quarter. In our view, the stock is overly discounting bad outcomes, and we expect business fundamentals to remain sound. With a robust balance sheet and attractive shareholder remuneration plan, Comcast remains attractively valued at 9.4x estimated 2024 earnings with a dividend yield of 3.2%.

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]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.

In a weighted average, each data point value is multiplied by the assigned weight, which is then summed and divided by the number of data points.

Liquefied natural gas (LNG) is natural gas that has been reduced to a liquid state, through a process of cooling.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at manufacturing firms nationwide.

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 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.*

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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