Reaves Asset Management

Market Commentary
Fourth Quarter 2024

REVIEW AND OUTLOOK

The Reaves Long Term Value Wrap Composite declined by -1.1%, before fees, in the fourth quarter, outperforming the MSCI USA Infrastructure Index. For the full year, the Composite advanced by 21.7% before fees, which lagged the benchmark. Dividend growth continued to be strong, with the weighted average increase of cash distributions from portfolio companies growing by 7.6% over the past 12 months.

Performance as of 12/31/24	Q4	1 Year	3-Year*	5-Year*	10-Year*	Since Inception*+
LTV Wrap Composite, gross[1]	-1.13%	21.65%	2.91%	5.74%	7.57%	10.37%
LTV Wrap Composite, net[1]	-1.75%	18.69%	0.37%	3.14%	4.82%	7.32%
MSCI USA Infrastructure[2]	-2.74%	27.51%	7.92%	6.17%	7.12%	8.49%
Russell 1000 Value Index[3]	-1.98%	14.37%	5.63%	8.68%	8.49%	9.19%
S&P 500 Index[4]	2.41%	25.02%	8.94%	14.53%	13.10%	11.15%

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

PORTFOLIO REVIEW

The rapid advancement of artificial intelligence is leading to a transformative surge in data center utilization. The energy demands associated with powering and cooling high-performance chips for AI learning models are projected to grow significantly. According to McKinsey, data center power consumption is forecast to reach nearly 600 terawatt-hours by 2030 - a nearly 300% increase from today and 50% higher than their 2023 estimate of 400 terawatt-hours by the same year. The surge is fueled by mega-cap technology companies which are collectively investing approximately $200 billion annually.

Supporting this growth will require approximately seven gigawatts of new electric generation per year, equivalent to the energy required to power Miami. This demand is expected to be met by a combination of energy sources, including natural gas, renewable, and nuclear power.

The expansion of AI has created significant opportunities for several portfolio companies across industries such as power generation, utilities, natural gas pipelines, and construction. Despite the robust performance seen in 2024, valuations remain attractive, and we anticipate further recognition of this growth potential.

On the negative side, tough macroeconomic conditions affected certain segments of the portfolio. Rising interest rates weighed on high-yield and heavily leveraged names in the communications sector, while sustained weakness in transportation volumes affected railroad investments.

As we enter 2025, we remain cautious about the potential for continued increases in interest rates and renewed inflationary pressures. Nonetheless, we are optimistic about the long-term growth opportunities presented by the expansion of AI.

Top 5 Contributors in Q4	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
DT Midstream	DTM	+123 bps	+120 bps
Entergy	ETR	+52 bps	+50 bps
TXNM Energy	TXNM	+40 bps	+38 bps
Talen Energy	TLN	+35 bps	+33 bps
NiSource	NI	+31 bps	+28 bps

DTM: DT Midstream's strong performance in the quarter was driven by renewed appreciation for the value of gas pipeline and midstream assets. The group stands to benefit from increasing gas usage for power generation as data center capacity grows to serve artificial intelligence needs. DTM's assets are uniquely situated in the Marcellus/Utica and Haynesville basins, key gas production areas in the US. These areas are where large-scale data center operations are likely to be sited, making the company one of the more leveraged beneficiaries to this theme. Additionally, the company has managed the execution of growth projects in Louisiana and Pennsylvania well.

ETR: Entergy was the best performing regulated utility in the quarter. The majority of its outperformance came the day of its third quarter earnings call where the company substantially increased its long-term earnings guidance following an agreement with Meta to locate one of the largest data centers in the world in its service territory. The terms of the deal are very constructive to ETR's customers & shareholders. Notably the guidance increase came from reaching this one agreement. The company has the opportunity to reach several comparable deals over the next few months, quarters and years as they are increasingly well positioned to benefit from improving regulation, stakeholder relationships and an attractive service territory.

TXNM: TXNM Energy was a significant outperformer during the quarter. The name began to outperform following its third quarter earnings call where management suggested significant growth spending opportunities to meet rising power demand that would create an opportunity for earnings power growth well above the industry average. Shortly after, the company was able to favorably settle its New Mexico rate proceeding which served as a de-risking catalyst and provided a clear signal to investors of an increasingly positive regulatory environment, unlike those of the recent past in the state.

TLN: Talen Energy performed well in the quarter and had an eventful finish to the year. The stock quickly shook off an optically unfavorable regulatory decision from FERC regarding its data center configuration with Amazon in early November. The market began to focus on upside potential stemming from a restructured deal with AWS as well as the increased opportunity for value creating transactions involving its gas fleet. The region in which TLN operates most of its power generation is well supplied with energy & transmission and rising concerns around power resource adequacy stemming from rapid data center growth have created a relative advantage for TLN. Lastly, the company announced a large share repurchase in December, repurchasing $1 billion worth of shares. Over the last year the share count has shrunk over 20%. We continue to expect further upside in shares arising from favorable power market dynamics, data center deal activity and additional share repurchases into 2025.

NI: NiSource rose in the quarter as the company continues to execute on its top decile earnings growth plan while moving incrementally closer to formally announcing what is likely to be a transformational data center agreement with large load customers in northern Indiana. The company has been growing earnings over 8% for the last several years and we see potential for that to rise closer to 10% over the next few years contingent on details of a data center deal. In response, the market has continued to rerate the valuation multiple to among the highest in the sector. We continue to see further opportunities for shares to outperform in 2025.

Top 5 Detractors in Q4	*Symbol*	*Portfolio Impact gross(basis points)*	*Portfolio Impact net(basis points)*
Constellation Energy	CEG	-141 bps	-147 bps
Canadian Pacific KC	CP	-54 bps	-56 bps
Linde PLC	LIN	-53 bps	-56 bps
SBA Communications	SBAC	-48 bps	-50 bps
NextEra Energy	NEE	-47 bps	-49 bps

CEG: After being leading performer year to date, shares of Constellation Energy took a breather in the quarter. This was largely attributable to the unfavorable ruling made at FERC in conjunction to the Talen & Amazon transaction that prompted concerns about power supply reliability and electric grid cost allocation when a data center is located adjacent to and drawing power directly from a nuclear plant instead of the wholesale transmission system. While the ruling was not ideal, we attribute underperformance in the quarter to investors booking gains, recognizing significant outperformance over the last one to three years. We are confident that CEG has multiple avenues to monetize its increasingly scarce 24/7 baseload clean nuclear power output and that a reasonable compromise on grid cost allocation that enables data center agreements will be reached. We see recent underperformance as providing a long-term buying opportunity.

CP: The rail sector struggled in 2024. Shipping volumes remain depressed as US industrial production has been muted. The ISM survey has remained below 50, an indication of contracting industrial activity, for 24 months now. In addition, the group had to digest higher labor costs as unions have become better organized and more aggressive in recent deal negotiations. While labor contract issues are largely in the rearview, the group requires volume growth to drive efficiencies that make margin improvement possible. CP underperformed its peer group largely due to the 8% U.S. dollar headwind for Canadian domiciled companies. Trump's threat of 25% tariffs on Canadian and Mexican goods also was a headwind.

LIN: Linde's poor performance can be attributed to difficult operating conditions outside the US, especially in China. We had hoped that efforts by the Chinese government to stimulate the economy would have had a more positive impact, but so far this is not the case. As a result, earnings expectations proved a bit optimistic and have been trending down. Conditions remain strong in North America and Europe and the company should benefit from policies driving greater hydrogen consumption.

SBAC: Tower stocks underperformed in the fourth quarter, behaving mostly as bond-proxies in a rising rate environment. From a micro perspective, the tower story showed incremental improvement throughout the second half of the year, supported by favorable customer commentary about future leasing. While underperformance has been frustrating, we continue to think long-term tower investors will be rewarded given the high-quality, defensible business model, discounted valuations, and the prospect for accelerating growth in the coming years.

NEE: NextEra Energy's stock price declined in the quarter due to potential negative impacts to its renewable energy business in the wake of the Republican sweep in November. The concerns of investors are related to the possibility of changes to or the repeal of the Inflation Reduction Act, which provided significant tax credits to developers of wind and solar power generation facilities. We believe the fears are overblown as most of the states that are beneficiaries of renewable development are majority Republican. We do not expect these states will advocate for changes to the law. The company's backlog for new renewable and storage projects remains robust and the company has highlighted the opportunity to develop approximately 40 GW of new projects through 2027. NEE is also the parent of Florida Power & Light which we consider to be the best managed regulated utility in the U.S.

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.

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.

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 Fourth 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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