Reaves Asset Management

Reaves' Portfolio[1] Performance During Periods of Rising Interest Rates

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The attached February 2014 paper presents data on the performance of the Reaves ERISA composite during periods of rising interest rates over the past 30 years. Also discussed is our view that a sharp increase in the long end of the rate curve is a low probability scenario at the current time.

EXECUTIVE SUMMARY

- A sustained move higher in the yield of 10-year U.S. Treasury notes occurred during seven periods between 1982 and the present. The average duration was approximately 17 months.
- On an absolute basis, the average increase was 213 basis points and constituted a 52% upward movement as a percent of the beginning yield.
- The Reaves ERISA Composite generated a positive return during six of these seven periods.
- The average gain of the Reaves ERISA Composite was 24.6%.
- The top performance was a gain of 72.6% from June 2003 to June 2006 when the 10-year yield rose from 3.52% to 5.14%.
- The bottom performance was a loss of 9.41% from September 1993 to December 1994 when the 10-year yield moved from 5.38% to 7.82%.
- During the six periods since 1980 when the Federal Reserve increased the Federal Funds Rate, Reaves ERISA Composite generated a positive return averaging 29.0%.
- An analysis of treasury inflation-protected securities (TIPS[2]) and historical yield curve spreads suggests an upper range for longer-dated Treasury securities of 3% to 4% over the next several years.

While we share the general concern of investors regarding the impact on financial markets from the future direction of interest rates, we take comfort in the fact that our portfolios have performed well in past periods of rising rates. We believe that portfolios with carefully researched and selected common stocks of companies which provide essential services and are committed to sharing steadily higher cash flows with investors by way of rising dividends and share repurchases is the best defense against any adverse developments in the macroeconomic environment. We encourage you to read the paper which follows and contact us with any questions or concerns.

[1]All references to Reaves' portfolios, holdings and performance data are to the Reaves ERISA Composite and, unless otherwise noted, all data is net of fees. The Reaves ERISA Composite reflects the dollar-weighted return of all corporate ERISA pension accounts with assets of at least $1,000,000 under management for all periods presented (the minimum was $900,000 during the period 08/31/10-06/22/12.) Returns are time-weighted and include the reinvestment of all dividends and other earnings, net of commissions. The ERISA Composite does not reflect all of the Reaves' assets under management.

[2]Treasury Inflation-Protected Securities (or TIPS) are the inflation-indexed bonds issued by the U.S. Treasury. The principal is adjusted to the Consumer Price Index (CPI), the commonly used measure of inflation. When the CPI rises, the principal adjusts upward. If the index falls, the principal adjusts downwards. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal, thus protecting the holder against the official inflation rate (as asserted by the CPI).

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