Reaves Asset Management's Jay Rhame Discusses A Complicated Sector

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INTERVIEW HIGHLIGHTS

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Can you tell us why you're here today?
The Reaves Asset Management team is celebrating our one-year anniversary of launching the fund, UTES, the Reaves Utilities ETF, and we also just recently listed the fund with the New York Stock Exchange.

Why did you move your listing to the New York Stock Exchange?
Well, a couple of reasons, really. The customer service is great here and I think the New York Stock Exchange made a big push to have a lot of ETFs there, and it really shows. But also we've been around for forever. We were founded in 1961. We had a seat on the Exchange for a long time and a lot of our values match up well. We're excited to be back home.

Tell us about your firm's history with utilities.
We were founded in 1961. We started managing money in 1978 and have focused on investments in utility and energy companies.

Utilities are small part of the market. There's not as much competition but it's also a really complicated sector. Every state has different regulation for each utility. A utility in California is a lot different than one in New Jersey. And so by diving in real deep and focusing on this particular niche, we hope to create performance opportunities.

Why did you launch an ETF?
So I really like the structure. I think it's great that they're customer-friendly, they're fully transparent, they're tax efficient and they're low cost.

And I think it makes a lot of sense for many investors to look at ETFs. And so for us, over our history, we've mostly managed money for institutions, pension funds, high net worth individuals, stuff like that, and now we're bringing our expertise to anyone with a brokerage account.

Why did you choose an actively managed wrapper vs. smart beta or index based?
For us the decision was pretty easy. We've been active managers over our whole time period, our whole history.

And, I think that specifically within the utility space because it's so small and because it's so complicated, there really is a lot of opportunity for active managers to come in and outperform.

It's looking at utilities in general - they're all very different: different states of different regulation, and some companies make the majority of their net income selling electricity, which is actually one of the most volatile commodities in the world. It's not quite the risk you expect when you're buying a utility. It's not necessarily bad or good – it's just a different risk.

A lot of utilities have international holdings and so we thought we could come and be active in and really create a better product.

What effect could rising interest rates have on utilities?
A lot of people get concerned about that - it's probably the biggest question we get. You know, actually, the answer is - it's not that much.

If you think back to last year, when the Federal Reserve raised rates - in the couple of months leading up to it - utilities underperformed the market. But as soon as rates went up, utilities were – I think – the top-performing sector in the first six months of the year. And the reason is profitability doesn't really change at all. Interest expense costs are a full pass through to customers. They also have big pension funds and you have an offsetting effect: as interest rates rise, pension costs can come down. And so the effect on customers isn't that much. Profitability stays the same because they're all regulated monopolies and I think how that plays out is people are initially concerned about the dividend yield and how it relates to Treasury rates but then as time goes on realize that profitability doesn't change and allows for a recovery in the stocks.

Do you want to tell us your outlook on the utility sector?
We're actually very bullish on utilities – it's really one of the major reasons we launched the fund and we're having so much technological change in the sector - unlike anything that's ever really happened before. Over the next 10 to 20 years companies are putting in a lot of wind power, solar power and batteries. They're making the electric grids modern. And for companies that can control their costs, we really have a 20 year investment period where companies can get consistent earnings growth over two decades and that's pretty rare in the market, and something that we're excited about as long-term holders.

How did it feel to ring the Opening Bell at the New York Stock Exchange?
It was really exciting. There are millions of people watching – maybe hundreds of millions – and it's great. It's the heart of capitalism. I'm really excited to be here and be a part of it.

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Past performance is not a guarantee of future results.

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UTES Risks: Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. Industry/Sector Concentration: A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. Utilities Sector Concentration: The fund's investments are concentrated in the utilities sector and may present more risks than if the fund were broadly diversified over numerous sectors of the economy.

Please consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. Contact us at 888-383-0553 or visit www.reavesetfs.com for a copy of the Fund's prospectus. Read the prospectus carefully before you invest or send money.

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