

Review and Outlook

Second Quarter 2008

Summary

Overall performance rebounded sharply in the second quarter, following the near perfect storm we experienced in the first. Each of our major sectors showed positive returns, unlike the broad market averages which ended the quarter in negative territory. The gas and energy sectors led the way, followed by the electrics and telecoms.

Gas Utilities

If we had to highlight one investment theme for the quarter it would be natural gas: production, processing, and transmission. Companies that engaged in these activities outperformed. The price of light sweet crude oil rose above \$143.00 to underpin the market value of natural gas. Natural gas is the cleanest of the fossil fuels. Companies involved in exploration, production and gas transmission, saw meaningful increases in their share prices. In our view, demand for natural gas will continue to remain strong in the US, even in a slowing economy as power generators and commercial and industrial users increase consumption over the longer term.

Energy

The energy portfolio turned in a very strong performance as well, driven largely by new price highs for crude. Oil service companies performed well. The high price of oil stimulates increasing capital expenditures by the majors and national oil companies to find and produce oil in locales and geological formations previously deemed to be uneconomical. Nonetheless, we remain cautious about the commodity price of oil and natural gas in view of ongoing demand destruction and speculative activity in the commodity markets. In a declining oil price environment it has been our experience that companies with strong balance

sheets and a long term record of increasing the dividend and maintaining ongoing share repurchase programs have the potential to outperform their less well capitalized peers.

Electric Utilities

Although electric utility performance lagged the energy and gas sectors, performance was positive. Nuclear generators did particularly well. As the low cost producer of electricity, nukes typically benefit from rising natural gas prices, a significant factor in setting the price of electric power. Because nuclear generation emits no carbon, companies with significant nuclear generating capacity are expected to be advantaged in a power market that includes the trading of carbon credits.

Telecom

Overall, the telephones produced a positive return, but the individual stories are mixed. Share prices of emerging market service providers in Latin America have been under pressure because of concerns about slowing growth in the region. We see the general pullback as a buying opportunity and believe that selected operators are well positioned to compete in a wireless market in Latin America that still has significant upside from increasing penetration and growth of data services. In the US, the national and regional carriers remained under pressure in the quarter amidst fears that a sluggish US economy would crimp consumer spending for some of the more discretionary elements of telecom services including broadband upgrades, wireless internet, and video messaging. We see value in selected companies at current levels and believe that share prices will eventually be supported by strong and secure dividends. Selected communications infrastructure providers to wireless and broadband operators in the US and globally have the potential to outperform in our view.

Outlook

As we look out to the second half of 2008, we expect continued market volatility. Nonetheless, in our view, the fundamentals of the companies in which we invest remain intact. The companies that make up our portfolios provide significant participation in energy and communications infrastructure in the US, Canada, and selected countries around the world. We expect requirements for infrastructure will continue to increase, providing opportunities for sustained profit growth.

We appreciate your support.

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