

REAVES UTILITY INCOME FUND  
Form N-CSR  
January 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-21432

Reaves Utility Income Fund

(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado 80203

(Address of principal executive offices) (Zip code)

Karen S. Gilomen, Esq.

ALPS Fund Services, Inc.

1290 Broadway, Suite 1100

Denver, Colorado 80203

(Name and address of agent for service)

Registrant's telephone number, including area code: 303-623-2577

Date of fiscal year end: October 31

Date of reporting period: November 1, 2016 - October 31, 2017

**Item 1. Reports to Stockholders.**

**Section 19(b) Disclosure**

October 31, 2017 (Unaudited)

Reaves Utility Income Fund (the “Fund”), acting pursuant to a Securities and Exchange Commission (“SEC”) exemptive order and with the approval of the Fund’s Board of Trustees (the “Board”), has adopted a plan, consistent with its investment objectives and policies to support a level distribution of income, capital gains and/or return of capital (the “Plan”). In accordance with the Plan, the Fund currently distributes \$0.16 per share on a monthly basis.

The fixed amount distributed per share is subject to change at the discretion of the Fund’s Board. Under the Plan, the Fund will distribute all available investment income to its shareholders, consistent with its primary investment objectives and as required by the Internal Revenue Code of 1986, as amended (the “Code”). If sufficient investment income is not available on a monthly basis, the Fund will distribute long-term capital gains and/or return of capital to shareholders in order to maintain a level distribution. Each monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions and potential distribution rate increases or decreases to enable the Fund to comply with the distribution requirements imposed by the Code.

Shareholders should not draw any conclusions about the Fund’s investment performance from the amount of these distributions or from the terms of the Plan. The Fund’s total return performance on net asset value is presented in its financial highlights table.

The Board may amend, suspend or terminate the Fund’s Plan without prior notice if it deems such action to be in the best interest of the Fund or its shareholders. The suspension or termination of the Plan could have the effect of creating a trading discount (if the Fund’s stock is trading below net asset value) or widening an existing trading discount. The Fund is subject to risks that could have an adverse impact on its ability to maintain level distributions. Examples of potential risks include, but are not limited to, economic downturns impacting the markets, increased market volatility, companies suspending or decreasing corporate dividend distributions and changes in the Code.

Please refer to Additional Information for a cumulative summary of the Section 19(a) notices for the Fund’s current fiscal period. Section 19(a) notices for the Fund, as applicable, are available on the Reaves Utility Income Fund website [www.utilityincomefund.com](http://www.utilityincomefund.com).

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Reaves Utility Income Fund Shareholder Letter  
 October 31, 2017 (Unaudited)

**To our Shareholders:**

**Investment Portfolio Returns**

Total net assets of the Fund were \$1,612,864,612 at October 31, 2017, or \$33.14 of net asset value (“NAV”) per common share. One year ago, net assets totaled \$1,116,575,921 representing \$32.53 of net asset value per common share. The changes include the proceeds from the October 2017 rights offering and distributions to shareholders totaling \$99,792,157 including a \$0.92/share special distribution paid in January 2017. Changes in the market price of the Fund can and do differ from the underlying changes in the net asset value per common share. As a result, the market return to common shares can be higher or lower than the NAV return.

The fiscal 2017 market return for shareholders was 12.70% as is reflected in the table to follow. The share price of the Fund traded at a discount of 6.40% to the NAV at fiscal year-end, a decrease from the 7.78% discount at the beginning of the fiscal year.

**Performance**

**Year Ended October 31, 2017**

	<b>One Year</b>	<b>Three Years<sup>+</sup></b>	<b>Five Years<sup>+</sup></b>	<b>Ten Years<sup>+</sup></b>	<b>Since Inception<sup>***</sup></b>
Total investment return – Net Asset Value*	11.04%	7.62%	12.38%	8.73%	11.79%
Total investment return – Market Price*	12.70%	7.32%	11.23%	9.58%	10.87%
S&P Utilities Index <sup>1</sup>	15.40%	10.45%	12.46%	6.78%	10.37%
Dow Jones Utility Average <sup>2</sup>	15.46%	11.87%	13.54%	7.62%	11.66%

<sup>+</sup> Annualized

\*Assumes all dividends being reinvested

\*\*Index data since 02/29/04

<sup>1</sup> S&P Utilities Index is a capitalization-weighted index containing 28 Electric and Gas Utility stocks (including multi-utilities and independent power producers). Prior to July 1996, this index included telecommunications equities.

<sup>2</sup> The Dow Jones Utility Average (DJUA) is a price-weighted average of the 15 utility stocks traded in the United States.

### **Distributions to Common Shareholders**

The Trustees of the Fund regularly review the amount of the monthly distribution.

Since the Fund's first distribution in April 2004, the monthly distribution has been increased on nine occasions from the initial monthly amount of \$0.0967 to the current amount of \$0.16, representing a cumulative increase of 65.5%.

For calendar year 2016, all distributions from the Fund were paid from net investment income including realized capital gains. We anticipate that all distributions for the 12 months ending December 31, 2017 will be characterized as paid from net investment income and realized capital gains.

### **Rights Offering**

The October 2017 rights offering increased the Fund's shares outstanding by 14,314,706 to a total of 48.67 million shares. Proceeds to the Fund totaled \$428.0 million which was only partially invested as of October 31, 2017 resulting in cash comprising the largest holding at fiscal year-end.

2 [www.utilityincomefund.com](http://www.utilityincomefund.com)

Reaves Utility Income Fund Shareholder Letter  
*October 31, 2017 (Unaudited)*

The intent is to fully invest the balance of the proceeds by mid-January, primarily in equities, consistent with the Fund's objectives of achieving current and rising dividend income accompanied by capital appreciation from investments held.

### **Leverage Facility**

The principal amount of the loan facility was unchanged at \$320,000,000. The leverage decreased from 28.7% of net assets to 19.8% at October 31, 2017. The current level of leverage is the lowest at any time in the Fund's 13-year-plus existence. For details about the facility please refer to Note 4 of the accompanying financial statements.

### **Overview**

The Fund's portfolio has performed well in the face of three Federal Reserve rate increases during Fiscal 2017: December 2016, March 2017 and June 2017. The fiscal year began with the 10-year U.S. Treasury yielding 1.84% and rising to 2.60% for two days around the date of the Fed's December rate increase. Again, in March the 10-year U.S. Treasury peaked at 2.62% for one day and thereafter declined irregularly to 2.53% at fiscal year-end. Our view is that the Fund's highyielding portfolio is not as interest sensitive as commonly believed, and the fiscal 2017 performance is consistent with our experience over more than a decade. The yield on the Fund's portfolio has comfortably exceeded that of the 10-year U.S. Treasury throughout the fiscal year. Dividend increases by portfolio companies have met our expectations, and are supported by earnings growth.

The Fund's top-ten holdings, excluding proceeds of the October 2017 rights offering, comprised consistently more than 40% of the portfolio. The industries included were utilities, telecommunications, railroads, cable and energy. Eight of the top-ten had double-digit internal rates of return for the year. The laggard was Verizon, the large integrated telecommunications corporation, whose total return approximated its mid-single-digit dividend yield.

### **Utilities**

For the second year in a row, utilities produced double-digit total returns. A positive action by the Trump Administration was the proposal of four candidates to the Federal Energy Regulatory Commission ("FERC"). Their confirmation created a quorum at FERC which enables the FERC to rule on all outstanding dockets including approval of significant new energy infrastructure projects. We believe utilities with material renewables assets experienced rising stock prices due to a reduction of the uncertainty about the future of incentives for investment in renewables. For example, American Electric Power announced a \$4.5 billion plan to build 2000 megawatts of wind power in the Oklahoma panhandle, dubbed the Wind Catcher Energy Connection Project. Abundant wind resources and increasingly efficient technology enabled American Electric Power to invest \$4.5 billion, shut down existing coal plants, and deliver savings to customers. The announcement confirmed that new wind generation is finally cheaper than existing power plants. This has significant implications for future utility growth. Utility growth is typically constrained by the impact capital investments have on customer bills, not project availability. Most companies try to



limit bill increases to less than inflation and set capital budgets correspondingly. If renewable resources can deliver savings to customers, utilities will likely deploy more capital to such projects and, consequently, earnings growth should be higher. We anticipate that cost reductions in battery storage will accelerate this trend.

### **Communications**

The Fund's communications holdings, which include integrated telecommunications, as well as cable, tower, and fiber companies, produced mid-teen total returns with the strongest performance coming from cable companies and towers. The strong performance in cable was a result of growth in broadband subscribers and average revenue per user as demand for digital data and especially video streaming continues to grow. The same basic trend drove growth at the tower companies. Cable returns were also helped by merger and acquisition speculation around Charter Communications. In the last three months of the fiscal year, the share price of both Charter and Comcast came under considerable pressure as investors reacted to video subscriber losses. We think the reaction is overdone and that demand for consumer broadband and business services will drive sustained growth at both companies. Negative returns from U.S.-based integrated telecommunication companies, Verizon and AT&T, partly offset strong cable performance, as they struggled with a very competitive wireless environment and, at AT&T, highmargin video subscriber losses from its recently acquired DirecTV business. BCE Inc., the largest telecom service provider in Canada, generated a mid-single-digit positive return. Its wireless business operates in a much more benign competitive environment.

Reaves Utility Income Fund Shareholder Letter

*October 31, 2017 (Unaudited)*

As we look out to next year, we think demand for broadband from consumers and businesses stemming from video streaming, digitization of the enterprise, and the growing internet of things will drive continued growth at both cable and tower companies. We believe competitive pressures within the wireless sector in the U.S. appear, at long last, to be easing, evidenced by Verizon's expectation to return to wireless service revenue growth.

### **Energy**

Holdings of integrated oil majors contributed meaningfully to dividend income. Investors' concern that dividends were not sustainable abated as expenses and capital expenditures were reduced. The rise in the average price of oil per barrel as a result of OPEC<sup>3</sup> producers' ongoing production restraint, together with increased operating discipline, has led to a materially higher margin per barrel for Royal Dutch Shell PLC. Cash flow is such that they have eliminated the scrip portion of their dividend.

### **Outlook**

The 10-year U.S. Treasury interest rate fell in fiscal 2016 and rose in 2017. The Fund's portfolio performed well in each year. The Federal Reserve is baffled by the persistence of sub-2% inflation at a time when the jobless rate has fallen. We believe the Federal Reserve risks a fall in inflated asset prices if they tighten prematurely. The result is an interest climate that is, in our opinion, hospitable for the moderate earnings and dividend growth of Fund investments. Returns can be supplemented with a prudent use of leverage.

The proceeds of the rights offering will be invested as opportunities present themselves due to management actions of individual companies, market volatility or sector dislocation resulting from changing investor expectations. The additional shares issued provide increased liquidity for investors who desire it.

We appreciate the opportunity to serve you and thank you for your continued support demonstrated by participation in the rights offering.

Sincerely,

Ronald J. Sorenson, Chief Investment Officer, Chief Executive Officer

John P. Bartlett, Vice President, CFA

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*October 31, 2017 (Unaudited)*

*<sup>3</sup>Organization of Petroleum Exporting Countries*

*Sources of distributions to shareholders may include net investment income, net realized short-term capital gains, net realized long-term capital gains and return of capital. If a distribution includes anything other than net investment income, the Fund provides a Section 19(a) notice of the best estimate of its distribution sources at that time. Please refer to Additional Information for a cumulative summary of the Section 19(a) notices for the Fund's current period. The actual amounts and sources of distributions for tax reporting purposes will depend upon the Fund's investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. The estimates may not match the final tax characterization (for the full year's distributions) contained in the shareholder's Form 1099-DIV. Distribution payments are not guaranteed; distribution rates may vary.*

*You cannot invest directly in an index.*

**Industry Allocation as of October 31, 2017**

*\*Includes Money Market Funds and U.S. Treasury Obligations*

*Holdings are subject to change*

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Reaves Utility Income Fund      Report of Independent  
Registered  
Public Accounting Firm

To the Board of Trustees and Shareholders of Reaves Utility Income Fund:

We have audited the accompanying statement of assets and liabilities of Reaves Utility Income Fund (the "Fund"), including the statement of investments, as of October 31, 2017, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2017, by correspondence with the custodian, partnership administrators, and brokers when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Reaves Utility Income Fund as of October 31, 2017, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Denver, Colorado

December 21, 2017

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Reaves Utility Income Fund Statement of Investments  
*October 31, 2017 (Unaudited)*

	SHARES	VALUE
<b>COMMON STOCKS 101.16%</b>		
Airlines 0.31%		
Delta Air Lines, Inc.	100,000	\$5,003,000
Diversified Telecommunication Services 11.45%		
AT&T, Inc. <sup>(1)</sup>	1,300,000	43,745,000
BCE, Inc. <sup>(1)</sup>	1,210,000	55,853,600
CenturyLink, Inc.	1,050,000	19,939,500
Verizon Communications, Inc. <sup>(1)</sup>	1,240,000	59,358,800
Zayo Group Holdings, Inc. <sup>(2)</sup>	160,000	5,769,600
		184,666,500
Electric Utilities 23.71%		
Avangrid, Inc.	197,500	10,216,675
Edison International <sup>(1)</sup>	416,000	33,259,200
Eversource Energy <sup>(1)</sup>	585,000	36,644,400
Fortis, Inc.	1,400,000	51,561,321
NextEra Energy Partners LP	525,253	20,663,453
NextEra Energy, Inc. <sup>(1)</sup>	683,000	105,912,810
Pinnacle West Capital Corp. <sup>(1)</sup>	483,000	42,363,930
PPL Corp.	830,000	31,174,800
Red Electrica Corp. SA	200,000	4,428,760
The Southern Co.	884,000	46,144,800
		382,370,149
Energy Equipment & Services 0.59%		
Baker Hughes, a GE Company	302,000	9,491,860
Food Products 1.77%		
The Kraft Heinz Co. <sup>(1)</sup>	370,000	28,612,100
Gas Utilities 1.02%		
Atmos Energy Corp. <sup>(1)</sup>	150,000	13,086,000
South Jersey Industries, Inc.	100,000	3,397,000
		16,483,000
Media 12.62%		
Charter Communications, Inc., Class A <sup>(1)(2)(3)</sup>	246,182	82,266,639
Comcast Corp., Class A <sup>(1)</sup>	2,712,000	97,713,360
Time Warner, Inc.	240,000	23,589,600
		203,569,599

Reaves Utility Income Fund Statement of Investments  
*October 31, 2017 (Unaudited)*

	SHARES	VALUE
<b>Multi-Utilities 23.40%</b>		
CMS Energy Corp. <sup>(1)</sup>	390,000	\$18,864,300
Dominion Energy, Inc.	715,000	58,015,100
DTE Energy Co. <sup>(1)</sup>	898,000	99,193,080
Infraestructura Energetica Nova SAB de CV	750,000	3,825,942
National Grid PLC, Sponsored ADR	101,100	6,172,155
NiSource, Inc. <sup>(1)</sup>	993,500	26,198,595
PG&E Corp. <sup>(1)</sup>	600,000	34,662,000
Public Service Enterprise Group, Inc.	65,000	3,198,000
SCANA Corp.	317,000	13,675,380
Sempra Energy <sup>(1)</sup>	520,000	61,100,000
WEC Energy Group, Inc. <sup>(1)</sup>	780,000	52,564,200
		377,468,752
<b>Oil, Gas &amp; Consumable Fuels 10.80%</b>		
BP PLC, Sponsored ADR	100,000	4,067,000
Chevron Corp. <sup>(1)</sup>	167,500	19,411,575
Exxon Mobil Corp.	470,000	39,174,500
ONEOK, Inc.	120,000	6,512,400
Pioneer Natural Resources Co. Royal Dutch Shell PLC:	35,000	5,238,450
Class A	350,000	10,996,093
Class A, Sponsored ADR <sup>(1)</sup>	1,030,000	64,920,900
The Williams Cos, Inc.	600,000	17,100,000
TransCanada Corp.	144,000	6,837,120
		174,258,038
<b>Real Estate Investment Trusts (REITS) 5.69%</b>		
American Tower Corp.	228,000	32,756,760
Annaly Capital Management, Inc. <sup>(1)</sup>	2,500,000	28,650,000
Crown Castle International Corp. <sup>(1)</sup>	230,000	24,628,400
Uniti Group, Inc.	326,140	5,707,450
		91,742,610
<b>Road &amp; Rail 3.52%</b>		
Union Pacific Corp.	490,000	56,737,100
<b>Water Utilities 4.35%</b>		
American Water Works Co., Inc. <sup>(1)</sup>	770,300	67,601,528
Aqua America, Inc.	70,000	2,483,600
		70,085,128

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Reaves Utility Income Fund Statement of Investments  
*October 31, 2017 (Unaudited)*

	SHARES	VALUE
<b>Wireless Telecommunication Services 1.93%</b>		
T-Mobile US, Inc. <sup>(1)(2)</sup>	520,000	\$31,080,400
<b>TOTAL COMMON STOCKS</b>		
(Cost \$1,193,240,859)		1,631,568,236

<b>LIMITED PARTNERSHIPS 2.15%</b>		
<b>Oil, Gas &amp; Consumable Fuels 2.15%</b>		
Bastion Energy LLC (Anglo Dutch) <sup>(2)(4)(5)</sup>	1,000	4,262,554
Enterprise Products Partners LP <sup>(1)</sup>	1,100,000	26,950,000
Talara Opportunities II, LP <sup>(2)(4)(5)(6)</sup>	40,519	3,442,500
		34,655,054
<b>TOTAL LIMITED PARTNERSHIPS</b>		
(Cost \$27,468,985)		34,655,054

	BOND RATING	PRINCIPAL	VALUE
	MOODY/S&P	AMOUNT	
<b>CORPORATE BONDS 0.10%</b>			
Diversified Telecommunication Services 0.10%			
Frontier Communications Corp., 7.125%, 01/15/2023			