

REAVES UTILITY INCOME FUND

Form N-CSRS

July 06, 2017

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.

Reaves Utility Income Fund

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 - April 30, 2017

Item 1. Reports to Stockholders.

Section 19(b) Disclosure

April 30, 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.

Reaves Utility Income Fund Table of Contents

Shareholder Letter	2
Statement of Investments	6
Statement of Assets and Liabilities	10
Statement of Operations	11
Statement of Changes in Net Assets	12
Statement of Cash Flows	13
Financial Highlights	15
Notes to Financial Statements	16
Additional Information	24

Semi-Annual Report | April 30, 2017 1

Reaves Utility Income Fund Shareholder Letter

April 30, 2017 (Unaudited)

To our Shareholders:

Investment Portfolio Returns: 6 months ended April 30, 2017

Total net assets of the Fund were \$1,175,605,834 at April 30, 2017, or \$34.24 of net asset value (“NAV”) per common share. At October 31, 2016 net assets totaled \$1,116,575,921 representing \$32.53 of net asset value per common share. 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 half-year market return for shareholders was 22.54%, as is reflected in the table below. The share price of the Fund traded at a premium of 1.34% to the NAV at 04/30/2017, a significant increase from the 7.77% discount at the beginning of the fiscal year.

Distributions to Common Shareholders

Since April 2004, the date of the Fund’s first distribution, the total of all distributions to shareholders exceeds \$500,000,000 composed of net investment income and realized capital gains. For the full fiscal year the Fund expects total distributions to come from earned income and capital gains sufficient to avoid a distribution from return of capital or other capital sources. For any given month, however, part of the distribution may be temporarily classified as a return of capital given the irregular realization of capital gains over the course of the year.

Leverage Facility

A new leverage facility that does not require re-hypothecation (lending) of Fund assets, was negotiated in December 2016. The principal amount of the loan facility was unchanged at \$320,000,000. The leverage decreased from 28.66% of net assets at October 31, 2016 to 27.22% at April 30, 2017. For details about the facility please refer to Note 4 of the accompanying financial statements.

Performance

	Period Ended April 30, 2017				
	Six Months	One Year	Three Years ⁺	Five Years ⁺	Since Inception ^{***}
Total investment return – NAV*	11.51%	16.83%	11.37%	13.81%	12.30%
Total investment return – Market Price*	22.54%	26.56%	13.86%	12.51%	12.02%
S&P 500 Utilities Index ¹	6.45%	10.57%	10.07%	11.87%	10.11%
Dow Jones Utility Average ²	6.18%	11.41%	12.26%	12.52%	11.42%

+ Annualized

* Assumes all dividends being reinvested

** Index data since 02/29/04

S&P 500 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.

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

April 30, 2017 (Unaudited)

Overview

Among the most significant and surprising events of the fiscal year thus far was the election of Donald J. Trump as the President of the United States. With expectations for stronger growth, investors quickly discounted higher interest rates and sent the 10 year U.S. Treasury note to a peak yield of 2.60% in mid December. As expected, the market simultaneously sold off interest rate sensitive equities, including utilities and communication infrastructure companies organized as Real Estate Investment Trusts (“REITS”). By December 30, 2016 the 10 year yield declined to 2.45% and the utilities sector, as measured by the S&P 500 Utilities Index, had recouped nearly all of the post election decline. As 2017 unfolded, utilities continued to exhibit strong momentum, producing strong year to date returns. It is worth noting that 2017 returns were earned with long term interest rates trading in a range of 2.62% to 2.22%.

Utilities

One hundred twenty days into the new Trump Administration, in our view, it is plausible to conclude that investors had grown too confident about economic growth and tax reform and perhaps too pessimistic about the prospects for utility earnings during a Trump administration. With health care reform likely to be bogged down in the Senate, and with the prospects for tax reform and infrastructure spending receding further into the future, we believe, a change of sentiment may be underway.

An improving federal regulatory environment could be constructive for selected utilities. The Federal Energy Regulatory Commission (“FERC”) has two sitting commissioners with three empty seats. In filling these seats the Trump Administration has a genuine opportunity to improve dramatically the climate for new investment. Simply filling the seats would be a great start; because the FERC lacks a quorum, it is unable to approve any new major projects and the backlog continues to build. While potential changes in the tax code could possibly pose some challenges to some utilities, we think there is room for legislators to make adjustments. Such modifications would also prevent electric and gas rates from rising as a consequence of planned reforms.

We are also optimistic about the outlook for development of new renewable resources. Our expectation is that many of the regulatory structures to support renewables investment will remain in place, notably at the state level where policy is not directly affected by presidential politics. Further, we expect that in many parts of the country, within five years, new wind generation could be competitive with new natural gas fired electric generation, even without tax credits.

Telecommunications

Following a strong fiscal 2016, cable stocks continued to surge, delivering one third of the Fund’s total return over the last six months. We believe the cable companies, along with other telecommunications stocks, are particularly well positioned to benefit under the new Trump Administration. Notably, the appointment of former FCC commissioner Ajit Pai to the Chairman’s position was clearly supportive for internet service providers, as Pai wasted no time in beginning the process of rolling back or scrapping much of his predecessor’s agenda. We note that Pai has been a vocal critic of overreach by telecom regulators throughout his career.

Reaves Utility Income Fund Shareholder Letter

April 30, 2017 (Unaudited)

Energy

The energy portion of the portfolio delivered a positive total return that was modestly higher than its six month dividend yield. Oil prices (as measured by West Texas Intermediate [“WTI”])³ have been volatile over the last six months, though for all the churning, they are largely unchanged for the period. The Organization of the Petroleum Exporting Countries’ (“OPEC”) decision in November to limit its production has had limited effect on prices and the level of inventories remains relatively high. We expect prices to remain range bound as global supply cuts are largely offset by increases from North America. Energy holdings provide a high level of dividend income and the potential for capital appreciation in the event oil prices recover to a sustainably higher level.

Outlook

For utilities we expect continued support in select states for renewables investment and multi year investment in generation and transmission infrastructure. We anticipate a more accommodative FERC that will adopt a less contentious approval process while providing investors with greater transparency around allowed rates of return. While short term interest rates are likely to rise, we think the Fed will take a gradualist approach. We anticipate a less accommodating Fed policy will reflect an improving U.S. economy.

Continued growth of cash flow and revenues at the cable and tower companies, driven by increasing demand for streaming video accessible from wired and mobile devices should support distribution increases and stock price appreciation. The accelerating digitization of myriad processes and services continues to drive demand for enhanced broadband services.

We appreciate the opportunity to serve you and look forward to your continued support.

Sincerely,

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

John P. Bartlett, Vice President, CFA

³ West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing.

⁴ The Organization of Petroleum Exporting Countries (OPEC) is a group consisting of the world's major oil-exporting nations. OPEC was founded in 1960 to coordinate the petroleum policies of its members, and to provide member states with technical and economic aid.

Reaves
Utility
Income Fund Shareholder Letter

April 30, 2017 (Unaudited)

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 April 30, 2017

*Includes Money Market Funds

Holdings are subject to change

Semi-Annual Report | April 30, 2017 5

Reaves Utility Income Fund Statement of Investments

April 30, 2017 (Unaudited)

	SHARES	VALUE
COMMON STOCKS 122.57%		
Diversified Telecommunication Services 14.09%		
AT&T, Inc.	1,040,000	\$41,215,200
BCE, Inc. ⁽¹⁾	1,090,000	49,671,300
CenturyLink, Inc.	650,000	16,685,500
Verizon Communications, Inc. ⁽¹⁾	1,140,000	52,337,400
Zayo Group Holdings, Inc. ⁽²⁾	165,000	5,786,550
		165,695,950
Electric Utilities 26.74%		
Avangrid, Inc.	197,500	8,591,250
Edison International ⁽¹⁾	446,000	35,666,620
Eversource Energy ⁽¹⁾	585,000	34,749,000
Fortis, Inc.	1,200,000	39,024,000
NextEra Energy Partners LP	475,253	16,467,516
NextEra Energy, Inc. ⁽¹⁾	685,000	91,488,600
Pinnacle West Capital Corp. ⁽¹⁾	483,000	41,098,470
PPL Corp.	830,000	31,631,300
Red Electrica Corp. S.A.	100,000	1,949,848
The Southern Co.	275,000	13,695,000
		314,361,604
Energy Equipment & Services 2.00%		
Baker Hughes, Inc. ⁽¹⁾	395,000	23,451,150
Food Products 2.85%		
The Kraft Heinz Co. ⁽¹⁾	370,000	33,444,300
Gas Utilities 1.40%		
Atmos Energy Corp. ⁽¹⁾	155,000	12,558,100
South Jersey Industries, Inc.	105,000	3,939,600
		16,497,700
Independent Power and Renewable Electricity Producers 0.02%		
Pattern Energy Group, Inc.	10,000	220,200
Media 14.99%		
Charter Communications, Inc., Class A ⁽¹⁾⁽²⁾⁽³⁾	301,000	103,893,160
Comcast Corp., Class A ⁽¹⁾	1,720,000	67,406,800
Time Warner, Inc.	50,000	4,963,500
		176,263,460

 6www.utilityincomefund.com

Reaves Utility Income Fund Statement of Investments

April 30, 2017 (Unaudited)

	SHARES	VALUE
Multi Utilities 31.67%		
CMS Energy Corp. ⁽¹⁾	390,000	\$17,706,000
Dominion Resources, Inc.	495,000	38,327,850
DTE Energy Co. ⁽¹⁾	880,000	92,039,200
Infraestructura Energetica Nova SAB de CV	700,000	3,263,649
National Grid PLC Sponsored ADR	135,000	8,757,450
NiSource, Inc. ⁽¹⁾	1,000,000	24,250,000
PG&E Corp. ⁽¹⁾	570,000	38,218,500