# Reaves Utility Update

February 19, 2008

Operator: Welcome everyone to the Reaves Utility Update sponsored by ALPS Financial. Just as a reminder, this call is being recorded. For opening remarks and introductions, please welcome our speaker for today, Mr. Jim Stegall. Please go ahead, sir.

Jim: Thank you. Good afternoon. As Pamela said, this is Jim Stegall with ALPS and thank you all for joining us. Following the call, if you have any questions, please feel free to visit the web site at reavesutilityincomefund.com or you can call us at 800-644-5571 and now I would like to introduce Ron Sorenson who is the CEO and Chief Investment Officer of W. H. Reaves and the portfolio manager for the Reaves Utility Income Fund, trading symbol UTG. Ron?

Ron: Okay, thank you Jim. I want to start by thanking everyone who's taken the time to participate today for not only spending the time but your interest in the fund. I've also asked Louis Chamino who is our Telecom analyst to join us and John Bartlett one of our senior utility analysts is also here with me. Most of my remarks are going to be addressed at the value of the portfolio and the assets of the portfolio rather than the price performance of the stock in the marketplace but if you have any questions, obviously we'll try to answer them.

How have we done? I'd like to point out that since October 31 the portfolio itself has approximately a negative internal rate of return of 7%. Now, one thing that I can assure you as a portfolio manager, I made a concerted effort to aggressively realize gains in the last two months of 2007 so we have a very nice bank of net realized gains of about $16 million and the short term gains we've booked at this time go a long way toward paying expenses for the twelve months for the fund and we're in good shape to meet all our commitments with regard to you know, more than earning our expenses.

What do we own in the portfolio? 27% of the portfolio is invested in telephones. Once again, we have meaningful unrealized capital gains on the telephone holdings. Electrics are the largest holdings in the portfolio. They represent 37% of the portfolio approximately and again, we have very meaningful unrealized gains. We also own gas utilities and energy stocks which are approximately 13% of the portfolio. Once again, as a group, shows positive unrealized gains. And you're well aware that we can invest up to 20% of the portfolio outside of the utility space and we have 7% roughly, somewhat more than 7%, invested in consumer staples, high yielding consumer staple stocks which once again, have meaningful unrealized capital gains. Preferreds show a small capital loss but they're obviously very high yielding. They amount to only 2.2% of the portfolio at this time. So my conclusion in reviewing where we stand with the portfolio, I don't see any material impairment of value or loss of liquidity for the portfolio's holdings.

Obviously, our primary objective is to meet our dividend commitment every month throughout the year to our shareholders and in our opinion and certainly in my personal opinion, looking at the portfolio and where we stand at this point in time, our commitment to a dividend of an 11 1/2 cents a month or a $1.38 a share this year is not in question. I sincerely believe we're very well positioned to achieve that.

An important issue for the fund is the fact that we have leverage. Initially when the fund was created, we issued $240 million of auction market preferred securities and obviously there's been a lot of press these days about the failure of the market for auctioned securities and for the AMPHs, Auction Market Preferred Holders for UTG, the failure of the auctions is a liquidity issue it's not a credit quality issue. We have more than adequate coverage with respect to our assets, coverage of the 240 principle amount of preferreds that the likelihood of being in violation of the covenants and being forced to liquidate any securities is extremely low, I would say. Now, just for any of you who still have a question about how the amps work and how the effective interest rate is set, the interest rate is capped on our AMPHs, and is capped at 125 basis points over LIBOR or 125% of LIBOR, whichever is higher. Now, with the recent auction that failed because there were no bidders for a portion of the preferreds on offer, the yield came in, was set at approximately4.3%.

So what does it mean? It appears that the fund will benefit from a low and possibly declining cost of leverage for some time to come. Should LIBOR decline, the cost of the AMPHs for the fund will decline, so feeling quite constructive about our leverage and the cost of our leverage. Once again, for the holders of the AMPHs, it's important to remember that the dividend that you receive on the AMPHs has the same character as the common dividend. So for the last fiscal year, roughly 85% of the dividend paid to common shareholders was QDI and I believe the dividends for the preferred shareholders has the same ratio of QDI. SO you have a very high, effective, high quality yield in this environment. The issue is liquidity and until perhaps the auction market returns or there is a secondary market created for these securities, you'll be in a position where you have to continue to hold them.

Now, turning to the major economic issue at the moment, recession or no recession? It's very important to remember that the products and services provided by the fund's companies are overwhelmingly items of need, not want. The products are essential for daily life whether it's electricity, a gallon of gasoline, natural gas, or your telephone service. The inception of the fund was February 2004 but as a firm, we have experience with utility and energy investment for over 30 years, a period comprising periods of recession and boom, inflation, and rising and falling interest rates.

The truth is we spend little time or efforts speculating whether we are in a recession or not. In a weak economy, declining interest rates make the dividend yield on utility stocks relatively more attractive and the moderate growth rate of their earnings more competitive with the broader equity market. Historically, our experience has been that weak equity markets have provided opportunities to reposition the portfolio and improve expected returns.

Now, turning to the prospect of a Democratic administration and increased taxes, specifically, elimination of the maximum 15% tax rate on qualified dividends. I'm not a political prognosticator but it's probably reasonable to expect some increase from the current 15% rate on QDI and the talk is for increasing taxes on all income including interest. Now one factor which may influence decision makers a year or two out is that between now and 2010, it is estimated that $100 billion will come out of 401k retirement plans and into self-directed retirement plans. The baby boomers will be looking to live on the income from their self-directed retirement accounts. With high quality dividend-paying equities such as those owned by UTG investors, we believe investors will benefit from a rising income stream as the dividends are increased.

Now, one of the callers asked, where are we finding value in the market? Since the onset of the liquidity crisis and specifically since October 31st start of UTG's fiscal year, selling has been indiscriminate across the portfolio but Telecom stock has sold off the most. Those Telecoms are among the highest yielding equities and likely they have been held by leveraged participants in the carry trade. The appreciation in the Japanese yen beginning in October 2007 and recently peaking at approximately 105 yen to the US dollar, in all probability forced carry trade participants to liquidate; and I can't necessarily say that it was cause and effect but if you run a graph of the price appreciation of the yen, it correlates very closely with the decline of our higher yielding regional telephone companies. To date, we have seen no material declines in telecom fundamentals although today's announcement of price decreases on broadband services has produced a sell-off in AT&T, the fund's largest position (10.38% as of December 31, 2007).

In summary, we believe the price of electricity and natural gas are likely to continue to rise. The need for investment in the nation's electric, gas, pipeline, water, and telecommunications infrastructure is broadly recognized by both political parties. The growth of investment by carefully researched and selected utilities will result in our opinion in investment opportunities as we go forward. So those are the basis for opening up the discussion to any of the participants and once again, we're anxious to answer any calls you might have. Thank you.

Moderator: For further questions, please call 800-644-5571 or send an e-mail to reavesinfo@alpsinc.com. This concludes the ALPS Financial conference call. Thank you everyone for joining. You may now disconnect.

**Top Ten Holdings as of December 31, 2007***

1. AT&T 10.38%
2. Citizens Communications Co. 4.62%
3. PPL Corp. 4.60%
4. Great Plains Energy, Inc. 4.58%
5. Public Service Enterprise Group, Inc. 4.43%
6. Altria Group, Inc. 4.30%
7. Duke Energy Corp. 4.09%
8. BCE, Inc. 4.07%
9. Ameren Corp. 4.04%
10. ONEOK, Inc. 3.21%

*Subject to change