MIDDLEFIELD

INVESTMENTS THAT WORK FOR YOU

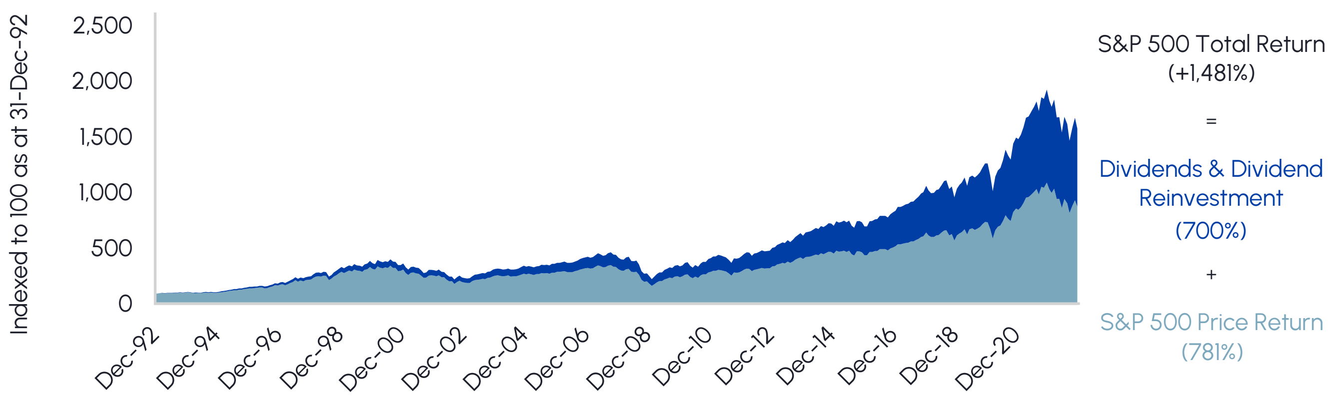
DIVIDEND INVESTING PRIMER

Why Own Dividend Stocks?

Dividends are a critical component of total returns

The chart below breaks down the total return of the S&P 500 from 31-Dec-92 to 31-Dec-22 into two components. Of the aggregate total return of +1,481%, +700% (or 47%) came from dividends & dividend reinvestment with the remaining +781% (or 53%) attributable to price appreciation. As a result, it follows that patient investors significantly benefit from the power of compounding by investing in companies that pay and grow their dividends over time.

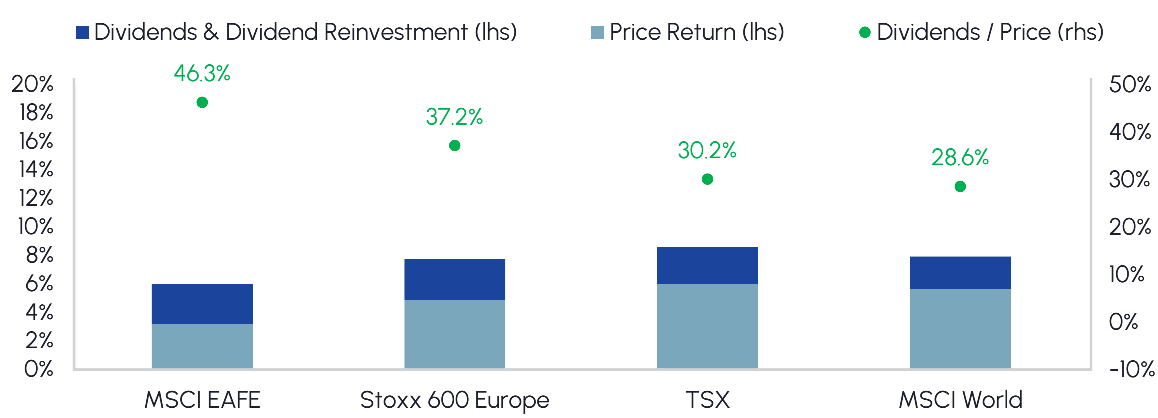
S&P 500 TOTAL RETURN DECOMPOSITION



Sources: Middlefield, Bloomberg. Date range: 31-Dec-92 to 31-Dec-22

The same conclusion holds true when looking at annualized total returns across global markets.

ANNUALIZED TOTAL RETURN DECOMPOSITION



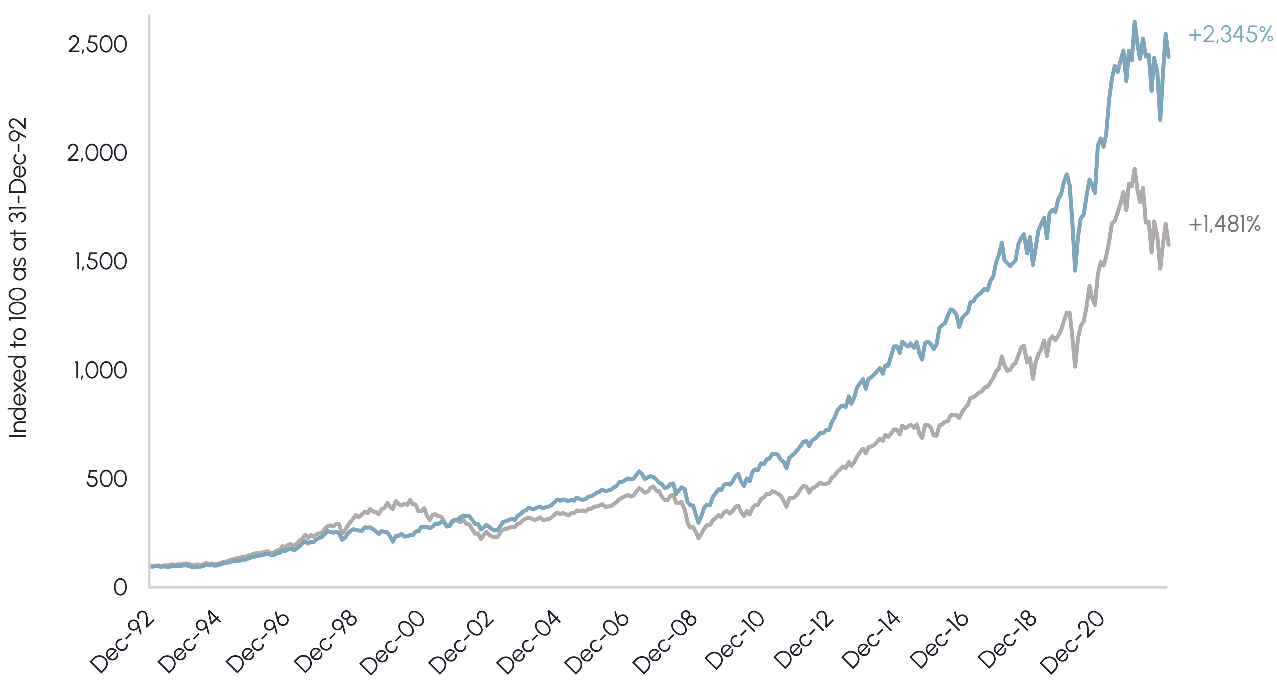
Sources: Middlefield, Bloomberg. Date range: 31-Dec-92 to 31-Dec-22

Dividends are also a good hedge against inflation. More specifically, high quality companies can often raise prices to protect cashflows from inflation and, as a result, support their payout ratios and dividend payments through various market cycles. This is one reason why dividends accounted for a higher percentage of total returns (>50% versus 47% in the aforementioned study) during inflationary decades such as the 1940s, 1970s & 1980s, and why dividends remain an important source of competitive shareholder returns over the long-term. In contrast, other yield alternatives such as fixed income can see their returns dramatically impaired during periods of high inflation.

Historical Performance: Dividend growers have outperformed over the long run

We cannot underestimate the importance of owning equities which pay regular and growing dividends. The following chart shows that dividend growers have significantly outperformed the broader market over the last 30 years.

TOTAL RETURN COMPARISON:
S&P 500 DIVIDEND ARISTOCRATS VS S&P 500



**S&P 500 Dividend Aristocrats Index*
Sources: Middlefield, Bloomberg. Date range: 31-Dec-92 to 31-Dec-22

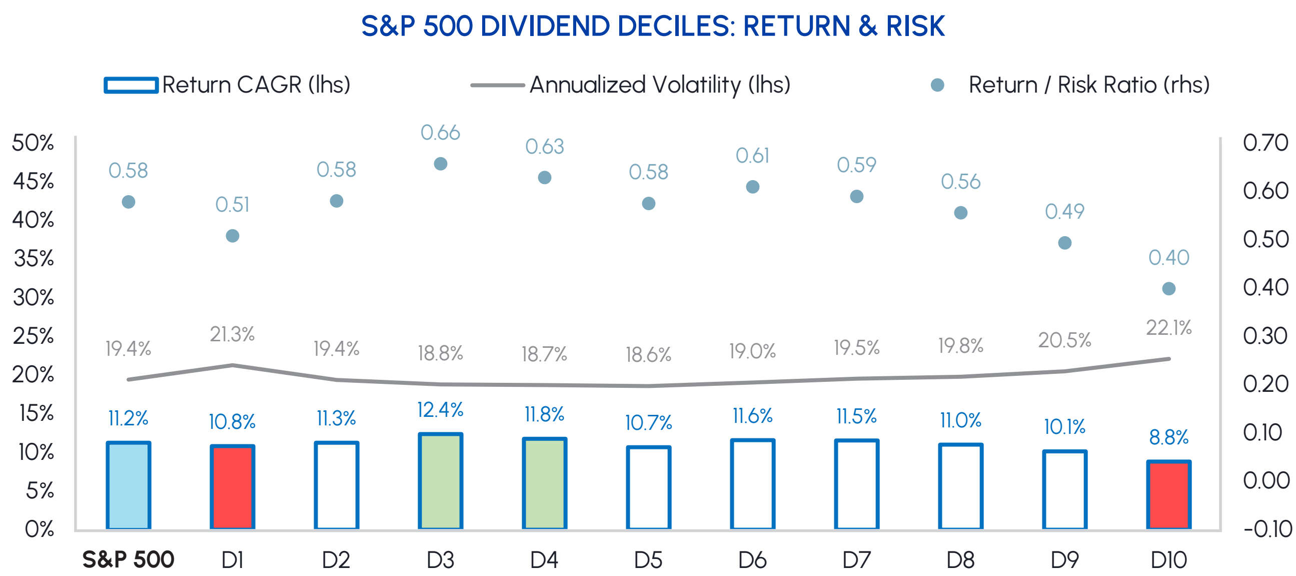
A major reason behind this outperformance is that dividend growers are committed to capital discipline. Companies which pay and grow dividends over time need to be profitable and generate excess amounts of cash flow. In addition, management teams that are committed to paying and growing dividends are highly focused on selecting capital expenditure projects which will create value for shareholders (e.g. generate returns in excess of the cost of capital) while sustainably growing cash flows in order to support dividend growth.

Owning dividend-paying companies can serve to dampen investment risk since these companies are often mature businesses with more predictable earnings. The stability in earnings is reflected in a sustainable dividend stream which can serve to offset the volatility in a company's stock price. In addition, historical research proves that dividend growers & initiators exhibit significantly less volatility than companies that do not pay dividends and especially so for those that cut or eliminate dividends.

Do not Chase Yield

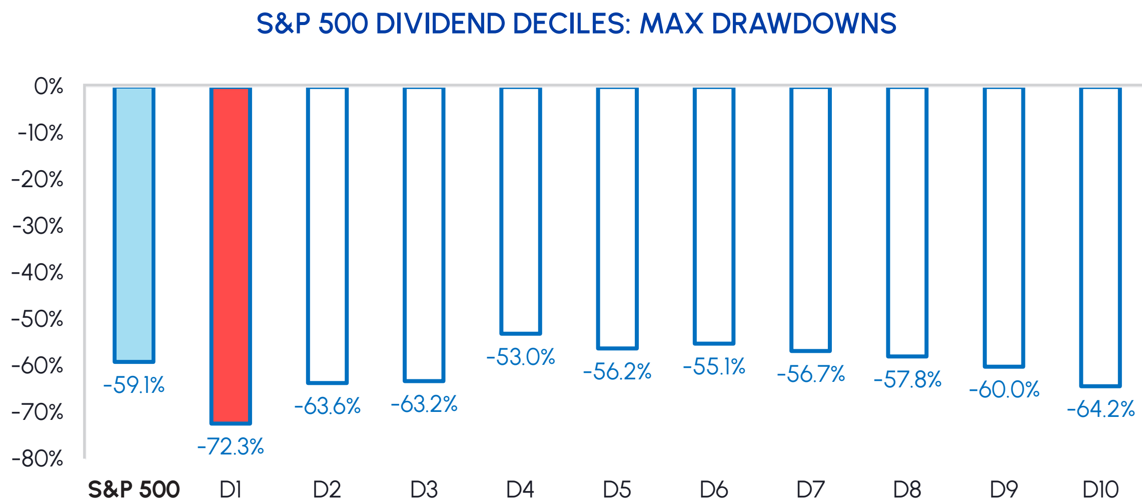
Value traps are investments that appear undervalued but are actually in financial distress or, for a variety of reasons, may never trade at their expected value. Many of these companies have high dividend yields that are eventually proven to be unsustainable. Value traps are dangerous for investors because their stock prices may decline further, which can often provide management with a reason or support to cut or eliminate dividends.

In the graph below, we analyze the S&P 500 for the 30-years ending 31-Dec-22 broken down into ten deciles based on dividend yield. Specifically, D1 (the first decile) represents those constituents with the highest dividend yields while D10 (the tenth decile) includes those with the lowest dividend yields. The bottom line is that the stocks with the highest yields reflect a below-index return (see the S&P 500's stats on the left-hand side) with much higher risk. Further, D1 also has the 3rd worst "reward to risk" ratio. Interestingly, the best reward to risk is generated by D3 and D4 (highlighted in green). In other words, investors must exercise real diligence and scrutiny to identify companies which pay high dividends which are supported superior fundamentals.



Sources: Middlefield, Bloomberg. Date range: 31-Dec-92 to 31-Dec-22

We can draw similar conclusions by examining the drawdown stats from the same 30-year study. Again, purchasing the stocks with the highest yields, D1, would have resulted in a -72.3% drawdown, the worst of all the deciles and more than 13% below the S&P 500's over the period. The lesson here is plain and simple: Investors should not blindly chase yield.

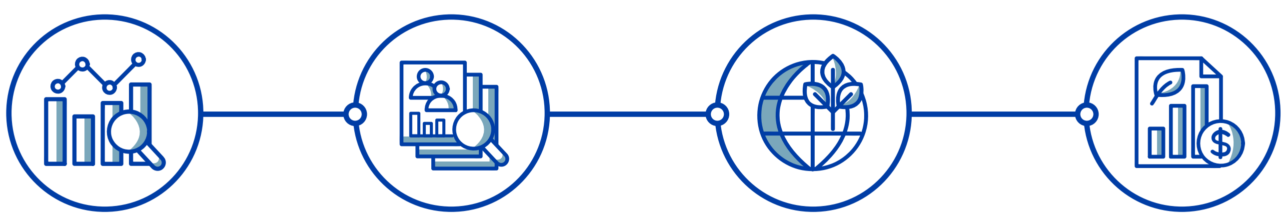


Sources: Middlefield, Bloomberg. Date range: 31-Dec-92 to 31-Dec-22

Dividends Done Differently

At Middlefield, we are focused on expertly selecting companies which meet our investment criteria. In light of our focus on businesses which generate consistent and growing levels of cash flow and dividends, we gravitate to larger capitalization, higher quality issuers led by proven by management teams. These are typically global businesses which earn uninterrupted levels of income for investors. This process helps us to avoid chasing yield and falling into value traps.

Our multi-disciplinary investment process for identifying superior dividend paying stocks are as follows:



Quantitative analysis
meant to highlight attractive stocks and flag unattractive ones

Qualitative analysis
meant to identify high quality companies with competitive advantages

ESG analysis
to fully understand a company's risk profile, strategy and culture

Dividend sustainability analysis
to ensure our companies have the ability to grow their dividends

ESG factors are considered for stock selection but more heavily weighted in the decision process governing Middlefield's sustainable mandates.

Quantitative Analysis - this investment framework involves the use of various models and screens to identify attractive vs. unattractive companies. For example, we use multifactor models to identify the leading and lagging companies within each sector in the S&P 500 and TSX. This helps to complement our qualitative analysis.

Qualitative Analysis - this process mainly focuses on identifying companies with sustainable competitive advantages that allow for continued revenue, earnings and free cash flow growth. Sources of competitive advantage come from three broad categories: Production advantages, consumer advantages and external factors.

- Production advantages include complexity and protection. Complexity could relate to a machine that is only produced by one company in the world while protection may come from having various patents protecting a firm's process.
- Production advantages may also come from supply-side advantages (i.e. economies of scale) such as having the best distribution network or most efficient R&D program in a certain industry.
- Consumer advantages include switching costs & customer lock-in as well as network effects. Both of these could come from having interconnected products and services that not only make it harder for consumers to leave but also improve the user experience as more people join the ecosystem.
- External factors represent the last source of competitive advantage. These are often related to government intervention. For example, one company may enjoy outsized benefits from subsidies while another suffers more than peers due to targeted regulation.
- Other factors that we consider important are management's skill in running the business as well as determining what stage of the competitive life cycle a company is in (e.g. innovation or mature).

ESG Analysis - this multi-faceted process and involves integration (alongside our fundamental, quantitative and qualitative research), scoring (using data from several reputable third-party data providers), negative screening and positive screening. In doing so we review public disclosures, conduct research on ESG policies & practices, obtain third party research on companies, engage with companies, monitor shareholder meetings and vote proxies according to our ESG guidelines.

Please see our full ESG policy here.

Dividend Sustainability Analysis - - After determining whether or not a company has a competitive advantage, as equity income investors, we also need to ascertain the sustainability of its dividend policy. This involves careful analysis of a company's cash flow profile, dividend payout ratio and balance sheet strength. The ideal company would generate sufficient cash flow to cover its operations & growth initiatives while having enough cash to comfortably cover its dividends. A red flag would occur when a company uses debt financing to cover its dividend payout obligation over an extended period.

We firmly believe these are necessary steps for dividend investors who want to maximize their chances of positives outcomes while also reducing the likelihood of adverse ones.

Middlefield Diversified Dividend-Focused Strategies

Solutions Overview

Strategy	Fund Structure	Ticker/Fund Codes	Investment Focus	Risk Rating
MIDDLEFIELD INCOME PLUS CLASS	Mutual Fund	MID 800 | 801	Global Dividend	Medium
MIDDLEFIELD SUSTAINABLE GLOBAL DIVIDEND ETF	ETF	MDIV	Global Dividend	Medium
MIDDLEFIELD GLOBAL DIVIDEND GROWERS CLASS	Mutual Fund	MID 181 | 182	Global Dividend	Medium

Sustainable Focus: Higher reliance on ESG factors built into the stock selection process

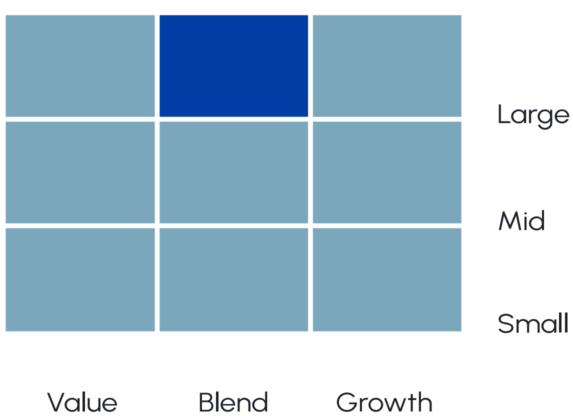
Income

All Middlefield dividend funds provide investors with significant levels of monthly income and attractive capital appreciation potential.

Holdings

Middlefield's dividend strategies are actively managed portfolios holding approximately 25 to 40 names with an emphasis on large-cap companies with leading market positions that have the ability to pay and grow their dividends over time.

Equity characteristics



Investment Processes

Guiding Principles

- Superior security selection is the best way to consistently achieve alpha
- Investment team collaboration, talent and process discipline is necessary for long-term success
- Risk controls govern portfolio construction and ongoing monitoring

Investment Principles

- Focus on companies with strong business models and sustainable advantages over competitors
- Leading businesses take market share and are exposed to end-market growth
- Execution based on reasonable valuation in the context of the long-term outlook (GARP tilt)
- Great management teams are governed appropriately, operate in a sustainable/socially responsible matter and make ethical strategic decisions through a long-term lens

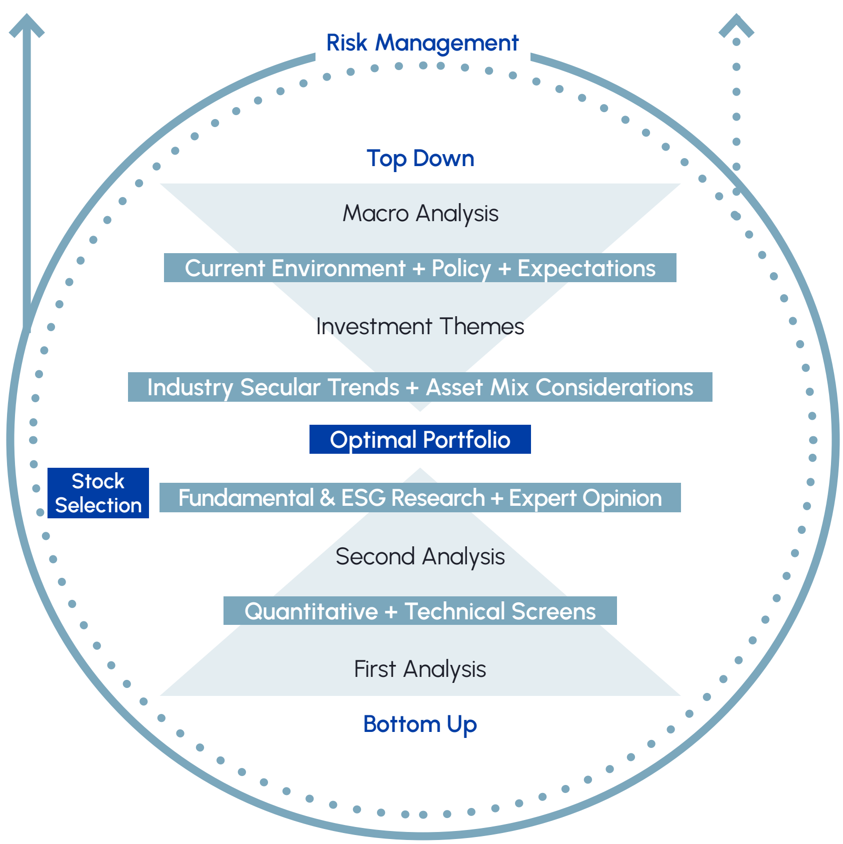
Portfolio Risk Oversight

Construction Discipline

- Optimize allocations for ideal portfolio-level stats
- Scenario analysis and stress testing
- Investment policy to control security concentration and liquidity

Ongoing Active Management

- Investment committee and CIO/CCO oversight
- Real-time monitoring of portfolio risk and return
- Continuous attribution analysis

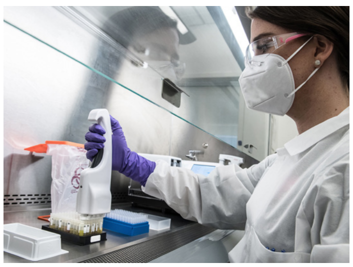


Global Dividends - Areas We Like

Strong fundamentals are driving opportunities in the following industries

Global Brands

Large companies in select industries where a handful of globally recognized brands produce essential products & create ecosystems that consumers regularly use and rely on.



Healthcare

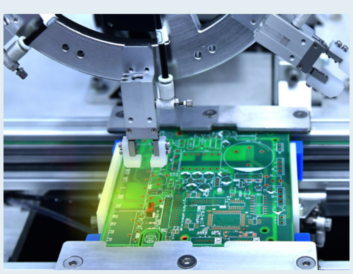
Leading edge businesses that generate consistent cashflows by selling needs-based drugs, treatments and technologies to developing as well as wealthy end-markets.

Energy Infrastructure

Companies supporting the multi-decade transition toward sustainable energy by integrating cleaner technologies into essential, long-life infrastructure assets, such as pipelines and storage facilities.

Real Estate

Balance between stable assets generating high-levels of tax-efficient cash flow and selective exposure to properties with high growth potential due to secular trends such as urbanization, e-commerce adoption, immigration and supply/land scarcity.



Technology

Mature businesses that directly or indirectly support the world's next great transformational technologies such as AI, genomics, cybersecurity, cloud, 5G, self-driving cars and more.

Disclaimer

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Middlefield Limited
First Canadian Place
58th Floor
Toronto, Ontario M5X 1A6
+1.416.362.0714
www.middlefield.com