MIDDLEFIELD

INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

JANUARY 2024

The purpose of these monthly commentaries is to provide investment advisors and their clients with insights into the current thinking of Middlefield's investment professionals regarding the overall market and the major sectors underpinning Middlefield's various fund strategies.

MACRO UPDATE

Dean Orrico
President & CEO

Robert Lauzon
Managing Director & CIO

Equity markets finished the year on a positive note with December returns for the TSX Composite, S&P 500 and NASDAQ of 3.9%, 4.5% and 5.6%, respectively. Bond yields continued their descent from late October highs with 10-year government bond yields finishing the year at 3.11% and 3.88% in Canada and the United States. The move lower in rates fueled a Santa Claus rally that propelled the S&P 500 to within 1% of its all-time high. Notably, the S&P 500 total return index, which includes dividends, hit seven new highs in 2023.

While it is always a positive sign to see markets reaching new heights, we are especially encouraged by the recent broad-based participation from companies and sectors that have lagged throughout the year. It is widely known that the "Magnificent Seven" stocks have been the market leaders for the majority of 2023 while many other sectors and strategies have been left behind. This notable dispersion in returns has finally started to reverse during the final two months of the year. In early November, we noted that only 32% of S&P 500 constituents were trading above their respective 200-day moving averages. Today, 79% of the Index's constituents are now above this key technical level. Despite the recent bounce, many areas of the market, such as dividend payers and small-caps, remain deeply oversold and have more room for outperformance.

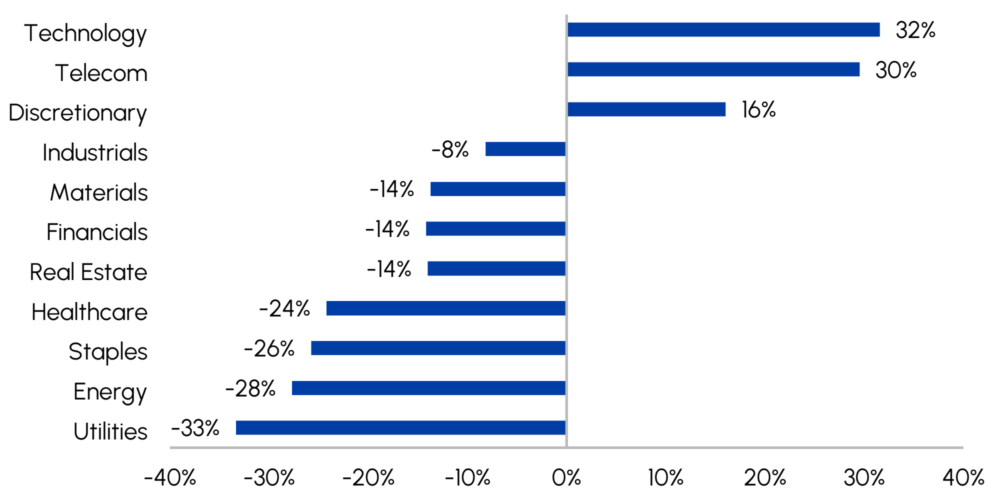
Assuming interest rates do not materially spike in 2024, we believe dividend-paying equities are extremely well positioned this year. Dividend stocks faced increased competition throughout 2023 from income alternatives, such as GICs and HISAs. In the U.S., a record $1.3 trillion of inflows went into money market funds as investors flocked to high-yielding short-term instruments. Now, with bond yields having fallen more than 1% in two months and interest rate cuts expected to begin in a few months, dividend paying equities are coming back into favour. For example, Canadian REITs have an average dividend yield of 5.3% which exceeds the yield of Canadian 5-year government bonds by more than 200 basis points and makes their dividends more attractive on a relative basis.

We expect at least a portion of the capital that flowed into money market funds to make their way back into equities this year, with dividend payers particularly well-positioned to benefit from such a rotation.

Our outlook for the economy in 2024 is for a soft landing. We are not predicting a recession this year, but rather a deceleration from the high growth experienced in 2023 (such as 5.2% U.S. GDP growth in Q3). This gives us optimism for equity markets for three key factors. First, inflation should continue to trend lower, particularly as the shelter component of inflation calculations roll over. Second, we expect the approaching wave of monetary policy easing to support stocks. The futures market is currently projecting approximately five rate cuts from both the Bank of Canada and the Fed in 2024. Finally, we expect earnings to return to growth mode in 2024 after being relatively flat in 2023. Consensus expectations are for S&P 500 EPS growth of 10% in 2024 and 11.2% into 2025.

Although we hold a positive outlook for the year ahead, it is important to acknowledge that after nine consecutive weeks of positive returns for the S&P 500 (its longest winning streak since 2004), markets are starting the year with overbought conditions. We would not be surprised to see a near-term market pullback at the beginning of the year which should be viewed as a healthy correction within a broader bull trend. Going back to 1950, the market has generated a positive return 80% of the time following a year where the S&P 500 returned over 20%. In an economy characterized by falling inflation, historically low unemployment and solid consumer spending, it is likely that new highs are on the horizon.

2023 Relative Sector Performance (Vs. S&P 500)



Source: Bloomberg. As at December 31, 2023

REAL ESTATE

Middlefield Fund Tickers & Codes: MREL / MID 600 / RS / RS.PR.A / RA.UN / MSRE.UN

Dean Orrico
President & CEO

REITs continued to rally in December, generating a total return of 9% in Canada and 8.7% in the U.S. The sector's impressive performance during the final two months of the year resulted in full-year total returns of 7.1% in Canada and 12.3% in the U.S.

Improving macro conditions and a solid fundamental backdrop within real estate underpin our positive outlook for publicly-listed REITs in 2024. The recent rally coincides with U.S. 10-year Treasury yields falling from 5% to 3.9% and growing expectations for monetary policy easing from central banks in 2024. Although share prices have bounced back in recent months, current valuations support additional upside. On average, the Canadian real estate sector trades at just 13x 2024 AFFO, a 7.2% implied cap rate and 24% below net asset value.

Industrial remains one of our preferred asset classes entering 2024. In December, it was announced that TPG, a global alternative asset manager, will acquire a 75% interest in Oxford's 5.1 million square foot GTA industrial portfolio for $1.3 billion. The transaction implies a cap rate of approximately 4% and provides a positive read through for publicly-listed Canadian REITs such as Dream Industrial and Granite REIT which are trading at implied cap rates of nearly 6%. Based on deal metrics from the TPG transaction, we believe both REITs have approximately 20% upside to their current share prices in addition to attractive dividend yields.

Beyond industrial, we remain very constructive on multi-family and retail where we expect healthy growth in rental revenue serving to somewhat offset higher borrowing costs. Moreover, balance sheets remain is good shape with year-over-year average declines in leverage ratios and increases in liquidity ratios. Whether interest rates remain at current levels or decline further, REITs are well positioned to outperform over the next 12 months.

HEALTHCARE

Middlefield Fund Tickers & Codes: MHCD / MID 625 / SIH.UN

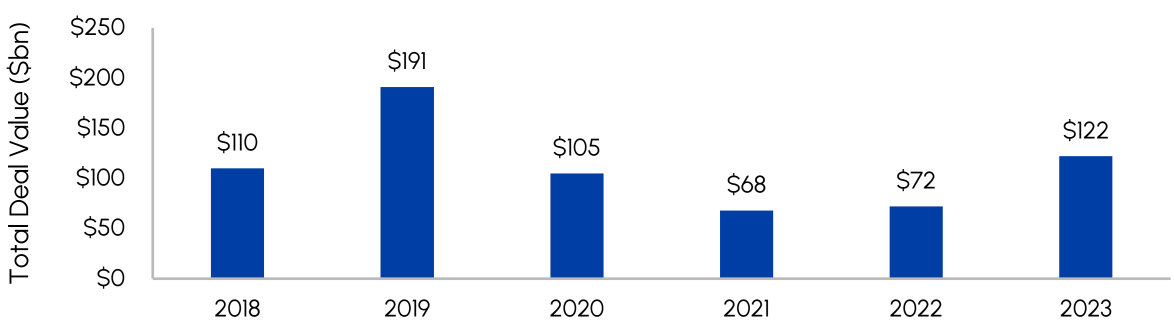
Robert Moffat

Portfolio Manager

Although healthcare finished the year with a total return of 2.1%, 2023 marked the sector's most significant underperformance relative to the S&P 500 in 30 years. Profit growth impacted healthcare stocks as year-over-year earnings comparisons were challenging after a year of pandemic-related tailwinds in 2022. The Biden Administration officially ended the COVID-19 national emergency in April 2023 which contributed to reduced spending on COVID vaccines, therapeutics and testing equipment.

Despite a challenging environment, the return of M&A was a green shoot that emerged in 2023. $122 billion of deals were announced in aggregate last year – the highest total since 2019. Many of our core biopharma holdings, including Merck, Eli Lilly and AbbVie bolstered their growth outlooks in 2023 with strategic acquisitions. AbbVie has been the most notable participant recently, announcing the acquisition of ImmunoGen for $10 billion on November 30th and the acquisition of Cerevel Therapeutics for $8.7 billion just a week later.

Annual Health Care M&A Deal Activity



Source: Goldman Sachs Global Investment Research, FactSet, BioPharma Dive

We view these deals positively as Immunogen's commercial cancer portfolio will boost AbbVie's sales in the near-term while Cerevel's neuroscience assets should fold seamlessly into AbbVie's growing neuropsychiatry pipeline.

Looking forward, we believe healthcare is positioned for a much better year in 2024 and, unlike the past year, should **outperform the broader market**. According to consensus estimates, healthcare is expected to generate year-over-year earnings growth of 18% in 2024 – the highest of any sector in the entire S&P 500. Healthcare trades at a blended forward P/E of 18.3x, more than 1 multiple point lower than the broader market, thus offering growth at a reasonable price.

SUSTAINABLE INFRASTRUCTURE

Middlefield Fund Tickers & Codes: MINF / CLP.UN / MID 265 / MID 510 / ENS / ENS.PR.A

Robert Lauzon
Managing Director & CIO

2023 was an extremely challenging year for the clean power industry. Offshore wind was the most acutely impacted by macro headwinds which included cost inflation, higher financing expenses, project delays, cancellations, and hedging issues. While those challenges still exist, the backdrop has improved in recent months and we remind investors that the energy transition is a multi-decade investment theme. Despite stock price declines in 2023, several countries and businesses continue to invest in the energy transition, with 118 nations pledging to triple the global renewable energy capacity by 2030, as announced at the COP28 conference. With inflation showing signs of cooling and negative sentiment already factored in, many clean power stocks could be poised for a sustained recovery in 2024.

We continue to like electrical equipment companies that are aligned with multi-year secular trends, including electrification, grid advancements and growth in data centers. The energy mix today is comprised of only 20% electricity, which is expected to grow to 30% by 2030, and eventually 50% by 2050. Eaton is a prominent electrical component producer and remains one of our preferred names. The company has undergone a successful turnaround in strategy away from machinery to focus on these emerging trends and has accrued a robust pipeline of long cycle projects that should support above-average growth. Schneider Electric, a global leader in both electrification and automation segments, is another top pick in our sustainable infrastructure strategies. It stands out for its existing portfolio of integrated electric components and its commitment to sustainable organic growth.

On December 13th, Enbridge announced an agreement to divest its holdings in both Alliance Pipeline and Aux Sable for $3.1 billion to Pembina Pipeline. We view the announcement positively as the deal narrows the Dominion utility acquisition funding gap to ~$2 billion while simultaneously reducing earnings exposure to commodity prices. Enbridge quoted an 11x valuation for Alliance and 7x for Aux Sable on '24 EV/EBITDA which compares favourably to consensus values. Also in December, Enbridge filed the Mainline Toll Settlement with the Canadian Energy Regulator which includes unanimous support from the Mainline's Representative Shipper Group and letters of support from its major customers. The company reiterated it's 2024 guidance with a 4% increase in EBITDA and 3% increase in distributable cash flow per share.

TECHNOLOGY & COMMUNICATIONS

Middlefield Fund Tickers & Codes: MINN / MID 925 / SIH.UN

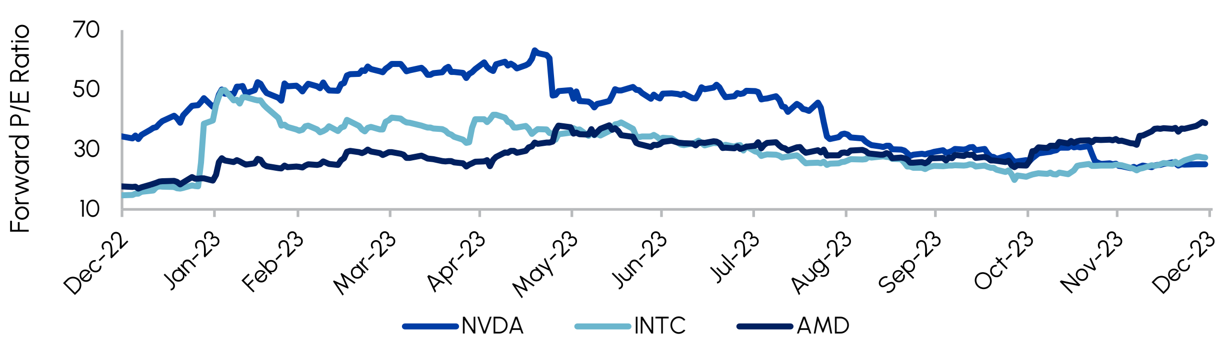
Shane Obata

Portfolio Manager

It was an exceptional year for big tech stocks, reflected by the NASDAQ 100 generating a total return of 55.1%. The Magnificent 7 stocks led the market for most of the year, with NVIDIA and Meta generating standout returns of 238.9% and 194.1%, respectively.

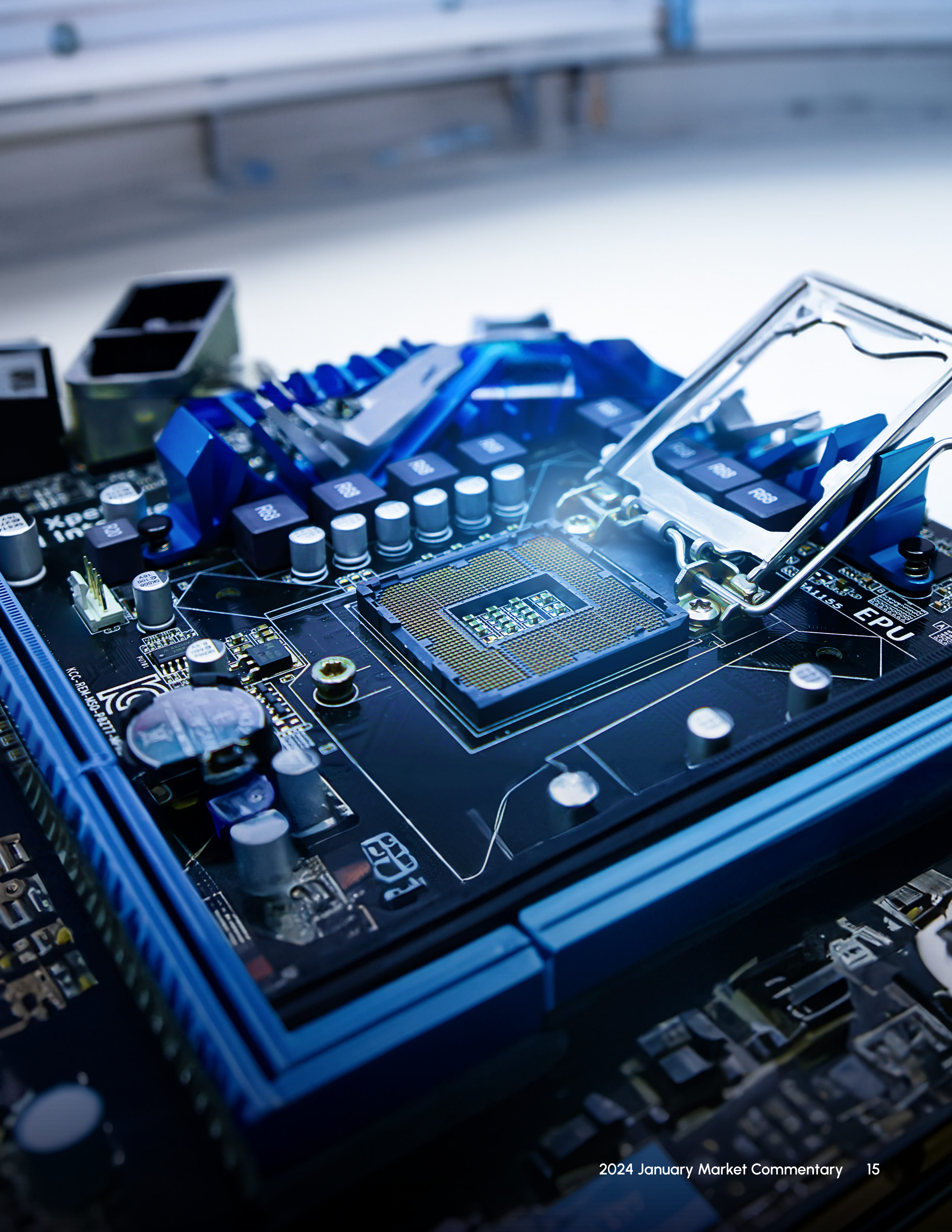
Although current market conditions should be conducive to multiple expansion in 2024, we are primarily focused on earnings growth within the tech sector. While we believe the SMID-cap tech trade has room to run, we are cautious on high growth tech due to elevated valuations and thus, high execution risk. We prefer to stick to high-quality names and are increasingly mindful of valuations after last years performance. As a result, we remain focused primarily on large cap

Forward P/E Ratios of NVDA, INTC & AMD During 2023



Source: Bloomberg. As at December 31, 2023 stocks and continue to invest in companies with a proven track record. We are continuing to find opportunities within several end-markets such as PCs and smartphones, but an even greater growth driver may come from the proliferation of AI in the economy.

Despite the impressive performance it generated in 2023, NVIDIA remains one of our top picks for 2024. Following the recent market rally, where many stocks benefitted from a catch-up trade, NVIDIA is now cheaper on a forward P/E basis than Intel or AMD (as shown in the chart). While we are optimistic about the prospects of the latter two companies, we think NVIDIA presents a very attractive opportunity at current levels. Investors are likely anticipating an eventual decrease in demand, similar to the one experienced during the crypto mining boom, but we do not believe the current investment cycle is the same. The AI story is likely still in its infancy and the semiconductor leader is arguably the best positioned to capture the opportunity. At current valuations, investors are effectively betting that NVIDIA will not continue to execute and beat earnings in 2024. Given its track record, that is not a bet we would take.


EPU

RESOURCES

Middlefield Fund Tickers & Codes: MID 800 / MID 161 / MID 265 / ENS / ENS.PR.A

Dennis da Silva

Senior Portfolio Manager

The price of gold had its third consecutive monthly gain in December and registered its highest ever closing price of $2,077 on December 27th. The Fed's dovish pivot and the corresponding decline in the U.S. dollar has supported the recent move. Given the Fed is expected to begin an easing cycle in 2024, there is a good chance that momentum in gold prices will continue to build. Despite gold making new all-time highs, we are witnessing the biggest divergence between gold prices and gold equities in the last decade. The S&P/TSX Global Gold Index declined 1.7% in December, giving back some of its November gains. A sustained break-out of the commodity price should support better performance in 2024 and we are seeing attractive opportunities in some of our favourite gold producers such as B2Gold.

The extension of OPEC+ output cuts through Q1'24 did little to prop up oil prices as they struggled to remain above US$70/bbl. Improved drilling efficiencies and well productivity in the shale patch caused U.S. oil supply to defy industry warnings of an imminent slowdown. We are of the view that WTI will trend in a range of US$70-$80/bbl during 2024. North America's mild winter is expected to cause U.S. natural gas storage to end 2023 at the highest point since 2015. NYMEX gas prices were down nearly 30% in Q4 and it comes as no surprise that gas producers have underperformed recently. That said, history suggests natural gas stocks are poised for strong returns in the first half of 2024. Over the last 10 years, NYMEX prices have started the year below US$3/Mcf on four occasions and the commodity has rallied 30% on average during those years. Using one of our favorite natural gas companies as an example, Tourmaline shares have provided positive returns in the years where NYMEX started the year below US$3/Mcf of 20-60% (excluding the COVID bounce in 2021 where it returned +150%).

Exchange-Traded Funds (ETFs)

Fund Name	Ticker	Strategy
Middlefield Healthcare Dividend ETF	MHCD	Healthcare
Middlefield Innovation Dividend ETF	MINN	Innovation
Middlefield Real Estate Dividend ETF	MREL	Real Estate
Middlefield Sustainable Global Dividend ETF	MDIV	Sustainable Global
Middlefield Sustainable Infrastructure Dividend ETF	MINF	Sustainable Infrastructure
Middlefield U.S. Equity Dividend ETF	MUSA	U.S. Dividend

Mutual Funds (FE | F Series)

Fund Name	Fund Codes	Strategy
Canadian Dividend Growers Class	MID 148 | 149	Canadian Dividend
Global Agriculture Class	MID 161 | 162	Global Agriculture
Global Dividend Growers Class	MID 181 | 182	Global Dividend
Global Energy Transition Class	MID 265 | 266	Energy
Healthcare Dividend Fund	MID 325 | 326	Healthcare
Global Infrastructure Fund	MID 510 | 501	Global Infrastructure
Real Estate Dividend Class	MID 600 | 601	Real Estate
Income Plus Class	MID 800 | 801	Equity Balanced
INDEXPLUS Income Fund	MID 435 | 436	Canadian Dividend
Innovation Dividend Class	MID 925 | 926	Innovation
U.S. Equity Dividend Class	MID 710 | 701	U.S. Dividend

TSX-Listed Closed End Funds

Fund Name	Ticker	Strategy
Global Real Asset Fund	RA.UN	Real Assets
International Clean Power Dividend Fund	CLP.UN	Sustainable Power
MINT Income Fund	MID.UN	Equity Income
Sustainable Innovation & Health Dividend Fund	SIH.UN	Innovation & Healthcare
Sustainable Real Estate Dividend Fund	MSRE.UN	Sustainable Real Estate

TSX-Listed Split Share Corps. (Class A | Preferred)

Fund Name	Ticker	Strategy
E Split Corp. (Class A Shares)	ENS	Energy Infrastructure
E Split Corp. (Preferred Shares)	ENS.PR.A	Energy Infrastructure
Real Estate Split Corp. (Class A Shares)	RS	Real Estate
Real Estate Split Corp. (Preferred Shares)	RS.PR.A	Energy Infrastructure

LSE-Listed Investment Fund

Fund Name	Ticker	Strategy
Middlefield Canadian Income Trust	MCT	Canadian Equity Income

Sustainable Focus

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Middlefield Limited
The Well
8 Spadina Ave. | Suite 3100
Toronto, Ontario M5V 0S8
+1.416.362.0714
www.middlefield.com