MIDDLEFIELD
INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

MARCH 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

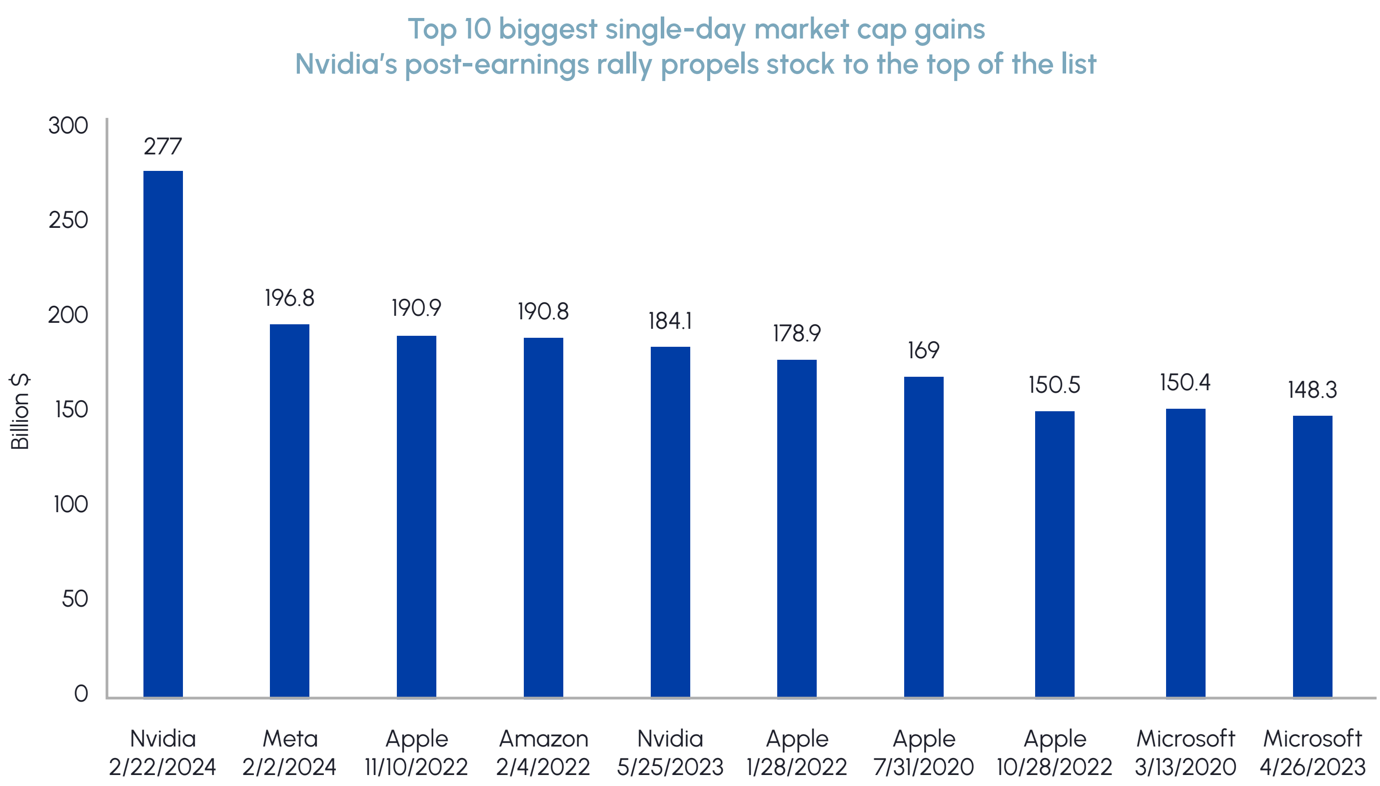
The stock market continued to rally in February, propelling the S&P 500 Index to new heights for a second consecutive month. The Index has generated a positive return in 16 of the past 18 weeks, returning 24% during that stretch. Large-cap and growth factors have led to the upside, evidenced by the 28% return in the NASDAQ 100 over the same period.

Although market breadth has improved in recent months, with over 60% of Index stocks now trading above their 200-day moving averages, a select few stocks have still done most of the heavy lifting. NVDA has contributed 25% of the Index's return this year, with META, MSFT and AMZN combining for an additional 28%. NVDA added a staggering $277 billion of market capitalization after reporting earnings on February 22nd, setting a record for the biggest single-day market capitalization gain in history. The previous record was set by Meta just three weeks prior.

The historic moves that we have seen from NVDA, META and other AI beneficiaries underscores just how important the theme has become in the current market environment. As equity investors, we are watching for companies to unlock productivity gains using AI, and for these gains to manifest in earnings. A recent study from McKinsey Global Institute found that generative AI has the potential to generate up to $4.4 trillion in global profits annually with the biggest impacts coming from banking, information technology and life sciences industries. Productivity growth in the U.S. has already started to improve, finishing 2023 above its historical average at 2.7%. AI has the potential to drive further productivity gains through the end of the decade, much akin to the productivity growth boom of the late 90's. We are also cognizant of the euphoric market behavior taking place around the AI theme and remain focused on companies with sustainable earnings growth.

We maintain our positive stance on the macroeconomic backdrop, particularly in North America. We would describe the current environment as a goldilocks market where economic data is neither too hot nor too cold. Manufacturing PMIs rebounded to 52.2 in February while the Federal Reserve regional business surveys continue to highlight healthy business conditions. At the same time, inflation continues to cool with both the headline and core PCED inflation rates falling below 3% for the first time in two years. Canada added 37,000 jobs in January while the CPI grew 2.9% - well below consensus estimates of 3.3%.

Meanwhile, conditions are not as favourable in other developed markets including Japan and the U.K. which have each slipped into technical recessions. Our predominantly North American equity income portfolios are well-suited for the current environment which should support capital flows from foreign investors this year.



Source: Bloomberg.

REAL ESTATE

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

Dean Orrico

President & CEO

Since the beginning of the year, the number of projected Fed cuts has been scaled back from six to three. Notwithstanding the current rate environment, fundamentals in select areas of the sector remain extremely attractive. Our actively managed strategies have tilted their asset allocation towards REITs in these areas which has contributed to positive performance relative to the benchmark this year.

In addition, our focus on REITs with solid balance sheets, high liquidity ratios, positive rental growth and low payout ratios, allows us to avoid the inevitable challenges in select sectors of the commercial real estate market. Examples include Northwest Healthcare REIT in 2023 and, more recently, Dream Office REIT, with each company cutting or suspending distributions, causing a major reduction in their trading prices. We also avoid chasing yields as this can often result in negative returns over time, i.e. companies with higher yields often carry much higher risk.

Overall sentiment in the commercial real estate market has been improving in recent months. This is primarily due to an expectation of lower overnight rates and a reduction in longer dated bond yields, together with the solid fundamentals in our preferred sectors including multi-family, grocery-anchored retail, industrial and data centre ("DC") REITs.

DCs operate sophisticated industrial facilities equipped with advanced cooling systems, housing rows upon rows of high-powered computer servers. Importantly, their biggest customers are cloud service providers such as Amazon Web Services and Google – companies that are spending billions of dollars on building infrastructure for AI. Equinix, our top DC REIT holding, is positioned to participate in the immense growth taking place in the industry. The stock generated a total return of 7.6% during the month.

Multi-family apartments are another area of the sector with an attractive outlook both near and long-term. Boardwalk REIT (BEI), our largest holding in our real estate funds, delivered another blowout quarter with its Q4 earnings results. BEI generated same property NOI growth of 16.8% year-over-year and came in at the top-end of its full-year guidance. For 2024, the company sees SPNOI growth of 10% to 14% which is well above street estimates. The company also announced a 23% distribution increase which is supported by the recent operating momentum it has shown. BEI generated a total return of 9.1% in February and is our real estate funds' top holding.

HEALTHCARE

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

Robert Moffat

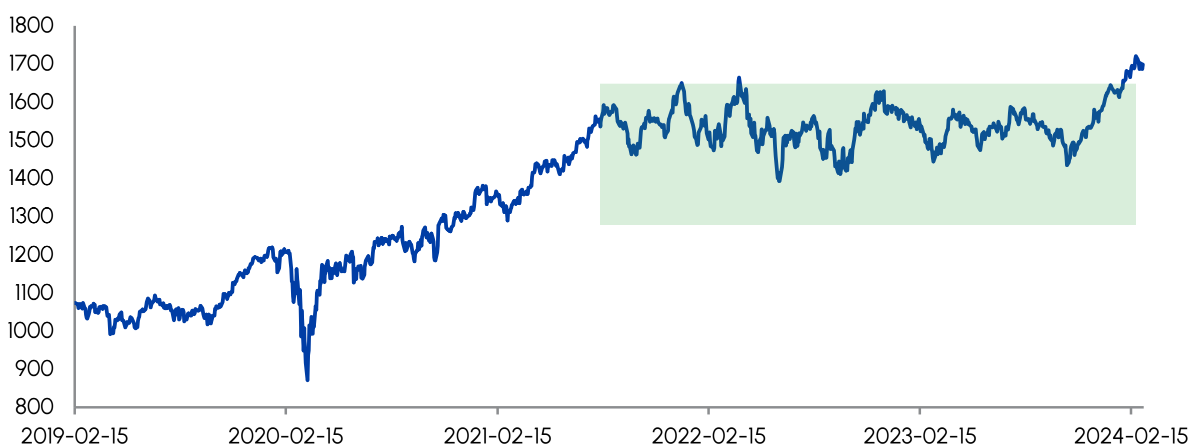
Portfolio Manager

The healthcare sector is off to a strong start in 2024, generating a total return of 6.2%. We believe it represents the early stages of a multi-year period where healthcare can outperform. The S&P 500 Healthcare Index recently broke out from a multi-year sideways trading channel and is just starting to come off its lows on a relative basis versus the S&P 500.

Our actively managed healthcare strategies have outperformed the benchmark this year. Our funds have been overweight MedTech and underweight managed care which has been the biggest driver of relative performance. Q4 earnings showed that healthcare utilization has been elevated, driven by both seasonal factors such as a bad flu season and structural trends such as growing demand for

S&P 500 Healthcare Index

Breaking Out After a Long Consolidation



Source: Bloomberg.

joint replacements among seniors. This has caused reimbursements from insurance companies to rise, particularly those focused on the Medicare Advantage (MA) segment. Within our limited exposure to managed care, we currently prefer companies that have diversified exposure to healthcare services outside MA and are more focused on companies with commercial plans. Elevance (ELV) meets these requirements and is a stock we have recently added to our portfolios.

Biotech has recently experienced one of the most impressive rallies across the entire market. Importantly, biotech stocks have defied their rate-sensitive reputation, returning 12.6% in February despite 10-year bond yields rising 34 basis points. Large, cash-rich incumbents are actively bolstering their drug pipelines with M&A transactions, which has caused capital to flow back into the sector. Total biopharma funding in January through IPOs, private equity, venture capital and secondaries was $5.8 billion, up 133% compared to last year and up 67% compared to 2019. We have increased our exposure to biotechnology recently with several small investments in SMID-cap biotech stocks. Our funds are now overweight biotech for the first time in several quarters, with approximately 15% of the portfolio allocated to this sub-industry.

SUSTAINABLE INFRASTRUCTURE

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

Robert Lauzon
Managing Director & CIO

Electrification remains one of our preferred investment trends within the energy transition opportunity. Companies that sell electrical equipment and systems are poised to benefit from a robust investment cycle across large end-markets such as utilities, data centres and aerospace. In particular, smart grid technologies that optimize energy distribution from renewable power will be in high demand as distributors attempt to address the issues of intermittency and make buildings more efficient.

One of our preferred names in this space is Eaton (ETN). In 2023, ETN's North American mega project announcements were up $415 billion compared to 2022, 55% of which were related to federal government incentives (IRA, IIJA, and CHIPS). ETN's backlog in the eMobility sector jumped 18% year-over-year, reflecting a surge in demand for electrification solutions. This trend is being driven by factors such as increasing adoption of electric vehicles and a growing focus on renewables. With its expertise in power management and electrical components, ETN is positioned to capitalize on this industry growth. Their commitment to innovation, as seen in their projected 30% growth in the eMobility business for 2024, solidifies their position as a top player in the rapidly evolving electrification landscape.

The solar industry is experiencing a boom, as highlighted by First Solar's robust Q4 2023 results. Its impressive net bookings of 28.3 gigawatts in 2023 showcase a red-hot market for solar solutions. This surge is primarily fueled by government incentives and a growing awareness of environmental sustainability. First Solar, with its emphasis on domestic manufacturing and next-generation solar technologies, is well-positioned to be a leader in this expanding market. The company's plans to increase global capacity by 2026 demonstrate its commitment to meeting the rising demand for clean energy. Outside North America, First Solar foresees 10.2GW (15.3%) of total booking opportunities across India and Europe and will remain a key player in facilitating the global energy transition.

TECHNOLOGY & COMMUNICATIONS

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

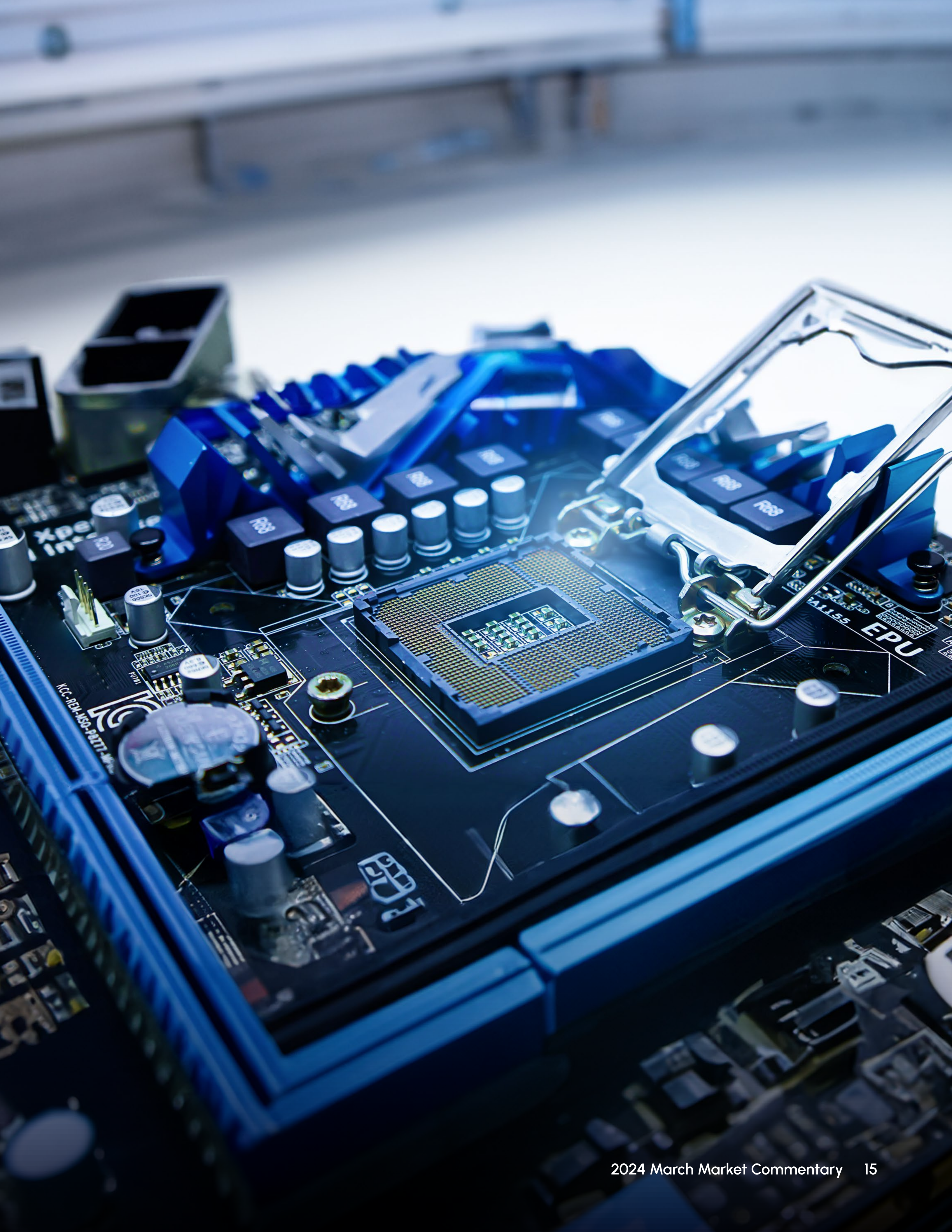
Shane Obata

Portfolio Manager

One of our highest conviction investment themes entering 2024 was that the quality factor would continue to outperform, given a still challenging interest rate backdrop. That is exactly what has transpired thus far, as evidenced by the Nasdaq 100 returning +9% year-to-date and Goldman's Non-Profitable Tech basket returning -10%.

While we are expecting upside risk to lower quality names when the Fed starts cutting rates, we continue to believe that outperformance could prove transitory and that this is largely a "big get bigger" market. Tough economic times can bode well for larger companies that have enough resources to outspend their competitors through industry downturns. That is exactly what we have seen with mega cap tech over the past few years. With the Artificial Intelligence ("AI") theme moving full steam ahead, we would not be surprised if the Cloud Service Providers emerge stronger than ever before.

The key takeaway from the Q4 earnings season has been the broadening out of the AI theme. While we continue to have high confidence in early leaders such as Microsoft and Nvidia, we have been pleased to see tangible benefits from other AI beneficiaries such as Salesforce and Dell. The more companies that show momentum in AI, the more durable the theme will become. Another important development has been the emergence of early indications that AI is paying off for adopters. One great example was from Klarna, the European payments company, which noted that its AI assistant – powered by OpenAI – is handling 2/3 of the company's customer service chats and resolving problems in just 2 minutes compared to 11 minutes previously. It will be very important to see more evidence of returns on investment to support the massive amount of spending that is currently going into AI.


EPU

RESOURCES

Middlefield Fund Tickers & Codes: MID 800 / MID 161 / MID 265 / MRF FT LP / Discovery FT LP

Dennis da Silva

Senior Portfolio Manager

The price of gold broke above the psychological U.S. $2,000/oz level in mid-February and at the time of writing is hitting record highs of U.S. $2,168 in anticipation of rate cuts this year. In our view, the floor for gold has been supported by demand from price-insensitive central banks and Chinese household asset allocation. These are important demand drivers, but eventual rate cuts on the horizon remain the key macro-bullish factor for gold. Despite languishing versus the commodity over the past year, green shoots are emerging with the performance of gold equities. We believe a rally in gold stocks is long overdue and have been increasing our exposure to this sector recently. After four consecutive years of increasing costs due to COVID and supply chain issues, cost pressures are starting to ease, and margins are set to improve – conditions we don't think are captured in equity multiples today.

The price of oil remains above its 200-day moving average and is once again approaching US$80/bbl. This relative strength corresponds with historical seasonality as refiners gear up for the summer driving season. The recent extension of OPEC+ cuts should provide ongoing support for oil markets and offset potential headwinds from production growth in North America. Meg Energy revealed that on Feb 29th Trans Mountain called for producers to start preparing to fill the expansion line during April and May. In our view, this signals that Trans Mountain has a high degree of confidence in its targeted Q2/24 start-up timeline. The much-needed spare export capacity should tighten the Western Canadian Select differential and improve pricing for Canadian oil producers such as Headwater and Canadian Natural Resources.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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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