MARKET COMMENTARY

JUNE 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

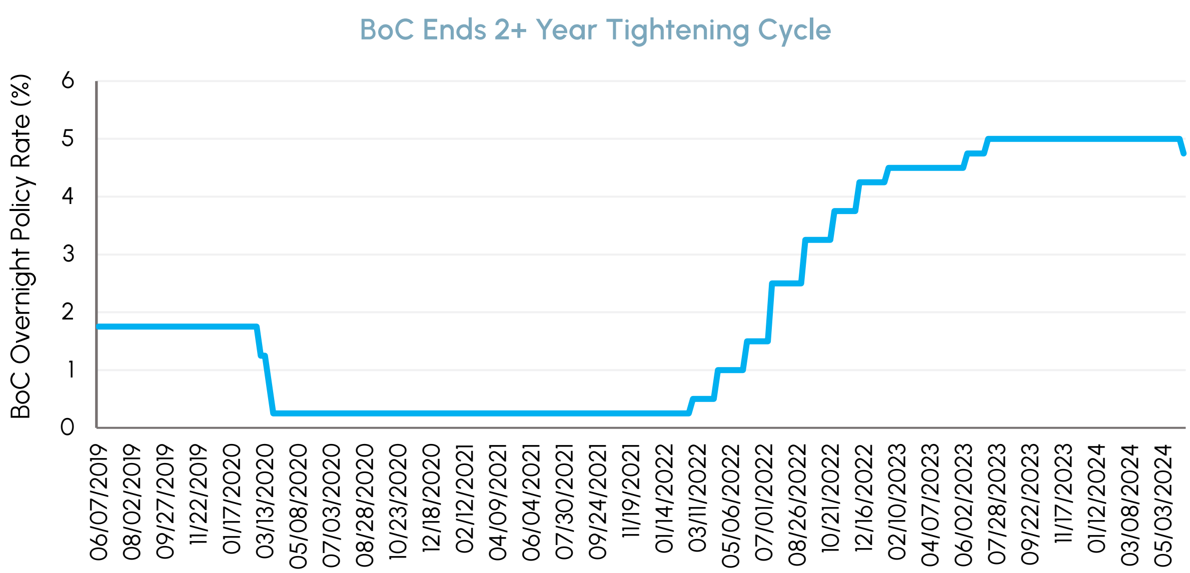
President & CEO

Robert Lauzon

Managing Director & CIO

Equity markets rebounded in May with the S&P 500 generating a total return of 5%. Technology (+10.1%) and Communication Services (+6.6%) led to the upside while energy and materials took a breather following several months of strong performance. The TSX Composite, which is more concentrated in resources, lagged U.S. benchmarks with a return of 2.8%.

For the first time in more than four years, the Bank of Canada (BoC) has announced a cut to its overnight policy rate. The June 5th announcement caused interest-sensitive sectors such as real estate and utilities to rally on the news in what could be the early stages of a turn in sentiment. While the BoC and the Fed typically have similar policy stances, there is historical precedent for the



Source: Bank of Canada, Bloomberg.

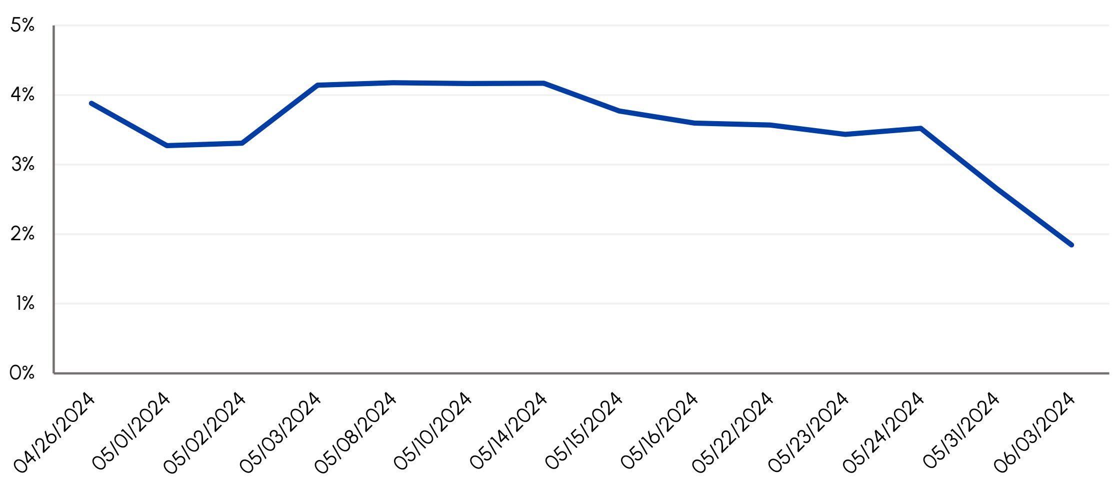
two central banks to diverge. Since 2005, the gap between the overnight rates at the BoC and the Fed has widened to as much as 100 basis points which represents another 50 basis from the current spread. Although expectations for the first Fed cut are starting to move forward again, we believe the BoC is likely to make one more 25 basis point cut before the Fed makes its first move.

Canadian inflation data for the month of April is what gave the BoC the all-clear to start cutting rates. Canada's annual core inflation rate eased for the fourth consecutive month in April to an average yearly pace of 2.7%. Excluding shelter costs, the consumer price index rose just 1.2% year-over-year which is well-within the BoC's zone of comfort. In addition, Canada's economy grew at a weaker-then-expected pace of 1.7% in Q1 which gave them additional cover for the decision.

In the U.S., numerous data points have emerged in recent weeks that suggest consumer demand is finally softening. Consumer related equities have garnered attention recently as their pricing power appears to be eroding. Declining foot traffic at Starbucks and weak results at McDonald's suggest that both middle and lower-income consumers are foregoing discretionary purchases for more economical options. Moreover, new value meal offerings from Wendy's and Burger King and discounted prices at Target and Walmart all point to a more competitive pricing environment. The consumer discretionary sector has returned just 0.7% year-to-date and is the second-worst performing sector in the S&P 500.

The softening demand backdrop has positive readthroughs on inflation. The streak of hotter-than-expected CPI prints in the U.S. ended in April with the lowest inflation print in two years. 10-year yields have fallen from 4.7% in late April to 4.35% in early June which is partly due to more benign inflation expectations. The other major reason for yields to decline so quickly is more tempered

Atlanta Fed GDPNow real GDP Estimate for Q2'24



Source: Federal Reserve Bank of Atlanta, Bloomberg. As at June 4, 2024 growth expectations. The Atlanta Fed GDPNow real GDP estimate for Q2 2024 has fallen from over 4% in mid-May to 1.8% in early June. For now, a slowdown in growth should be a welcome development for investors as it is coming off a high pace and reflects a more normalized environment. That said, if the U.S. economy slows too much or too fast, forward earnings estimates (that have been steadily climbing) may need to be reconsidered.

Our core strategies at Middlefield are very well-positioned against the current backdrop. Our exposures to real estate, infrastructure and utilities are positioned to benefit from lower interest rates. Our innovation funds will continue to benefit from the proliferation of A.I. and are focused on industry-leaders with competitive moats. Healthcare companies sell needs-based products and services which are less impacted by a slowdown in consumer spending. As a result, we maintain a positive outlook for our strategies in the second half of the year.

Real Estate

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

Dean Orrico
President & CEO

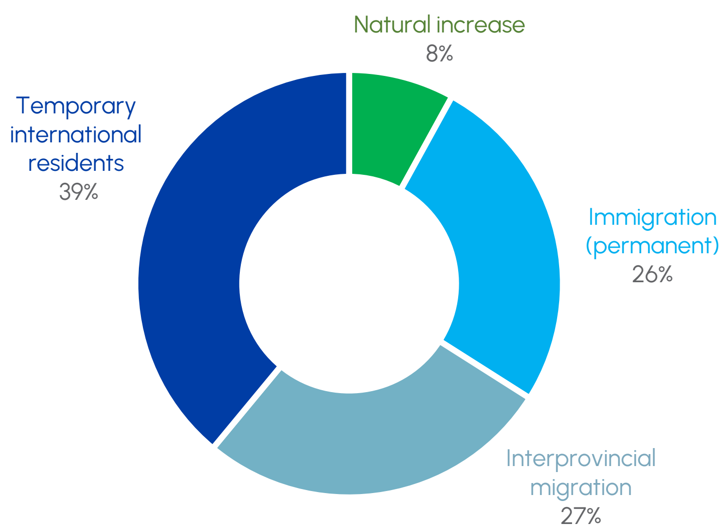
On May 8th, the Federal government officially announced that it will not be changing the tax treatment of apartment REITs. What began as a warning from the Liberal government during the 2021 Federal election has culminated in an official statement that eliminates a long-standing overhang on the sector. We have always believed that adding new supply is the only solution to the pronounced housing shortage in Canada and that REITs provide a critical channel for new investment in rental units. We commend the initiative taken by the CEOs of apartment REITs these past few years to educate government officials on the important role they play in Canada's rental market, and the detrimental impacts that tax changes would have on new development.

According to Statistics Canada, Canada's population reached 40.8 million people in January which is up 3.2% from a year ago. While it's encouraging to see the government implementing tax breaks and funding measures to incentivize new supply, we believe it is going to take years, if not decades, to improve the supply/demand imbalance in the residential rental market. As a result, our core multi-family apartment REITs reported outstanding Q1 results in May and the long-term earnings outlook for this sector is among the best in the entire real estate market.

Apartment REITs with portfolios concentrated in Alberta or the Maritime provinces have particularly strong fundamentals right now. Alberta's population grew by over 200,000 people in 2023 – by far the largest annual increase on record. Most of its growth has come from individuals born outside of Canada (both permanent and temporary residents). Roughly 60% of Boardwalk REIT's portfolio is in Alberta which supported same-property NOI growth of 13.5% in Q1. Meanwhile, New Brunswick, Nova Scotia and PEI were the only three provinces other than Alberta to experience positive interprovincial migration in 2023. 60% of Killam's NOI comes from the Maritimes (with another 9% from Alberta) which has led to rent growth on turnover of 19.6%.

The apartment REITs, along with industrial, grocery-anchored retail and seniors housing REITs, all trade at persistently high discounts to NAV even though they enjoy positive supply/demand dynamics, solid balance sheets and increasing cash flows. Even so, the sector has underperformed for several quarters due to elevated interest rates. As mentioned earlier, the recent rate cut from the Bank of Canada may serve as the long-awaited catalyst that causes REIT share prices to gravitate closer to their NAVs. As we witnessed in Q4 of last year, when 10-year bond yields fell by 100 basis points and Canadian REITs rallied by 20%, sentiment can shift quickly, and we continue to recommend exposure to real estate as we enter a period of easing monetary policy.

Components of Alberta's Population Growth in 2023



Source: Statistics Canada, CBC

Healthcare

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

Robert Moffat
Portfolio Manager

The S&P 500 healthcare sector returned 2.4% in May, lagging the S&P 500. Like the broader market, there was a wide dispersion of returns between various companies and sub-industries this month. Healthcare facilities (+9.9%) and biotech (+6.8%) outperformed while healthcare services (-5.9%) and healthcare supplies (-3.3%) lagged. These gyrations indicate we are clearly in a stock-picker's market which is an ideal backdrop for our actively managed healthcare strategies.

Healthcare tends to garner a lot of attention during election years. Rising drug costs and insurance premiums have historically fueled political rhetoric from candidates on the campaign trail. In a striking departure from past trends, healthcare has tumbled to the 16th most important problem facing Americans today, according to a recent Gallup poll. Immigration, inflation, crime and democracy are all polling well ahead of healthcare in terms of 2024 election issues. Even so, we recognize that political rhetoric is likely to accelerate in the coming months and expect the usual suspects to be caught in the crosshairs. This is one of the reasons our healthcare funds are currently underweight pharmaceuticals and managed care relative to the benchmark. We are overweight the MedTech industry for fundamental reasons which comes with the added benefit of insulation from politics if the issue arises.

Although our aggregate exposure to pharmaceuticals is lower than the benchmark, we hold more concentrated positions in the pharma industry's highest-quality and most innovative companies. Astrazeneca (AZN) meets these criteria and is a top 3 position in our healthcare funds. AZN hosted an investor day in May whereby it outlined plans to deliver $80 billion in total annual revenue by 2030, a 20% upgrade to consensus. The company also provided long-term targets for operating margins which results in a 9% CAGR in operating income between now and 2030. AZN's growth will be backed by ~20 new product launches by the end of the decade which is supported by what we believe to be the best late-stage drug pipeline in the industry.

Infrastructure

Middlefield Fund Tickers & Codes: MINF / MID 265 / MID 510 / ENS / IS / MID 800

Robert Lauzon
Managing Director & CIO

We recently met with the CEO of TC Energy (TRP) to discuss the upcoming spin-off of South Bow Liquids Pipelines and the exciting opportunities ahead for the company. Post-spin, TRP will emerge as a compelling natural gas infrastructure company that is positioned to capitalize on critical energy needs for corporations and individuals across North America. TRP's 93,600 km pipeline network delivers 30% of North America's natural gas, playing a vital role in transporting fuel to where it's needed most. Their pipeline network connects key supply basins with growing demand centers in Virginia and Wisconsin, precisely where corporations are flocking due to strong infrastructure and supportive regulatory environments. Due to its footprint, TRP has the established infrastructure and expertise for cost-effective brownfield expansions, allowing it to capitalize on rising demand without the complexities and delays of greenfield projects.

TRP's ownership stake in Bruce Power, a massive 6,560MW nuclear facility in Ontario, complements its natural gas portfolio to form a well-rounded clean energy solution. Despite the rise of renewables, natural gas and nuclear energy remain crucial pillars in the energy evolution. Increased electrification for data centers and electric vehicles will require significant grid upgrades, creating a bottleneck for renewables in the near term. In addition, the booming LNG export market necessitates expanded pipeline capacity, which perfectly aligns with TC Energy's expertise. TC's pro-forma energy mix and strong market position make it a compelling investment in the current environment.

During May in London, England we met with Greg Ebel the CEO of Enbridge where he reiterated the ability for natural gas to provide clean, affordable and secure energy to the world. ENB boasts a strategically located natural gas infrastructure system, positioned to benefit from the rise of data centers seeking reliable power sources. Management was also bullish on the long-term outlook for gas utilities, as evidenced by its September 2023 announcement to acquire three U.S. based gas utilities to create the largest natural gas utility franchise in North America. On June 3rd, ENB showed progress on the transaction by announcing the closing of Utah-based Questar Gas. These acquisitions reinforce their commitment to delivering stable and predictable cash flows, supporting their long-term dividend growth strategy. Enbridge presents a unique opportunity to invest in a leading energy company that's well-positioned for the future through its diversified platform of natural gas, liquids and renewable power assets.

Technology & Communications

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

Shane Obata

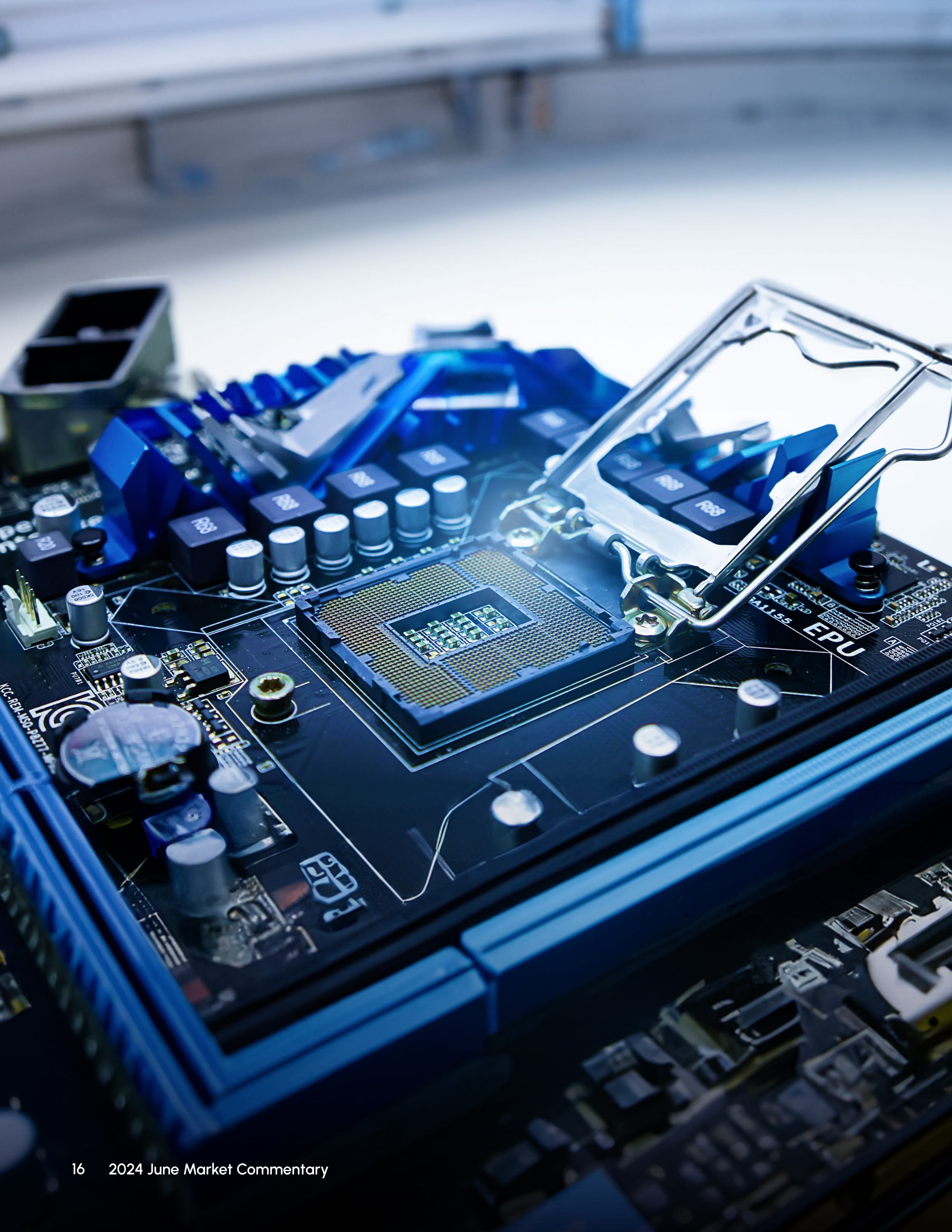
Portfolio Manager

The financial commitment to AI technology is immense, with global cloud capital expenditures (CapEx) projected to surge from $150 billion in 2024 to a staggering $180 billion in 2025, according to Morgan Stanley's estimates. This significant investment underscores the enduring nature of AI's influence and aligns with industry statements indicating a multi-year investment cycle, positioning AI as a transformative force with long-term implications.

While mega-cap tech companies continue to spend on data center GPUs (crucial components for AI processing), their demand is being outpaced by the burgeoning enterprise sector. This shift highlights the expanding reach of AI beyond traditional tech giants, as industries like automotive and healthcare increasingly embrace AI to enhance their operations, products, and services. Moreover, the emergence of "sovereign AI," representing demand from national governments and related institutions, adds another dimension to the market, with potential to generate high-single-digit billions of dollars in value in 2024.

Amidst this dynamic landscape, Taiwan Semiconductor Manufacturing (TSM) emerges as a compelling investment opportunity. Despite being one of the most affordable "AI semis," TSM is projected to derive a substantial 20% of its sales from AI by 2025. Beyond its attractive valuation, TSM's technological agnosticism sets it apart. The company's ability to benefit from various architectures (e.g. x86 or Arm), processors (e.g. GPU vs. CPU), and computing models (e.g. Cloud vs. Edge) ensures adaptability in a rapidly evolving field. TSM's leading position in advanced manufacturing, boasting over 90% market share in cutting-edge applications, further solidifies its appeal.

In the broader market, there's a prevailing preference for semiconductors and hardware over software, although this dynamic is expected to shift eventually. Such a change seems unlikely soon, however, as companies are likely to prioritize one-time investments in AI hardware upgrades over committing to recurring fees associated with AI software capabilities. This trend underscores the immediate importance of players like TSM in driving the ongoing AI revolution.


R68
EPU

Resources

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

Dennis da Silva

Senior Portfolio Manager

While gold faded through the end of May, the metal set an all-time closing high above US$2,400/oz and managed the third consecutive month of solid performance. Gold equities also outperformed gold for a third straight month. Since the end of February, gold is up 14%, while gold equities rose 31%. The ratio of gold equities to gold continues to normalize off its recent low and has plenty of room to move higher, implying 19% upside to reach its historical average. During May the S&P/TSX Global Gold Index was up an impressive 4.9%, outperforming bullion's solid 1.8% gain.

The copper price has skyrocketed since February, but not for the usual reason of strong global growth. A perfect storm of circumstances has created an unusually tight market, with uncommon supply constraints at a time of rising demand. Copper prices are consolidating after the impressive run-up setting an all-time high of over US$5.00/lb in May. We view the copper market as a story of supply that will be unable to keep up with incremental demand driven by the secular trend of electrification.

We believe the North American natural gas market has reached a turning point, after bearish sentiment hit a feverish peak in the first quarter of 2024 resulting from a mild North American winter and LNG terminal maintenance. Over the past 25 years, Henry Hub has only broke US$2.00/mcf five times on the downside: in 2002, 2012, 2016, 2020, and earlier this year. Our more favorable outlook on the commodity as we exit 2024 is predicated on LNG export demand in addition to domestic gas consumption for electricity which is expected to rise materially in the coming years, driven by the proliferation of data centers. Oil prices were marginally above US$80/bbl in mid-May before softening ahead of the OPEC meeting on June 2. OPEC+ agreed to extend cuts of 3.66 million bpd until the end of 2025 and gradually phase out voluntary cuts of 2.2 million bpd over the course of 12 months starting this October. During May, the S&P/TSX Capped Energy Index was up 2.2%, offsetting the 6.0% decline in crude thanks to the effect on gas weighted equities from the 30% rise in NYMEX natural gas prices.

ESG

Environmental, Social and Governance

Middlefield Fund Tickers & Codes: MDIV / MINF / CLP.UN / SIH.UN / MID 265

Stephen Erlichman

Chair, ESG (Environmental, Social and Governance)

On May 24, the Council of the European Union approved the long awaited Corporate Sustainability Due Diligence Directive (CSDDD). The CSDDD is expected to come into force this month (June) and then EU member states will have two years to adopt measures to transpose the directive into national laws. This article explains, at a high level, some of the CSDDD's measures and then suggests why the directive also is relevant for Canada.

The CSDDD is an EU law which will impose legal obligations on certain companies with respect to human rights (an "S" issue in ESG) as well as climate change and other environmental concerns (an "E" issue in ESG) throughout the companies' global "chains of activities" (which is a term defined in the CSDDD). The CSDDD requires the affected companies to carry out human rights and environmental due diligence (HREDD). The CSDDD provides for civil liability, namely rights to certain affected parties to sue companies before national courts of EU member states for harm occurring in the companies' chains of activities, and also allows regulators to impose fines for non-compliance with the CSDDD.

HREDD means companies will be required to identify and address risks and harms to human rights and the environment across their global chains of activities, which for example means looking at the operations of their subsidiaries and suppliers to see if there are human rights or environmental risks such as forced labour or water pollution. Companies will be required to engage with stakeholders affected by their operations and take appropriate measures to mitigate the risks and remediate the harms that have occurred. HREDD generally will apply to both upstream and downstream operations in companies' value chains.

The CSDDD initially will apply to an estimated 5,000 or so large European companies, but in addition it will apply to Canadian and other non-EU companies with net revenue of more than EUR 450 million in the EU. The CSDDD may be a harbinger of things to come in Canada. Canada already has implemented The Fighting Against Forced Labour and Child Labour in Supply Chains Act, which is a federal statute that came into force this year. That statute, however, is only a transparency statute which requires companies to disclose what, if anything, they are doing in regard to possible forced labour and child labour in their supply chains, but the federal government is expected to propose a follow on statute later this year which may require Canadian companies to undertake human rights due diligence along the lines of the CSDDD.

Even in the absence of due diligence legislation in Canada, Canadian companies can be subject to shareholder proposals asking for human rights or environmental due diligence. For example, there were various articles in the press recently which discussed the shareholder proposal that was brought forward by the BC General Employees' Union at this year's Gildan Activewear annual shareholder meeting. The proposal asked Gildan's board of directors to oversee and issue a report to shareholders assessing the effectiveness of Gildan's existing human rights risk infrastructure. Gildan responded stating among other things that it works actively to identify, prevent and mitigate the risk of human rights violations in various ways, including by internal audits and third party audits, and that it is committed to transparent disclosure. Gildan recommended voting against this shareholder proposal and ultimately it received just under a 14% vote in favour.

Whether through future legislative requirements or in response to shareholder proposals, asset managers can expect to see more transparency by companies of their HREDD. This type of ESG disclosure in turn may be used as an input by asset managers as they evaluate whether to buy or sell the shares of a company and how to vote at a company's shareholder meetings.

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
ActivEnergy Dividend 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
MINT Income Fund	MID.UN	Equity Income
Sustainable Innovation & Health Dividend Fund	SIH.UN	Innovation & Healthcare

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	Real Estate
Infrastructure Dividend Split Corp. (Class A Shares)	IS	Infrastructure
Infrastructure Dividend Split Corp. (Preferred Shares)	IS.PR.A	Infrastructure

LSE-Listed Investment Fund

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

Sustainable Focus

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MIDDLEFIELD
INVESTMENTS THAT WORK FOR YOU

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