MIDDLEFIELD

INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

JULY 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 S&P 500 generated a total return of 15.3% in the first half of 2024, reaching 33 new all-time highs along the way. The year-to-date return breaks down into 7.1% from improved earnings expectations, 7.4% from expansion in the forward P/E multiple to 21x, and 0.8% from dividends. Sectors linked to the AI thematic led to the upside with Information Technology and Communication Services returning 28% and 27%, respectively. Index heavyweights Microsoft, Nvidia, Apple, Google, Amazon, and Meta contributed to 62% of the index's total return.

The TSX Composite Index generated a total return of 6.1% in H1, lagging the U.S. market by nearly 10%. Half of the performance gap occurred in June when the TSX returned -1.4% compared to 3.6% for the S&P 500. Canada's three largest sectors - Energy, Materials and Financials - all had negative returns in June which explains most of the underperformance. With the Bank of Canada (BoC) entering an easing cycle on June 5th, we expect relative performance of Canadian equities to rebound. Historically, the TSX has averaged double-digit gains 12 months after the first BoC rate cut. We believe core defensive yield sectors including utilities and real estate are particularly well-positioned to outperform in the second half.

A common theme that emerged during the second quarter was normalization. Growth expectations, inflation and employment stats have all been easing from abnormally high levels recently. We view this trend positively as long as the pace of easing remains gradual and these key economic data return to more normalized levels. We do not forecast a recession in the U.S. or Canada over the next twelve months and believe the evolving macro landscape is conducive to continued strong performance from North American equity markets. Although the Federal Reserve has maintained its hawkish stance in recent press conferences, the normalization of economic data we are witnessing supports an easing cycle in the U.S. as well. As of early July, Fed Funds Futures are implying an 80% chance that the Fed will cut rates at its September meeting. With the Fed now having less to worry about on both sides of its dual mandate, we agree that a rate cut in September would be an appropriate course of action.

Seasonality factors imply that the good times will continue for the S&P 500 this month. The Index has been positive in July for 9 consecutive years with an average return of 3.7%. Moreover, the first half of July has been the best two-week period of the entire year going back to 1950. That said, August has been a negative month the past two years while September has historically been the worst month of the year for the Index. Given the impressive run the market has been on so far this year, we would not be surprised to see a short-term pullback in major indices during the second half of Q3. Given our positive outlook on the macro landscape, and the projected earnings growth over the next two years, we view any near-term market pullback as a healthy correction within a broader secular bull market and would be buyers of high-quality stocks on weakness.

YTD S&P 500 Return Attribution

Sector	Weight at Start of 2024 (%)	YTD Return (%)	Contribution of S&P 500 Return (basis points)
Info Tech	29	28	815
Comm. Services	9	27	229
Financials	13	10	132
Health Care	13	8	98
Industrials	9	8	68
Cons. Discretionary	11	6	61
Cons. Staples	6	9	55
Energy	4	11	42
Utilities	2	9	22
Materials	2	4	10
Real Estate	2	-2	-5
S&P 500	100	15	1529

Source: FactSet, Goldman Sachs Global Investment Research

Real Estate

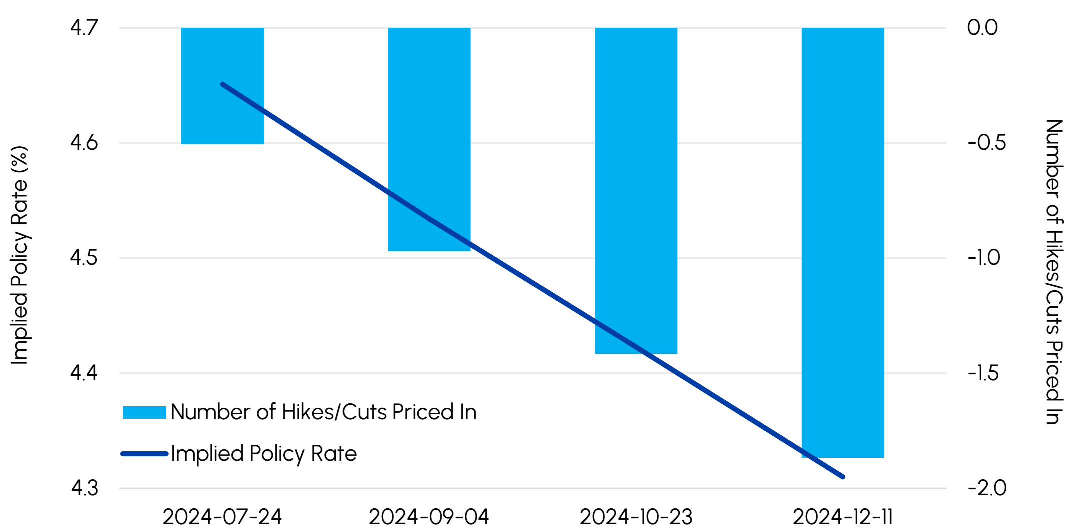
Middlefield Fund Tickers & Codes: MREL / MID 600 / RS / RA.UN

Dean Orrico
President & CEO

Canadian REITs returned 0.6% in June, outperforming the TSX Composite by 2%. The BoC's decision to cut rates on June 5th is showing early signs of improving sentiment for the sector. There are four BoC meetings remaining in 2024 and the Overnight Index Swaps market is currently pricing nearly two more full cuts from the BoC before year-end.

Canada's population has increased 8% since pre-pandemic levels. Supply of real estate has not kept pace with the surge in demand, causing Canada's per capita housing stock and shopping centre space to fall by 2% and 6%, respectively. As a result, vacancy rates have fallen to historic lows within these asset classes and rents have gone up.

Bank of Canada Implied Overnight Rate & Number of Hikes/Cuts



Source: Bloomberg. As of July 3, 2024.

Apartment rents have risen close to 10% year-over-year while retail property leasing spreads are also in the high single-digits. The operating environment is as attractive as it has ever been for these asset classes and when investor focus finally shifts from interest rates to fundamentals, we expect a swift re-rating in REIT unit prices.

Chartwell Retirement Residences (CSH), a longstanding core holding in our real estate portfolios, announced a $345 million equity raise in June at a price of $12.20/unit. The proceeds will be used to fund $763 million of acquisitions, including 10 residences in Quebec across two relatively new seniors' housing portfolios that will lower the company's overall portfolio age by three years. CSH becomes the first REIT in Canada to issue equity in 2024 – showcasing a unique cost of capital advantage not available to most REITs in the current environment. CSH has consistently exceeded expectations over the past several quarters as occupancy levels recover towards pre-pandemic levels in its residences. With the population of those aged 85+ expected to grow by 50% over the next decade in Canada, CSH's portfolio of private retirement homes should benefit from steadily increasing demand and limited new supply. In this light, we are happy to see CSH opportunistically acquire new assets and view the announcement favourably.

Healthcare

Middlefield Fund Tickers & Codes: MHCD / MID 325 / SIH.UN

Robert Moffat
Portfolio Manager

Healthcare had a strong first half of 2024 with the MSCI World Healthcare Index returning 8.2%. Like the broader market, the sector's performance was driven by a concentrated group of companies, many of which contributed to the outperformance of our healthcare funds in H1. Middlefield Healthcare Dividend ETF (TSX: MHCD) generated a total return of 13.5% including its monthly distributions of $0.05/unit which equate to a dividend yield of more than 5%.

Eli Lilly (LLY) was a standout performer in H1, returning 55.8%. This outperformance follows a return of 60% in 2023 and has resulted in LLY becoming the largest healthcare company in the world with a market capitalization of $850 billion. Although enthusiasm for the company's diabetes and obesity franchise has driven recent performance, we are becoming increasingly positive on what may come next from LLY's product pipeline. LLY hosted an investor event which highlighted an oncology pipeline that, in both qualitative and quantitative terms, has grown robustly over the past five years. It includes a promising breast cancer drug that will show phase 3 data in H2'24 and a lung cancer drug being studied in combination with Merck's Keytruda – also in phase 3. LLY has a broad range of earlier-stage oncology assets as well, including radioligand therapies that it acquired from Canadian biotech company POINT Biopharma last year. LLY is in the enviable position of having a steady stream of free cash flow from its successful GLP-1 drugs to fund its R&D efforts, which should position the company for further growth beyond the near-term opportunity in diabetes and obesity.

On the topic of R&D, we are witnessing a sea change in how companies are approaching early-stage clinical research. AI has the potential to revolutionize R&D efforts by improving drug discovery timeline and accuracy. Machine learning algorithms can predict how potential drug candidates will interact with targets in the body before they are tested in the clinic. These capabilities will allow researchers to pursue only the most promising drug candidates in the clinic and avoid much of the trial-and-error that goes into research today. Danaher, a leading provider of R&D tools and services, recently hired a Chief Data & Artificial Intelligence Officer who previously founded Google's Cancer Pathology project. We expect similar announcements to follow from companies that are involved in R&D and for AI to reshape the drug discovery process over time.

Infrastructure

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

Robert Lauzon
Managing Director & CIO

Infrastructure presents a compelling long-term investment opportunity due to its defensive characteristics, while offering high dividend yields and inflation protection. Several key themes are driving growth in the sector, including accelerating data center demand, energy security, and the upgrading of existing infrastructure. Our **Infrastructure Dividend Split Corp. (TSX: IS)** capitalizes on these trends and specifically invests in dividend-paying securities across various sectors within the infrastructure asset class, including Utilities, Energy, Real Estate and Industrials. The current macro environment is supportive of global infrastructure spending due to a constructive earnings outlook, improving CapEx cycle, increased fiscal focus on infrastructure, and a falling interest rate environment. Historically, infrastructure assets have performed well in periods of "Above Trend and Falling" rate environments. The Bank of Canada's recent 25 bp rate cut marks the start of an easing monetary policy, which will be a significant tailwind for the sector.

AI remains a powerful theme and has shifted focus towards power supply reliability. This shift has brought renewed attention towards the Utilities sector, where several growth opportunities are emerging. Electricity usage in North America is facing a significant ramp up due to GenAI, data center expansion, rising electrification, and manufacturing onshoring. Additionally, extreme weather, aging infrastructure, and increasing reliance on electricity will require substantial investments for a more resilient electric grid. Growing power demand coupled with rising renewables penetration has increased the need for electric transmission investment. Furthermore, growth of data centers will also provide a tailwind for natural gas demand, as it can offer a reliable and lower-emission alternative to coal while complementing the intermittent nature of renewable power sources, which are key attractions for large corporations.

Pembina Pipelines (PPL) is a Canadian midstream player positioned to capitalize on growing energy needs. PPL owns an extensive network of pipelines, operates gas gathering and processing facilities, and is growing their export terminals business. A key driver for PPL is the positive final investment decision to proceed with their Cedar LNG project, which will add 3.3M tons per annum of export capacity, facilitating the transportation of Canadian gas to overseas markets. Additionally, Pembina Gas Infrastructure (PGI) announced a joint venture with KKR, acquiring a 50% working interest in Whitecap's Kaybob complex for $420M. This move strengthens Pembina's gas processing capabilities, drives volumes through its network, and unlocks future growth opportunities.

Technology & Communications

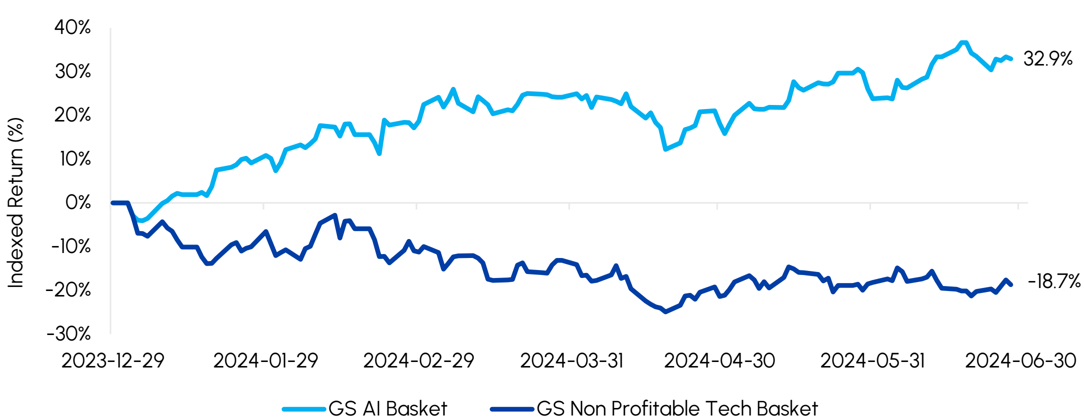
Middlefield Fund Tickers & Codes: MINN / MID 925 / SIH.UN / MDIV

Shane Obata
Portfolio Manager

The first half of 2024 witnessed a clear divergence in the tech landscape: Artificial Intelligence (AI) stocks skyrocketed 33.3%, while non-profitable tech stocks suffered an 18.7% decline. This trend underscored the growing dominance of AI, a theme we anticipate will continue to shape the market.

Our investment approach aligns with this shifting paradigm. We remain steadfast in our conviction that AI-focused semiconductor companies are poised for sustained growth, given their pivotal role in fueling the AI revolution. While concerns about AI disrupting the software sector persist, we believe select companies like Adobe (ADBE)

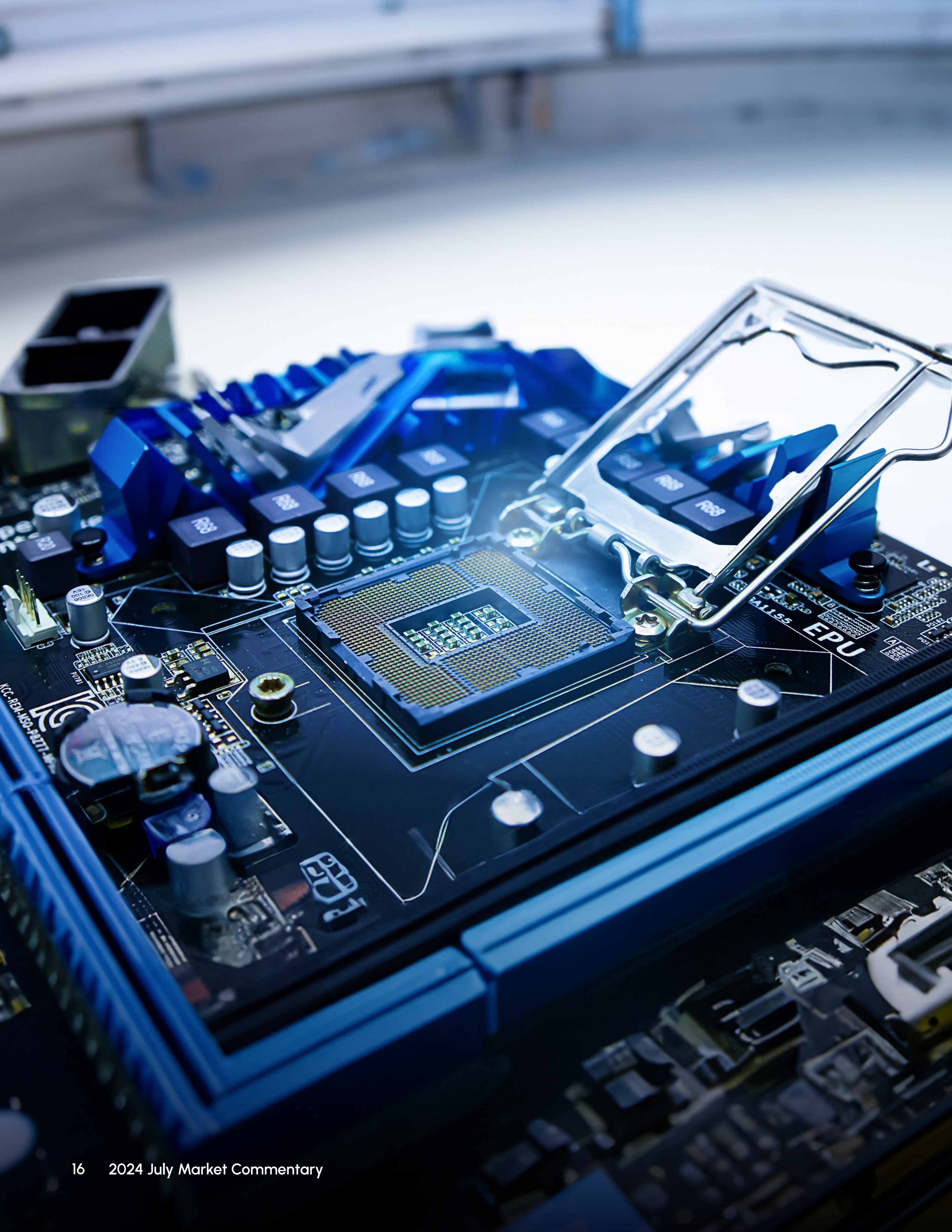
AI Stocks Significantly Outperformed Non-Profitable Tech Stocks in H1'24



Source: Bloomberg. As of June 30, 2024.

are not merely surviving but positioned to thrive. ADBE's recent guidance lift shows that it is not being negatively impacted by AI and serves as a testament to its ability to weather the broader macroeconomic headwinds noted by other software companies. Adobe's competitive advantage stems from its relentless investment in research and development, coupled with a portfolio of high-quality offerings that foster customer loyalty and result in high switching costs. This positions Adobe as a durable franchise, driven by recurring revenue and robust operating margins. Furthermore, the company continues to integrate AI into its platforms, positioning itself as a beneficiary of the AI boom rather than a casualty. While Adobe has been returning capital through share buybacks, we anticipate a dividend initiation within the next 18 months, further enhancing its appeal to investors.

Although the hardware sector shows promise, we are maintaining an underweight allocation due to the superior potential we see in semiconductors. Our Innovation ETF (TSX: MINN), which returned 33.6% in H1'24, underscores our successful navigation of stage one of the AI investment cycle, which we expect will endure into 2025. As a result, we plan to maintain our focus on large-cap growth stocks, prioritizing those with established market leadership, sustainable competitive advantages, and exposure to the burgeoning AI landscape.


EPU

Resources

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

Dennis da Silva

Senior Portfolio Manager

Gold has performed well in 2024, rising by 12.9% in the first half of the year. Gold demand remains supported by central bank buying, retail investment flows in Asia, and ongoing geopolitical uncertainty. Gold has made headlines this year, breaking record highs multiple times between mid-March and mid-May, trading above US$2,300/oz for most of Q2. With gold remaining steady above the $2,300/oz mark, current equity prices imply a gold price that is at a historically large discount to the spot price. The S&P/TSX Gold Sub Industry returned 12.4% in H1'24 and we expect the prevailing discount to narrow in H2.

After breaching the US$5.00/lb level in mid-May, the price of copper has fallen as investors have shifted their focus to demand in China. Despite the decline in June (-4.4%), copper remains a strong performer in the commodities group, up over 12.2% in H1'24. A structural supply deficit is emerging in the copper market driven by declining grades, resource depletion, and increased input costs. Ultimately, these supply dynamics should dictate the direction of copper prices over the medium-to-long term and we believe copper prices will trend higher over the coming months.

Oil hit a 4-month low after the June 2 OPEC meeting where the cartel agreed to gradually phase out voluntary cuts of 2.2 million bpd over the course of 12 months. What was perhaps overlooked in the announcement is that OPEC's decision to return barrels to the market is closely tied to supply/demand conditions.

The latest round of monthly reports from the IEA, OPEC and EIA support firm global oil demand. With summer travel season kicking into high-gear and supply still being managed by OPEC+, oil prices rose 6.3% in June and finished above US$80/bbl. In Canada, the Trans Mountain expansion continues to ramp up smoothly. In mid-June, the company stated that the pipeline was operating at 80% of capacity, or in line with contracted volumes.

Natural gas prices have recovered from historically low levels of sub-US$2.00/mcf to momentarily break through US$3.00/mcf in mid-June. The start of summer has been hot, leading to higher power burn per cooling degree day. With LNG terminal maintenance completed, a hot start to summer and increased power demand from data centres, gas prices may have room to rise further in H2, which bodes well for our gas-focused stocks including Tourmaline, Arc Resources and Peyto.

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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