MIDDLEFIELD

INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

AUGUST 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

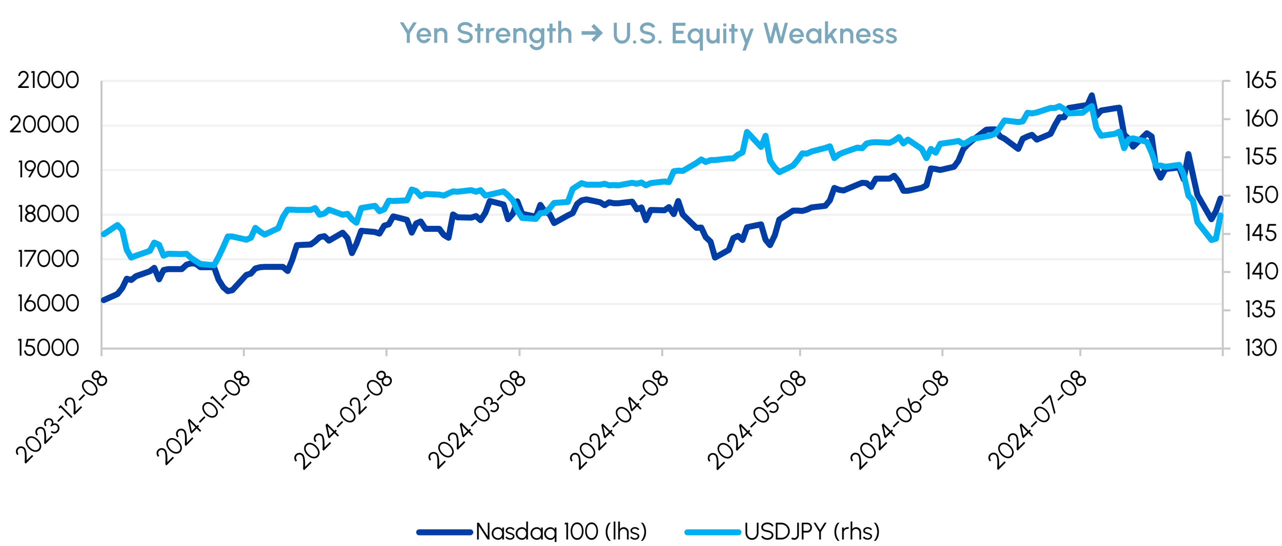
The last few weeks have been very eventful for investors in what feels like a never-ending stream of headlines to digest. After rising 3.8% in the first two weeks of July, the S&P 500 has given back its gains amidst an 8.5% drawdown. Volatility has also returned to markets, with the VIX spiking from 16 to 39 in the first three trading sessions of August.

There is a confluence of factors that have contributed to the recent volatility. In the political sphere, we had a failed assassination attempt on a U.S. presidential candidate, a sitting President decide not to run for a second term, and a surprise election result in France. In geopolitics, tensions between Israel and its neighbouring adversaries have ratcheted higher following the assassination of a top Hamas political leader on Iranian soil. In currency markets, the Bank of Japan unleashed a massive unwind of a crowded carry-trade with a surprise rate hike while the Bank of Canada announced its second consecutive rate cut. And finally, weak manufacturing and jobs data in the U.S. has stoked recession fears and raised expectations of Fed rate cuts.

The fact that all these events have taken place within a short period of time has magnified their impacts and the magnitude of market movements. While the U.S. election and the situation in the Middle East have added to uncertainty, we do not believe they yield actionable trade ideas such as the "Trump trade". The surprise rate hike by the Bank of Japan (BoJ) is the likely culprit for the massive volatility spike we saw in early August. Japan's short-term funding rates are the lowest globally, so when the BoJ raised rates, it caused massive buying in the Japanese Yen from borrowers using it as a funding currency. This caused long positions in foreign markets, including the U.S. stock market, to be used as a source of funds to unwind funding positions in Japan. We believe this dynamic is better understood now and we are not concerned it will be a prevailing headwind for equities. What warrants the most attention and will dictate the direction of markets over the next several months is the trajectory of the U.S. economy.

Recent jobs data in the U.S. has been ostensibly negative. Jobless claims have been steadily increasing while the headline unemployment rate has risen to 4.3%. This has caused some market pundits to call for an emergency rate cut from the Fed and the market to price in more than 100 basis points of rate cuts by the end of the year. As we have previously discussed, we acknowledge that the U.S. economy is slowing, but do not expect a recession any time soon. Jobs data can be very nuanced, and it was likely impacted by Hurricane Beryl and temporary work stoppages in July. Layoffs also fell sharply this month, which is a positive indicator for the job market. The Atlanta Fed's GDPNow growth forecast for Q3'24 is at a respectable 2.9% which does not signal any risk of a recession. The Fed is likely to commence a gradual easing cycle in September in response to economic data that we would characterize as normalizing. This should ultimately serve as a tailwind for equities, with dividend-paying stocks particularly well-positioned to outperform in a falling rate environment.

While the macro landscape has become more uncertain, the micro story continues to look very positive. Over 80% of S&P 500 constituents have now reported Q2 earnings and have demonstrated a weighted-average EPS growth rate of 10.5%. 79% of companies have beat earnings expectations, which compares to a 60% beat rate over the previous four quarters. In Canada, more than half of TSX constituents have now reported and have shown a weighted-average EPS growth rate of 10.3%.



Source: Middlefield, Bloomberg. As of August 7, 2024.

Real Estate

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

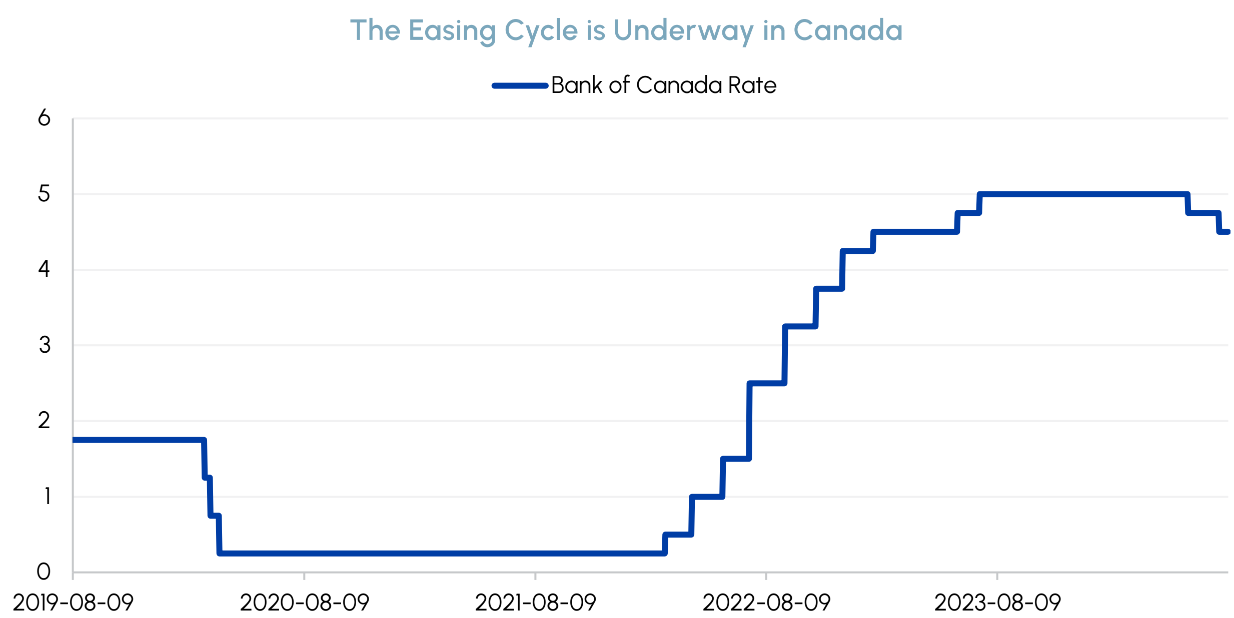
Dean Orrico
President & CEO

REITs performed exceptionally well in July, returning 10.9% in Canada and 7.2% in the U.S. As we had predicted, falling interest rates have been a catalyst for capital returning to the sector. With 3 to 4 more rate cuts expected before the end of the year, we expect this tailwind to persist over the medium-term.

Q2 earnings season is in full-swing and the results are confirming that REIT fundamentals remain very solid. In its Q2 earnings report, Choice Properties reported 48.2% increases on new leases, with uplifts of 13% in its retail portfolio and 106% for industrial properties. Boardwalk REIT also delivered a solid quarter, highlighted by 14.2% same property NOI growth and another increase to 2024 guidance. Despite quarter after quarter of robust fundamentals, REITs are still very cheap on a historical basis. We estimate that our holdings are trading below 14x FFO on average – a 4+ turn discount to where they traded before the Bank of Canada started its hiking cycle in March 2022. Canada's population grew 3.2% in Q2 compared to the same time last year and, unlike the U.S. market, supply has not kept pace with robust demand. This should result in continued growth in rents and earnings.

As we've been saying for several months, we believe REITs will also benefit from capital inflows as investors redeem cash and cash-like alternatives whose yields have already decreased and will continue to decline over the coming weeks and months. REITs have contractual revenue streams which support their high and growing tax efficient monthly distributions, making them a logical destination for investors seeking yield as well as capital appreciation.

Our core REIT holdings are complemented by several stocks in the real estate services industry. FirstService Corp. (FSV) is one of those names and has been a long-held growth compounder in our real estate portfolios. FSV provides property management services across North America to both residential and commercial customers and has grown revenue at a CAGR of 16% since 2015. FSV reported an EPS beat with its Q2 results and returned 15.6% in July. Colliers is another Canadian company in the real estate services industry that has outperformed. Based on the expectation of an eventual decline in interest rates and the corresponding positive impact that would have on real estate transaction activity, we added to Colliers several months ago. The stock returned 21.8% in July as the company's Q2 earnings show its capital markets and leasing businesses are recovering from a period of stagnation.



Source: Bloomberg. As at August 7, 2024.

Healthcare

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

Robert Moffat

Portfolio Manager

The healthcare sector's defensive properties were on display this month as the market priced in softer economic growth. The S&P 500 healthcare sector returned 2.7% in July, led by defensive pockets of the industry such as managed care (+9.5%). We continue to like the setup for healthcare in the current environment due to its attractive mix of defensiveness and growth characteristics.

Healthcare companies have reported stellar Q2 earnings thus far which has supported the sector. 90% of healthcare companies in the S&P that have reported (41 out of 63) have beat net income estimates – the highest percentage of any sector in the Index. The sector has generated 13.2% EPS growth compared to last year and is projected to have the second highest earnings growth in 2025. Moreover, these earnings are insulated from downward revisions due to their defensiveness and predictability. These attributes make healthcare an attractive sector for growth-oriented investors.

We have been taking profits in some of our biggest year-to-date winners recently and recycling capital into several SMID-cap names. Exact Sciences (EXAS) is one of the names we have added to, and it has made an immediate positive impact on performance. The stock jumped 27% on August 1st after the company significantly exceeded Q2 adjusted EBITDA expectations. EXAS is a leader in advanced cancer screening tests with two of the most successful diagnostic products in history: Cologuard and Oncotype Dx. Cologuard is used to screen for colon cancer – the second deadliest cancer in the U.S. behind lung cancer. Oncotype Dx is used for breast cancer screening where over 300,000 new cases are expected each year. Preventative medicine is a growing trend across the healthcare industry that EXAS is extremely well-positioned to capitalize on. The company estimates there are 60 million eligible adults in the U.S. that are not up to date with colon cancer screening, representing a $10 billion addressable market.

Infrastructure

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

Robert Lauzon

Managing Director & CIO

Canadian energy, midstream, and utility companies have delivered strong Q2 earnings, characterized by solid project execution continued deleveraging and increasing dividends. A growing focus on operational efficiency and strengthening balance sheets has positioned companies well for continued growth and value creation. TC Energy (TRP) continues to execute on its long-term strategy with the recently announced sale of its ~5% stake in the NGTL and Foothills pipeline systems to an Indigenous-owned investment partnership for $1 billion. The sale implies a healthy ~12x EV/EBITDA multiple and is at the upper end of sale expectations, which reinforces the value of TRP's premium infrastructure asset footprint. TRP achieved its 4.75x debt/EBITDA target for 2024FY and is on track to reaching its $3 billion asset sales target. Management has noted it may continue with further potential asset sales before year end and take on additional business efficiency initiatives. The company's strategic focus on optimizing its portfolio and enhancing shareholder

Enbridge Breaking Out to the Upside

Source: Middlefield, Bloomberg. As at August 7, 2024.

value is evident through its recent asset sales and commitment to executing its projects.

Enbridge (ENB) reported Q2 results above consensus expectations, highlighting the diverse levers of growth across its premium energy infrastructure footprint. ENB's strategic acquisition of Dominion gas assets have been successfully financed, leading to the cancellation of its ATM program. Notable highlights for the quarter also include Mainline volumes remaining oversubscribed while earning at the higher end of its ROE range, as well as U.S. gas utilities' 8% rate base CAGR benefitting from upside momentum due to data center requirements. ENB subsequently raised its 2024 EBITDA guidance by 7% to include the contribution from the Dominion assets, reflecting its financial flexibility.

Capital Power (CPX) delivered robust Q2 results, highlighted by a 6% dividend increase. The company's focus on gas-fired power generation and its ability to meet the growing demand for baseload power, particularly from datacenters, continue to drive strong performance. Expansion initiatives, strategic acquisitions, and co-location opportunities further bolster CPX's growth trajectory. With a clear commitment to consistent dividend growth of 6% annually through 2025 and a longer-term target of approximately 3%. CPX presents a compelling investment opportunity for income-focused investors.

Technology & Communications

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

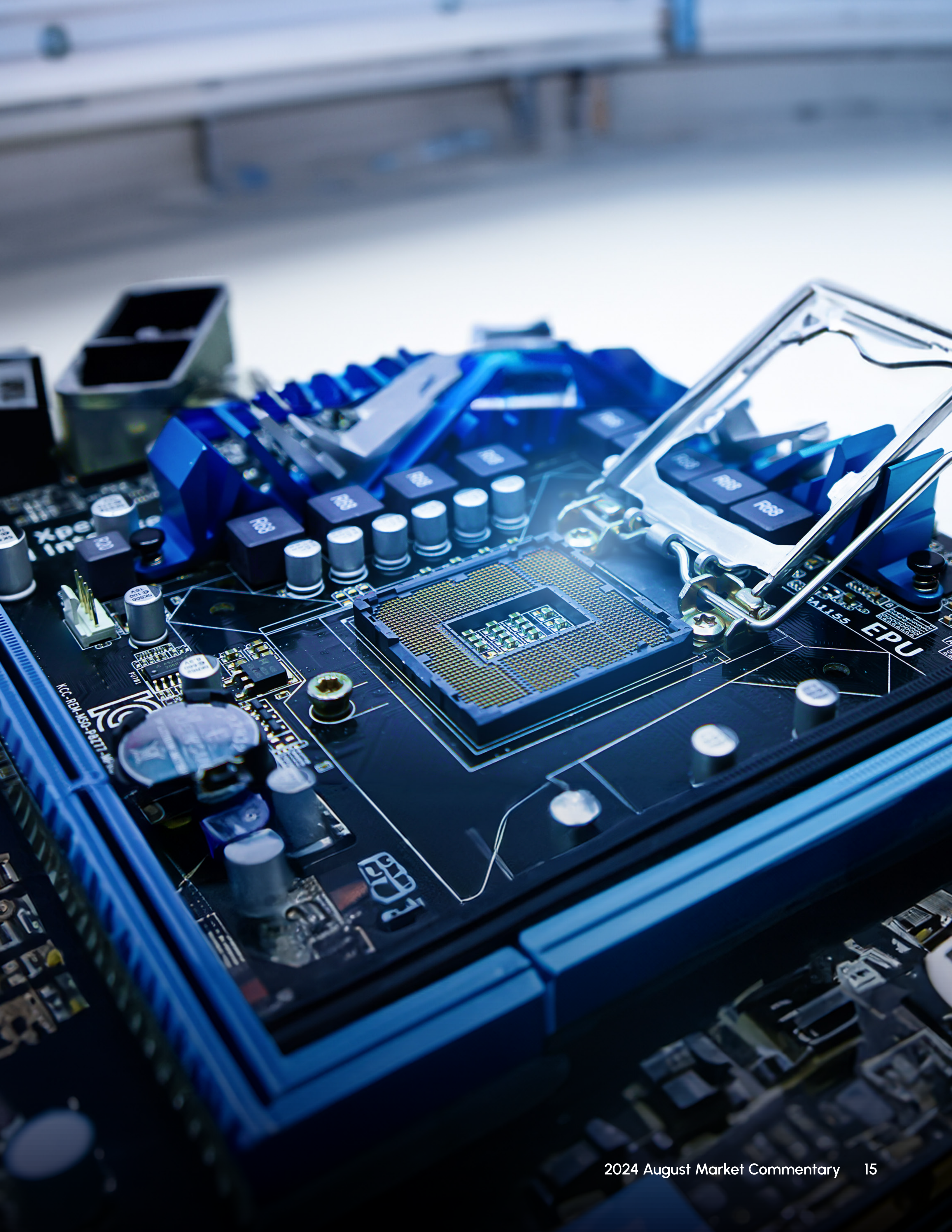
Shane Obata
Portfolio Manager

We believe investors should be viewing the current tech correction as an opportunity to increase their allocations. Our Innovation ETF is well-positioned for the current environment, with a continued focus on early AI winners and bias towards large-cap growth companies with high quality characteristics. As active managers, our job is to see through the noise and make sure we are getting the big picture right. At present, we think investors are over-analyzing short-term concerns and day-to-day market gyrations.

The critical question surrounding AI investments remains: will they yield substantial returns on investment? While the timeline might be longer than anticipated, mirroring past tech revolutions like the internet and mobile, early signs are promising. Cloud providers like Amazon, Microsoft, and Google are already reaping rewards from their AI initiatives, even with the full impact of generative AI yet to be realized. Their investments are driving advancements in high-performance computing, bolstering their cloud infrastructure and benefiting their diverse clientele.

Moreover, AI's influence is evident in tangible ways. It is fueling cloud service growth, refining ad targeting for companies like Meta, and revolutionizing recommendation engines that power platforms like YouTube. These enhanced engines are driving user engagement, expanding content discovery, and attracting new subscribers, contributing to sustained growth. Recent earnings reports solidify our confidence in the longevity of the AI spending cycle, with tech giants emphasizing the greater risk of underinvestment. This unwavering support should create a ripple effect, benefiting the entire AI value chain.

The recent market fluctuations present a strategic opportunity to invest in AI winners. The AI revolution is still nascent, and its potential for innovation and growth is vast. While the full impact of AI may not be immediate, its transformative power is undeniable. As with past technological advancements, early adoption and strategic investment are likely to yield significant long-term returns.


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 continued to grind higher in July, reaching a new all-time high of US$2,480/oz. Increasing geopolitical uncertainty, expected rate cuts, inflation concerns, and central banks de-dollarization all offer support for physical and financial flows into gold. We expect this momentum in prices to continue as we inch closer and closer to rate cuts, giving precious metals a high likelihood of achieving new highs throughout the remainder of 2024.

Gold equities continue to trade at low valuations despite the strength in the commodity price. Although the disconnect between the two has started to narrow, we believe the fundamental case for owning gold equities remains in place. We expect to see a re-rating from earnings beats, upward guidance revisions, and capital returning to the sector. The S&P/TSX gold sub-industry was up 13.5% in July, significantly outpacing the 5.2% increase in gold prices.

Natural gas prices came under pressure in July due to the stubborn surplus in global storage volumes. In North America, the situation was exacerbated by lower LNG feed gas demand related to damage from Hurricane Beryl. We continue to see positive opportunities in natural gas, particularly now that the commodity appears oversold in the low US$2.00 level. Peters & Co. data shows that over the last five and ten years (excluding Covid), gas equities have returned approximately 10% in August & September with gas prices moving up much more than oil over the same period.

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)

In my June ESG 2023 commentary I discussed "greenwashing", which is the practice of misrepresenting sustainability-related information, practices or features, and I explained that allegations of greenwashing by market participants have been increasing around the world. As a consequence, securities regulators, competition regulators and private plaintiffs have instituted regulatory and legal proceedings alleging greenwashing. In my September ESG 2023 commentary I discussed the proposed "International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements", which is a proposed standard for external independent providers of assurance on public companies' sustainability-related information, whether that information is contained in sustainability reports or other published documents. ISSA 5000 is expected to be finalized at the end of 2024.

In the meantime, the International Corporate Governance Network (ICGN) released a viewpoint in July 2024 entitled "The Assurance of Sustainability Reporting". ICGN noted that investors have been calling for high quality and comparable sustainability disclosures from public companies in order that investors can make informed investment, risk management and stewardship decisions, and as a result many jurisdictions are adopting mandatory requirements for companies to report sustainability information in accordance with global standards. Even if sustainability reporting is not mandatory, many companies are producing sustainability reports voluntarily to satisfy their investors. Assurance of sustainability disclosures by independent third parties is very important to enhance the trust of investors in the reliability of the information being disclosed, whether that information is disclosed voluntarily or pursuant to mandatory requirements. Independent assurance also might provide a due diligence defence to public companies and their directors and officers against regulatory or legal proceedings alleging greenwashing.

Assurance by independent third parties can either be "reasonable" or "limited". Reasonable assurance is comparable to an audit of a company's financial statements, in which the assurance provider affirms that the information reported is materially correct. Limited assurance is carried out with fewer tests and lower scrutiny of the data by the assurance provider, akin to a review of a company's financial statements, with the assurance provider merely stating that they are not aware of anything that indicates that the information is materially misstated.

While limited assurance is the prevalent form of assurance at present, ICGN states that reasonable assurance is "particularly important for financially material information and metrics on which there is a globally agreed methodology (e.g. GHG emissions)". ICGN notes that a "phased-in approach, starting with limited assurance and then moving to reasonable assurance, and extending the scope of the information being assured, could be the way forward" and "would help bring sustainability disclosures on par with financial disclosures".

ICGN also quotes an interesting finding of the International Federation of Accountants, namely that companies in the EU are more likely to use audit firms for assurance than other jurisdictions, while in the UK, Asia and the US other types of providers tend to conduct the assurance. ICGN concludes its viewpoint by stating that "we stress the need to ensure that companies introduce robust governance and internal controls, and that external assurance is of high quality, regardless of who conducts it".

In Canada we are waiting to see if a government or regulator will require mandatory assurance — whether reasonable or limited, and whether by audit firms or other types of assurance providers — or if more companies will provide assurance voluntarily to satisfy their investors and to have a possible due diligence defence against alleged greenwashing.

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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