MIDDLEFIELD
INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

SEPTEMBER 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

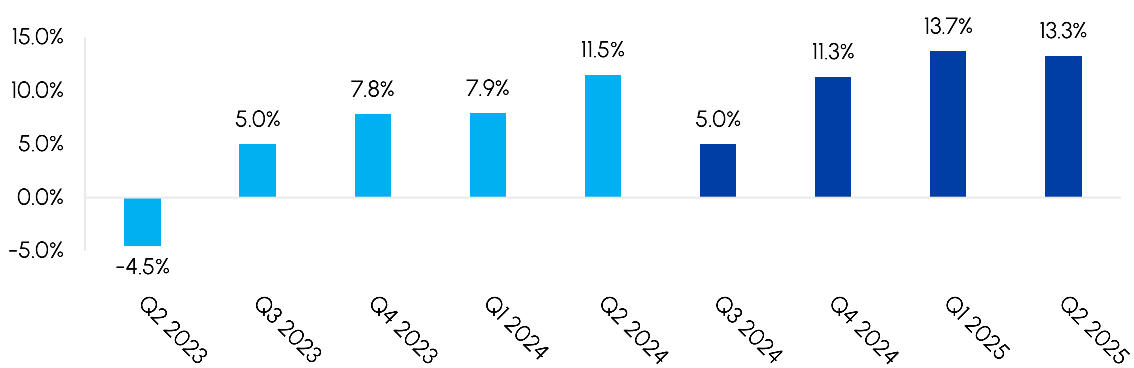
Robert Lauzon

Managing Director & CIO

The S&P 500 Index experienced an 8.5% drawdown between July 16th and August 5th. The sell-off proved to be short-lived, with the Index staging a V-shaped recovery and recapturing nearly all its losses. Although September is historically the worst month of the year, and volatility may return in the weeks ahead, we maintain a constructive view on the market over the medium term. This outlook is supported by three key supports that remain in place: solid earnings growth, goldilocks economic data and expected monetary easing.

Q2'24 was the best quarter of earnings growth for the S&P 500 in nearly three years. This trend is expected to continue with consensus estimates implying earnings to grow even faster over the next four quarters. This comes at a time when the Federal Reserve faces a challenging task of recalibrating its monetary policy. The risk of either delaying rate cuts or cutting them too quickly could lead to undesirable consequences, such as rising unemployment or reigniting inflation. We are currently more focused on growth statistics than inflation risks. From this

S&P 500 Earnings Expected to Rebound Further

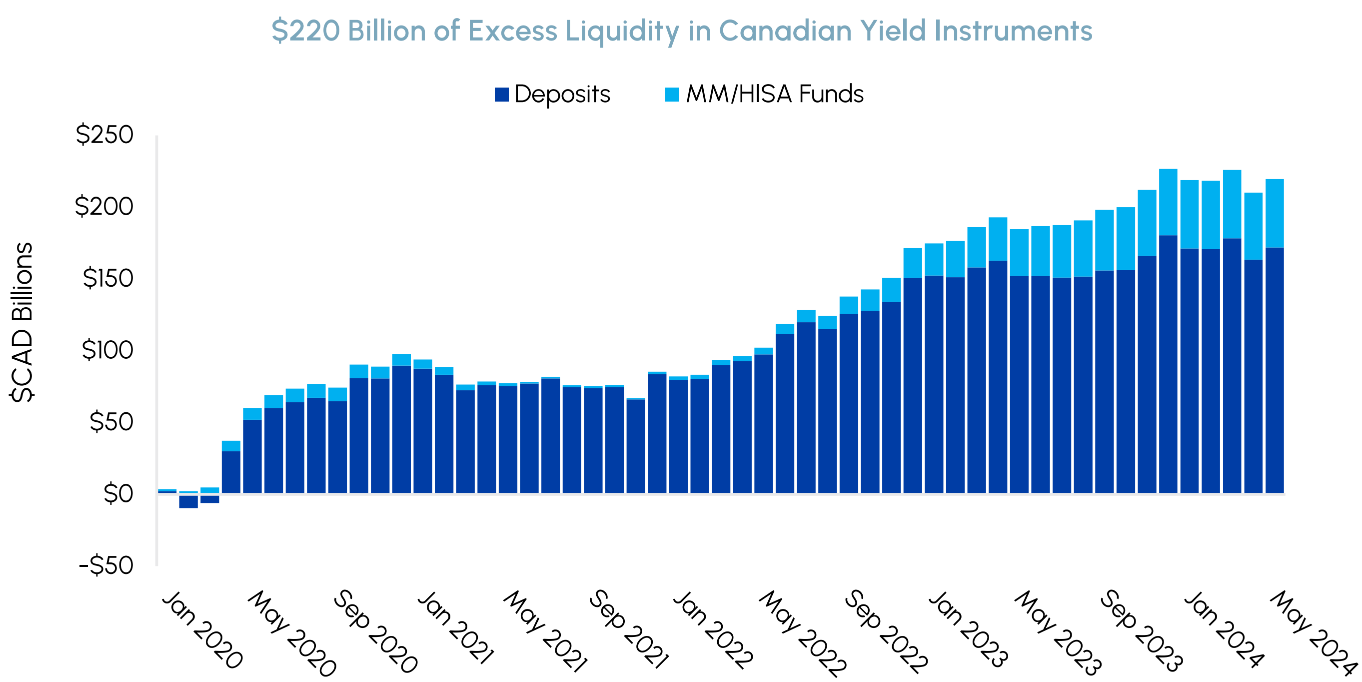


Source: Middlefield, Bloomberg. As at August 31, 2024.

perspective, we were happy to see the recent Q2 GDP print show continued economic growth of 3% in the United States driven by strong consumer spending. Ultimately, we expect the Fed to cut rates at a gradual pace starting in September with the magnitude of the first cut to be influenced by jobs data leading up to the meeting.

On the surface, not much has changed in the market over the past 6 weeks – the S&P 500 finished August just 0.3% below its all-time high. Looking closer, it is clear breadth has improved and the market is being led by a new cohort of stocks. Since July 11th, when U.S. CPI came in softer-than expected, the Magnificent 7 has underperformed the other 493 stocks in the Index by over 14%. The equal-weighted Index has outpaced the cap-weighted Index by over 6% and more than 70% of stocks have outperformed the S&P 500. Year-to-date laggards are finally catching up, with the S&P Financials, Healthcare, Industrials, Real Estate, Staples and Utilities sectors all achieving new highs. These recent trends are very encouraging and make it much more likely that the recent strength in the market will be sustainable.

Canadian equities have benefitted greatly from the recent market rotation. The emergence of AI and the spike in borrowing rates have caused capital to flow away from Canada's core sectors over the past two years. CIBC estimates that approximately $220 billion of capital that typically invests in dividend-paying equities has left the equity market for fixed income alternatives such as GICs and HISAs. With the Bank of Canada expected to cut short-term borrowing rates by another 150 basis points over the next twelve months, we anticipate capital will flood back into Canada's high yielding sectors



Source: CIBC World Markets.

such as Real Estate, Utilities and Financials. Real Estate in particular provides an attractive investment opportunity due to the prevailing supply / demand imbalance brought on by the recent surge in Canada's population.

A resurgence in M&A activity further validates our view that confidence is building in the Canadian market. The number of deals in Canada has risen for three consecutive quarters with robust activity across multiple sectors. In the first half of the year, there has been over C$80 billion of M&A activity, with nearly $60 billion of that occurring in the second quarter. Several of our portfolio holdings have been opportunistically acquiring assets as the M&A market thaws. Most recently, Tourmaline announced an agreement to purchase Crew Energy for C$1.3 billion in a move that strengthens its position as Canada's largest gas producer. We expect further M&A activity to boost investor sentiment as it is generally viewed as a positive sign of growth, confidence, and potential profitability.

Real Estate

Middlefield Fund Tickers & Codes: MREL / MID 600 / RS

Dean Orrico
President & CEO

REITs extended their solid performance into August, continuing the upward trend that began in late June. We've maintained for several months that the fundamentals across the real estate sector (ex-office) are as good as we've seen in years. Generally speaking, demand remains very strong while supply is constrained due to high construction and interest costs. Now that interest rates and yields are declining, a trend we expect to continue into 2025, investor interest and capital is now coming back into the REIT sector. We believe we're in the very early innings of a trend which will see billions of dollars exit cash like alternatives (i.e. term deposits and money market funds) for equity income securities including REITs.

Since hitting its lows, the sector has gained 19%, reflecting the market's recognition of this underlying strength. With REITs still trading at attractive valuations relative to their historical norms, the sector offers a combination of income and growth. For investors seeking a balanced exposure to both income and capital appreciation, the case for REITs remains as strong as ever.

Canadian retail REITs generated a weighted-average return of 6.6% in August. The group is benefiting from a supply-constrained environment, as highlighted in the CBRE H1'2024 Retail Rent Survey. New construction of retail space is at historic lows at a time of record population growth in Canada. The scarcity of space has resulted in retail REITs reporting some of the best metrics we've seen in years. Average occupancy reached a decade high of 97.5% in Q2, and leasing uplifts came in at +9.8%, well above the five-year average of +5.6%. These figures underscore the sector's ability to capitalize on very favorable market conditions. Our preferred names in the retail space include RioCan, First Capital and Choice Properties.

Industrial REITs have also been resilient despite fundamentals normalizing. Market rents in the Greater Toronto Area have stabilized around $20 per square foot, with expectations for growth to resume in 2025. The current environment, characterized by a limited supply pipeline, is sustaining strong leasing spreads, which were particularly robust in Q2 2024 at 47%. This is further evidenced by the substantial spread between market and in-place rates for key holdings like Dream Industrial and Granite REIT, which stand at +40% and +30%, respectively. These metrics suggest that as existing leases roll over, these REITs are well-positioned to realize significant rent increases, further driving earnings growth.

Healthcare

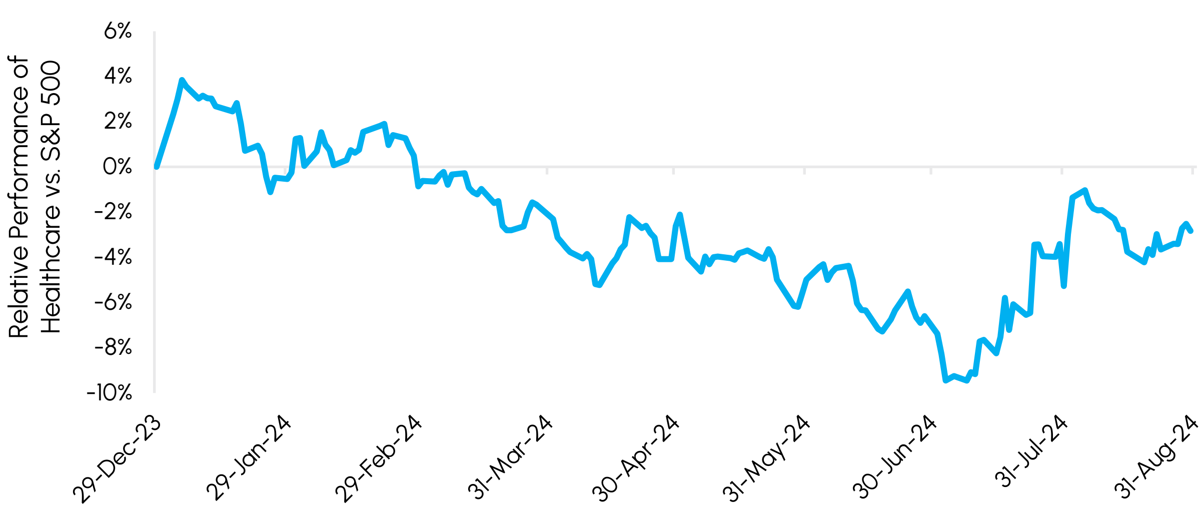
Middlefield Fund Tickers & Codes: MHCD / MID 625 / SIH.UN

Robert Moffat
Portfolio Manager

Healthcare continued to perform well in August (+5.1%), outperforming the broader market for the second consecutive month. Our healthcare ETF (TSX: MHCD) has returned nearly 20% year-to-date with its unit price trading at all-time highs. The sector's resilience in the face of broader economic uncertainties highlights its defensive qualities and long-term growth prospects.

The Centers for Medicare & Medicaid Services (CMS) released the initial list of Maximum Fair Prices for the first 10 Medicare Part D drugs selected for price negotiations under the Inflation Reduction Act (IRA). The average discount of approximately 22% relative to current Medicare net pricing was in line with expectations. We believe the announcement should be viewed

Healthcare Outperforming S&P 500 in H2



Source: Middlefield, Bloomberg. As at August 31, 2024.

positively, as it demonstrates the IRA poses a manageable issue for drug manufacturers. Although we are increasingly comfortable with CMS' negotiation framework for mature drugs, we remain focused on companies with multiple new product launches and deep R&D pipelines. Our top ideas in this space, which continue to align with this approach, include Eli Lilly, AstraZeneca, AbbVie, Merck, and Regeneron.

AI has immense potential in the healthcare sector. A recent report from BCG predicts that GenAI will grow faster in healthcare than any other industry while a report from McKinsey suggests it could generate $60 to $110 billion in economic value annually for the sector. As highlighted in NVIDIA's recent earnings call, these potential applications include medical imaging, surgical robots, patient care, electronic health record processing, and drug discovery. Intuitive Surgical (ISRG), a core holding, provides tangible evidence that these trends are already well underway. Leveraging data from the 15 million procedures its surgical robots have performed to date, ISRG's da Vinci 5 now features force sensing – allowing surgeons to feel applied forces during procedures. By capturing video and force data, this AI-powered technology provides real-time visualizations to help surgeons optimize their techniques and improve surgical outcomes.

Infrastructure

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

Robert Lauzon
Managing Director & CIO

Canadian pipeline companies continued their impressive performance in the second quarter. Pembina Pipeline (PPL) reported Q2 results above consensus and raised EBITDA guidance for 2024FY. PPL's extensive network is well-positioned to capitalize on the growing production of oil and gas in Western Canada, evidenced by securing long term contracts and its accretive acquisitions over the past year. PPL's focus on deleveraging its balance sheet and increasing shareholder returns further solidifies its financial position. Pembina's recent acquisition of gas assets from Whitecap underscores its value in the midstream segment, as these assets will bolster its long-term take-or-pay contracts. Meanwhile, LNG Canada's upcoming introduction of natural gas to its Kitimat facility marks a significant milestone in its journey to export made-in-B.C LNG by mid-2025.

The data center boom continues in North America, with the latest estimates indicating a potential for 3-4.8GW of data center demand in Alberta, up from an estimated 1.6GW in July. Several new growth projects have been proposed in the region, including the 1GW Genesee Data Centre. Both Capital Power (CPX) and TransAlta (TA) are well positioned to benefit from this growth, as their power plants are located near these proposed data center sites. Repurposing power plants for data centers could lead to increased utilization, higher revenue, and potential valuation expansion. As interest rates continue to decline, we anticipate continued investor interest and further fund flows into dividend paying equities with strong fundamentals and emerging tailwinds, such as the proliferation of AI and the growing demand for data center capacity. Data center load growth will serve as key catalysts and provide a significant opportunity for both CPX and TA.

Technology & Communications

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

Shane Obata

Portfolio Manager

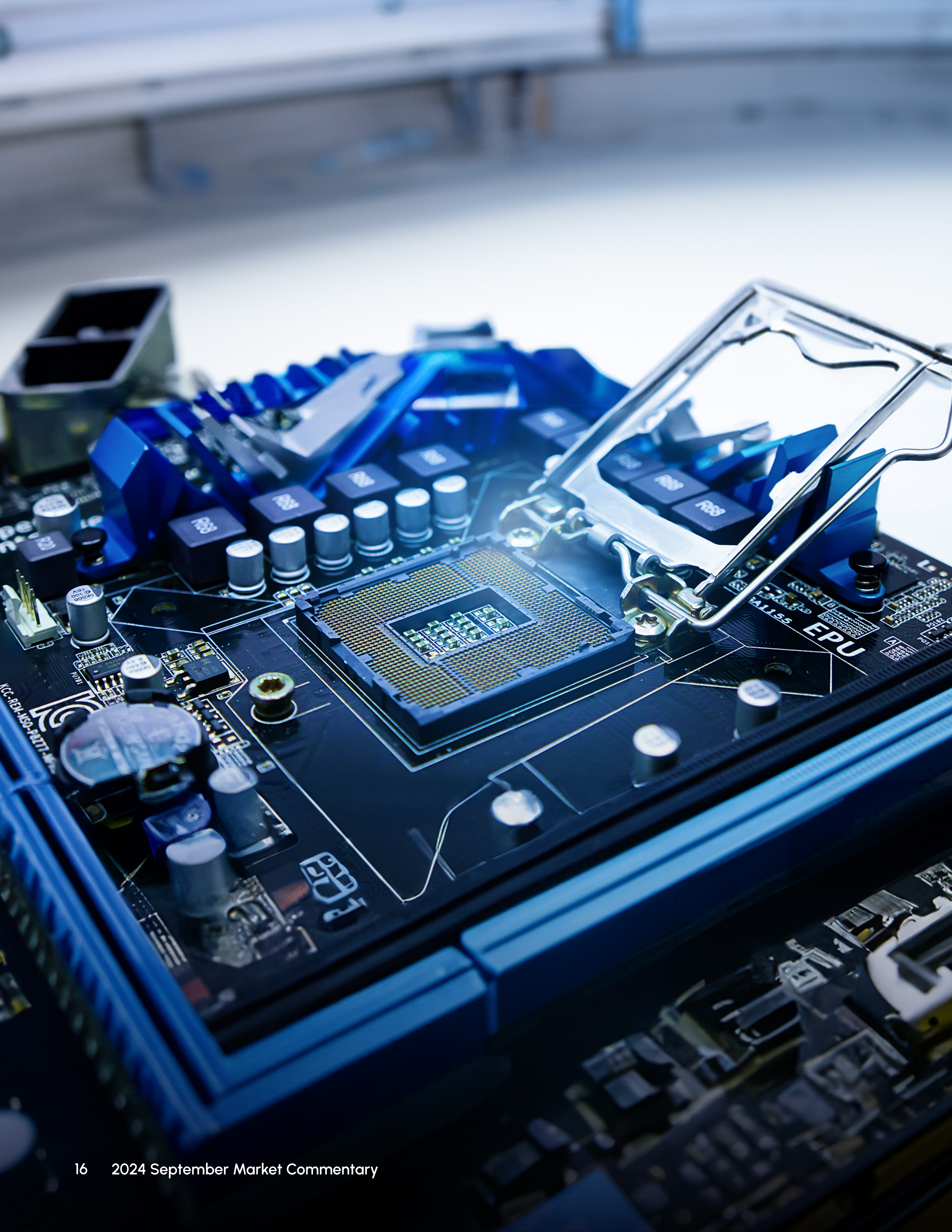
The tech sector is currently riding a wave of AI-fueled enthusiasm, with recent earnings reports from giants like Microsoft, Amazon, Google, and Nvidia painting a picture of impressive growth. Even so, questions linger about the durability of this AI spending surge. While the current exuberance is understandable, the true litmus test for AI's longevity lies in its ability to consistently deliver tangible business value, justifying continued expenditure.

Parallel to this dynamic is the evolution of large language models (LLMs) continues at a breakneck pace. Today's models, like GPT-4o, already highlight impressive capabilities, but experts predict even more dramatic advancements. Models with trillions of parameters, orders of magnitude larger than current ones, are on the horizon. Such colossal LLMs could revolutionize sectors from healthcare and finance to manufacturing and entertainment, but they also bring challenges in terms of computational resources and energy consumption. Balancing power with sustainability will be crucial.

Beyond the hype and future projections, AI's transformative power is already evident in the real world. Walmart utilizes AI for inventory management and personalized recommendations, while JPMorgan Chase leverages it for fraud detection and risk assessment. These examples demonstrate how AI can create tangible benefits, enhancing efficiency, decision-making, and customer experiences. This real-world impact reinforces the belief that AI is not just a passing trend, but a fundamental shift in how businesses operate.

The semiconductor industry, with Nvidia at the forefront, is reaping the most immediate rewards of the AI boom. Their GPUs are critical for training and running AI models, driving substantial revenue growth. That said, as AI becomes more deeply integrated into various sectors, the spotlight will expand to encompass infrastructure and software companies. Cloud providers stand to gain as businesses increasingly rely on their platforms for AI workloads. Simultaneously, software companies specializing in AI applications, data management, and cybersecurity are likely to experience heightened demand as the need for AI-powered solutions grows.

While the current AI fervor raises questions about the sustainability of investment, the real-world applications and the ongoing advancements in LLMs point towards a future where AI is deeply embedded in various sectors. The initial beneficiaries, like semiconductor companies, are likely to be joined by infrastructure and software providers as AI adoption matures. The tech sector's landscape is evolving rapidly, and those companies that can successfully harness the power of AI stand to gain significant competitive advantages in the years to come.


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 typical bar of gold weighing approximately 400oz, is worth more than US$1 million for the first time as the commodity pushed past the $2,500/oz mark in August. We believe gold is an asset class investors should be paying more attention to. The heightened level of geopolitical risk has foreign governments and central banks looking for alternatives to the U.S. dollar. At the same time, we've seen underinvestment in gold mine supply given increasing cost, time, and country specific risks to bring new mines into production. We expect this momentum in price to continue as we inch closer and closer to rate cuts from the Fed. The S&P/TSX Global Gold Index was up 0.9% in August, slightly underperforming the 2.2% increase in gold.

In the next few weeks, OPEC+ will make a difficult decision regarding supply additions. Increases are unlikely when you consider oil prices and spreads are currently about the same as when they agreed to the second set of voluntary cuts in November 2023. In addition, Saudi Arabia's revenue from oil exports is at a 3-year low, making the decision to raise production even more challenging. However, pressure is on to allow planned supply hikes from the UAE and the recent curtailment of Libyan exports has conveniently provided cover for allowing these barrels to slowly enter the market. The S&P/TSX Capped Energy Index was down 2.3% during August as the 4.5% increase in NYMEX natural gas prices was offset by a 5.6% decline in oil prices.

On the natural gas front, LNG Canada announced it would be taking delivery of first natural gas to its Kitimat facility in early September. The introduction of natural gas and flaring activities mark a pivotal step in LNG Canada's safe start-up program as remain on track for first deliveries of Canadian LNG by the middle of 2025. It is our view the completion of this key export infrastructure will be a catalyst in bringing international investment interest back to the Canadian energy sector.

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
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

› 308⁄ëk¼ÅžÓl ffÇ30

Disclaimer

This material has been prepared for informational purposes only without regard to any particular user's investment objectives or financial situation. This communication constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described herein is suitable or appropriate for you. Investment decisions should be made with guidance from a qualified professional. The opinions contained in this report are solely those of Middlefield Limited ("ML") and are subject to change without notice. ML makes every effort to ensure that the information has been derived from sources believed to reliable, but we cannot represent that they are complete or accurate. However, ML assumes no responsibility for any losses or damages, whether direct or indirect which arise from the use of this information. ML is under no obligation to update the information contained herein. This document is not to be construed as a solicitation, recommendation or offer to buy or sell any security, financial product or instrument.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. You will usually pay brokerage fees to your dealer if you purchase or sell units/shares of investment funds on the Toronto Stock Exchange or other alternative Canadian trading system (an "Exchange"). If the units/shares are purchased or sold on an Exchange, investors may pay more than the current net asset value when buying and may receive less than the current net asset value when selling them. There are ongoing fees and expenses associated with owning units or shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. Mutual funds and investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Certain statements in this disclosure are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may", "will", "should", "could", "expect", "anticipate", "intend", "plan", "believe", or "estimate", or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what Middlefield Funds and the portfolio manager believe to be reasonable assumptions, neither Middlefield Funds nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

MIDDLEFIELD

INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY
SEPTEMBER 2024

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