MIDDLEFIELD
INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

JANUARY 2025

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

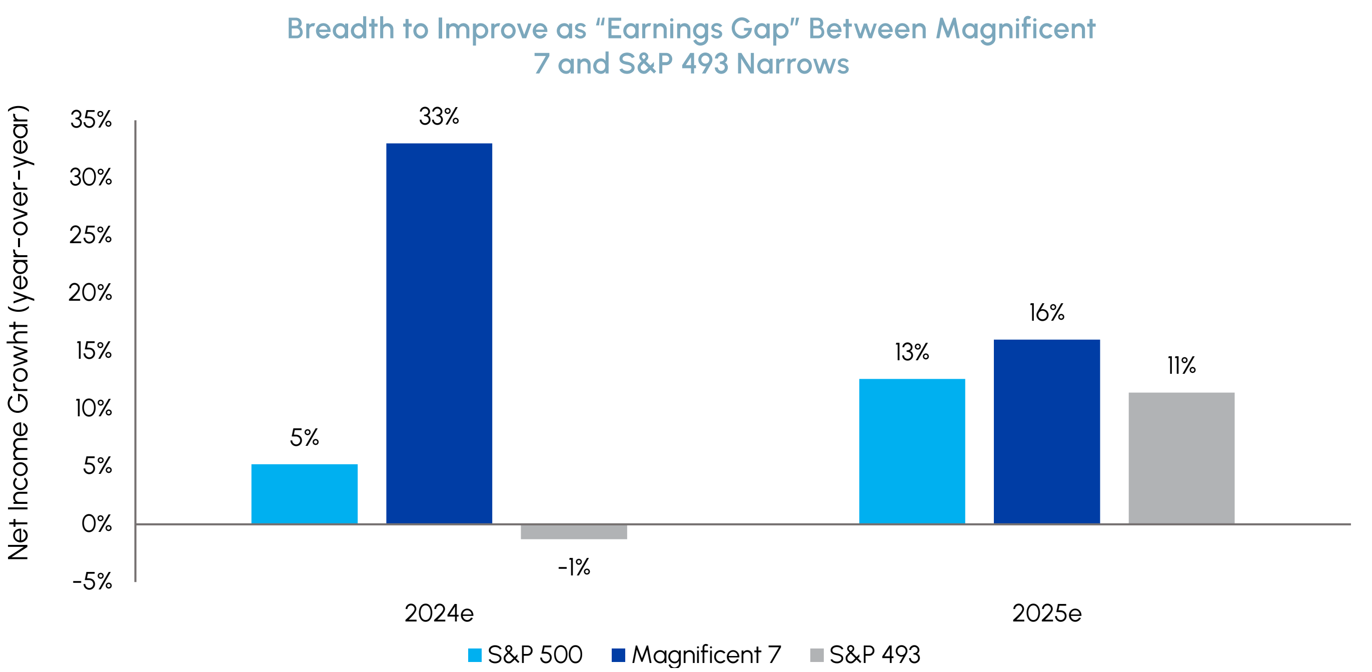
The year 2024 proved to be an impressive one for equity investors, marked by substantial gains that have laid a strong foundation for continued growth in 2025. The S&P 500 and TSX Composite delivered total returns of 25% and 22%, respectively, showcasing the strength and resilience of the North American markets. This superb performance was broad-based, with 10 out of 11 S&P 500 sectors posting positive returns. Building upon similar performance in 2023, the US market has now returned over 50%, marking the best two-year gain since the notable period in 1997/1998.

We see potential for sustained market momentum in North American equity markets throughout 2025. Our positive stance is underpinned by expectations of continued earnings growth, a healthy labour market and an economy benefiting from productivity gains. The incoming Trump Administration is expected to create a more pro-business environment as reduced regulatory burdens and potential tax cuts could boost corporate profits and stimulate economic growth. This is further supported by key investment themes that are secular in nature, including artificial intelligence, e-commerce and aging demographics. These trends are expected to drive long-term growth across various sectors, providing a fertile landscape for investment opportunities. Another crucial area to watch in 2025 is the anticipated rebound in capital markets as deregulation advances while rate volatility is expected to decrease. This resurgence should greatly benefit companies across the financials, infrastructure, and real estate asset classes, creating a ripple effect of growth throughout the economy.

Notwithstanding our long-term views, the near-term performance for equities could be choppy as the Federal Reserve's monetary policy is recalibrated (especially after the recent strong employment report) and until the Trump 2.0 policy agenda offers more clarity. The newly minted Department of Government Efficiency has the potential to create market fluctuations, although it is anticipated to yield positive results over the long-term. The potential for increased tariffs also remains a risk factor that could influence market sentiment. As the Trump Administration takes office on January 20th, we would view any market volatility caused by these risks as a buying opportunity ahead of the Q4'24 earnings reporting season.

Active management offers an optimal strategy for navigating potential volatility and identifying undervalued assets. Skilled active managers can adapt to changing market conditions and capitalize on emerging opportunities, allowing for outperformance in this dynamic environment. Navigating the 2025 market will necessitate a well-balanced investment approach that incorporates both value and growth strategies. Our product shelf is strategically designed to cater to the diverse needs of our clients. We offer targeted exposures for those seeking sector-specific solutions, including Healthcare (TSX:MHCD) and Real Estate (TSX:MREL) for value and Technology (TSX:MINN) for growth. Additionally, we provide broad-based mandates like our Income Plus product, which encompasses both growth and value strategies, offering a diversified approach for investors seeking comprehensive market exposure and proven drawdown protection. We expect these core strategies to perform well as more companies participate in the ongoing earnings up-cycle. According to J.P. Morgan, the S&P 500 excluding the Magnificent Seven delivered -1% net income growth in 2024, whereas expectations for 2025 point to a 12% increase. This broadening of earnings growth is a positive indicator of overall market health.

The upcoming Canadian election presents an opportunity to adopt a more pro-business



Sources: Middlefield, JPM Estimates.

stance, similar to the US. There is optimism that a change in leadership could lead to a reinvigoration of the Canadian energy sector, unlocking its vast potential and driving economic growth. A continued emphasis on the growth of the Canadian technology sector is also expected, further diversifying the economy and fostering new investment opportunities. Furthermore, the Bank of Canada has recently adopted a more accommodative policy stance than the Fed. Continued interest rate cuts are expected to provide vital economic support and help the country skirt a recession. This accommodative monetary policy should encourage a continued rotation out of cash-like instruments into dividend-paying securities, as investors seek higher yields in a low-rate environment. This shift will further bolster sectors known for their consistent dividend payouts. Reduced interest expense burdens will likely benefit mid-cap equities relative to large-cap equities, creating opportunities for outperformance within this segment.

Overall, 2025 presents a compelling investment landscape, albeit with potential volatility. The continuation of the bull market, fueled by earnings growth and supportive economic policies, paints a positive picture for equities. By adopting a balanced approach that incorporates both value and growth strategies, and by leveraging the expertise of active managers, investors can strategically position themselves to capitalize on the opportunities that lie ahead. The potential for a pro-business environment in both the US and Canada further strengthens the bull case for equities, making 2025 a year that investors should approach with informed optimism.

Real Estate

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

Dean Orrico
President & CEO

Despite a sharp rally during the third quarter, the real estate sector lagged the broader market in 2024. Canadian REITs generated a total return of -1.9% while the US real estate sector returned 5.2%. Our Real Estate strategies again outperformed in a challenging interest rate environment, with MREL and Real Estate Dividend Class delivering total returns of 7% and 6.6%, respectively. Billions of dollars have migrated to GICs over the past several years – a trend we expect to reverse as interest rates fall and income-focused investors seek higher yield alternatives.

In Canada, we expect the sector to generate earnings growth of approximately 7% in 2025, up from a 4% growth rate in 2024. With a federal election in 2025 likely to result in a Conservative majority, we believe a more business-friendly political environment could act as a catalyst for REIT valuations. Lower borrowing costs should also act as a tailwind for earnings over the next two years, particularly in Canada where the 5-Year bond yield sits at 3%. We recently met with over 20 CEOs at a Canadian REIT conference in early January and have confirmed that the fundamentals across most real estate sectors remain extremely solid. Together with the prospect of above-average earnings growth, attractive dividend yields and the potential for multiple expansion, we believe the sector should deliver double-digit returns in 2025.

Our preferred real estate exposures for 2025 include Seniors Housing, Retail, Multifamily and Industrial. Vacancy rates remain historically low in all these asset classes, which supports attractive renewal spreads and sustained rent growth. The earnings momentum in the seniors housing and retail sectors are particularly attractive with occupancy levels high and rental rates continuing to escalate. Even so, valuations for public REITs remain steeply discounted in Canada with the sector trading at a 20%+ discount to NAV. Valuation discounts are most pronounced in the multifamily apartments sector, where the group is trading at a 25% discount to NAV on average. Lower immigration targets were the main culprit for the recent sell-off in apartments after years of rapid population growth under the Trudeau government. While we acknowledge that population growth is likely to slow in Canada, we are skeptical that it will stagnate at the rate that the federal government is forecasting given the likelihood that many temporary residents will stay longer than existing permits allow. Moreover, it is possible that many of these residents will ultimately transition to permanent residents over the coming years, solidifying the demand for apartment rentals which continues to drastically outpace supply.

Healthcare

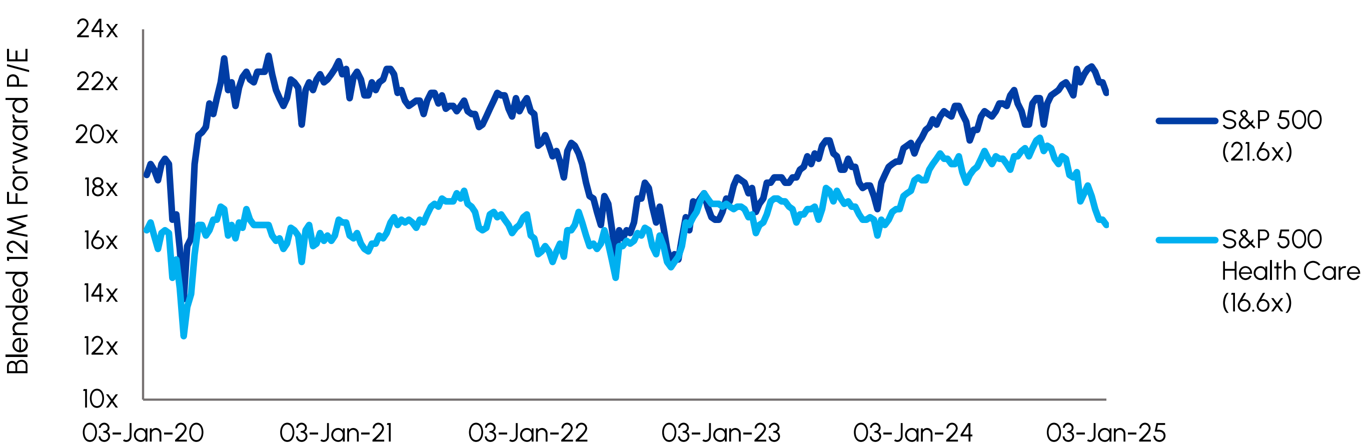
Middlefield Fund Tickers & Codes: MHCD / MID 625

Robert Moffat
Portfolio Manager

Healthcare lagged the S&P 500 for a second consecutive year in 2024. All of the sector's underperformance came during the final four months of the year, starting in September with a market rotation away from defensive sectors following better-than-expected economic data. The sell-off was exacerbated in November and December with Trump's unorthodox picks to run various public health agencies and the startling assassination of UnitedHealthcare's CEO.

Despite the challenging backdrop, our healthcare funds performed well on a relative basis with Middlefield Healthcare Dividend ETF (TSX:MHCD) returning 12.8% in 2024 versus the Benchmark (MSCI World Health Care Index) return of 1.6%. Entering 2025, healthcare is trading at a five-turn P/E multiple discount to the S&P 500 as markets price in worst-case scenarios. This discount is below past periods of policy uncertainty and compares to an average 6% premium relative to

Healthcare Significantly Undervalued Relative to Broader Market



Sources: Middlefield, JPM. Data as at January 3, 2025.

the Index over the past 35 years. Fundamentals do not justify the current valuation discount, with healthcare projected to generate above 20% EPS growth next year – well above the market growth rate of 13%. The sector currently offers robust growth at a reasonable price, making it one of the most attractive sectors in the market.

Our playbook for healthcare in 2025 is consistent with our broader strategy of identifying companies that are positioned for outsized growth and upward earnings revisions. Healthcare is traditionally one of the most micro-driven sectors in the market and offers an abundance of stock picking opportunities. New product cycles often drive upward revisions and are a key component of outperformance. Through this lens, we maintain our high conviction in Eli Lilly, underpinned by the ongoing launch of its GLP-1 medications, Mounjaro and Zepbound. Intuitive Surgical's launch of the Da Vinci 5 robotic surgical system and Boston Scientific's Farapulse pulsed field ablation system are two exciting product cycles that should continue to drive upside in MedTech. There is a plethora of other new product opportunities across the sector that we will be focusing on in 2025 for earnings growth.

Infrastructure

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

Robert Lauzon

Managing Director & CIO

North American midstream and utility companies delivered total returns exceeding 20% in 2024, driven by strong company fundamentals, robust demand, and a shifting geopolitical landscape emphasizing energy security. This outperformance is expected to continue into 2025 as the AI buildout accelerates, driving significant energy demand, while anticipated regulatory support fosters increased M&A activity within these sectors. Seasonality, including colder weather at the start of the year, has led to spikes in natural gas prices, further benefiting midstreamers with efficient marketing subsidiaries.

The announcement of the world's largest AI data center park proposed in Alberta marks a significant step in strengthening the country's position as a hub for technology and energy innovation. This development aligns with the broader theme of energy independence, as Canada leverages its vast natural resources to meet the growing power demands of hyperscalers and Big Tech players. Alberta's abundant natural gas reserves and robust energy infrastructure position Canadian E&P companies, such as Tourmaline and ARC Resources, to supply scalable, reliable, and cost-effective energy solutions to power-intensive operations. Additionally, pipeline operators like Enbridge and TC Energy ensure seamless transportation of natural gas, while utility companies such as Capital Power and TransAlta integrate renewable energy with their core gas-fired assets to create a balanced energy mix. For Big Tech, the Alberta data center park offers the dual advantages of accessing clean, affordable energy and capitalizing on Canada's commitment to grid stability and innovation, ensuring seamless operations for AI, cloud computing, and data-driven technologies. This partnership between energy and technology sectors reinforces Canada's role as a leader in sustainable growth, energy security, and digital transformation.

Constellation Energy's acquisition of Calpine Power represents a transformative deal for the utility sector, combining the largest nuclear fleet in the US with a highly efficient natural gas portfolio to create the cleanest and most reliable power producer in the country. This transaction underscores the vital role of natural gas in ensuring grid reliability, complementing renewables, and advancing energy security. While Calpine's premium gas assets and focus on low-emission operations will thrive under Constellation's leadership, Capital Power (CPX) also stands to benefit from the broader industry implications. With its own premium natural gas fleet and leadership in carbon capture and storage technology, CPX is well-positioned to capitalize on increased recognition of natural gas as a key player in the energy transition, as well as growing opportunities for collaboration and innovation in low-emission energy solutions.

Technology & Communications

Middlefield Fund Tickers & Codes: MINN / MID 925 / MDIV

Shane Obata
Portfolio Manager

The current investment landscape is marked by a dynamic interplay of emerging trends and evolving market sentiment, particularly within the technology sector. A significant shift is anticipated as investors are expected to gradually move away from semiconductor stocks and increasingly favor software companies. This transition will largely hinge on the ability of software providers to showcase a substantial increase in revenues derived from artificial intelligence (AI) applications, alongside a compelling demonstration of practical AI use cases across various industries. The success of this pivot will rely heavily on tangible evidence that software companies can effectively harness the power of AI to deliver innovative solutions and drive business growth. The future of software is undeniable, but the coming years will be the time to show the potential power of this sector.

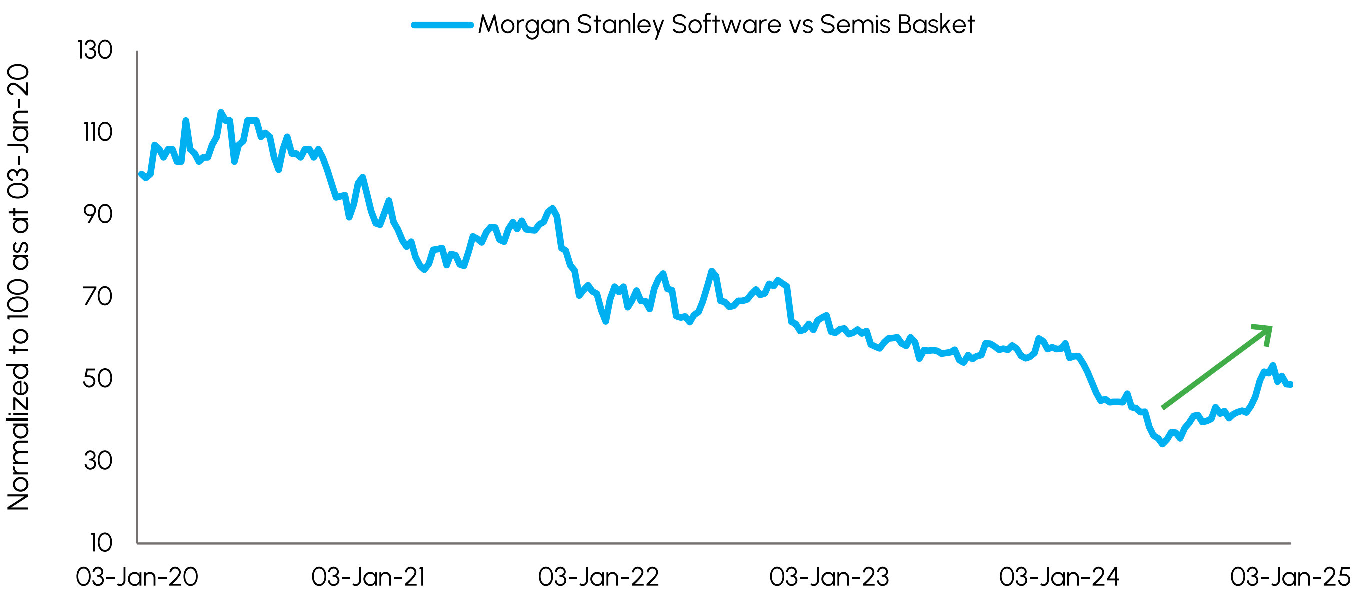
The ability of software to automate processes, optimize workflows, and provide valuable insights will make it an indispensable tool for organizations seeking to gain a competitive edge in the digital age. Within the software domain, cybersecurity is expected to remain one of the most resilient and important themes. As cyber threats continue to grow in sophistication and frequency, the demand for robust cybersecurity solutions will only intensify. Companies that specialize in providing cutting-edge cybersecurity technologies and services are well-positioned to benefit from this sustained demand, making them attractive investment prospects.

The Magnificent Seven stocks are positioned to maintain their upward trajectory, propelled by above-market earnings growth. However, it is crucial to recognize that not all of these companies will necessarily continue their winning streak. As such, a highly selective approach to exposures within this group is warranted. While the Magnificent Seven will likely continue to command attention, it is equally important to consider opportunities beyond this elite group. The anticipated expansion of market breadth suggests that significant potential lies in non-Magnificent Seven companies. As more businesses across various sectors begin to participate in the earnings upcycle, a broader range of investment opportunities will emerge, potentially offering attractive returns for active investors.

The backdrop for IT spending remains positive, although a clear trend is emerging: companies are increasingly prioritizing AI initiatives. This prioritization may come at the expense of non-AI-related projects, as businesses strategically allocate resources to initiatives deemed most likely to deliver significant ROI in the rapidly evolving technological landscape. It is crucial to understand that "AI spending" encompasses a far broader scope than just capital expenditures on AI infrastructure by hyperscalers. It extends to adjacent areas such as design and manufacturing, data centers, HVAC systems, utilities, and energy. These ancillary sectors are poised to benefit significantly from the growing adoption of AI, as they play crucial roles in supporting the infrastructure and operational requirements of AI-driven applications. Investors must acknowledge that this shift towards AI isn't limited to the "big players."

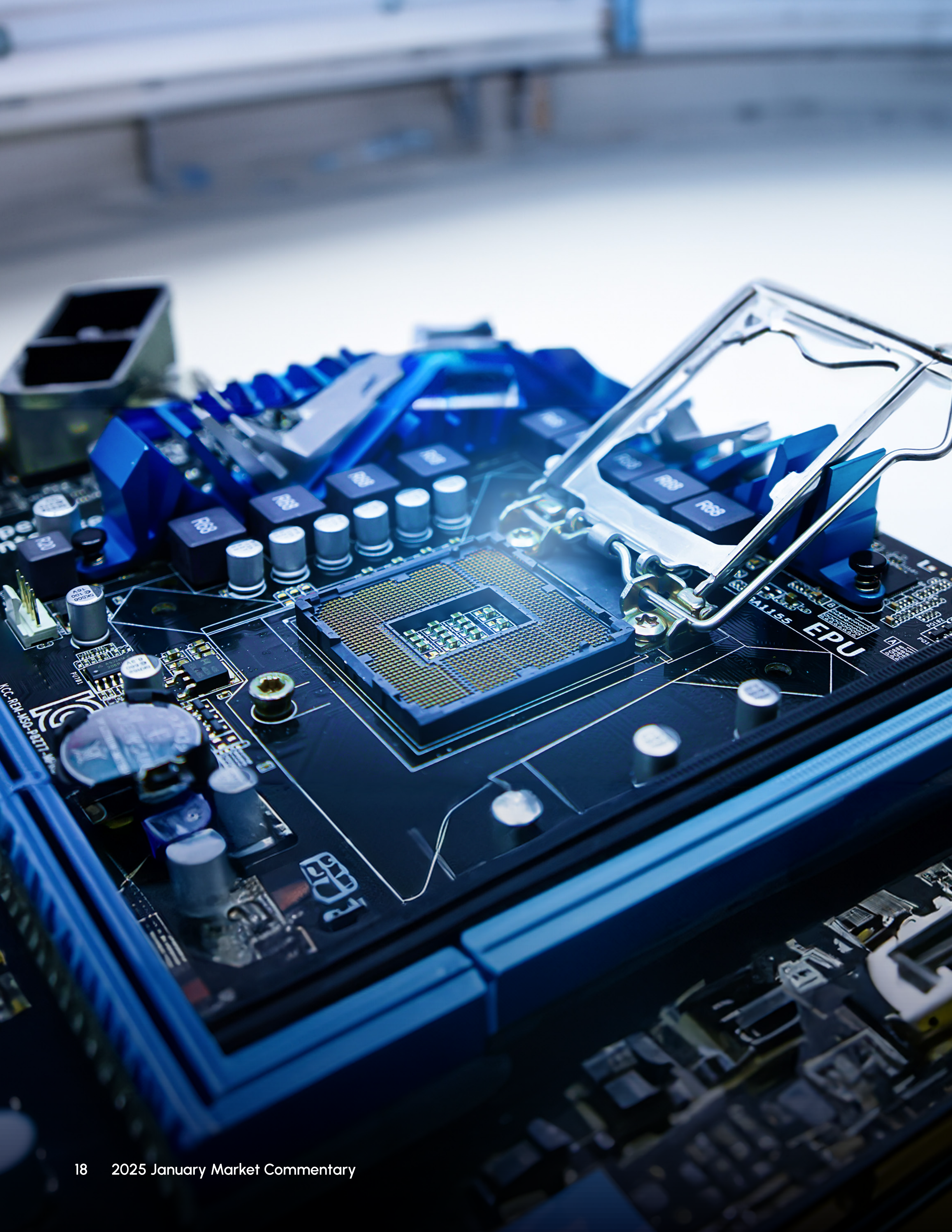
Despite the anticipated shift towards software, we remain committed to our top picks in the AI semiconductor space. These companies, in our view, are still reasonably priced relative to their growth potential and continue to play a pivotal role in enabling the AI revolution. Their advanced chip designs are essential for powering the

Software Attempting to Breakout After Multiple Years of Underperforming vs Semis



Sources: Middlefield, JPM. Data as at January 3. 2025.

complex algorithms and data-intensive workloads that underpin AI applications. Moreover, we are actively exploring mid-cap opportunities that are poised to capitalize on the burgeoning need for enhanced AI networking capabilities. As AI becomes more pervasive, the demand for robust and efficient network infrastructure to support AI workloads will surge. Mid-cap companies specializing in this area are well-positioned to benefit from this trend, offering investors a compelling avenue for growth. This is a chance to diversify, and branch out into other portions of the market, beyond just the largest companies currently available. The future is bright for many technological companies, and investors would be wise to plan accordingly.


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 traded in a narrow range through December but still managed to generate its biggest annual gain since 2010 of over 27%, beating the S&P 500. Gold averaged almost US$2,400/oz in 2024, which marks a fifth consecutive year of record annual gold prices. Over the past 25 years when gold's annual gain has surpassed 20%, it has increased 12% on average in the following year. China's central bank added to its gold reserves in November, ending a six-month pause in purchases. We expect China to continue to be a buyer of gold and a persistent seller of US treasuries, with tensions likely to increase further under the incoming Trump presidency. On the corporate front, Agnico Eagle announced a friendly proposal to acquire one of our portfolio companies, O3 Mining for $1.67/share, representing a 58% premium to its closing price. Strategically, we view the take-over by Agnico as logical, as the company operates the Canadian Malartic complex adjacent to O3's Marban development stage project.

The announcement by the outgoing Biden administration of new energy sanctions on Russia and the expectation of return of heightened foreign policy measures on Iran is charging an advance in oil prices. The key question is whether the Trump Administration will look to reverse this move when he returns to the White House or keep the Russian sanctions on to exert leverage on Putin when negotiating a conclusion to the war in Ukraine. Separately, we expect Trump to reverse Biden's ban on offshore drilling and the LNG permitting pause. We remain of the view that oil should remain above the $70 per barrel level during 2025, a price when combined with a weak loonie, results in very attractive return metrics for Canadian crude producers.

As expected, Russian gas exports via Soviet-era pipelines running through Ukraine came to a halt on New Year's Day after Ukraine refused to renew a transit agreement, marking the end of decades of Moscow's dominance over Europe's energy markets. Europe has been preparing for this since the start of the war in Ukraine by buying more piped gas from Norway and LNG from Qatar and the United States. Natural gas producers and investors anxiously await the start-up of more than 8 Bcf/d of North American LNG capacity over the next two years, including 1.5 Bcf/d coming from the inaugural exports of LNG Canada. The view is that this will more closely link North American natural gas prices to stronger international markets. Natural gas had been on a tear to end 2024 on the back of bullish weather forecasts. In the past, higher prices would often attract a short-term supply response but consolidation amongst the largest producers should reduce large production surges given stronger commitment to capital discipline by public operators.

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

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