



MIDDLEFIELD

INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

JULY 2023

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

North American equity markets finished the first half of 2023 on a positive note. The S&P 500 returned 6.6% in June, bringing its year-to-date total return to 16.9%. The TSX Composite, which has more exposure to cyclicals and has lagged the U.S., started to perform better with a total return of 3.4% in June. European markets have also performed well recently with the Euro Stoxx 50 Index returning 4.4% in June and 19.2% in H1.

The sharp recovery in tech stocks has been the biggest story of the year. The Nasdaq 100 rose 39% for its best start to a year in history (with data going back to 1985). The “magnificent seven” – Apple, Microsoft, Google, Amazon, Meta, Tesla and Nvidia – did most of the heavy lifting,

returning ~58% year-to-date. While market leadership has been narrow, we believe it is well deserved by some of the best companies in the world that will benefit from the artificial intelligence cycle. Seasonality bodes well for sustained momentum in the short-term as the Nasdaq has traded higher in each of the last 15 years during the month of July. In addition, the market tends to continue moving higher both when the 1st half of the year returns exceed 10% and following a negative year prior (i.e., 2022).

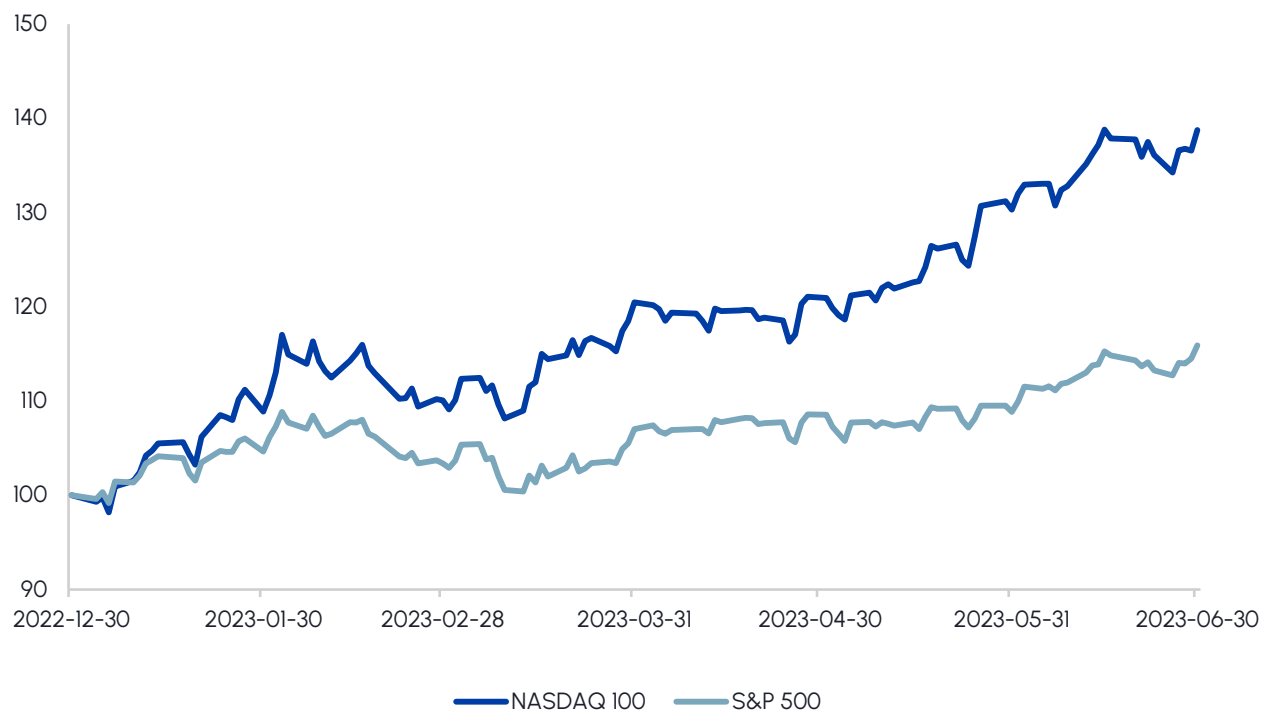
Regarding inflation, a significant drop in CPI is taking place. Year-over-year inflation in the U.S. decreased to 4.2% in May and is projected to decrease to 3.2% in June (July 12 release). The University of Michigan’s June reading also shows that short-term inflation expectations have fallen to a two-year low. While these data points are encouraging, it is important to note that the anticipated drop in inflation is primarily due to base effects. Although the Federal Reserve left interest rates unchanged at its most recent meeting, Chair Powell indicated that the decision to hold rates was to slow down the pace of hikes, not to stop them. Meanwhile, a majority of FOMC participants foresee at least two more rate hikes this year, signaling a continuation of the tightening process.

We anticipate there will be a 25 basis point hike from the Fed at the upcoming July meeting.

Falling inflation is causing real wages to rise. Real hourly earnings increased by 0.2% recently, ending a two-year period of negative readings. Real weekly earnings have also been steadily improving and are expected to turn positive in the upcoming months. These developments, together with a robust labor market, should continue to support

healthy consumer demand. U.S. retail sales unexpectedly rose in May as consumers sped up purchases of motor vehicles and building materials. Although most economists have been forecasting a recession since late 2022, the broad strength of the consumer and the tightness of the labour market may be enough to support a soft landing – an outcome that we believe is becoming increasingly likely.

MEGA CAP TECH POWERS NASDAQ 100 TO +39% IN H1'23

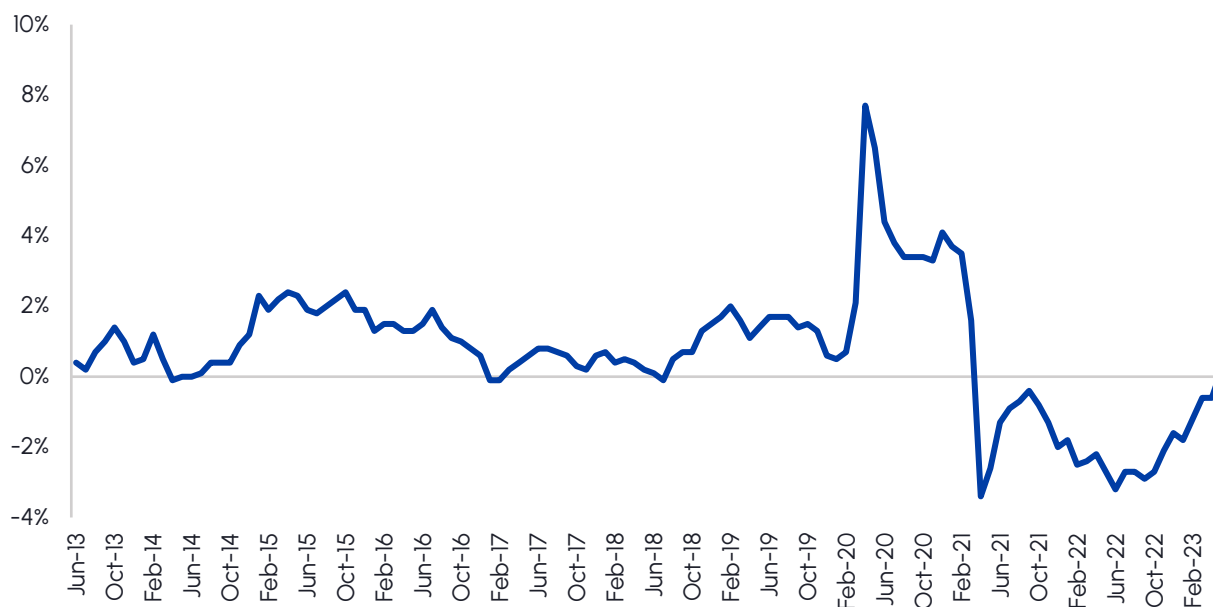


Source: Middlefield, Bloomberg. As at June 30, 2023

Our market outlook is relatively sanguine as we enter the second half of 2023. Recession risks are receding and investor sentiment has started to improve. A huge amount of capital that made its way into money market funds during Q4'22/ Q1'23 is now starting to flow back into equities. We have noted a growing list of individual stocks that are starting to break out of recent trends which supports our view that market breadth is poised to improve. Tech stocks have led the market so

far this year but valuations are beginning to look stretched, requiring a more selective approach to security selection going forward. We believe a rotation out of expensive growth stocks into more reasonably priced value names is likely over the coming months, which bodes well for many of our attractively priced dividend-paying core holdings. In sectoral terms, we are bullish on REITs, Financials, Energy and select areas of Healthcare.

U.S. REAL HOURLY WAGES GROWING AGAIN



Source: Middlefield, Bloomberg. As at May 31, 2023



REAL ESTATE

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



Dean Orrico

President & CEO

Canadian REITs were down as much as 5% in June but rallied during the final week of the month to finish with a positive return. As we wrote about last month, REITs have historically outperformed the TSX twelve to twenty-four months after the first Bank of Canada rate hike. We are optimistic that sentiment is starting to bottom, and the sector is positioned for a catch-up trade during the second half of the year. REITs continue to act as an effective hedge against inflation. Companies have been able to raise rents on expiring leases, particularly in undersupplied asset classes such as industrial, multi-family and retail. At a 27% discount to net asset value (NAV) on average, we do not believe valuations accurately reflect healthy fundamentals across most of the sector.

We continue to have a very favourable view of the industrial real estate sector. Vacancy remains very low in key markets including Toronto, Vancouver, Montreal and major U.S. cities. Although Industrial REITs have been under pressure recently, the US\$3.1 billion acquisition of industrial assets by Prologis from Blackstone announced in late June

validates the fundamental value underlying the Industrial REIT sector. Two of our largest holdings, Granite REIT and Dream Industrial REIT, are trading at very attractive valuations with implied cap rates of 5.8% and 5.6%, respectively, compared to the 4% cash cap rate paid by Prologis.

Allied Properties made headlines in June when it announced the sale of its urban data centre portfolio. The \$1.35 billion transaction represents a premium to the portfolio's IFRS NAV of \$1.2 billion and will meaningfully improve the company's balance sheet. We recognize the challenges facing office landlords today but are becoming more comfortable with valuations for companies that own high-quality assets. Allied's amenity-rich, brick & beam properties are in premium locations across the best markets in Canada. Analysts have already lowered their NAV estimates for Allied significantly, but the stock is still trading at a 40% discount to updated numbers. Even if NAV estimates are lowered further, there is still a very large buffer between its trading price and intrinsic value, representing an attractive risk/reward proposition for patient investors.



HEALTHCARE

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



Robert Moffat

Portfolio Manager

Despite generating a total return of 4.4% in June, Healthcare trailed the S&P 500 by more than 2% this month. Defensive sectors have lagged the broader market throughout the year but certain areas of healthcare, such as MedTech, have performed well on a relative basis.

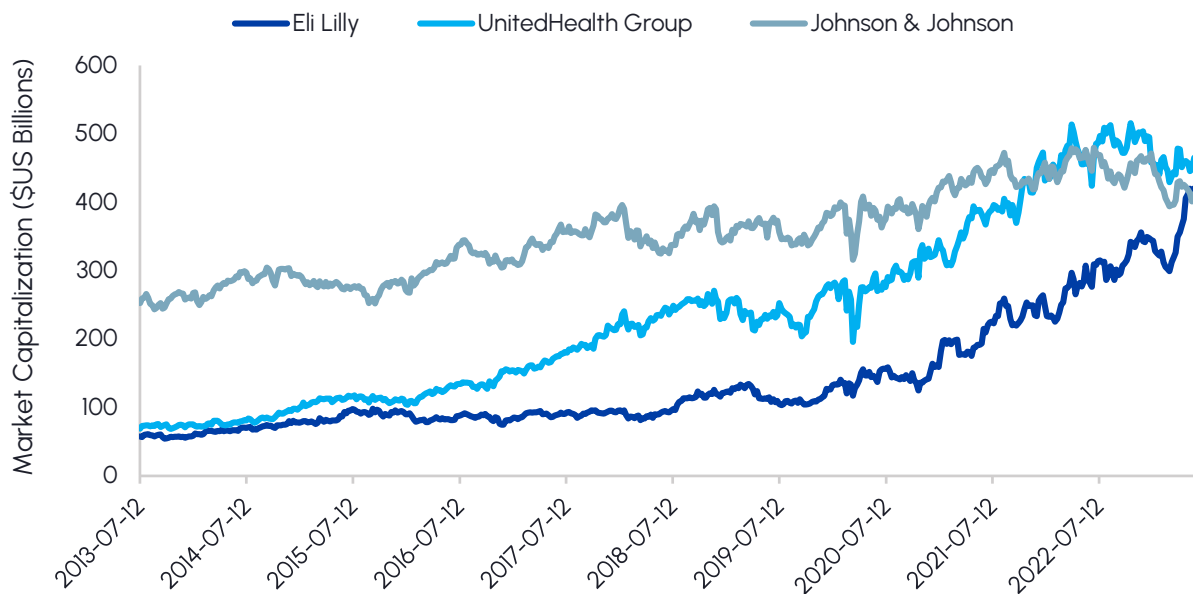
Commentary from various management teams at the Goldman Sachs healthcare conference supported MedTech stocks in June. Comments from UnitedHealth Group (UNH), the world's largest health insurance company, received the most attention when it surprised investors by guiding Q2 and 2023 cost trends to come in above consensus estimates. Specifically, the company stated that senior citizens are replacing their hips and knees at an unprecedented rate due to accelerated elective surgery demand that they don't expect to abate in the near term. Elevated hospital utilization carries positive readthroughs for MedTech companies. Several of our core MedTech names, including Stryker, Medtronic and Edwards LifeSciences traded up significantly on the UNH news. The UNH update validates our view that MedTech companies are

recovering from last year's challenging macro environment and that they are positioned to beat + raise earnings this year. The UNH announcement also supports our active management strategy. The ability to tactically overweight / underweight specific industries within the healthcare sector is at the core of our value proposition. Our healthcare funds are overweight MedTech stocks by approximately 10% relative to the benchmark which has led to strong performance.

Eli Lilly (LLY) presented a series of updates at the 83rd American Diabetes Association Scientific Sessions in late June which strengthened the moat around the company's diabetes and obesity franchise. Presentations related to its flagship GLP-1 agonist, Mounjaro, included detailed updates in obesity, type 2 diabetes risk reduction, and analysis of metabolic outcomes. In addition, the company presented Phase 2 trial data from its next-generation obesity drug, retatrutide, which demonstrated 22-24% weight loss in obese patients after 48 weeks of treatment. LLY's emerging leadership in the fast-growing field of diabetes and obesity has driven the stock to

all-time highs. LLY recently surpassed Johnson & Johnson and UnitedHealth Group in terms of market capitalization to become the largest healthcare company in the world.

LILLY BECOMES THE WORLD'S BIGGEST HEALTHCARE FIRM



Source: Bloomberg. As at July 5, 2023



SUSTAINABLE INFRASTRUCTURE

Middlefield Fund Tickers & Codes: MINF / CLP.UN / MID 265 / MID 510 / ENS / ENS.PR.A



Robert Lauzon

Managing Director & CIO

We share the market's optimism around the future of AI and plan to capitalize on the expected market growth through investments across multiple sectors. The unique infrastructure needs of generative AI, specifically the reliance on high-performance Graphics Processing Unit (GPUs), are expected to drive an increase in power consumption. Further, it will require the use of large uninterruptible power systems (UPSs) and power distribution units (PDUs). Eaton, a key player in the UPS industry, is very well-positioned to benefit from this trend through its Data Centers & Distributed IT business segment, which accounts for 14% of current sales. In addition to providing essential components for data center infrastructure such as transformers, power panels, switchgear, and racks, Eaton has also added inorganic growth to its portfolio through strategic acquisitions in the space. We continue to own Eaton in our sustainability-focused funds due to its

exposure to a multitude of secular themes including electrification, decarbonization, and more recently, AI.

Another industry experiencing rapid development is the battery industry, where Engie and RWE, two of our prominent holdings, are spearheading noteworthy advancements. Engie's Hazelwood Battery Energy Storage System (HBESS) in Australia, featuring 342 Fluence battery modules, has emerged as the world's largest utility-scale battery project. Engie's decision to repurpose the Hazelwood coal power plant for this project validates our investment thesis, which involves the company shifting away from coal power and towards renewable energy sources. Similarly, RWE has made significant strides by successfully connecting its first utility-scale battery storage project to the California grid, incorporating a solar PV facility to store excess capacity.



TECHNOLOGY & COMMUNICATIONS

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



Shane Obata

Portfolio Manager

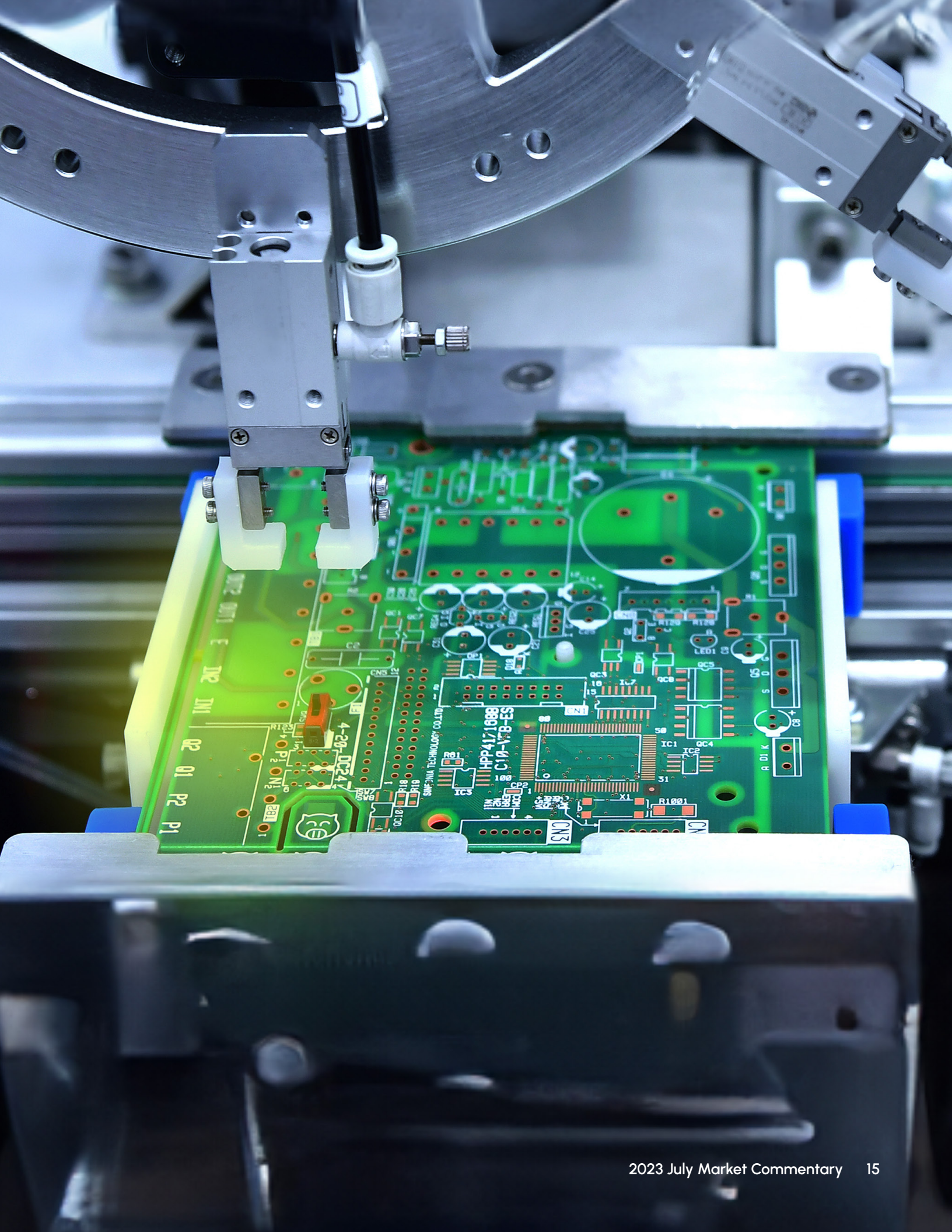
AI remains top of mind in the tech sector, particularly within the semiconductor space. We expect Nvidia to remain an industry-leader but also expect Broadcom (NASDAQ: AVGO) to benefit early. Broadcom possesses GARP characteristics within the high-beta semiconductor industry in addition to an attractive dividend yield.

Broadcom is mostly exposed to semiconductors (~78% of sales in FY 2022) but also provides stable growth and recurring revenue through its infrastructure software segment (~22% of sales). Within the former segment, Broadcom is diversified across end markets and functions. While the company's chips are used for many purposes – such as providing wireless capabilities for Apple's iPhones – we are most excited about its data center networking and custom chip solutions. To meet the needs of generative AI, data centers are expected to become more complex. This requires not only better computing but also

more advanced networking. Broadcom's networking infrastructure solutions allow for higher bandwidth, faster speeds, and improved energy efficiency. These characteristics were key drivers for the division's 20% year-over-year growth in the most recent quarter, with approximately half of this number coming from AI applications.

Broadcom also has a highly attractive custom chips business in partnership with companies such as Google and Meta to build custom AI processors. Taken together, we expect that Broadcom's AI-related revenues could amount to at least \$7.5 billion in 2024, which would position the company as the 2nd largest AI compute/networking semiconductor business behind Nvidia. With expectations for high-single-digit revenue growth, over 10% EPS growth and expanding operating and net income margins, we do not believe Broadcom is expensive at a forward P/E of less than 20x. As a result, we expect to continue

holding the name as a core tech position for years to come. Our thesis is predicated on the notion that the AI cycle has just begun which, If true, would support growth in dividends and free cash flow generation, the latter having grown at a CAGR of 38% since fiscal year 2016.



RESOURCES

Middlefield Fund Tickers & Codes: MID 161 / ENS / ENS.PR.A / MID 265



Dennis da Silva

Senior Portfolio Manager

Gold prices reached a 3-month low of just under \$1,900/oz in June, due to funds rotating into broad equities and hawkish central bank positioning. Inflation levels have decreased in developed economies, dampening investor sentiment for gold. Despite this inflation trend, gold is approaching a key support level of \$1,900/oz after two consecutive months of declines which could attract bargain hunters.

Oil markets have appeared tight on paper for months, but physical markets have been inconsistent. Support for the commodity will likely emerge in July with Saudi/OPEC+ cuts, 2 million bbls/d of refining capacity returning and an expected uptick in Chinese crude imports. The recent dislocation between paper balances and physical prices is noteworthy and we will soon find out if OPEC+ is over tightening or if the market is closer to equilibrium than what's forecasted.

Canadian natural gas storage is at a five-year low with wildfires impacting production. US power consumption is higher than normal amid a heat wave in Texas and hot weather in the forecast.

After a stagnant winter, where natural gas prices hovered between US\$2.00-\$2.50/mcf, prices are starting to gain momentum and have risen to \$2.80/mcf. Historical data indicates positive natural gas price momentum from July to November, with average increases of 18% over the past decade while gas-weighted equities have delivered an average return of 11% from June to November, outperforming energy indices.

After a challenging Q1, fertilizer stocks re-rated higher in May, reaching oversold levels. June started on a negative note following the Canpotex/China potash contract that fell below consensus. Market sentiment improved once investors started to interpret the contract as the start of a bottoming process in the potash market which sets the stage for a recovery when demand returns. Fertilizer stocks performed well, and agriculture stocks are showing signs of growth. We acknowledge the recovery process will likely take several months to play out but have added to positions in agriculture stocks such as Nutrien and CF Industries.

Positive indicators such as crop profitability, fertilizer affordability and tight supply suggest that the worst is behind us.

ESG

Environmental, Social and Governance

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





Stephen Erlichman

Chair, ESG (Environmental, Social and Governance)

On June 26, the International Sustainability Standards Board (ISSB) published two voluntary International Financial Reporting Standards (IFRS) which aim to improve the transparency, consistency and comparability of ESG information disclosed by public companies around the world. According to the ISSB's press release, the two new standards will usher in "a new era of sustainability-related disclosures in capital markets worldwide" and "will help to improve trust and confidence in company disclosures about sustainability to inform investment decisions".

The two ISSB standards are designed to have companies provide sustainability-related information alongside financial statements, in the same reporting package. Consistent, comparable and clear sustainability information, alongside financial information, should allow investors and other stakeholders to gain a more comprehensive understanding of a company's performance and its commitment to creating sustainability value.

The two voluntary disclosure standards are called "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information" and "IFRS S2 Climate-related Disclosures". The standards integrate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from the

Sustainability Accounting Standards Board (SASB) Standards.

The objective of IFRS S1 is to require a company to disclose information about its sustainability-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the company. The objective of IFRS S2 is to require a company to disclose information about its climate-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the company.

Pursuant to IFRS S1, a company would disclose material information about the sustainability-related risks and opportunities to which it is exposed, including information about the company's governance, strategy, risk management, and metrics and targets. IFRS S2, which is designed to be used with IFRS S1, is a topic specific standard pursuant to which a company would disclose certain information about its governance, strategy, risk management, and metrics and targets in respect of climate-related risks (both physical and transition) and opportunities.



The ISSB noted that IFRS S1 and S2 were developed to be used in conjunction with any accounting requirements and thus are suitable for

application around the world, thereby creating a global baseline for sustainability and climate-related disclosures. IFRS S1 and S2 are to be effective for annual reporting periods beginning on or after January 1, 2024. Because the two ISSB standards are voluntary, however, a key question is whether governments or securities regulators around the world — or possibly stock exchanges — will require their companies to adopt the standards and, if yes, when. Another question is whether governments, securities regulators or stock exchanges will require companies to provide sustainability disclosures beyond just the IFRS S1 and S2 global baseline disclosures.



In Canada, the newly formed Canadian Sustainability Standards Board (CSSB) will work with the ISSB by supporting the uptake of ISSB standards here and highlighting key issues for the Canadian context. On June 26 the CSSB stated that “[w]hile the ISSB has set an effective date for annual reporting periods beginning on or after January 1, 2024 for IFRS S1 and S2, decisions about adoption — including how effective dates are determined in Canada — will be part of the CSSB’s initial discussions” taking place this summer.

The ISSB noted that it plans to work with jurisdictions and companies to support the adoption of its standards. The ISSB also stated that IFRS S1 and S2 are its “inaugural standards” and the publication of these standards “is just the starting point as we consult on our future priorities, beyond climate”. Accordingly, we should not be surprised to see additional voluntary disclosure standards published by the ISSB in the future in other ESG areas, which could possibly include biodiversity, human capital and human rights.




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
 Global Energy Transition 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
 International Clean Power Dividend Fund	CLP.UN	Sustainable Power
MINT Income Fund	MID.UN	Equity Income
 Sustainable Innovation & Health Dividend Fund	SIH.UN	Innovation & Healthcare
 Sustainable Real Estate Dividend Fund	MSRE.UN	Sustainable Real Estate

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	Energy Infrastructure

LSE-Listed Investment Fund

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

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 be 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 JULY 2023

Middlefield Limited

The Well

8 Spadina Ave. | Suite 3100

Toronto, Ontario M5V 0S8

+1.416.362.0714

www.middlefield.com