MIDDLEFIELD
INVESTMENTS THAT WORK FOR YOU

MARKET COMMENTARY

MAY 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

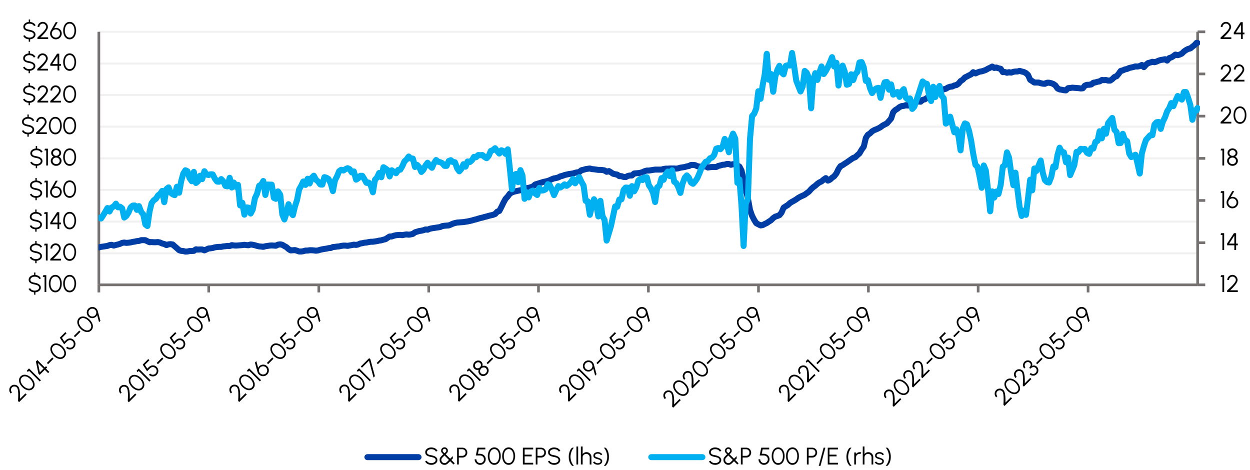
Dean Orrico
President & CEO

Robert Lauzon
Managing Director & CIO

Equity markets finally took a breather in April with the S&P 500 returning -4.1%. Despite the pullback, the S&P 500 is still up more than 20% over the past six months after posting its best five-month rally since the pandemic bear market low in 2020. We think a partial retracement of the recent rally from the October 2023 lows represents a healthy correction within a longer-term bull market that will lift the S&P 500 to new highs in the months ahead.

Q1 2024 earnings in the U.S. have been great thus far. Over 80% of S&P constituents have now reported with 79% of companies posting a positive earnings surprise. The forward EPS forecast for the S&P 500 has risen to a record high of $254 and highlights that the recent market rally has been backed by rising profit estimates. With full employment, solid wage growth and strong consumer spending, the U.S. economy remains

S&P Rally Supported by Fundamentals



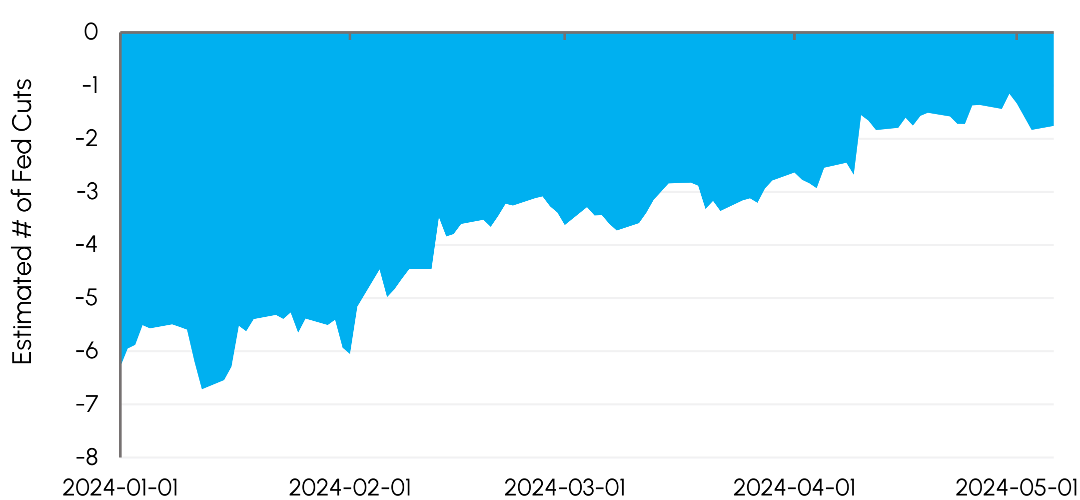
Source: Bloomberg. As at May 6, 2024.

on sound footing by all accounts. This has caused investors to re-think the consensus "soft landing" scenario that emerged at the beginning of the year. According to a Bank of America survey, 36% of investors now anticipate a "no landing" scenario, a significant rise from just 7% in January.

The strength of the U.S. economy supports earnings growth and market stability. These benefits are not exclusive to U.S. companies as many Canadian and international companies generate significant portions of their revenue from the United States. That said, it is becoming increasingly likely that monetary policy will be more restrictive in the U.S. than other countries, including Canada. Lately, we have witnessed a bifurcation in expected central bank policies whereby Fed rate cuts have been pushed out towards the end of the year. As of May 6th, futures markets were pricing in less than two total rate cuts from the U.S. in 2024, with the first cut not expected until September at the earliest. In contrast, the Bank of Canada is now expected to start cutting rates this summer with nearly three total cuts priced in for 2024. Expected rate cuts from the Bank of Canada should act as a positive catalyst for shares of certain sectors of the Canadian market including REITs, utilities, financials and pipelines.

The TSX Composite returned -1.8% in April and outperformed most global indices. Energy and materials outperformed once again as investors navigated rising geopolitical tensions. Israel's attack on a military base in Syria, which killed eight officers of Iran's IRGC, resulted in Iran firing over 300 missiles and drones directly at Israel for the first time in history. Although direct conflicts between the two nations are unlikely in the near-term, the risk of further clashes between Israel and affiliated proxy groups in the region remains extremely high. Canadian equities typically outperform when geopolitical risks are elevated due to Canada's exposure to commodities and resource sectors. Considering U.S. Congress just

Market Has Pared Back on Fed Cuts



Source: Overnight Indexed Swap (OIS), Bloomberg. As at May 6, 2024.

passed a $95 billion foreign aid package that is likely to prolong the ongoing conflicts in Ukraine and the Middle East, we expect geopolitical tensions to remain elevated for the foreseeable future.

Fortunately, there are better reasons to own Canadian equities than as a hedge against geopolitical risk. Canada has seen a resurgence in foreign investment recently, with several major announcements in the past few months. Honda announced a $15 billion EV manufacturing plant in Alliston Ontario that will add over 1,000 new manufacturing jobs and secures the current employment of 4,200 workers at its two existing sites in Ontario. The announcement comes on the heels of IBM announcing plans to invest over $730 million in its Canadian semiconductor packaging and testing plant in Quebec. More announcements may be on the horizon after Warren Buffet stated that Berkshire Hathaway is evaluating a major investment in Canada at the recent annual shareholder meeting in Omaha. We own many companies across our strategies that possess the quality/value characteristics that Buffet typically looks for.

Real Estate

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

Dean Orrico
President & CEO

REITs were affected by higher interest rates in April and came for sale during the month. Although bond yields have crept higher and impacted sentiment, we believe investors should not be waiting for the "all-clear" signal in real estate and should be accumulating positions in high-quality REITs today. The REIT sector in Canada is currently trading at just 11x 2025 FFO and 25% below its net asset value – significantly below historical valuations.

Large institutional investors have recognized the current dislocation in market prices and have been exploiting the discounts embedded in public REITs. For example, Blackstone announced in early April that it will acquire apartment owner AIR Communities for US$10 billion at a 25% premium to its previous closing value. The AIR acquisition follows Blackstone's US$3.5 billion agreement to acquire Tricon Residential earlier this year for a similar premium. Alternative asset manager TPG Inc. has also been active in the public markets, recently announcing the purchase of CAPREIT's manufactured housing portfolio for C$700 million. It is estimated that private equity firms are sitting on more than $2 trillion in cash, with growing pressure from LPs to deploy it. As a result, we expect large M&A transactions to continue throughout the year – particularly in the public markets where valuations are significantly more attractive. These transactions reinforce our view that the true intrinsic values of public REIT portfolios are much higher than where they are trading today.

Seniors housing is one of our favourite asset classes in real estate and is an area where we have been increasing exposure. We hold positions in several seniors housing operators in both Canada and the U.S., including Chartwell, Sienna Sr. Living, Welltower and Ventas. The thesis for owning seniors housing is simple: demand will grow faster than supply due to an aging population and constrained new supply. The population of people over the age of 80 is expected to grow by about 50% over the next 10 years in the U.S. and those over the age of 85 are expected to triple over the next 25 years in Canada. Unless there is a material increase in new projects under development, which we do not anticipate, seniors housing operators should benefit from occupancy gains and strong pricing power. Increases in supply are currently limited by the high cost of borrowing, increases in construction costs and elevated land prices in major metropolitan areas. As operating costs continue to come down since the pandemic and occupancy gradually rises quarter over quarter, we believe seniors housing will generate sector-leading earnings growth and remain confident in our overweight exposure to this group.

Healthcare

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

Robert Moffat
Portfolio Manager

The healthcare sector returned -5.1% in April, lagging the broader market by nearly 1%. Growth-oriented sub-industries such as MedTech and biotechnology led to the downside while traditionally defensive sub-industries including pharmaceuticals and managed care providers outperformed. Despite the recent pullback, the outlook for healthcare stocks remains positive and we still expect it to outperform in 2024.

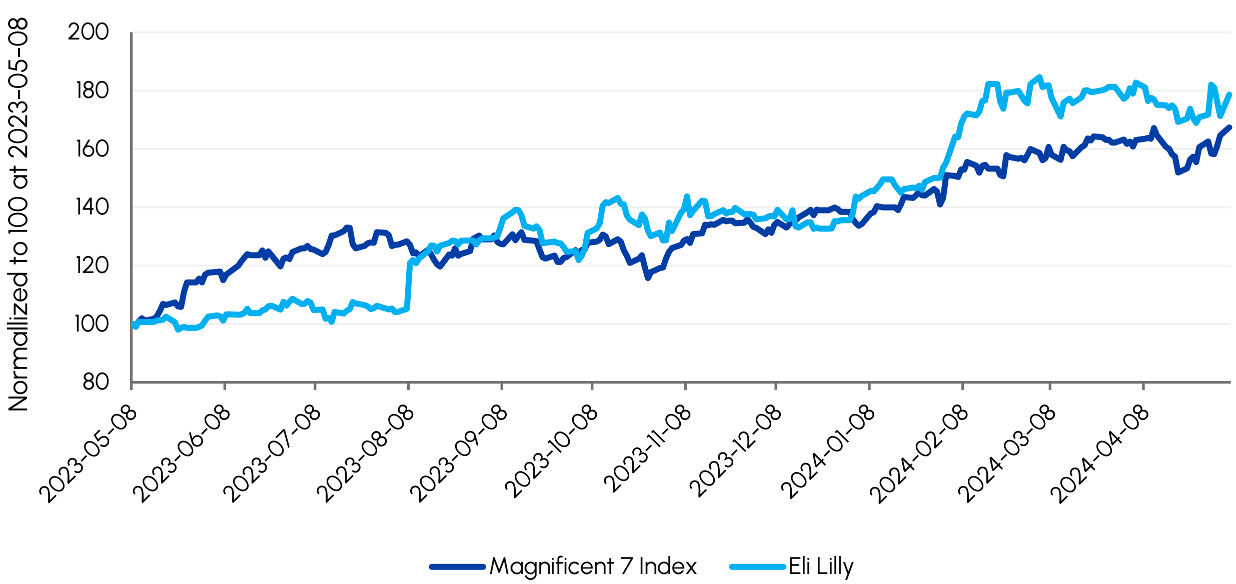
The Healthcare Equipment sub-industry (MedTech) returned -6.1% in April. The group had performed well leading up to Q1'24 earnings season which resulted in crowded positioning and a high bar for earnings. Fortunately, several of our core positions were able to exceed these lofty assumptions. Boston Scientific (BSX), a top 10 holding in our healthcare funds, shattered expectations reporting topline organic growth of +13.1% compared to consensus estimates of +8.2%. While strength was broad-based, the company's recently launched pulse field ablation (PFA) system FARAPULSE was the biggest driver of the beat. PFA is an emerging technology used to treat atrial fibrillation that has been met with widespread enthusiasm from cardiologists. We expect FARAPULSE to continue driving beat + raise quarters for BSX and maintain our high conviction in the stock.

Pharma stocks performed relatively well in April but their performance was dispersed. Eli Lilly was up 6% on the last day of the month after reporting earnings and lifting its full-year guidance.
The bump was driven by progress across the company's manufacturing network which it is expanding to meet demand for its diabetes and obesity drugs, Mounjaro and Zepbound. According to estimates, combined sales of the two products are expected to top $40 billion in 2029 as demand for the diabetes and obesity drugs skyrockets. Manufacturing capacity represents the biggest hurdle for the company reaching these targets so it was no surprise to see the stock react positively to the improving supply announcement. While many investors have been focused on tech stocks, Eli Lilly has outperformed the Magnificent 7 over the past year and has grown to be the

largest healthcare company in the world with a market cap of over $700 billion.

AstraZeneca (AZN), another top 10 holding, was up 13% in April after reporting positive data from a highly anticipated phase 3 trial in breast cancer. The data supports label expansion in one of its blockbuster cancer drugs, Enhertu, and reinforces the company's competitive position in oncology. AZN has a robust late-stage drug pipeline with numerous potential catalysts on the horizon yet trades at an undemanding forward price to earnings multiple of 17x, leaving significant room for multiple expansion.

LLY Has Outperformed Mag 7 Over the Past Year



Source: Middlefield, Bloomberg. As at May 6, 2024.

Infrastructure

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

Robert Lauzon

Managing Director & CIO

Brookfield Renewable (BEP) secured a landmark deal with Microsoft in early May, signing a 5-year agreement to develop a massive 10.5 GW of renewable energy (wind, solar, other) to power Microsoft's data centers globally. This deal, nearly eight times larger than any previous corporate clean energy agreement, represents a major stride for both companies and the renewables industry. BEP gains a significant long-term customer and strengthens its position in the booming data center market while Microsoft secures a reliable source of clean energy to fuel its cloud service growth. This agreement underscores the increasing demand for renewable energy solutions as corporations prioritize sustainability. Additionally, with its robust development pipeline and strategic investment approach, BEP positions itself to capitalize on the overall growth expected in the renewables and infrastructure sectors.

In April, we hosted an insightful fireside chat with Enbridge CEO Gregory Ebel, where we discussed their North American growth strategy and commitment to reliable energy. Enbridge is making progress towards closing and financing the remainder of its Dominion utility acquisition which will increase the longer-term visibility of Enbridge's growth profile. In addition, Enbridge sees over $5 billion of potential expansion opportunities along its West Coast Pipeline network, primarily for natural gas infrastructure. These projects will fuel the burgeoning LNG market by providing the necessary storage infrastructure to meet rising global demand. LNG demand is being supplemented by the immense energy needs of artificial intelligence and data centers. After a decade of relatively flat power growth in the U.S., electricity demand is expected to grow by as much as 20% by 2030 according to Wells Fargo. Enbridge is well-positioned to capitalize on this growth with its established network.

We also discussed the recent commencement of operations on the TMX pipeline which marks a major milestone for the Canadian energy sector. The expansion empowers Canadian oil producers by enabling greater access to global markets, fostering a more competitive pricing landscape. Management anticipates minimal volume impacts to its Mainline system given high tolls on TMX, recent production growth in the basin and shifting volumes from rail. Enbridge expects pipeline capacity to be full again by 2026 and as Western Canadian crude oil production grows and conversations with shippers have already started regarding the next round of expansion opportunities on the Mainline.

Technology & Communications

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

Shane Obata
Portfolio Manager

Tech earnings season has delivered a positive surprise thus far. With 57% of the S&P 500 technology sector reporting, a whopping 86% have exceeded EPS estimates and delivered healthy 18% year-over-year growth. This strong performance is a welcome sign, but it's important to look beyond the headline numbers since shrewd investors are taking advantage of this opportunity to navigate sector nuances. Profits are being taken on companies that previously led the charge, while undervalued companies are being added to portfolios.

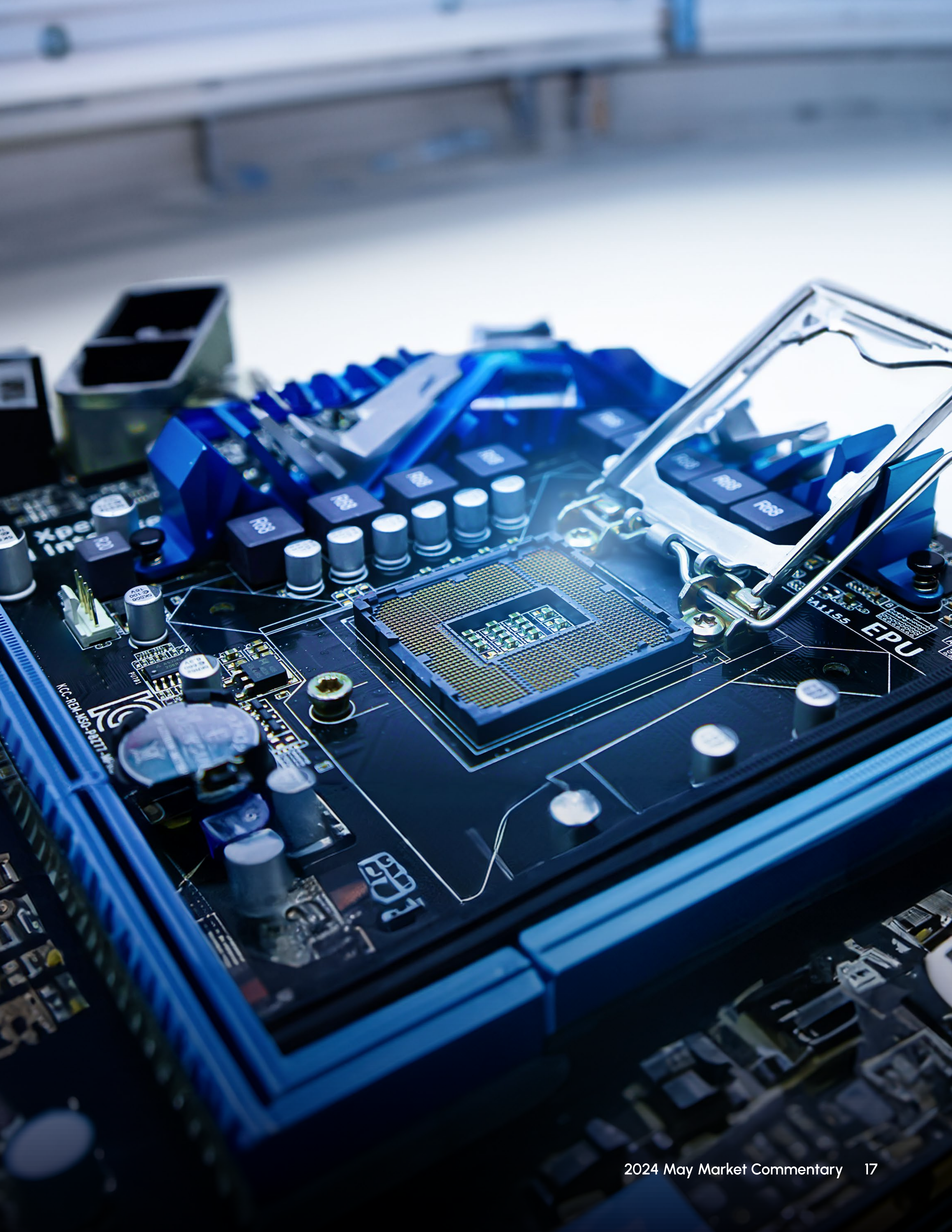
The most significant development has been the stellar performance of Cloud Service Providers (CSPs). Industry leaders such as Microsoft, Amazon, and Google all surpassed expectations this quarter. This is particularly noteworthy because their success is directly tied to the growth of AI workloads. The robust demand for cloud services fuels the massive capital expenditures currently directed towards building data centers – the backbone of AI operations. These strong results from CSPs solidify the multi-year investment cycle in cloud infrastructure that's already underway.

When we zoom out and consider the broader AI landscape, it's clear we're still in the early innings. If we view generative AI through the same lens as the cloud market's evolution, applications (stage 3) are destined to become the dominant segment, eventually eclipsing infrastructure (stage 2) and the foundational hardware/semiconductor layer (stage 1). Currently, we're firmly in stage 1. Most of the short-term value is accruing to semiconductor companies like Nvidia and Broadcom, the workhorses providing the essential processing power for AI. Infrastructure companies, meanwhile, are strategically investing in exploring this new frontier. They're confident in AI's long-term potential but will need to see a wider range of use cases emerge to support return on invested capital.

This stage-based analysis informs our investment strategy. We're continuing to favor early winners in AI semiconductors like Nvidia and Broadcom, while also recognizing the potential of second-order beneficiaries like Taiwan Semiconductor Manufacturing Company and Micron, who play a crucial role in the overall chipmaking ecosystem.

Beyond the AI narrative, another exciting trend is unfolding: the "golden age of tech dividends." Following suit after Meta, Salesforce, and Booking, Google recently initiated a dividend payout. This shift is highly attractive for investors seeking exposure to tech's growth potential while also prioritizing income generation. Our investment funds are well-positioned to capitalize on this trend, with an expectation that companies like Amazon will join the dividend party, potentially within the next 12 months.

Tech companies are further demonstrating their commitment to shareholder returns through massive stock buyback programs. Apple's record-shattering $110 billion buyback program puts a bold exclamation point on this trend. Interestingly, this figure surpasses the entire market capitalization of John Deere, a company ranked 83rd in the S&P 500! These aggressive buybacks highlight a crucial message: tech companies can excel at innovation while simultaneously returning cash to their shareholders. They're proving that prioritizing both isn't a zero-sum game.


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 set new record highs throughout April, trading above US$2,400/oz on several occasions and averaging over US$2,300/oz for the month. Much of the enthusiasm came on the heels of demand from central banks as Bloomberg reported that "gold demand from central banks posted its strongest start to any year on record in 2024". Gold's strength in the face of higher yields and a strong U.S. dollar precludes a win-win situation for the remainder of 2024. If economic data softens and Fed rate cut expectations are pulled forward, the first rate cut is likely to serve as a positive catalyst for gold prices. On the other hand, if concerns of more sticky inflation remain in place together with elevated geopolitical risks, gold prices are also likely to be well-supported. As investors in gold companies, we were encouraged to see gold equities outperform the spot price of the commodity for a second straight month, with the S&P/TSX Global Gold Index up an impressive 6.8% in April.

The price of copper has also been strong, reaching two-year highs. A perfect storm of circumstances has created an unusually tight copper market, with uncommon supply constraints at a time of rising demand. Freeport McMoRan President Kathleen Quirk recently said these conditions are likely to last for an extended period. "New massive investment in the power grid, renewable generation, technology infrastructure and transportation are driving increased demand for copper," she said on the company's earnings conference call. "This is occurring at a time when there are constraints on existing supplies, an absence of major new copper development projects and extended multiyear lead times for supply development."

The U.S. finally approved a US$60 billion lifeline for Ukraine. As new U.S. and European aid filters in, it will be interesting to see if Ukraine heeds Washington's requests to halt attacks on Russian energy infrastructure. The U.S. finds itself in the awkward position of pushing oil sanctions on Russia and Iran but not wanting those barrels to come out of the global oil market into a sensitive November election. In Canada, strength in crude pricing was complemented by a weak loonie and the startup of the 590,000 bbl/d Trans Mountain expansion (TMX) project. Producers should see the benefit of tighter and less volatile regional differentials going forward as a result. Overall, few catalysts exist during the shoulder season for natural gas, but producers are doing their best to keep things in balance. Selectively producers are continuing to manage production through curtailments and deferrals to optimize returns. This along with LNG output expansion can act as a floor for near-term gas prices, which has aided natural gas equity performance.

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[1]	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	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

[1] Units will be delisted end of day Tuesday, May 7th, 2024 then converted to Class A shares of Infrastructure Dividend Split Corp.

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