

PALOS

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Weekly Commentary

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By Charles Marleau, CIM

Innergex - Powered by Renewable Energy

Innergex Renewable Energy Inc. (TSX: INE), established in 1990, is a Canadian independent energy producer that acquires, develops, and operates hydroelectric, solar, and wind power facilities. The company has a 100% renewable portfolio that includes 69 facilities in Canada, Chile, France, and the United States. INE has a market capitalization of CAN\$ 3.88 billion and pays a 3.3% dividend (July 2020).

This past February, INE announced a strategic partnership with Hydro-Quebec. As per terms of the agreement, Hydro-Quebec acquired a 19.9% equity stake in INE for CAN\$661 million. Proceeds will be used to grow the Innergex portfolio via opportunistic acquisitions. The partnership also offers synergies through shared expertise in renewable energy technologies. Since the partnership was announced, INE has closed on two acquisitions. On May 14, Innergex acquired a 68-megawatt Chilean solar farm for CAN\$65.6 million. In a related deal, INE signed an 11-year Power Purchase Agreement (PPA) for the electricity produced at the Chilean facility, for CAN\$27.4 million. In a subsequent acquisition announced on July 15, INE acquired a portfolio of power producing wind farms in Idaho from Terna Energy SA, for CAN\$77.3 million. The acquisition of The Mountain Air wind farm, with a generation capacity of 138 megawatts, will be immediately accretive.

As the combined cost of both acquisitions falls below the amount received from the Hydro-Quebec deal, the remaining cash can be used to pursue other opportunities. In addition, Innergex has access to CAN\$600 million via a revolving credit facility that is backed by 12 unencumbered assets. Further strengthening the balance sheet, the company's PPA's have an impressive average contract duration of approximately 15 years, which compares well with peers. The vast majority of PPA's are contracted with government-owned or government-backed utilities or corporations. Approximately 96% of debt is not exposed to rising rates.

ESG investing (Environmental, Social, and Governance) is a relatively recent phenomenon and a driving force behind growing demands for corporations to act responsibly. Protection of the environment, diversity, pay equality, employee well-being, and corporate transparency have become increasingly important criteria amongst large institutional investors like pension funds, sovereign wealth funds, and endowments. With these investors placing greater emphasis on corporate accountability, ESG is evolving from a conceptual phenomenon to an undeniable force. As the movement gathers steam, public companies are facing greater

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scrutiny. Innergex, with a 100% focus on renewable energy, a commitment to social responsibility, and a policy of community engagement during the impact and permitting stage, will score well in ESG evaluations.

If current opinion polls are correct, there is a strong likelihood that Democratic nominee Joe Biden will be the next President of the United States. Biden's platform, contrary to that of the incumbent, includes a clear path for the U.S. to not only rejoin global climate efforts, but to assume a leadership role. Called the "Green New Deal", Biden's plan calls for an ambitious plan to eliminate carbon emissions by 2050. Should Biden succeed, it's speculated that green initiatives could create a USD\$ 9 trillion investment in renewable energy and the creation of 10 million well paying jobs.

With a presence in the U.S., a 100% exposure to the renewable energy sector, a diversified portfolio, and a commendable ESG rating, Innergex is in a strong position to be a dominant player as the world shifts away from our carbon dependence and into clean alternatives. The Palos Income Fund currently holds shares of Innergex in the fund's portfolio.

Disclaimer: Palos Funds are shareholders of INE.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.28	-9.01%
Palos Equity Income Fund - RRSP	PAL101	\$5.25	-7.17%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$8.78	14.71%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.49	-18.12%
S&P TSX Composite (Total Return with dividends reinvested)			-4.41%
S&P 500 (Total Return with dividends reinvested)			-0.61%
S&P TSX Venture (Total Return with dividends reinvested)			19.93%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.59%
Canadian Government 10-Year			0.50%
Crude Oil Spot			US \$41.29
Gold Spot			US \$1,897.50
US Gov't10-Year/Moody BAA Corp. Spread			259 bps
USD/CAD Exchange Rate Spot			US \$0.7455

¹ Period ending July 24, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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