

# PALOS

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## Weekly Commentary

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## Enbridge Inc. – Moving North America’s Energy

**Enbridge Corp.** (ENB: TSX, NYSE) is a Canadian transporter and distributor of crude oil, liquids, and natural gas products across North America. With over 27,000 kilometers of crude pipelines in Canada and the U.S., the company accounts for more than 65% of Canada’s oil exports and roughly 20% of all natural gas consumed in the United States. Not limited to fossil fuels, Enbridge also invests in renewable energy.

Over the decade-long period between 2010-2019, Enbridge accounted for the transport of almost 4 billion barrels of crude and Enbridge pipelines are the largest conduit of U.S. bound Canadian oil. Despite the company’s safety record of 99.9998%, ENB continues to attract more than its share of political and activist attention. Enbridge line 5, which runs through Michigan and is a major transporter of petroleum from Western Canada to Ontario and Quebec, is in the midst of a legal dispute with the state. Michigan’s Governor, who’s campaign platform promised to shut down the pipeline, served notice to Enbridge last November 2020 that the pipeline must be shuttered.

In response, Enbridge has challenged the order in U.S. federal court arguing that pipeline safety falls under federal jurisdiction. As the case unfolds, oil companies have been preparing contingency plans which include moving crude by rail, tanker trucks, or oil barge via the Great Lakes system. Supplying the market is of critical importance to consumers and refineries on both sides of the border. To resolve matters, Enbridge has proposed the idea of constructing a tunnel below the lakebed that would serve as a conduit for the Line 5 replacement and remove the potential for an environmental catastrophe. The proposal is early stage and awaiting regulatory approval. In the meantime, Enbridge confirms that Line 5 will continue to operate safely and legally until the Line 5 replacement project is completed.

There is more to the Enbridge story than crude. The Enbridge natural gas network supplies almost 20% of all natgas consumed in the United States. The infrastructure network covers New England, the U.S. East Coast, Mid-West, Southwest, Florida, offshore operations in the Gulf of Mexico, and five provinces including the Maritimes. The BC Pipeline, which is undergoing a multibillion-dollar expansion, transports about 60% of the natgas produced in BC to markets in western states. The Alliance Pipeline is a 3,800 km pipeline stretching across Canada and carries gas to the Chicago market. DCP Midstream is a 50-50 joint venture and is one of the largest processors in the U.S.

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Since 2002, Enbridge has committed over \$7.3 billion to renewable energy. The renewable portfolio, which is international (Europe, UK, Canada, and the U.S.), includes 23 windfarms, 7 solar energy facilities, as well as geothermal, hydro, and waste heat recovery. Renewable projects in or under construction have the potential to generate over 2,000 mega-watts of electricity, enough to meet the needs of almost 1 million homes. Sustainability forms an integral part of Enbridge's vision, and the company has pledged to strive for superior ESG achievements. Ambitious goals include carbon neutrality by 2050, 28% racial and ethnic representation by 2025, and continuous safety improvements that target a goal of zero incidences.

The **Palos Income Fund LP** and the **Palos Equity Income Fund** have held shares in Enbridge since our initial purchase on January 30, 2019 at C\$ 48.18. The company has a market cap of C\$97.7 billion making it one of the largest companies in Canada by capitalization. ENB has a record of consistently growing dividends and boasts a 5-year dividend growth rate of 10.6%. We remain positive on the long-term prospects for the company, and we view Enbridge as a reliable provider of growing and sustainable dividend income. Through June 11, our investment has produced a total return (including dividends) of 19.1%.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.97	16.41%
Palos Equity Income Fund - RRSP	PAL101	\$7.43	16.76%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$24.50	53.47%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$12.47	18.40%
S&P TSX Composite (Total Return with dividends reinvested)			16.90%
S&P 500 (Total Return with dividends reinvested)			13.83%
S&P TSX Venture (Total Return with dividends reinvested)			11.97%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.45%
Canadian Government 10-Year			1.37%
Crude Oil Spot			US \$70.91
Gold Spot			US \$1894.20
US Gov't10-Year/Moody BAA Corp. Spread			202 bps
USD/CAD Exchange Rate Spot			US \$0.8226

<sup>1</sup> Period ending June 11, 2021. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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