

PALOS

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Weekly Commentary

Issue No. 25 | JUNE 21, 2021

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By Charles Marleau CIM[®] and William Mitchell CIM[®]

Keyera Corp. – What a Difference a Year Makes!

Keyera Corp. (KEY: TSX) is an independent natural gas **midstream** company. Originally owned by Gulf Canada Resources and Chevron Canada Resources, the company transformed to KeySpan Corporation and in 2005 the name was changed to Keyera. As one of Canada's largest independent midstream companies, Keyera plays an important role in the processing and transporting of natural gas to Canadian consumers. Keyera has expanded its U.S. operations with the Wildhorse storage and blending facility located in Cushing, OK. Wildhorse is expected to be fully operational this year.

The term **midstream** is defined by the activities undertaken by companies that process, store, market and transport oil and gas (the middle). The primary production stage (upstream) refers to the exploration and production of raw commodities like crude oil or natural gas. The final stage (downstream) focuses on the refining of raw materials into finished products like gasoline, jet fuel, and natural gas liquids. In addition to fuels, downstream products also include plastics, chemicals, lubricants, fertilizers, and specialized medical products.

Keyera released Q1/2021 results on May 11. The company reported strong results across all three segments of the business. The liquids infrastructure segment delivered record quarterly results and sees continued high demand. The gathering and processing segment, which includes a network that exceeds 4,400 km of gas gathering capacity, saw volume increases of 7% compared to Q1/2020 while the marketing segment improved from stronger pricing.

Management provided an update on the Key Access Pipeline System project (KAPS), scheduled to commence construction this summer. The pipeline will collect condensates and other liquid petroleum products from the Montney and Duvernay regions in Northwest Alberta and carry liquids to a processing facility in Fort Saskatchewan, which is situated 25 km northeast of Edmonton. The project is an Alberta- only initiative that will provide an alternative to existing infrastructure routes. Initial capacity is 70% contracted under long-term agreements with an average term of fourteen years. Clearing the right of way commenced in Q1 and fabrication of the pipe is well underway. With an expected completion in 2023, the project should be transformative for KEY.

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ESG (Environmental, Sustainability and Governance) is a top priority. Keyera has targeted a 20% reduction in absolute emissions from 2018 to 2021. A diversity and inclusion program has been initiated and compensation will be linked to ESG performance. KEY's value proposition is rooted in delivering sustainable dividends, low debt leverage and access to premier investment opportunities and new customers. Management is targeting a 10 -15% return on invested capital and growing the dividend at a consistent rate. Share buybacks or acquisitions remain an option if management believes this is the best way to allocate capital.

KEY shares have been a long-term core holding for both The **Palos Income Fund LP** and the **Palos Equity Income Fund**. Our initial investment was made on November 12, 2012. Keyera has paid dividends every month since our initial purchase. The stock was split 2-for-1 on April 6, 2015 (i.e., 2 shares received for each share held) and as of Friday June 18 our investment has returned 108.6%. KEY shares are higher by 48.6% this year alone and we continue to view Keyera as a stable and sustainable provider of income.

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| Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹ | FundServ | NAVPS | YTD Returns |
|--|----------|---------|--------------|
| Palos Income Fund L.P. | PAL100 | \$9.87 | 15.18% |
| Palos Equity Income Fund - RRSP | PAL101 | \$7.34 | 15.41% |
| Palos Merchant Fund L.P. (Dec 31, 2020) ² | PAL500 | \$1.35 | -21.15% |
| Palos WP Growth Fund - RRSP | PAL210 | \$23.08 | 44.61% |
| Palos-Mitchell Alpha Fund ³ | PAL300 | \$12.59 | 19.54% |
| S&P TSX Composite (Total Return with dividends reinvested) | | | 16.17% |
| S&P 500 (Total Return with dividends reinvested) | | | 11.70% |
| S&P TSX Venture (Total Return with dividends reinvested) | | | 8.21% |
| Chart 2: Market Data ¹ | | | Value |
| US Government 10-Year | | | 1.44% |
| Canadian Government 10-Year | | | 1.37% |
| Crude Oil Spot | | | US \$71.64 |
| Gold Spot | | | US \$1767.90 |
| US Gov't10-Year/Moody BAA Corp. Spread | | | 186 bps |
| USD/CAD Exchange Rate Spot | | | US \$0.8022 |

¹ Period ending June 18, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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