

# PALOS

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## Weekly Commentary

Issue No. 32 | AUGUST 9, 2021

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## Climate Change: The Role of Carbon Capture, Utilization & Storage

On August 9, the Intergovernmental Panel on Climate Change (IPCC) released its most recent report. The IPP Summary for Policymakers report, established in 1988, is a reference document that updates the scientific information and data on climate change. The report also highlights the societal and economic impacts of climate change as well as the risks and potential solutions.

From a science-based perspective, it is undeniable that human influence has contributed to global warming. As evidenced by recent headlines, the intensity and frequency of heat waves, severe precipitation, droughts, and wildfires has increased. This year alone, we have seen dramatic reports of extreme heat and wildfires in B.C. and Europe, as well as flash flooding in Western Europe and China. With the expectation for global warming to intensify over future decades, climate change risks and the impacts related to agriculture/food chains, health, supply chains, and arguably human survival, are very likely to grow.

The report identifies that to avert a crisis, greenhouse gas emissions will need to be reduced to a level that limits the increase in global temperatures to 1.5 degrees Celsius by 2040. Further, scientists are suggesting that we must cut carbon dioxide (CO<sub>2</sub>) emissions in half by 2030 and achieve full carbon neutrality (i.e., net zero) by 2050. This raises a conundrum: how can we realize lofty CO<sub>2</sub> reduction goals while at the same time acknowledging that the world's dependence on fossil fuels is projected to grow until technology permits renewable energy options to replace them?

A nascent technology that is currently at the forefront is **Carbon Capture, Utilization & Storage (CCUS)**. The basis of CCUS is evolving technological solutions that allow carbon emitting industries to incorporate the removal of carbon from the atmosphere (capture), create new and environmentally beneficial applications for CO<sub>2</sub> (utilization), and finally, develop methods that will perpetually sequester captured carbon (storage).

Over the coming weeks, we will take a deeper dive into the complex issue of CCUS. Our series will include the potential opportunities for companies that are focused on developing CCUS technologies, those that can potentially apply the science behind CCUS as a way to reduce or eliminate their carbon footprint, and the

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policy changes and governmental participation required to achieve a successful outcome. We look forward to providing our readers with some interesting perspectives in future issues.

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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	18.74%
Palos Equity Income Fund - RRSP	PAL101	\$7.56	19.28%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$22.75	42.52%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$11.15	19.58%
S&P TSX Composite (Total Return with dividends reinvested)			19.34%
S&P 500 (Total Return with dividends reinvested)			19.11%
S&P TSX Venture (Total Return with dividends reinvested)			5.81%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.30%
Canadian Government 10-Year			1.24%
Crude Oil Spot			US \$68.28
Gold Spot			US \$1760.00
US Gov't10-Year/Moody BAA Corp. Spread			196 bps
USD/CAD Exchange Rate Spot			US \$0.7967

<sup>1</sup> Period ending August 6, 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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