

# PALOS

## CONTENTS

## Weekly Commentary

Issue No. 38 | SEPTEMBER 20, 2021

Climate Change: Oil Sands Pathway to Net Zero Project	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By [Charles Marleau CIM<sup>®</sup>](#) and [William Mitchell CIM<sup>®</sup>](#)

## Climate Change: Oil Sands Pathway to Net Zero Project

On June 9, 2021, five of Canada's largest oil sands operators announced the launch of the **Oil Sands Pathways to Net Zero (Pathways)** project. The project aims to drastically reduce Canada's oil sands net CO2 emissions over the next 30 years in lockstep with Canada's pledge to achieve 'net zero' emissions by 2050. The Pathways collaboration includes Suncor Energy (TSX/NYSE: SU), Canadian Natural Resources Ltd. (TSX/NYSE: CNQ), Cenovus Energy (TSX/NYSE: CVE), MEG Energy (TSX: MEG) and Imperial Oil (TSX/NYSE American: IMO). The Pathways 'group of five' accounts for roughly 90% of Canada's oil sands production.

The Pathways initiative is viewed by proponents as a workable solution that will help to achieve two important objectives. Foremost, the program will help Canada meet its 2050 carbon reduction targets as part of its commitment to the Paris Agreement. In addition, reducing our oil sands footprint to net zero could distinguish Canada as one of the cleanest, most environmentally friendly producers of fossil fuels in the world. The oil sands are projected to contribute more than \$3 billion to Canada's GDP over the next three decades, clearly a significant economic consideration which increases the importance of finding a workable solution.

Central to the project will be the advancement of the Carbon Capture, Utilization, and Storage industry (CCUS). Similar projects, which require significant financial incentives and regulatory assurances from governments, have been successfully undertaken in the U.S., Norway and the Netherlands. In Canada, the initial step is the development of a pipeline infrastructure that will connect the oil sands with a network of commercial CO2 consumers and sequestration availability (Alberta Trunkline). Canada is well recognized for its technological expertise and further, Western Canada has significant sequestration capability in existing reservoirs. What's missing is the infrastructure needed to tie in producers, consumers, and storers of CO2.

One criticism that's being directed at the Pathways initiative is the argument that while reducing CO2 emissions at the production level is a worthy endeavor, it does not impact the other side of the equation which is the emissions created from consumers who burn fossil fuels. This creates a conundrum; would the better solution involve the elimination of fossil fuels altogether? Some experts contend that unless society collectively and aggressively takes concrete action to eliminate the use of fossil fuels, 2050 reduction targets

*By Charles Marleau CIM<sup>®</sup> and William Mitchell CIM<sup>®</sup>*

cannot be met. At the same time, many forecasters contend that fossil fuels are destined to remain an important part of the energy mix for years to come.

Important to note is that the Pathways initiative is not exclusively about harvesting emissions. To be successful the initiatives will incorporate increased energy efficiency, electrification of oil sands equipment, the development of a clean hydrogen industry, and the inclusion of indigenous communities. Next generation carbon capture technologies and the advancement of modular nuclear power generation could play an important role.

While the transition to a green energy future is widely viewed as a necessary step in meeting emissions reduction targets, a rapid transition to a 'fossil fuel free' energy future is both short-sighted and unrealistic. Most experts agree that fossil fuels will remain an important part of the energy mix for years to come. The transition to a green future will surely take years or even decades to realize. In the meantime, initiatives like Pathways will play important roles in a long-term process.

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$10.12	20.56%
Palos Equity Income Fund - RRSP	PAL101	\$7.66	20.85%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.61	47.89%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$11.42	22.52%
S&P TSX Composite (Total Return with dividends reinvested)			19.79%
S&P 500 (Total Return with dividends reinvested)			19.24%
S&P TSX Venture (Total Return with dividends reinvested)			1.38%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.36%
Canadian Government 10-Year			1.28%
Crude Oil Spot			US \$71.97
Gold Spot			US \$1749.40
US Gov't10-Year/Moody BAA Corp. Spread			184 bps
USD/CAD Exchange Rate Spot			US \$0.7831

<sup>1</sup> Period ending September 17, 2021. Data extracted from Bloomberg

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

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



# Weekly Commentary

Issue No. 38 | SEPTEMBER 20, 2021

## Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

# PALOS

1 Place Ville Marie, Suite 1670  
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504  
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

[www.palos.ca](http://www.palos.ca)