

PALOS

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Weekly Commentary

Issue No. 39 | SEPTEMBER 27, 2021

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Climate Change: Conclusions and Opportunities in CCUS

Over the past five weeks we have written about the potential for the **Carbon Capture, Usage and Storage (CCUS)** industry to play an important role in helping Canada achieve its CO2 reduction targets. In this closing edition, we will summarize the series and provide our thoughts on the global movement to address emissions as well as current and potential investment opportunities. (NOTE: if you missed our series, you may access previous editions No. 33 through No. 37 at funds.palos.ca/news/).

What is 'net zero'? In a nutshell, net zero is the point at which carbon (CO2) emissions are offset by CO2 removal from the atmosphere, also known as 'carbon neutrality'. Neutrality can generally be achieved via a combination of reducing, or eliminating, carbon emissions from industrial processes. It can also be achieved by the removal of CO2 from the atmosphere. This latter is where CCUS stands to play a vital role in Canada's energy sector, which is widely regarded as Canada's largest industrial emitter.

The Government of Canada has gone on record with its commitment to reduce green house gas (GHG) emissions to net zero by 2050. Last February, Ottawa established an independent group comprised of fourteen experts who are assigned the task of identifying the best way in which Canada can reach net zero. The agenda also included the creation of the 'Net-Zero Accelerator Fund', a \$3 billion commitment to help industry reduce emissions and/or implement transition strategies.

In addition to policy initiatives, Federal and Provincial governments are allocating significant dollars to tackling climate change. This includes billions towards CCUS. In Western Canada, the CCUS industry is assuming a critical role in helping participants reach carbon neutrality goals. We previously have highlighted the achievements of companies like **Whitecap Energy (TSX: WCP)**, a leader in the capture and repurposing and/or sequestration of CO2, or **Advantage Energy's (TSX: AAV)** Entropy, an emerging leader in geological CO2 storage.

In addition to decarbonization solutions, there are significant growth opportunities for companies in the repurposing of captured CO2 as a feedstock. To become economically viable, a tremendous amount of

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gathering, transportation and storage capacity must be developed. Contributions from companies like **Pembina Pipeline Corp. (TSX: PPL)** and **TC Energy (TSX: TRP)** are instrumental in the development and expansion of the **Alberta Carbon Trunk Line (ACTL)**. The ACTL, which is designed as an open-access system, stands at the heart of an industry poised for significant growth.

This morning the **International Energy Agency (IEA)** announced a commitment to net zero by 2024, aligning the organization with its on 'Roadmap to Net Zero by 2050'. Actions to be taken include a reduction in unnecessary air travel, consuming clean energy, assessments of the carbon footprints of suppliers, and the purchase of carbon credits if necessary to reach net zero.

From Oct. 31 to Nov. 12, Glasgow is set to host the 26th United Nations Climate Change Conference (COP26). The objective of the conference is clear; to meet the **Paris Accord's** global warming objective of limiting temperature increase to 1.5 degrees Celsius, the international community must work together for the common good. In our view, tremendous investment opportunities lie ahead, and Canada is well positioned to be world leaders in battling climate change. We will be monitoring future developments closely.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$10.16	21.01%
Palos Equity Income Fund - RRSP	PAL101	\$7.68	21.12%
Palos Merchant Fund L.P. (Dec 31, 2020) ²	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.37	46.40%
Palos-Mitchell Alpha Fund ³	PAL300	\$11.27	20.82%
S&P TSX Composite (Total Return with dividends reinvested)			19.31%
S&P 500 (Total Return with dividends reinvested)			19.86%
S&P TSX Venture (Total Return with dividends reinvested)			0.16%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.45%
Canadian Government 10-Year			1.38%
Crude Oil Spot			US \$73.98
Gold Spot			US \$1749.70
US Gov't10-Year/Moody BAA Corp. Spread			179 bps
USD/CAD Exchange Rate Spot			US \$0.7904

¹ Period ending September 24, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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