

# PALOS

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## Weekly Commentary

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

## LNG Canada – A Commitment to the “S” in “ESG”: Social Responsibility

This week we continue our series spotlighting **LNG Canada** (LNGC) and specifically the project’s commitment to social responsibility and the well-being of the communities surrounding Kitimat. Since the early days of the pre-approval phase, LNGC has pledged to pursue the highest standards of environmental, social, and governance (ESG). This includes a social pledge to ensure that local communities and indigenous peoples share in the economic benefits to be derived from LNGC.

Beginning in 2014, LNGC representatives and residents collaborated on the creation of a **Community Charter**, a document designed to enshrine LNGC’s commitments to the community. The charter includes an acknowledgement that for the project to be successful, LNGC must prioritize the well-being of all local communities by including all stakeholders into the project’s decision-making process. Amongst the ‘social investments’ is a pledge to ensure that operations will always prioritize the community’s well-being (health, safety, infrastructure) and participation in the economic benefits and opportunities. The “community” includes workers, contractors, local businesses, residents and indigenous communities.

Mary-Ellen Proctor (Community Liaison Officer, LNG Canada): “It would have been really easy for us just to write what we think that the community wanted - but then it would not have been the community’s document”. To enshrine LNGC’s commitment to the community, the Community Charter serves to “put down on paper our commitment to the things that are important to you”. The charter firmly obligates LNGC to follow through on its vital promise to build “relationships and trust in the community”.

Susannah Pierce, Director of Corporate Affairs for LNGC from 2013 to 2021: “this is not about us saying what we’ll do for you - this is about you telling us what you want us to do and us committing to do it”. Pierce also confirmed that LNGC places a “high value on our reputation” and gave assurances to stakeholders that “together this is the standard that we’re going to live up to”.

LNGC aspires to be a responsible and trustworthy member of the community. This begins with a promise to remain engaged with the community for the entirety of the project’s life, from the pre-construction phase to

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

the eventual decommissioning of the facility. LNGC has promised to remain engaged with the community by being accessible and responsive in a manner that is honest, transparent and timely. In addition, LNGC is dedicated to proactively identifying, monitoring and remedying any adverse impact on natural surroundings including fishing areas, waterfront access for recreational activities and protecting culturally sensitive native lands.

At the B.C. Natural Resources Forum in 2020, elected Haisla First Nation Chief Councillor Crystal Smith spoke emotionally about the historic lack of access to opportunity, persistent poverty and economic exclusion that has faced indigenous peoples for far too long. In her address to delegates, Smith spoke about the “gap” between Canadian living standards, which rank ninth in the world, and indigenous living standards which ranked sixty-third in the world. Her message was clear: indigenous people simply want a voice and a share in the businesses that operate on first Nations land. Smith commented that only “through economic development and economic reconciliation” will First Nations “find the path back to our true identities and revitalizing our culture as indigenous people”.

It's anticipated the over 4,000 people are to be employed during the labour-intensive construction phase. Most of the workforce will reside in temporary housing built adjacent to the facility. LNGC recognizes the potential social impact of a large-scale project co-existing with a small community like Kitimat and in particular, the potential for unintended impacts on indigenous communities. With the objective of understanding needs and concerns, LNGC created the **Community Advisory Group (CAG)**. CAG focuses on working closely with indigenous groups to manage the impact on social infrastructure, housing, traffic, health services, vulnerable persons, employment training and sustaining a skilled indigenous-based workforce.

In June 2021, the Haisla Nation announced a partnership with Calgary-based **Pembina Pipeline Corp.** (PPL: TSX) to assess the feasibility of building an LNG export project on indigenous lands situated approximately 10km from LNGC. While still in its early stages, the proposed **Cedar LNG** terminal would leverage the Haisla Nation's recently acquired knowledge and experience with Pembina's energy infrastructure expertise. Pieces are falling into place and a final investment decision is expected by 2023. Should the project proceed, it is expected to become operational by 2027 with Cedar LNG becoming the largest First Nations-led infrastructure project in Canadian history.

In our view, LNGC is “checking all the boxes” regarding the ‘Social’ aspect of its ESG commitment. The ownership group, led by Shell, continues to pioneer an exemplary standard for sustainable and socially responsible project development. We are hopeful that LNGC is merely the first in a string of LNG exporting facilities that can bring Canada's cleaner, safer and responsibly sourced energy to global markets.

In next week's letter we will follow up our series with an update on the progression of the project.

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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	\$9.83	1.95%
Palos Equity Income Fund - RRSP	PAL101	\$7.29	1.05%
Palos Merchant Fund L.P. (Dec 31, 2021) <sup>2</sup>	PAL500	\$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	\$18.99	0.36%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$10.20	-0.83%
S&P TSX Composite (Total Return with dividends reinvested)			2.98%
S&P 500 (Total Return with dividends reinvested)			-7.84%
S&P TSX Venture (Total Return with dividends reinvested)			-4.85%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.83%
Canadian Government 10-Year			2.76%
Crude Oil Spot			US \$106.95
Gold Spot			US \$1,970.90
US Gov't 10-Year/Moody BAA Corp. Spread			194 bps
USD/CAD Exchange Rate Spot			US \$0.7933

<sup>1</sup> Period ending April 14th, 2022. Data extracted from Bloomberg

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

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

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# 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)