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PALOS

Weekly Commentary

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By Charles Marleau CIM® and William Mitchell CIM®

Canada's Role in the Electric Vehicle Transition

Canada has made commitments to reduce greenhouse gas (GHG) emissions to reach lofty goals of reducing GHG to 40% lower than in 2005 by 2030, and to reach net-zero status by 2050. According to the **Infrastructure Canada** website, the transportation sector accounts for 25% of Canada's GHG emissions. Making the shift from internal combustion engine (ICE) technology to zero-emission EV technology will play a critical role in Canada achieving its net zero goals.

In August 2021, the Canadian government introduced its **Zero Emission Transit Fund**, a $2.75 billion initiative that incentivizes public transit and school bus fleet operators to transition to EV technology by electrifying their fleets. The fight against global warming is a top government priority: however, initiatives which are not government sponsored are also picking up steam. **Stellantis NV**, owners of the Chrysler, Fiat and Jeep lineups, is among a group of companies to announce plans to invest in Canada. On May 2, the company disclosed that it plans to spend about USD$2.8 billion to retool two of its Canadian manufacturing plants in preparation for increasing EV production capability.

In March 2022, GM announced plans to build a $500 million **cathode active material** (CAM) factory in Bécancour QC and within days, German chemical giant BASF also announced that they had acquired land in Bécancour with plans to build a CAM factory by 2025. CAM active materials are composed of lithium and specific metals (nickel, manganese, cobalt) that are critical to producing ECV batteries. Several factors are working in Canada's favour. A tremendous abundance of the "critical" metals required for lithium-ion (Li-on) batteries are available in Canada. This places our country in an enviable position of possessing all the necessary ingredients for Li-on battery production. This advantage is more apparent than ever given a changing geopolitical landscape, sanctions on Russia, and supply chain disruptions in China – all of which are key suppliers of the critical elements needed for batteries.

The supply chain challenges are not likely to normalize anytime soon. RJ Saringe, CEO and founder of EV manufacturer **Rivian Automotive Inc. (RIVN: NASDAQ)**, in a recent interview predicted that "the supply of EV batteries would become a huge issue in years to come" and that "all the world's cell production combined represents well under 10% of what we will need in 10 years." In further commentary, Saringe claimed that "90% to 95% of the supply chain does not (currently) exist." Enter Canada.

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Canada is one of the few countries in the world with the capability to mine and supply virtually all the critical components required to offer a complete solution to EV battery supply chains and production (lithium, nickel, copper, zinc, cobalt). In addition to these advantages, Canada has access to a clean, low GHG energy supply (e.g., hydro) for powering manufacturing, a highly skilled work force, localized and secure supply chains, a reputation for responsible mining practices, and a well-established automobile manufacturing industry.

In fact, establishing a "made in Canada" EV manufacturing capability is already in motion. **Project Arrow** is an All-Canadian, Zero-Emissions "concept" vehicle initiative being driven by the Automotive Parts Manufacturers Association (APMA) of Canada. This all-Canadian effort plans to design, engineer, and build Canada's first zero-emission automobile. The project is partnering the automotive industry with post-secondary institutions to demonstrate to the world that we have all the requirements and knowledge to become an "end-to-end" global leader in EV design and production.

In October 2021, **StromVolt Americas Inc.** announced it had signed agreements with Taiwan-based Delta Electronics to build the first Li-on battery manufacturing facility in Canada. In the same month, UK based **Britishvolt** announced plans to build a 60-GWh Gigafactory in Quebec to be completed following the company's current gigawatt factory being built in England. Key to Britishvolt's decision to enter Canada was access to relatively cheap renewable energy, availability of raw materials, proximity to the North American EV market and government support programs.

Canada is one of the few countries in the world with the capability to provide closed-loop production of EV batteries. The "loop" begins with mining of the required raw materials, the manufacturing and delivery of finished products and ending with the recycling of used batteries where critical metals can be recuperated for reuse.

The transition to EV transportation is clearly the future and new opportunities for investment continue to surface. While the transition to EVs will take may years to reach full adoption, we believe many Canadian companies are well positioned to capitalize the changes to come. Over the following weeks, we will be writing about our research into those Canadian companies that stand to assume leadership roles in the rapidly expanding EV industry.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$9.34	-3.17%
Palos Equity Income Fund - RRSP	PAL101	$6.97	-3.50%
Palos Merchant Fund L.P. (Dec 31, 2021) [2]	PAL500	$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	$15.38	-18.75%
Palos-Mitchell Alpha Fund [3]	PAL300	$9.00	-12.45%
S&P TSX Composite (Total Return with dividends reinvested)			-1.21%
S&P 500 (Total Return with dividends reinvested)			-12.22%
S&P TSX Venture (Total Return with dividends reinvested)			-22.87%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			2.74%
Canadian Government 10-Year			2.79%
Crude Oil Spot			US $115.07
Gold Spot			US $1,851.30
US Gov't10-Year/Moody BAA Corp. Spread			225 bps
USD/CAD Exchange Rate Spot			US $0.7862

[1] *Period ending May 27th, 2022. Data extracted from Bloomberg*

[2] *Fund is priced annually*

[3] *Fund is priced weekly on Tuesdays*

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