

# PALOS

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## Weekly Commentary

Issue No. 48 | NOVEMBER 28, 2022

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

## The Evolution of Green Mining

Recent developments in the electrification of transportation suggest that global demand for electric vehicles (EVs) should increase exponentially as consumer demand grows and governments strive to reach defined emissions reduction targets. Manufacturers of EVs will require vast supplies of EV battery materials to power their electric lineups: bottom line: no batteries = no EVs.

Modern EV technology relies on critical materials that are required to build the batteries. Depending on which technology is used, the materials pool can include a “recipe” of lithium, cobalt, nickel, aluminium, copper, manganese, and graphite. Currently, both the materials supply chain and manufacturing capability is dominated by nations like China, South Korea, and Japan, China being the overwhelmingly dominant player. The major problem for the North American supply chain is our significant dependence on foreign nations, some of which are either “unfriendly” or state managed.

By sheer luck of geography, Canada has immense reserves of materials needed to feed the transition to clean energy. In fact, our mining industry has many advantages over competitors. Canada has established mining expertise, a skilled workforce, a free-market economy, access to renewable energy sources, a stable government, and a desire to integrate the principles of ESG (environment, social and governance) into our mining sector. Also providing a tailwind is the expressed desire of democratic free-market nations to reduce our collective dependence on “unreliable” governments through the reshoring of supply chains. This presents an incredible economic opportunity for Canada.

Despite our clear “Canadian advantage” everything is not perfect. Natural resource development is notoriously slow moving in Canada and barriers to new project development are significant. As a progressive society, Canada has become a world leader in addressing the concerns and well-being of all stakeholders before any proposed project is approved. The process can be complex. Successful outcomes are dependent on addressing an array of progressive initiatives that include environmental impact studies, wastewater management, decarbonization by using renewable energy, workforce diversity, worker health and safety, and the protection of environmentally sensitive ecosystems. Last but certainly not least are the assurances that economic participation and the well-being of indigenous communities, on whose lands are where many mineral deposits are located, is prioritized.

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Google: Mines to Mobility – IRA (US) EV batteries, will influence whole NA supply chain.

Addressing the climate impact, the landmark ‘Inflation Reduction Act’ (IRA) passed by the Biden administration in August of 2022. The landmark bill aims to invest in domestic energy production while targeting a 40% carbon emission reduction by 2030. Further to the climate address, the IRA 2022 also has plans to address the Medicare/drug price negotiation war and the Affordable Care Act through 2025. The tax credit attached to this bill heavily incentivizes the production, purchase and overall economy of homegrown electric vehicle automakers as it requires 40% of the EV batteries components to be manufactured in the US or in the factories of 20 other free trade nations. Additionally, this constraint will see an increase in the minimum requirement of domestic components up to 80% by the end of 2027. As we have learned from the Ukrainian conflict, a geopolitical or diplomatic event can disrupt supply chain processions at any time. Therefore, this bill is a win for local labor and for the North American EV automotive industry.

Please note, this will be our last weekly commentary before our winter recess. In January we will return to the theme of ‘green mining’ with additional reports on Canadian companies who are making progress to more sustainable practices.

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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	\$8.83	-3.75%
Palos Equity Income Fund - RRSP	PAL101	\$6.80	-4.97%
Palos WP Growth Fund - RRSP	PAL213	\$12.68	-32.77%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$8.72	-15.10%
S&P TSX Composite (Total Return with dividends reinvested)			-1.31%
S&P 500 (Total Return with dividends reinvested)			-14.30%
S&P TSX Venture (Total Return with dividends reinvested)			-38.64%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			3.68%
Canadian Government 10-Year			2.93%
Crude Oil Spot			US \$76.28
Gold Spot			US \$1,754.00
US Gov't10-Year/Moody BAA Corp. Spread			204 bps
USD/CAD Exchange Rate Spot			US \$0.7474

<sup>1</sup> Period ending November 25th, 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)