

PALOS

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Weekly Commentary

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By Charles Marleau CIM[®] and William Mitchell CIM[®]

The Dollars Just Keep on Flowing

Last week we wrote about the earnings results from the two largest oil producers in the United States: **ExxonMobil Corp. (XOM:NYSE)** which boasts a market cap of US\$458 billion and **Chevron Corp. (CVX:NYSE)** with a market cap of US\$310 billion. Both companies reported impressive results with equally robust free cash flow numbers. The returns paid to shareholders, through dividends and share buybacks, as well as repayments of debt, are truly remarkable given the challenges that faced the industry only a few years ago.

In Canada, the earnings parade commenced in earnest last week with **Suncor Energy (SU:TSX/NYSE)**, Canada's second largest producer by market capitalization (CAD\$59 billion) reporting on Tuesday and **Cenovus Energy (CVE:TSX/NYSE)**, which sits at number three in Canada with a market cap of CAD\$47 billion, reporting on Thursday. **Canadian Natural Resources Corp. (CNQ:TSX/NYSE)**, which is Canada's largest producer with a market cap of CAD\$82 billion, is expected to report on March 3.

Cenovus is a fully integrated senior oil and gas producer with producing assets in Western Canada (oil sands and conventional), Eastern Canada, the Asia-Pacific, and includes refinery operations in North America. For Q4/2022, CVE delivered production of 806,900 boe/d in Q4 for a 30% increase over Q3: achieving this despite weather-related challenges and an inventory build due to a spill on the Keystone pipeline system in December. Earnings for the quarter were lower than the previous quarter (\$784 million versus \$1.6 billion), mostly attributable to lower operating margins and non-cash impairments of \$266 million. Disruptions at refinery operations negatively impacted throughput volumes: however, most of the issues have been resolved and operations are expected to ramp up by Q2/2023 as operations normalize and full ownership of the Toledo refinery takes hold in February.

A tax liability of \$1.2 billion, to be recognized in Q1/2023, has impacted the timing of realizing the company's debt reduction target of \$4 billion. Nevertheless, with a "tenfold increase in earnings" from 2021 and an adjusted funds flow of \$11 billion, debt was cut in half. Management expects its debt target to be achieved by Q3/2023. Once target is realized, we expect that cash returned to shareholders will get a lift through share repurchases and/or a dividend increase(s). There is also the potential for a "special dividend" or substantial issuer bid (SIB). Despite recent headwinds, we anticipate that the "cash generating machine" will be up and running in the imminent future. There are material tailwinds for the first half of this year and with the TMX

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pipeline expansion expected to be operational later this year, pricing differentials should improve as Canadian producers will have greater capacity to export.

Finally, the company announced that Alex Pourbaix, President and CEO, will be succeeded by industry veteran Jon McKenzie. Mr. McKenzie joined CVE in 2018 and has served in the position of Chief Financial Officer (2015 to 2018) and played an important role in the 2021 merger with Husky Energy. Mr. Pourbaix, who is a well-respected advocate of the Canadian energy sector, will assume the duties of Executive Chair where he will be responsible for ensuring strong corporate governance, supporting the company's strategic plans, and continuing with his leadership efforts in the Pathways Alliance. The Alliance is an industry led initiative comprised of Canada's six largest oil sands operators who have partnered to advance decarbonization. The group has targeted "net-zero" emissions by 2050.

Suncor reported Q4/2022 and full year results last Tuesday evening. Full year production at its "Syncrude" operations was the highest in company history while the "Firebag" in-situ assets set a quarterly record. Overall total production averaged 763,000 boe/d with 70% originating from Syncrude, which produces synthetic grade oil, which garners premium pricing. Refining operations showed strong utilization and margins, and for the full year Suncor generated record adjusted funds flow of \$18.1 billion which was 67% higher than the previous yearly record. Through dividends and share buybacks a record \$7.7 billion was returned to shareholders and \$3.2 billion in debt was paid down. Management confirmed that by the end of Q1/2023, 75% of excess funds flow will be allocated to buybacks and a planned repurchase program which intends to buy back 10% of the outstanding shares commenced last Friday.

On the earnings call, interim CEO Kris Smith also referenced Suncor's "significant progress" on its Pathways initiatives. Engineering and design for pipelines and facilities to eventually transport and sequester CO₂ is progressing. Work on fiscal and regulatory frameworks is ongoing with provincial and federal governments. Mr. Smith also highlighted Suncor's focus on improving operational performance and safety, both of which faced recent criticism. The Terra Nova FPSO (Floating Production Storage and Offloading) vessel, which measures "three football fields" in length and is capable of transporting almost one million barrels of oil, will restart production in Q2/2013. The life extension of the project is anticipated to add ten years and 70 million barrels of production to Suncor's offshore East coast asset.

Global oil markets continue to face uncertainty. Disruptions and sanctions resulting from Russia's invasion of Ukraine have impacted the dynamics of international crude oil flows. Last week, according to the International Energy Agency (IEA), the extent to which demand ramps up in accordance with China's reopening is the bigger question. While markets are somewhat balanced now, a spike in demand could easily drive prices higher as we move towards 2024. One thing is for certain: the oilpatch continues to pump out record amounts of cash and the message being sent is clear. Shareholders will be rewarded.

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Save for your future by contributing to a Registered Retirement Savings Plan (RRSP)

RRSP Benefits:

- RRSP contributions are a good way to reduce your taxable income
- Your investments grow tax deferred while held in your RRSP
- When you retire you can use your RRSP to receive regular income
- A spousal RRSP can reduce your combined tax burden
- You can borrow from your RRSP to buy your first home or pay for your education

RRSP Contribution Details:

- The **deadline** for making your 2022 RRSP contribution is March 1, 2023.
- Your **2022 RRSP contribution limit** is calculated as 18% of your 2022 earned income up to a maximum of \$29,210. The maximum will increase to \$30,780 in 2023.
- If you've already made your 2022 RRSP contribution, consider making your 2023 contribution in January 2023 to benefit from the power of tax-deferred growth.
- Unused contributions can be carried forward from a previous year. You can find your RRSP contribution information on your most recent CRA **Notice of Assessment**, or by calling the **CRA Tax Information Phone Service (TIPS)** at 1-800-267-6999.

The sooner you start contributing to an RRSP or TFSA, the more time you'll have to grow your money until it's time to retire. There's nothing like the power of tax-free compounding returns.

If you would like to open an RRSP account, contribute to an existing or Spousal RRSP, or if you have any questions about RRSPs, please contact your Palos Advisor.

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Save for your future by contributing to a Tax Free Savings Account (TFSA)

TFSA Benefits:

- TFSA investments grow tax free (Interest, capital gains and dividends are tax exempt)
- Withdrawals can be made whenever you wish and unlike an RRSP, they are tax-free
- TFSA contribution limits are not reduced following a withdrawal
- Withdrawals can be re-contributed in a subsequent calendar year(s)

TFSA Contribution Details:

- The TFSA contribution limit for 2022 is \$6,000 and will increase to \$6,500 in 2023
- TFSA contribution limits are cumulative since TFSA's were introduced in 2009. If you were born after 1991, your lifetime contribution limit including 2023 is \$88,000
- Canadian residents 19 years of age and who have a Social Insurance Number are eligible to open a TFSA
- To determine your TFSA contribution limits, you can refer to your most recent CRA **Notice of Assessment**, or by calling the **CRA Tax Information Phone Service (TIPS)** at 1-800-267-6999

TFSA's are an excellent way to save for your future

TFSA's can complement your taxable retirement income from a taxable account (RRSP, RRIF, LIRA)

The sooner you start contributing to TFSA, the more time you'll have to grow your money.

If you would like to make a TFSA contribution or open an TFSA account, please contact your Palos Advisor.

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Épargnez pour votre avenir en cotisant à un régime enregistré d'épargne-retraite (RÉER)

Les avantages d'un RÉER:

- Les cotisations à un REER sont un bon moyen de réduire votre revenu imposable.
- Vos placements bénéficient d'un report d'impôt lorsqu'ils sont détenus dans votre RÉER.
- Lorsque vous prenez votre retraite, vous pouvez utiliser votre RÉER pour recevoir un revenu régulier.
- Un RÉER de conjoint peut réduire votre charge fiscale combinée.
- Vous pouvez emprunter de votre RÉER afin d'acheter votre première résidence ou pour financer des études.

Les choses à savoir :

- **La date limite** de cotisation au RÉER pour 2022 est le 1er mars 2023.
- Votre **plafond de cotisation au RÉER pour 2022** est calculé à partir de 18% de vos revenus gagnés en 2022, jusqu'à un maximum de 29 210 \$. Ce maximum sera augmenté à 30 780 \$ en 2023.
- Si vous avez déjà cotisé à votre RÉER pour 2022, envisagez d'effectuer votre cotisation de 2023 en janvier 2023 afin de bénéficier dès maintenant de l'effet différé des impôts.
- Les cotisations non-utilisées peuvent être reportées d'une année précédente. Vous pouvez vous renseigner sur vos cotisations à un RÉER en consultant votre **avis de cotisation le plus récent de l'ARC** ou en appelant **le Système électronique de renseignements par téléphone (SERT)** au 1-800-267-6999.

Le plus tôt vous commencerez à cotiser à un RÉER ou à un CELI, le plus longtemps vous disposerez pour faire fructifier votre argent jusqu'au moment de la retraite. Rien ne vaut la puissance des rendements composés non imposables.

Si vous souhaitez ouvrir un compte RÉER, contribuer à un RÉER existant ou à un RÉER de conjoint, ou si vous avez des questions sur les RÉER, veuillez communiquer avec votre conseiller Palos.

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Épargnez pour votre avenir en cotisant à un compte d'épargne libre d'impôt (CELI)

Les avantages du CELI:

- Faire fructifier votre épargne à l'abri de l'impôt (les intérêts, les gains en capital et les dividendes seront non taxables)
- Vous pouvez effectuer des retraits quand vous le désirez et contrairement à un REER, ils ne seront pas taxables.
- Vos limites de contribution à un CELI ne seront pas réduites à la suite d'un retrait de celui-ci.
- Vos retraits peuvent être de nouveau cotiser dans les années subséquentes.

Les choses à savoir :

- Le montant limite de cotisation à un CELI pour 2023 est de \$6,500
- Depuis leur introduction en 2009, les limites de contributions à un CELI sont cumulatives. Si vous êtes nés après 1991, votre limite de contribution à vie est de \$88,000 (2023 compris) .
- Si vous êtes un résident canadien de plus de 19 ans et que vous détenez un N.A.S. Vous êtes alors éligible à un CELI.
- Si vous voulez connaître vos limites de contribution, vous trouverez toutes les informations pertinentes sur votre plus récent **avis de l'ARC**. Vous pouvez obtenir également ces renseignements par l'entremise du **Système électronique de renseignements par téléphone (SERT)** en composant le 1-800-267-6999.

Le CELI est un excellent moyen d'épargner pour votre avenir

LE CELI est un appoint de revenu qui vient compenser les montants qui sortiront des régimes enregistrés et qui eux sont imposables (REER, FERR & CRI)

Le plus tôt vous commencerez à faire des contributions à votre CELI, plus vous aurez du temps devant vous pour faire fructifier votre épargne.

Si vous souhaitez ouvrir un compte CELI ou faire une cotisation à votre CELI, veuillez contacter votre conseiller à Palos.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.86	7.40%
Palos Equity Income Fund - RRSP	PAL101	\$6.92	6.24%
Palos WP Growth Fund - RRSP	PAL213	\$13.76	10.25%
Palos-Mitchell Alpha Fund ³	PAL300	\$9.31	16.87%
S&P TSX Composite (Total Return with dividends reinvested)			6.19%
S&P 500 (Total Return with dividends reinvested)			6.49%
S&P TSX Venture (Total Return with dividends reinvested)			10.10%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.81%
Canadian Government 10-Year			3.29%
Crude Oil Spot			US \$76.34
Gold Spot			US \$1,840.40
US Gov't 10-Year/Moody BAA Corp. Spread			184 bps
USD/CAD Exchange Rate Spot			US \$0.7422

¹ Period ending February 17th, 2023. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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