

# PALOS

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## Weekly Commentary

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

## Teck Resources: Rebalancing the Portfolio

On February 16, **Teck Resources Ltd. (TECK:TSX/NYSE)** issued a press release responding to “market rumours” surrounding a potential spinoff of the company’s metallurgical coal business. The response was at the request of The Investment Industry Regulatory Organization of Canada (IIROC) and the New York Stock Exchange (NYSE) which followed a sharp spike in price that drove shares about 10% higher by 10:45am. At this point regulators halted trading on all exchanges and requested information from the company. In a subsequent press release (i.e., the response), the company stated that “no decision has been reached to proceed with a transaction and there can be no assurances that any transaction will eventuate”. Trading resumed at 11:30am and TECK closed higher by 5% on the day.

Investors did not have to wait long for more clarity. Last Tuesday, TECK reported its Q4/2022 earnings and along with the “numbers” the company revealed several material announcements. First, we received confirmation that the coal business would be separated into a new company, namely Elk Valley Resources (EVR). This would result in two distinctly different companies being created. With the separation of coal, Teck Resources would be renamed Teck Metals (TMC). Moving forward, Teck Metals will focus primarily on copper and related metals like zinc as the core business. Secondly, we received news that the company’s dual class share structure (TECK.A/TECK.B), subject to shareholder and TSX approval, will be transitioned to a single class over a six-year period.

Thirdly, we received confirmation that the board had authorized a special dividend of \$0.50 to be paid to shareholders on March 31. This is in addition to a regular dividend of \$0.15. The combined dividend (\$0.65) includes proceeds from last fall’s Fort Hills divestiture. Last October, the Fort Hills interest was sold to Suncor Energy for proceeds of approximately \$1 billion. We also learned that the board has authorized an additional buyback of up to \$250 million.

Finally, we turn our attention to the Q4 earnings. Despite falling short of analyst estimates, adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) came in at a record \$9.6 billion. The lower than consensus performance was largely attributable to higher maintenance and non-operating expenses, as well as the removal of Teck’s 21.3% interest in the Fort Hills asset. However, strong performance from record

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pricing in steelmaking coal led to a record return of cash to shareholders in 2022. This included \$1.4 billion in share buybacks, \$532 million in dividends, and the repayment of \$1.3 billion in debt.

The result is that TECK shareholders will end up owning two distinct public companies with very different businesses. Teck Metals is destined to become a “premier growth-oriented producer of critical metals essential for the energy transition” according to CEO and Director Jonathan Price. Teck’s mining asset portfolio will be comprised of “high quality, low cost and long life operation” located in “well established mining jurisdictions in the Americas”, according to Price. The copper pipeline is strong, led by the company’s Quebrada Blanca (QB1) project in Northern Chile. With Phase 2 (QB2) ramping up management expects production to “double in the near term”. The QB mine has one of the largest undeveloped copper deposits in the world.

Elk Valley (EVR) will become a pure-play miner of metallurgical coal which is essential to produce steel. Teck operates four mines in British Columbia. The economic contribution of Teck’s high quality steelmaking coal operations includes over 30,000 jobs and \$1.5 billion in taxes paid to various government levels. The company is the second-largest seaborne exporter of metallurgical coal (source: Teck website). The new company will continue to supply premium grade, high margin coal to global markets. Agreements are in place with Nippon Steel (Japan) and POSCO (South Korea), two key participants who will hold a 12.5% ownership stake; both companies are also customers. Teck Metals will retain a 92.5% ownership which will translate to about \$7 billion in royalty payments through 2028, and in turn, will be used to grow copper operations. EVR will start with strong capitalization including zero debt and \$1 billion in cash and working capital.

The split will create a premium growth-oriented copper producer. Given the importance of copper to the advancement of renewable energy and the electrification of transportation, the company should be re-rated based on environmental and decarbonization metrics – a positive for ESG conscious investors. Although the steelmaking industry is constantly under criticism given the significant amount of carbon emitted, we should also be mindful that steel is a crucial material for human advancement: for construction, agriculture, infrastructure, industry, and the movement of people and goods. We can throw in wind turbines, solar farms, and electric trains for good measure.

Teck takes a proactive approach to sustainability and is committed to becoming a nature-positive mining company by 2030 and achieve net-zero emissions by 2025. Teck is currently one of the lowest greenhouse gas emission-intensity miners in the world. The **Palos Equity Income Fund**, The **Palos Income Fund LP**, and The **Palos-Mitchell Alpha Fund** are currently invested in Teck Resources.

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

## 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 *Systeme 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) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.69	5.42%
Palos Equity Income Fund - RRSP	PAL101	\$6.80	4.50%
Palos WP Growth Fund - RRSP	PAL213	\$13.52	8.34%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$8.77	10.09%
S&P TSX Composite (Total Return with dividends reinvested)			4.68%
S&P 500 (Total Return with dividends reinvested)			3.65%
S&P TSX Venture (Total Return with dividends reinvested)			8.19%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			3.94%
Canadian Government 10-Year			3.39%
Crude Oil Spot			US \$76.32
Gold Spot			US \$1,817.10
US Gov't10-Year/Moody BAA Corp. Spread			186 bps
USD/CAD Exchange Rate Spot			US \$0.7347

<sup>1</sup> Period ending February 24th, 2023. 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)