

# PALOS

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## Palos Funds

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### Lundin Mining Getting Punished by Headlines

On March 06, 2019, BioBio, a Chilean media company, published an article stating that Lundin (TSX: LUN) is being investigated for an alleged \$23.6 million bribe to Tierra Amarilla Town Hall in September of 2015. The article claims that the bribe was to avoid legal action that could hinder the approval of the Environmental Impact Assessment (EIA). When the news came out, the stock sold off aggressively, the stock hit an intraday low of \$6.15.

After the breaking news, LUN launched a press release stating that it's not aware of any investigation and explained the \$23.6 million payment. The company said the payment and the agreement were concluded in an open and transparent manner, it was disclosed in public documents and was approved unanimously by the Tierra Amarilla Municipal Council. After the press release, the stock started to recover and closed at \$6.57.

While the negative headlines may persist and bring negative volatility, I'm of the opinion that the selloff is overdone. I don't see any risk to Candelaria's operating permit. Don't forget that they are the largest employer in the region. An investigation is a headline risk, but the probability of them being guilty seems to be very low as everything seems to be disclosed in public filings. The 4.8% decline in share price implies a \$200 million fine, which is absurd in my view.

The stock is inexpensive on every metric and has over \$800 million in cash plus \$550 million of available credit. The company also launched an NCIB for 10% of its outstanding shares on December 2018. LUN has not yet purchased any shares. I would not be surprised if the company takes advantage of this selloff and starts being active on its NCIB.

*Disclaimer: Palos Funds are shareholders of LUN.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.75	10.83%
Palos Equity Income Fund - RRSP	PAL101	\$5.84	9.25%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.93	12.12%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$10.36	3.56%
S&P TSX Composite (Total Return with dividends reinvested)			12.85%
S&P 500 (Total Return with dividends reinvested)			10.98%
S&P TSX Venture (Total Return with dividends reinvested)			11.24%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.69%
Canadian Government 10-Year			1.83%
Crude Oil Spot			US \$56.22
Gold Spot			US \$1,287.60
US Gov't10-Year/Moody BAA Corp. Spread			222 bps
USD/CAD Exchange Rate Spot			US \$0.7440

<sup>1</sup> Period ending Mar 6, 2019. Data extracted from Bloomberg

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

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

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