

# PALOS

## CONTENTS

## Palos Weekly Commentary

Issue No. 14 | APRIL 4 2019

Savaria is Digesting	1
Palos Funds vs. Benchmarks (Total Returns)	2
Disclaimer & Contacts	3

## Palos Funds

*By Charles Marleau, CIM  
& Joany Pagé, CFA*

### Zinc Is Running Dry

Zinc storage at the London Metal Exchange (LME) warehouse reached 12-year low in March 2019. The storage is at approximately 59,000 tones - which is only two days of global consumption. The price of zinc is up 22% since the beginning of the year. I'm of the opinion that the prices could move to last year's highs. The question is how to invest in zinc. Unfortunately, pure zinc operators are not great and most have subpar assets that lead to inconsistent grades, cost, and production halts. Instead, I look for high quality integrated mining companies that produce zinc like Teck Resources Ltd (TSX:TECK/B) and Lundin Mining Co (TSX:LUN) of which zinc is about 24.6% and 17.6% of revenue respectively.

TECK/B is no longer that over-levered company that we remember in 2008 when it acquired Fording Canada Coal Trust. That company has come a long way since and is now stronger than ever as it regained its investment grade rating from all agencies. TECK/B ended 2018 with \$1.7 billion in cash and \$5.5 billion in long-term debt. Net debt/EBITDA is at 0.6x and it's trading at discount to its global diversified peers. I'm of the opinion that TECK/B is a great way to take advantage of the zinc shortage. In addition to the zinc catalyst, TECK/B has a very attractive valuation.

*Disclaimer: Palos Funds are shareholders of TECK/B and LUN.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.65	12.18%
Palos Equity Income Fund - RRSP	PAL101	\$5.78	9.94%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$8.12	14.82%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$10.54	5.44%
S&P TSX Composite (Total Return with dividends reinvested)			14.57%
S&P 500 (Total Return with dividends reinvested)			15.22%
S&P TSX Venture (Total Return with dividends reinvested)			12.68%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.52%
Canadian Government 10-Year			1.71%
Crude Oil Spot			US \$62.46
Gold Spot			US \$1,289.90
US Gov't10-Year/Moody BAA Corp. Spread			225 bps
USD/CAD Exchange Rate Spot			US \$0.7493

<sup>1</sup> Period ending Apr 3, 2019. Data extracted from Bloomberg

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

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

# Palos Weekly Commentary

Issue No. 14 | APRIL 4 2019

## Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, marketvalue weighted index engineered to measure publicly issued noninvestment grade USD fixedrate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

# 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) 276-0110

[www.palos.ca](http://www.palos.ca)