

# PALOS

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## Palos Weekly Commentary

Issue No. 38 | SEPTEMBER 19, 2019

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## Palos Funds

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### Northland Power Trading Opportunity

On September 9th, 2019, Northland Power Inc (TSX: NPI) announced that they are buying a Colombian power facility for \$1.1 billion. NPI is funding the acquisition with equity and debt. The \$315 million of equity was raised by a public offering of subscription receipts. This means that the subscription receipts will trade as receipts until the closing of the deal. This is done to protect the buyer, the seller and the existing shareholders if the deal does not go through. However, in my 20 years of experience, I have never seen a subscription receipt deal not go through. Generally, most of the due diligence is completed and what holds up the deal is delays with regulatory approvals.

The NPI subscription receipts (TSX: NPI/R) started trading on September 18th, 2019. NPI/R is also entitled to all dividends declared by the company. During the trading day of September 18, 2019, NPI traded at a \$0.25 premium to NPI/R. Our strategy is to sell NPI and simultaneously buy NPI/R at a \$0.25 discount. This \$0.25 may seem minimal, but it's equivalent to approximately 2.5 dividend payments.

These opportunities don't come often, but when they do, I take advantage of them as they bring alpha with minimal risk.

*Disclaimer: Palos Funds are shareholders of NPI.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.49	12.74%
Palos Equity Income Fund - RRSP	PAL101	\$5.72	10.65%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.38	4.38%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) <sup>3</sup>	PAL300	\$9.79	4.18%
S&P TSX Composite (Total Return with dividends reinvested)			19.86%
S&P 500 (Total Return with dividends reinvested)			21.71%
S&P TSX Venture (Total Return with dividends reinvested)			5.17%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.80%
Canadian Government 10-Year			1.44%
Crude Oil Spot			US \$58.11
Gold Spot			US \$1,509.10
US Gov't10-Year/Moody BAA Corp. Spread			222 bps
USD/CAD Exchange Rate Spot			US \$0.7524

<sup>1</sup> Period ending September 18, 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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