

PALISADE CAPITAL CLIENT UPDATE

February 2021: The Show Goes On

February 9, 2021

January 2021 Funds Overview

- Absolute Fund down small in January, but themes are still intact
 - Limited changes to portfolio construction. Well diversified exposure, but lumber, base metals and some financials are areas of focus. Value oriented
 - Net exposure remains near the high end of the range. Similar for last 6 months
- Select Fund Relative and Absolute Performance
 - Select Fund up 2.3% vs TSX Energy -2.5% in January
 - Oil and gas stocks have performed in conjunction with energy tech and renewables in recent months. This correlation won't continue forever, but positive for now
 - Back half of January pullback is/was a buying opportunity for oil stocks. Commodity continues to trade well
- Vantage Fund has been outperforming with value “catch up” trade
 - Recent relative outperformance versus TSX continues +1.5% vs -0.3% in January
 - This is further evidence that value stocks continue to be a focus for investors

Positive Surprise for Absolute and Select

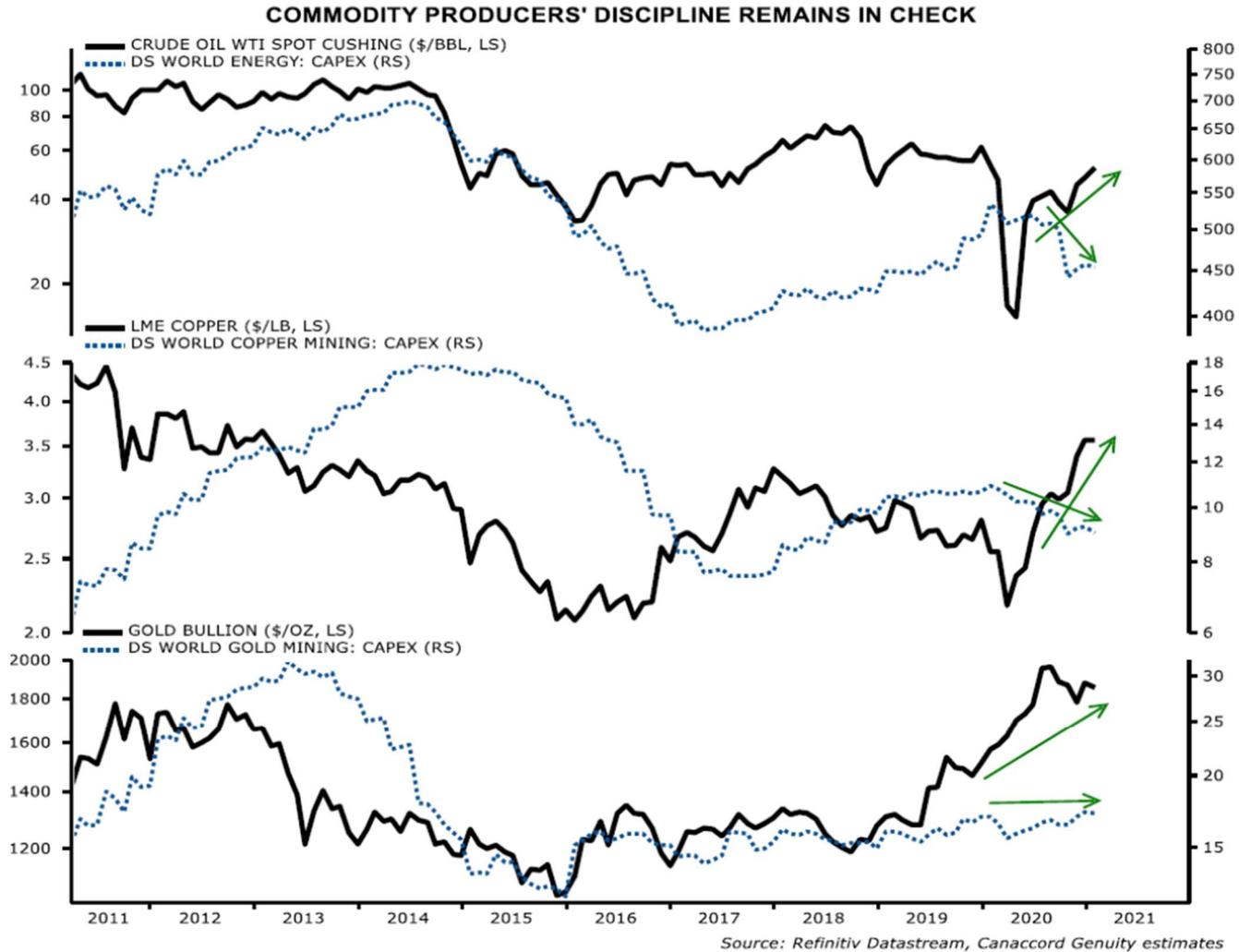
SeventhFloorCapital published on TradingView.com, February 08, 2021 17:35:37 MST
 TSX:PL, 1D 11.15 ▲ +1.11 (+11.06%) O:11.12 H:11.20 L:11.11 C:11.15



TradingView

- Pinnacle Renewable Energy (TSX: PL) turnaround story taken over Monday
- Held in Absolute and Select. 60%+ return since Oct 2020 purchase

Capex Discipline Being Shown By Producers



- While commodity prices have rallied (black line) producer capex has remained flat or gone lower
- Continued lower capex will contribute to the sustainability of a commodity rally

Commodity Prices Maintain Strength

SeventhFloorCapital published on TradingView.com, February 07, 2021 18:31:58 MST
 COMEX_DL:HG1!, 1D 3.6315 ▲ +0.0055 (+0.15%) O:3.6390 H:3.6485 L:3.6260 C:3.6315



TradingView

- Copper prices, along with other commodity prices, maintaining strength. Indicator for broad economic activity
- Commodity producers have dipped a few times since the summer, creating opportunity

Commodity Dip Buying Opportunity

SeventhFloorCapital published on TradingView.com, February 07, 2021 18:35:06 MST
 TSX:FM, 1D 23.80 ▲ +1.05 (+4.62%) O:23.19 H:24.31 L:23.13 C:23.80



TradingView

- Chart shows First Quantum (TSX: FM) a large cap copper producer
- Stock down 25%+ in January peak to trough. Copper sideways/down small at same time

Commodity Price Support

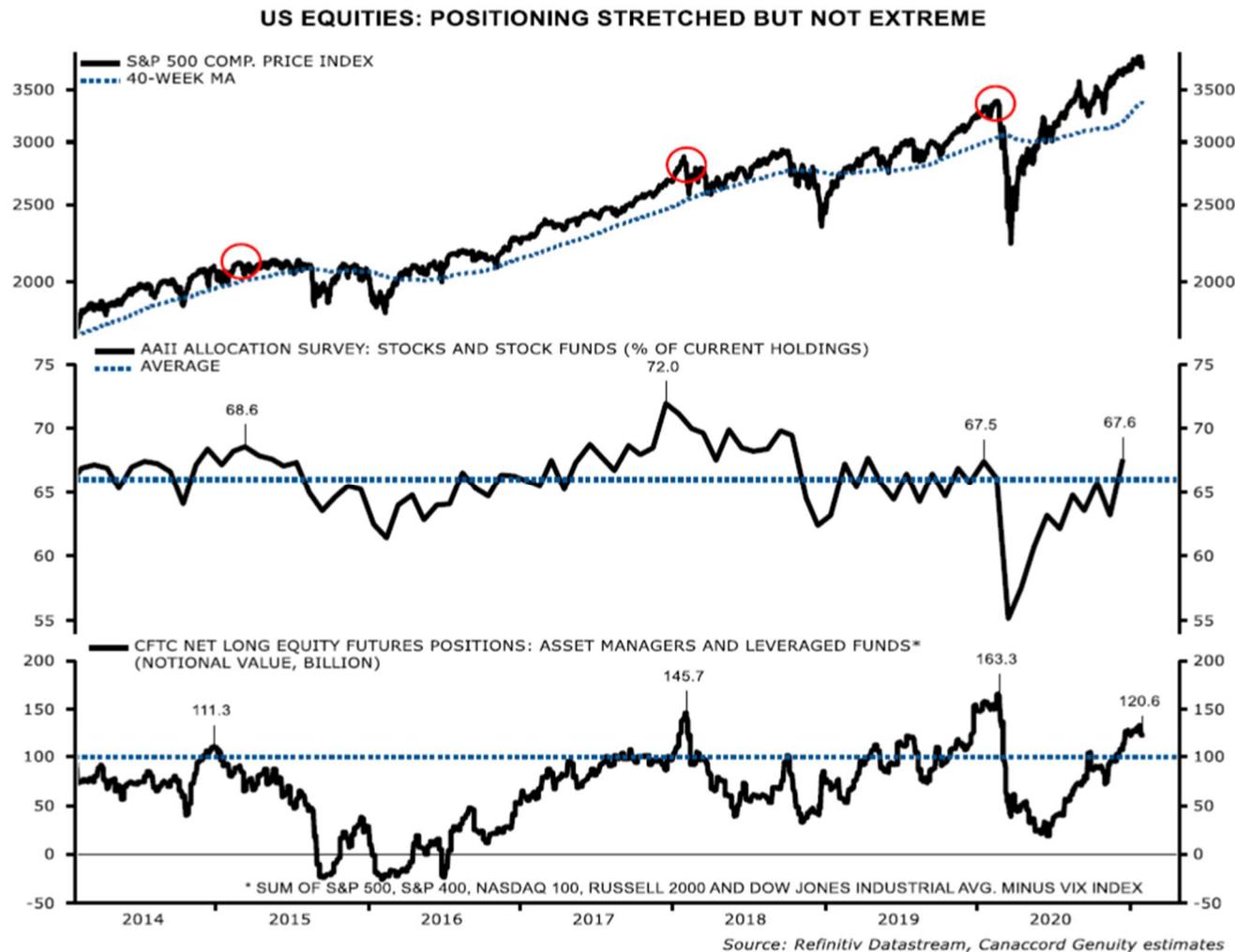
SeventhFloorCapital published on TradingView.com, February 07, 2021 18:52:05 MST
 TVC:TRJEFFCRB, 1M 181.391 ▲ +1.147 (+0.64%) O:174.202 H:182.090 L:174.202 C:181.391



TradingView

- Commodity prices bottom in March 2020 at levels similar to 1999 and 1994
- Economic growth and low supplies in certain commodities could allow for a continued recovery through 2021

Sentiment Stretched But Not Extreme



- Sentiment as measured by stock allocations in a portfolio and equity futures are above average for the past 7 years, however there is potential to go higher
- Doesn't mean that it will, just means that the trend has been higher and there is room to go, if necessary

Portfolio Strategy (Redux)

- Maintain status quo – for now. Value, commodities, industrial with select growth stocks mixed in.
 - Keeping other ideas in our back pocket – gold, shorts in Covid winners, etc.
- Bullish sentiment is still stretched. Could see a brief pullback in coming weeks/months, but we feel that would be a buying opportunity
 - Timing is hard to predict as markets can stay overbought for a long time
- Early days of oil and gas recovery and the value trade could allow for a sustainable trend through 2021
 - OPEC+ discipline is additionally constructive
- Watch down days in the market – if you see rotation to other sectors, decent breadth and winners holding up on a relative basis that is all a good sign for continued bull market strength

Comparison to 2008/2009 Lows



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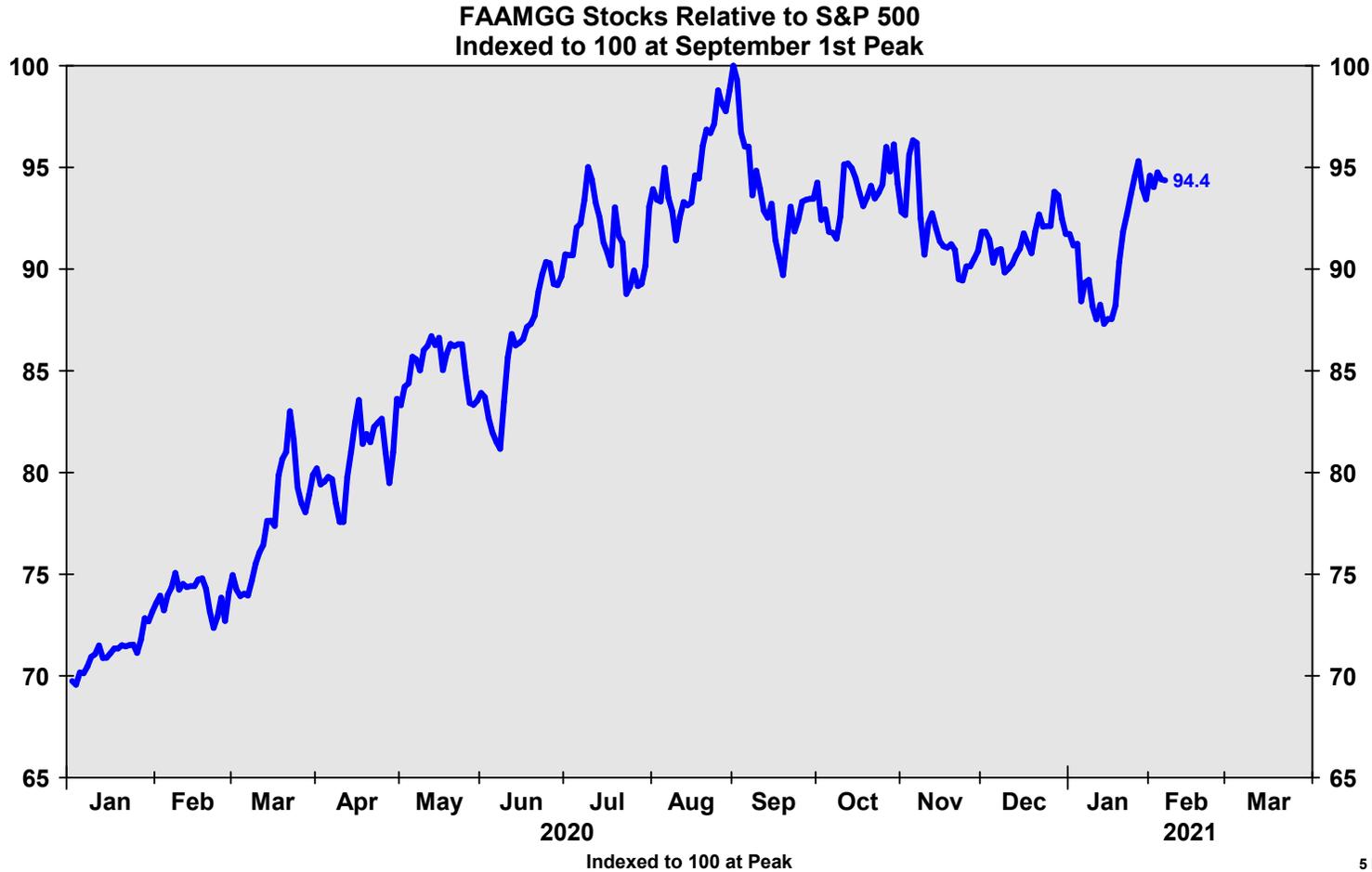
Source: TD Securities

Indexed to 100 at Trough

3 JAN 22

- Many market commentators saying market overvalued (which is possible) but notable that market performance has been similar coming out of Covid versus the 2009 financial crisis
- This is not meant to be a hyper specific comparison (ie. market doesn't have to follow trend)

US Mega Cap Stocks Trading Range



D761

Source: TD Securities

5 FEB 21

- In spite of being at the centre of attention the stocks have gone sideways since the summer in a relative (and in some cases absolute) trend
- This can be a positive for the rest of the market as breadth expands

Current Fund Positioning

Select Fund

- 49% Oil and Gas. 9% Infrastructure. 36% Renewables/Energy Tech. 5% Growth
- Oil and gas has been one of the strongest sub-sectors year to date
- Will continue to overweight oil and gas in the near term, but above weights would be generally reflective of what we mean by “overweight”

Vantage Fund

- 25% Financials. 17% Energy Infrastructure. 10% Base Materials. 9% Renewables
- Have trimmed some preferred share holdings that had recovered all Covid losses and bought same company’s common with higher sustainable dividend and more capital appreciation potential

Absolute Fund

- 23% Short. 86% Long. 63% Net long. Limited changes in the last month
- Will likely trim a little exposure in all funds in the near term as the start to the month has been particularly strong

Contact Information

A founding principle of Palisade has always been transparency and communication with our clients. We would encourage anyone with questions to reach out at anytime.

James Anderson
james@palisade.ca
403-531-2677

John McAleer
john@palisade.ca
403-531-2678

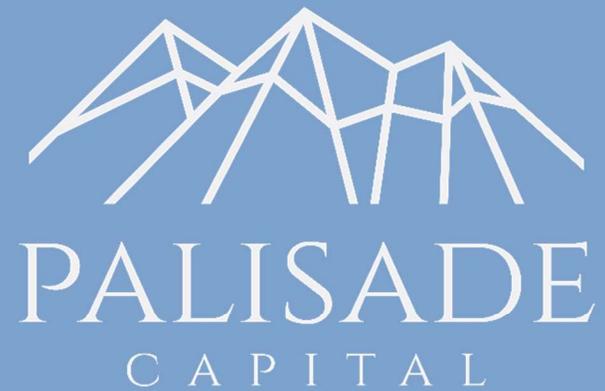
Jill Angevine
jill@palisade.ca
403-531-2670

Carli Tyson
carli@palisade.ca
403-531-2674

Palisade Capital Management
Suite 1005, 444 – 5th Ave SW
Calgary, Alberta
T2P 2T8

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