The inevitable consolidation of energy giants

Last month, global oil and gas behemoth ExxonMobil bid US$60billion for competitor Pioneer Natural Resources, and now on Monday this week, Chevron have agreed to purchase Hess Corporation for US$53billion.

Exxon and Chevron were already numbers 1 and 2 producers in the US, and these moves further strengthen their positions.

Due to political and social objection to further development of oil and gas reserves, the only way for these companies to lift or even maintain production to meet increasing global demand is buying competitors who already have reserves.

It doesn't matter whether you support the use of fossil fuels or not, the facts are that we are not on a path to net zero; despite the desire by global politicians to make promises they know full well are completely unachievable.

Reluctance for banks to fund and the disallowance by governments for the development of energy reserves only increases the price of energy and quite frankly hurts those who can cope with it the least, the poor. But that minor fact seems to get lost or ignored in the gesticulations and hollow virtuous posturing amongst the global leaders in both business and politics.

As the perspective of what green means shifts from day to day, countries change strategy on the run to meet the demands of the most vocal objectors, or at the very least, keep them off their backs. Watching Germany, turn off their nuclear power which was previously accepted as clean to now turn back on their coal fired power stations to replace the lost energy beggars' belief.

Centuria Office REIT (COF)

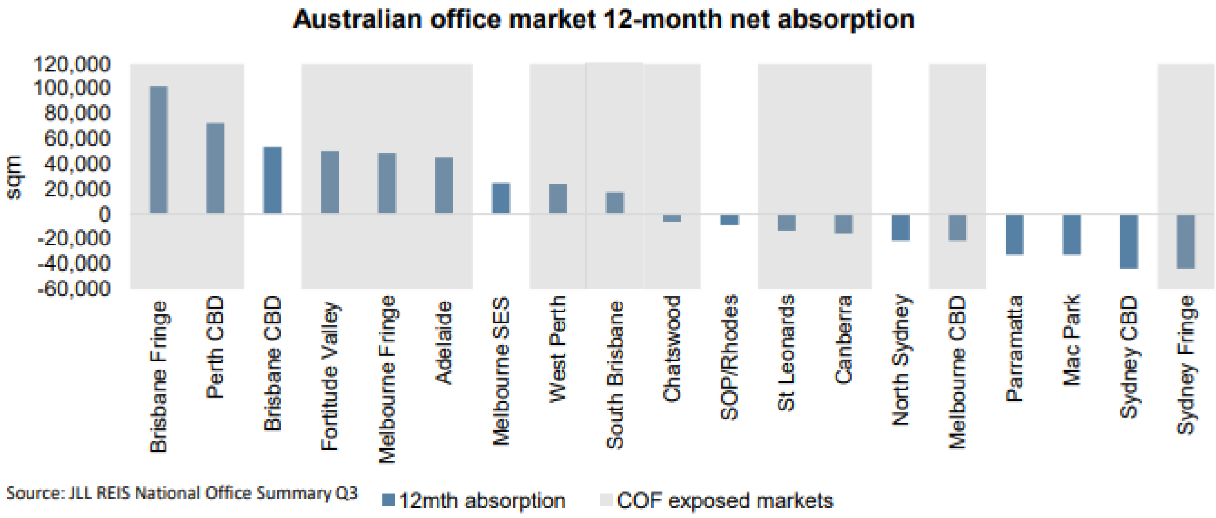
Q1 FY24 Operating Update

- 5,397sqm of lease terms agreed across seven transactions; 96.7% occupancy, 4.1-year Weighted Average Lease Expiry (WALE)
- $40m divestment of 35 Robina Town Centre Drive, Robina QLD settled on 31 August 2023
- Reaffirmed FY24 FFO guidance of 13.8cpu and distribution guidance of 12.0cpu, equating to a current distribution yield 10.7%
- Current NTA, $2.20, unit price $1.10

Grant Nichols, COF Fund Manager and Centuria Head of Office, said, *"COF's geographically diversified Australian office portfolio continued to benefit from the increased leasing activity evident in many domestic office markets throughout Q1 FY24. In particular, the Brisbane and Perth markets, which continue to achieve strong leasing demand, demonstrated through positive net absorption. "In fact, research throughout the past 12 months shows office occupier demand remains strongest in markets where COF's portfolio has significant exposure."*

JLL's national office net absorption data for the 12 months to 30 September 2023 shows continued tenant demand for COF exposed markets: Brisbane Fringe (including Fortitude Valley and South Brisbane), Perth, Melbourne Fringe, Adelaide, and West Perth. Contrary to speculation that working from home will have an ongoing adverse impact on tenant demand, these markets have shown strong net absorption during the period. In addition, Adelaide, Brisbane, and the Sydney fringe markets experienced strong rental growth exceeding 5% throughout the past 12 months.

By contrast, the weaker markets being Sydney and Melbourne CBDs, have continued to trend down in leasing activity, with negative net absorption figures reaching c.-43,000sqm and c.- 21,000sqm, respectively. These results are detailed in the following graph.



- Mr Nichols concluded, *"We remain optimistic about the future of Australian office markets given that tenant demand in a number of markets continues to outperform expectations, and we are likely to see a material reduction in future office supply due to increased construction costs and return requirements. Coupled with the continued strength of Australia's population growth and labour market, there is a positive medium-term outlook for Australian office markets."*

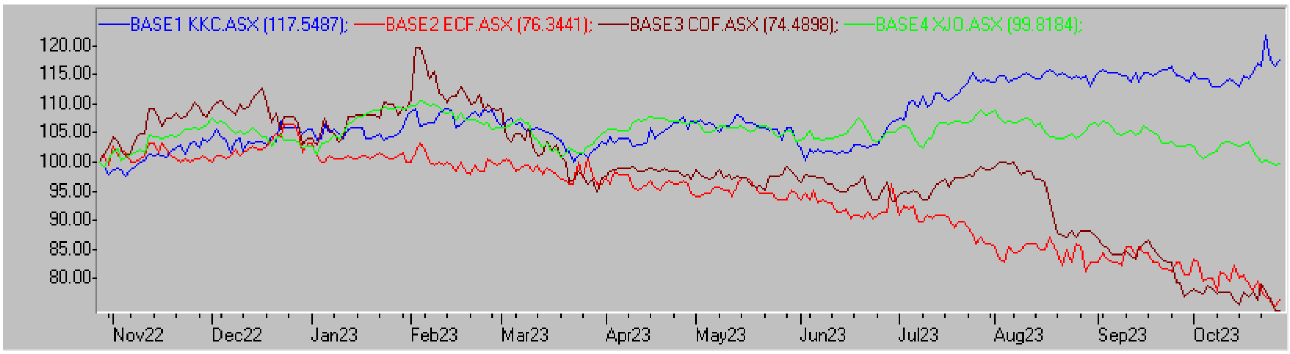
Elanor Commercial Property Fund (ECF)

Q1FY24 Result Distribution Guidance Reaffirmed

- Reaffirmed distribution guidance of $0.085 for the period from 1 July 2023 to 30 September 2023, equating to a distribution yield of 11.9%
- Current NTA: $1.00, ECF unit price $0.71.
- The Fund has a weighted average debt maturity of 2.6 years.
- The Fund is hedged to 78.9%, with a weighted average hedge maturity of 3.2 years.
- As with COF above, ECF is strategically geographically located with reliable tenants and quality buildings outside the more expensive and underoccupied CBD's. Despite the difference between the asset exposures and the major Melbourne and Sydney CBD exposed REIT's, the sell down has been unambiguously indiscriminate, taking all with it. In time the share price of these REIT's will reflect the value of its assets.

KKR Credit Income Fund (KKC)

Like most floating rate investments, the performance of KKC has provided investors with good growth in both capital and income over the past 12 months. As per the chart below, the movement has been almost inversely proportional to the REIT sector and well above the ASX200.



- NTA of $2.42 versus share price of $2.06
- Distribution yield of 9.8%, payable monthly.
- KKC's exposure to a diverse range of businesses, sectors and risk levels, has served investors well.
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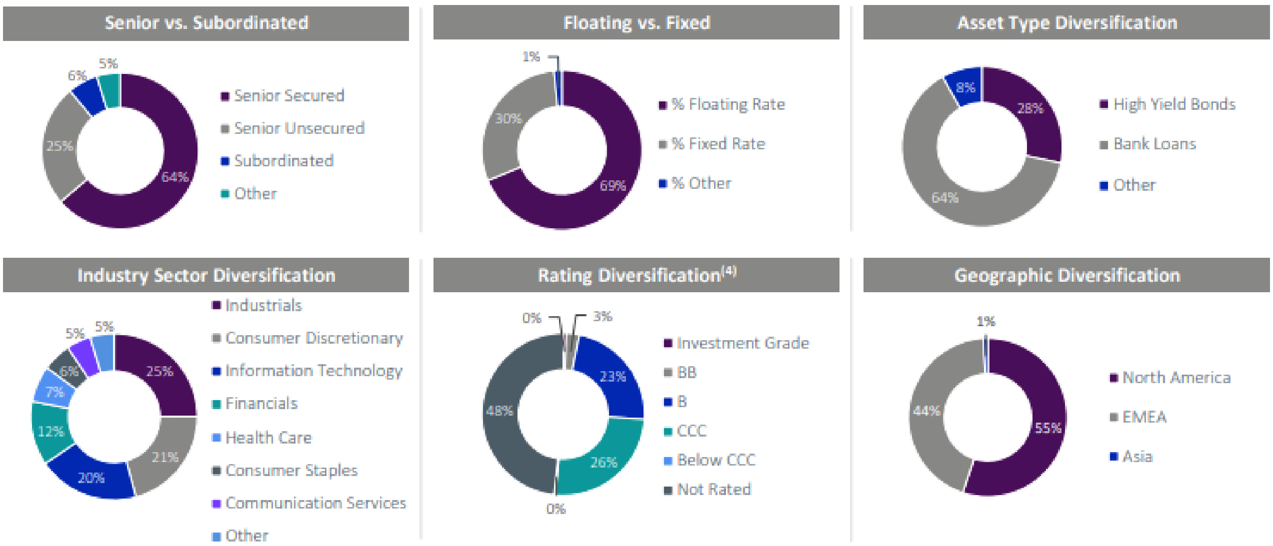
Portfolio Construction[4]



Other Portfolio Details[3]

Number of Issuers[3]	Asset Mix	Yield-to-Maturity on Underlying Assets	Portfolio Interest Rate Duration	Average Price	Current Yield on Underlying Assets
183	57% Traded Credit / 43% Private Credit	11.6%	1.0	93.36	10.2%

Top 100 Issuer Summary: % of Portfolio

Top 10	Top 20	Top 25	Top 50	Top 100
18.5%	34.0%	40.7%	65.7%	92.7%

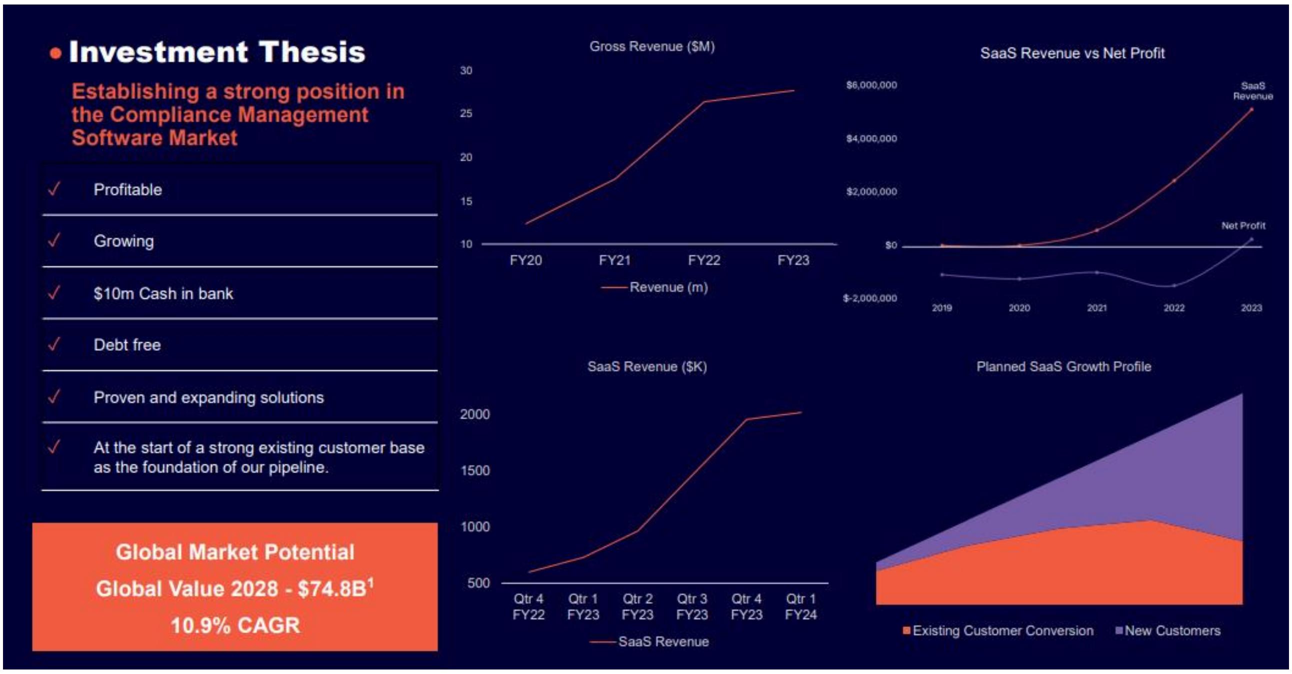
Top 10 Holdings

Holding	Weight	Type	Sector	Fixed/Floating	Security	Seniority	Country	Currency
Douglas Holding AG	2.05%	Bonds	Other Specialty Retail	Fixed	Senior Secured / Senior Unsecured	First Lien	Germany	EUR
Ardonagh Group Ltd	1.98%	Loans	Insurance Brokers	Floating	Senior Secured	First Lien	United Kingdom	GBP
ICE	1.98%	Loans	Biotechnology	Floating	Senior Secured	First Lien	Italy	EUR
PSAV Inc	1.86%	Loans	IT Consulting & Other Services	Floating	Senior Secured / Subordinated	First / Second Lien	United States	USD
PIB Inc	1.86%	Loans	Insurance Brokers	Floating	Senior Secured	First Lien	United Kingdom	GBP
esPublico	1.86%	Loans	Application Software	Floating	Senior Secured	First Lien	Spain	EUR
Advania Sverige AB	1.82%	Loans	IT Consulting & Other Services	Floating	Senior Secured	First Lien	Sweden	SEK
Varsity Brands Inc	1.75%	Loans	Apparel, Accessories & Luxury	Floating	Senior Secured	First Lien	United States	USD
Wella Corp/The	1.69%	Loans	Personal Care Products	Floating	Senior Secured	First Lien	Switzerland	GBP
HKA	1.68%	Loans	Research & Consulting Services	Floating	Senior Secured	First Lien	United Kingdom	USD
	18.54%							

- KKC represents a well run income fund which has enjoyed market support for the last 12 months and is still trading well under NTA.

Kinatico (KYP)

- Held its AGM yesterday, where the CEO provided guidance on the areas within the business showing growth and where the performance will come from in coming years.
- Although the table below covers the majority of the salient points, its worth pointing out that through a disciplined focus on costs, KYP is achieving the elusive positive jaws; that is higher revenues alongside lower expenses.



Some recent customer wins listed below illustrate the increasingly divergent list of customers using the KYP SaaS technology. As of now, KYP has barely scratched the surface of its potential market. The next few years should prove extremely exciting for this business.

Have a good weekend,

Ben and the team.

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