



MAKENA ESG REPORT 2018



Introduction

As a global, multi-asset class investment manager focused on preserving and growing capital over an extended horizon, Makena Capital believes that an investment process that integrates environmental, social, and governance (“ESG”) factors enhances our ability to manage risk and create value for our investors. Over the past five years, our team has gradually integrated ESG factors into the manager due diligence process, consistent with our fiduciary obligations to all investors. We believe that formal incorporation of ESG considerations into our investment activities sharpens our ability to identify potential risks and opportunities leading to attractive long-term risk-adjusted returns. As such, we feel it is imperative to partner with best-in-class managers whose objectives and culture are aligned with our own.



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With influence over \$1.6 trillion of capital through our manager relationships, we are uniquely positioned to drive change as the investment industry coalesces around a common set of criteria and standards for ESG integration. Similar to last year’s inaugural ESG Report, the purpose of this report is to provide our investors with not only an understanding of our ESG process, but also insights into our managers’ engagement. While last year’s report focused primarily on policies and procedures, we have expanded the report to highlight impact within our underlying holdings and show meaningful improvement from the baseline data we reported a year ago.

We hope you find the ESG Report useful and look forward to further discussing our ESG framework and process with investors.



ESG Survey Overview

The ESG Report is an early and important step in Makena's ongoing process to improve ESG integration in our investment activities. For this exercise, we once again surveyed all our continuing managers with a series of questions related to ESG practices. The survey included questions specifically related to our managers' ESG policies, due diligence processes, dedicated ESG professionals, and issues or actions taken related to ESG concerns.

After gathering and analyzing the survey results, a few key trends emerged. First, the managers in the highest risk areas also have the most robust practices. Second, we found that private managers are more likely to have established ESG practices than public managers. This finding was especially pronounced in Europe where 100% of our private managers reported that they factor ESG criteria into their investment due diligence processes. We believe this is largely a function of the ability for private equity managers to create value through ESG practices at their companies due to their level of control. Lastly, and not surprisingly, there is a clear relationship between AUM and the extent to which firms have dedicated resources for ESG practices.

Our initial findings reveal that the majority of our managers are keenly aware of ESG risks and opportunities and have begun incorporating ESG factors into their due diligence process. Our team has used the survey results as a discussion point with managers and has encouraged those without formal policies to adopt structured ESG guidelines. Through this engagement process, we seek to partner with our managers to establish best-in-class ESG frameworks for each asset class in the pursuit of strong value creation.

To date we have received responses from 154 managers representing 84% of Makena's NAV and 91% of unfunded commitments. These managers collectively steward over \$1.6 trillion for Makena and other investors. The following information is intended to summarize the results from these surveys.

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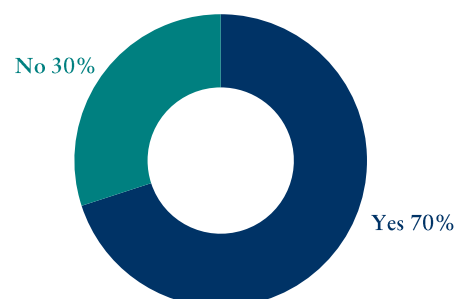


ESG Survey: Policies and Procedures

70% of Makena's managers factor ESG into their due diligence process

The majority of our managers incorporate ESG factors into their investment process. Makena is now engaging with managers to formalize those processes into an ESG policy.

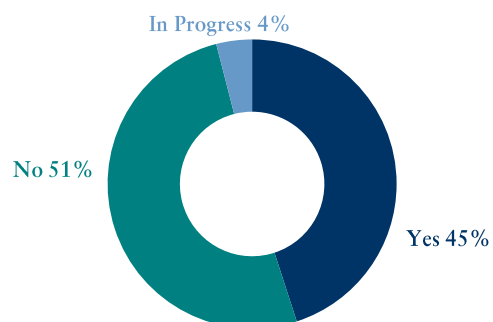
Managers Factoring ESG into Due Diligence¹



GPs with an ESG policy grew 10% year-over-year

ESG policy adoption has accelerated but still has room to grow. Given the current pace, we expect adoption to surpass 50% within the next year or two. Of the 45% of managers with a policy, 70% adopted or formalized their policy after 2013.

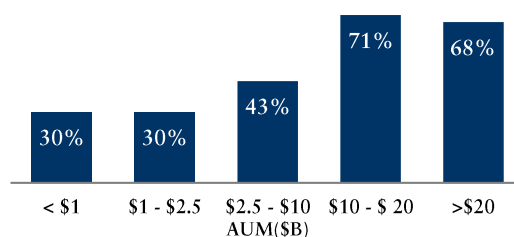
GPs with an ESG Policy



Larger firms are significantly more likely to have an ESG policy

The percentage of GPs who have adopted an ESG policy is skewed towards larger firms as they tend to have dedicated ESG professionals or personnel capacity to help with reporting and integration of formal ESG practices.

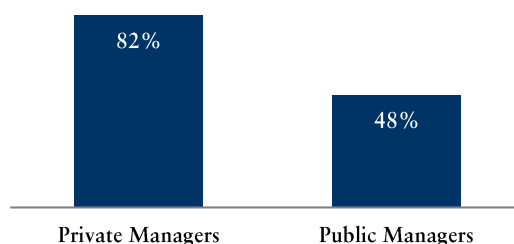
Managers with an ESG Policy by AUM



Private managers are about twice as likely to incorporate ESG into their due diligence in comparison to public managers

The dispersion between private and public ESG diligence is likely a result of private managers' ability to swiftly improve and benefit from the ESG outcomes of their investments through board control.

Managers Factoring ESG into DD
Private vs. Public



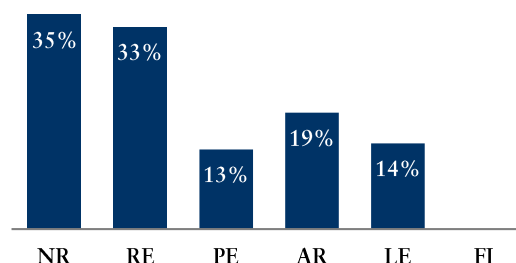
¹Totals may not sum to 100% due to rounding

ESG Survey Results: ESG Engagement

Real Asset managers are significantly more likely to have dedicated ESG professionals

Real Asset managers in Real Estate and Natural Resources generally view ESG as integral to their value creation plan. Moreover, Real Assets and related businesses tend to have higher environmental, health, and safety risks than other asset classes, which often creates the need for dedicated ESG professionals.

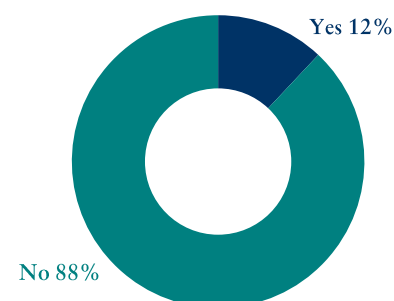
Managers with Dedicated ESG Resources, by Asset Class



Signatories to the UN PRI grew 30% from last year

GP adoption of UN PRI has seen a marked increase, though the absolute number of signatories remains low in aggregate due to reporting requirements. Since becoming a signatory in 2016, Makena has engaged with our managers about the initiative and offered our opinions to those who inquire.

Managers who are UN PRI Signatories

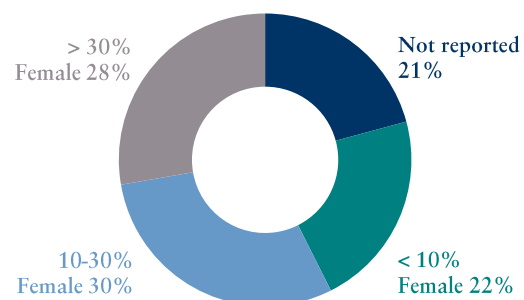


ESG Survey Results: Gender Diversity

Slightly more than a quarter of our managers have greater than 30% female representation

Despite the focus on gender and racial diversity in finance, women participation at GPs remains low. We estimate that the number of women in top ranking investment positions is well below the reported percentages as these values include non-investment professionals as well. Makena will continue to engage with managers on best practices around how to recruit, train, and retain diversity candidates and actively look to identify diverse firms within our investment universe.

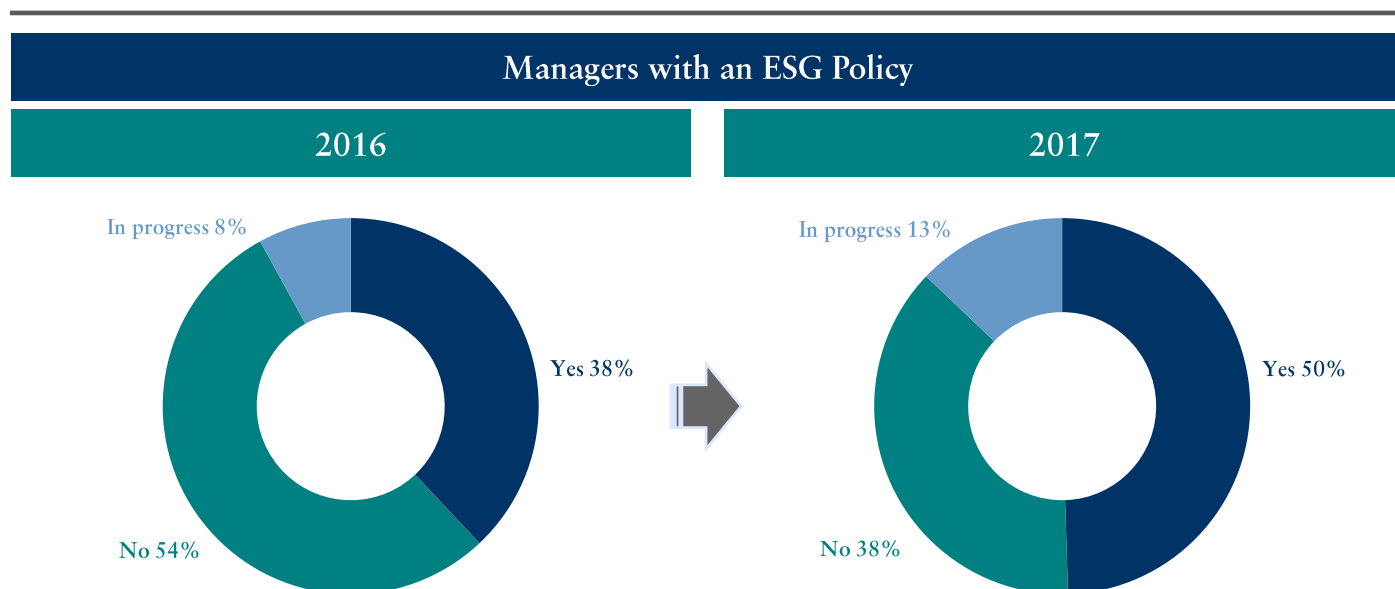
Gender Diversity



Real Estate Spotlight: Survey Improvement

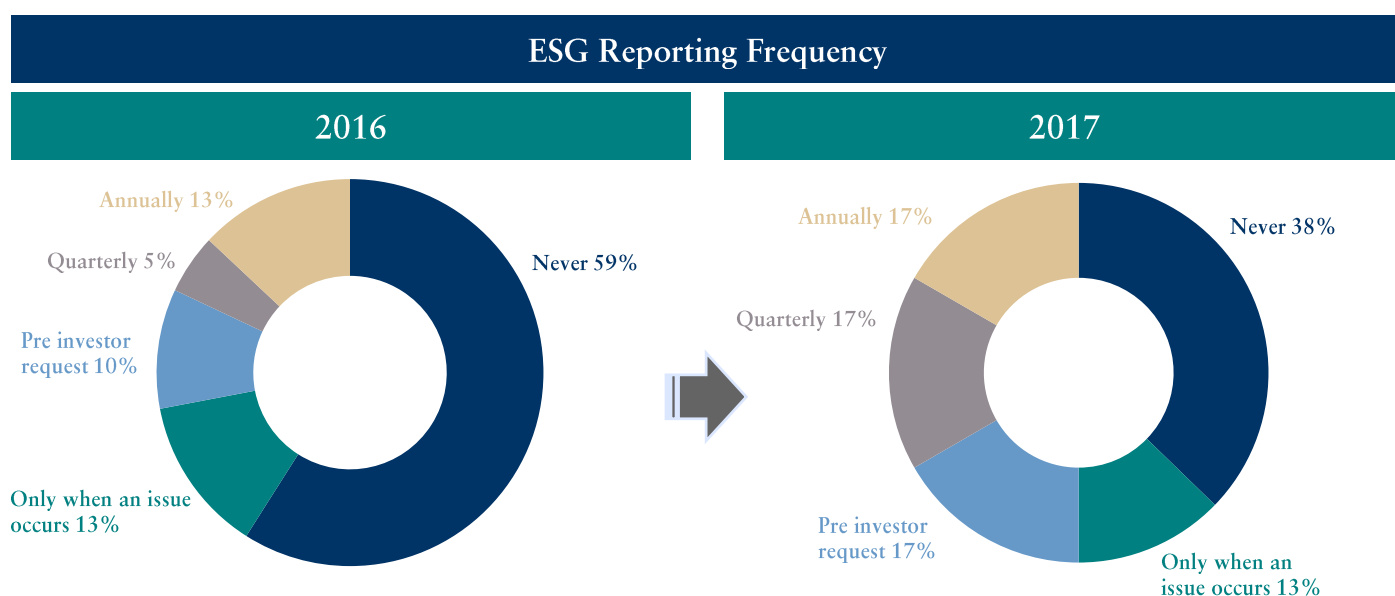
Our Real Estate team made a strong effort to engage with our managers on the value of an ESG policy for their portfolios. We are very pleased that numerous managers decided to further their ESG processes and have been honored to be helpful in establishing and refining our managers' new processes.

Real Estate managers had a 30% YoY increase in ESG policies, representing the largest increase across our asset classes



In addition to policy adoption, Real Estate has seen a marked increase in ESG reporting frequency YoY

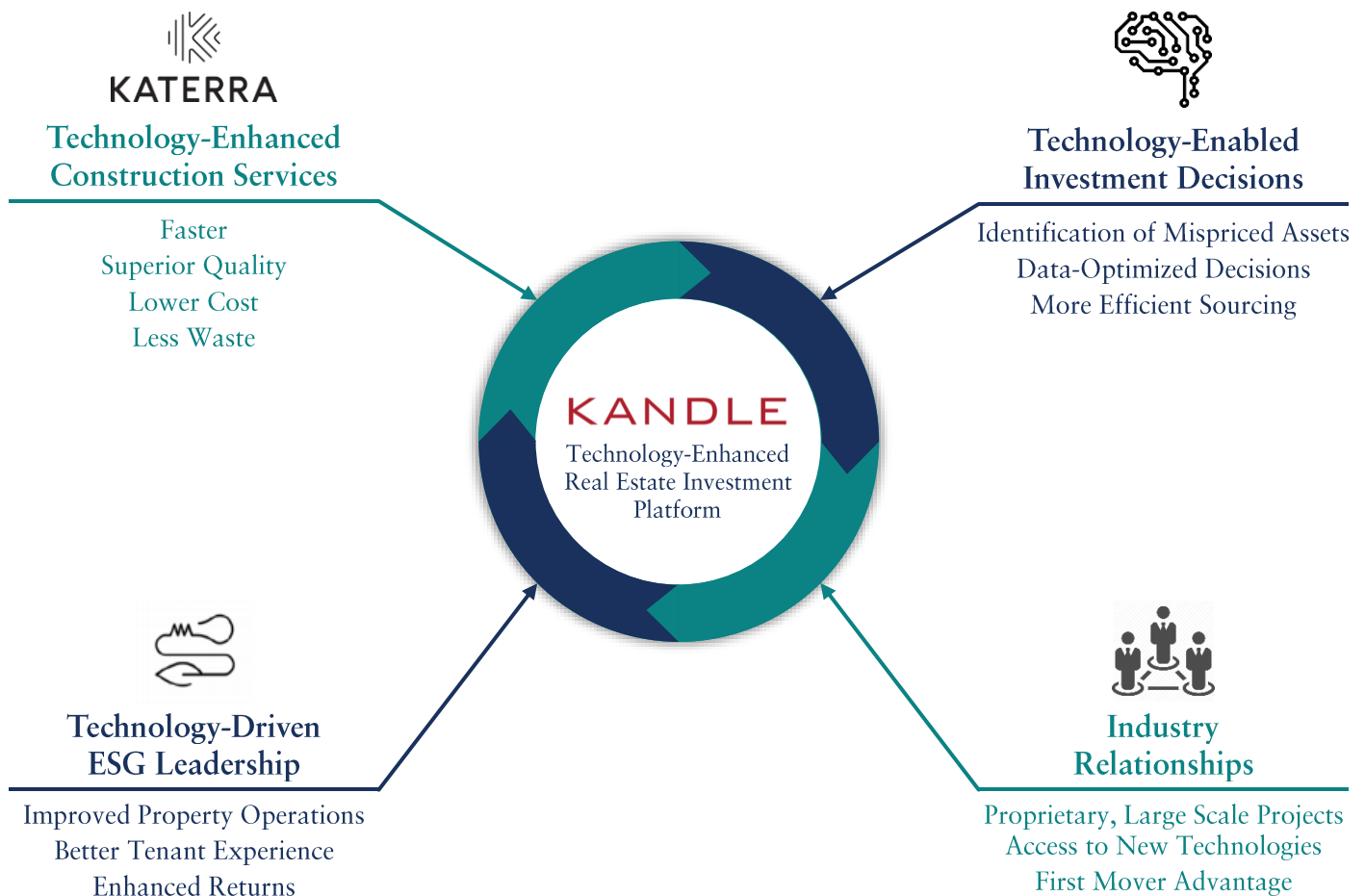
Another benefit of Real Estate GPs' focus on ESG is that the frequency of reporting and availability of information for investors has also increased



Real Estate Spotlight: Kandle Investment

In the past year, Makena became a strategic partner for a newly formed investment platform, Kandle, which combines accumulated acumen from technology, real estate and institutional investment management. Kandle seeks to enhance returns, lower risk, and reduce the underlying volatility of real estate investments primarily through its strategic relationship with Katerra. As the only sector of the U.S. economy with declining productivity over the last 20 years, the construction industry has been slow to create and adopt technology solutions. The net result has been an embedded development cost structure which limits delivery of needed new supply. Katerra's approach towards providing an end-to-end technology solution spans the full spectrum of building design, material procurement, and construction management, uniquely positioning them to disrupt a largely static industry. Katerra's goal is succinctly summarized as developing properties cheaper, faster, and better.

The Kandle founders, including the principals from the Wolff Company, have long been innovative in disrupting existing models and bending the cost curve by rethinking and retooling historical processes. Katerra has already changed the dynamic of material manufacturing and purchasing by recognizing early on that vertical integration can reduce waste, decrease risk, lower costs, and accelerate project delivery. As an example, Katerra acquired an LED lighting manufacturer as well as created a proprietary set of cabinet components to significantly reduce costs of key residential construction inputs. Lower costs, less inventory, and tighter controls surrounding the supply chain are further exemplified by Katerra's establishment of sourcing and quality control offices in Scottsdale, Arizona, Guadalajara, Mexico and Shenzhen, China. These direct relationships with suppliers, together with advanced transportation logistics, allow for Katerra's embrace of a Just-in-Time (JIT) inventory strategy. The JIT strategy further leverages SAP enterprise software to increase efficiency and decrease waste by receiving and delivering goods only as they are needed in the production process. As an early Katerra adopter, Kandle has secured a development cost advantage for the duration of the fund's investment period through guaranteed preferred pricing and capacity allocation from Katerra.





Interview with PATTI MELCHER EIV Capital

Based in Houston, EIV Capital is an investor-centric energy private equity firm, with diverse team experience. EIV focuses on the midstream and downstream segments of the market where it can provide valuable, practical solutions based on its operational and financial experience. EIV was founded by Patti Melcher and remains one of the few female led firms in Energy Private Equity.

How did you think about creating diversity when founding EIV?

We wanted a wide range of opinions, view points and experiences, because we feel that is what ultimately allows us to be strong investors.

When EIV started, we had Tony [Annunziato], an experienced energy commodities trader, providing the capital and my partner, Jenny Gottschalk, a serial entrepreneur with extensive financial experience from energy finance and investing.

To me, what we brought was a range of experience, and not the attitude that 'this is the way it has always been done, so we are going to do it that way,' which has been a real benefit.

When we institutionalized our structure and thought about the firm's needs for Fund II, we brought in David [Finan] for his more traditional finance experience in investment banking and private equity. Again, it was not thinking about male vs. female, but what skills, backgrounds and thought processes could we add to help diversify the team.

How did you look to attract and recruit women as your firm has grown?

It wasn't until we started raising the most recent fund over the past few years that it became apparent we needed to be proactive if we wanted diverse candidates when hiring associates. The pool was generally all males, so we decided we needed to expand the pool because there had to be some women out there. Being a female leader, I was able to say, 'no we don't have to just accept that there are no women, let's go find them.'

Early on, we used a head hunting firm that specializes in placing investment banking associates in energy private equity. It took us saying specifically 'no, go find us more applicants,' which is how we were able to recruit a women candidate who was top of her investment banking class and had not already committed to a private equity firm.

Another female investment professional saw me speak on a panel at the Kayo Women in Energy Conference and followed up after introducing herself. She was attracted to EIV because we were female-led. At the time, we didn't have a position for her level available, but she was willing to take a position we did have due to the potential for growth and the culture. Our most recent female hire came from GE and has more operational experience. Being willing to look beyond the standard pool of candidates has generated a better, more diverse group of candidates (including diversity of background and experience) to interview. Taking an active recruiting effort has certainly helped us immensely.

I've spoken to many other firms that say they just can't find women... Sometimes you must look outside the traditional investment banking roles and broaden the pool you are willing to look at.



...we must recognize...women do it differently. This is what I did, but it isn't typical.



How would you like to see the industry change to be more inclusive? What are the bottlenecks to get senior women up the ranks?

More change now! We have to get women all the way through middle management into the senior ranks. There is still a lot of work to be done. The good news is that I think it is more accepted that women can pursue both full-time careers and have a family than when I graduated business school. Today, the men are just as likely as women to leave early to go to their kid's soccer games.

One thing I think we must recognize, and which I like to remind people of when I am on panels, is that women do it differently. 'This is what I did,' I tell them, 'but it isn't typical.' I restarted my career in my late 40s while the guys in those roles were in their late 30s. That's not bad, it is just different.

Another area that has been hard for women to crack is Boards of Directors because you must have the right experience and network. A friend of mine, who was one of the top graduates from UVA and had a very successful career, when asked to be on the boards of some of the companies she worked for said 'no' while her male counterparts said 'yes'. She didn't know that she needed board experience. We need to do a better job educating women at the lower ranks on what they need to do to get to the places they want to be.

You mentioned that your path was non-traditional. Do you think that was an advantage? How did you think about getting back in?

I was very intentional about how I wanted to stay engaged after leaving SCF Partners. I did not want to leave or not work, but at the end of the day, your family is more important than your job and I had a special needs child to care for. I created a business plan for my career. I planned to work for myself doing consulting and making smaller private investments, so that I could have the flexibility for my family but stay connected and relevant so that I could re-enter the traditional private equity world when my daughter's needs had been met.

I never got out of the industry and I think that is critical because it is hard to get back in. I also always looked at it like, 'okay, if I need to, I can underprice myself to get back into a certain situation.' That is one of the things I did when I was first introduced to Tony. Going in, I focused more on the opportunity and I proved the value that I could bring to his private equity investments and became a trusted partner. Everything you do builds on itself and the work I did for Tony led to the EIV opportunity. If you really want to take some time off or cut back some, you must be deliberate and ask, 'how am I going to keep my skills and contacts up'.

Makena Capital Management, LLC

In some ways, EIV has been lucky in the gender diversity space given a lot of it is self-generated from women who want to work for you. What advice would you give other private equity firms as they think about improving their diversity?

Firms should be looking at their firm culture. Is the culture one that embraces a diversity of opinions? If you aren't interested in hearing more than what you think, then you are only going to attract more of the same. At the top you may have people saying they want more diversity, but if the leadership is not interested in different points of view, then it is going to be hard to attract people.

So, which comes first, do you embrace a variety of opinions and then go out and build the team or do you try to attract diversity and then create the culture and diversity of thought. You have to make it comfortable for someone to be willing to say what they think. For years, I was cautious about what I would say in different situations. I feel much freer in today's environment to not have to be so careful when offering an opinion.

Select Portfolio Company Highlights

As a fund of funds, Makena has a unique position in being able to survey thousands of portfolio companies and identify leading or innovative businesses and real asset projects that are looking to make an impact. We strive to understand how our managers are investing to promote sustainability and best-in-class ESG practices across their portfolios. Below are a select number of investments that are improving local and global communities alike. In addition, as a signatory of the UN PRI, we have highlighted the applicable UN Sustainable Development Goals.



Real Estate: Riverton Housing Complex (A&E Real Estate Workforce Housing Asset)

The Riverton Housing complex is a 12-building, 1,229-unit residential community in the East Harlem neighborhood of New York City that was purchased by A&E Real Estate, a specialist in workforce housing and a Makena partner.

Riverton addresses the need for low-income housing demand in East Harlem by providing affordable rents that are pegged to area median income, ensuring that rental affordability will coincide with income growth. Target renter profiles for affordable units include teachers, firefighters, policeman, nurses, electricians, and other manual professions. Riverton's current weighted average in-place rent is at an approximate ~40% discount to the average market rent.



Natural Resources: Vista Ridge Pipeline (Ridgewood Water & Infrastructure Project)

Vista Ridge is a new long-haul water pipeline which will deliver water to the San Antonio Water Authority. The project will supply ~20% of the fresh water consumed by residences and businesses of San Antonio, and will diversify the city away from the Edwards Aquifer. While the Edwards has been the source of the vast majority of San Antonio's water for decades, the aquifer has sustained significant damage and its resource levels have become increasingly variable.

By contrast, Vista Ridge sources its water from the Carizo Wilcox Aquifer, which is one of the most prolific sources of groundwater in Texas. Scientists estimate that if there were a 50 year drought in Texas, Vista Ridge would consume less than 2% of the Carizo's stores. Once Vista Ridge is online, the operator will provide statistics on volume of water delivered from the Carizo and more statistics on San Antonio consumption.



Select Portfolio Company Highlights



Private Equity: Reconomy
(EMK Capital Portfolio Company)

Reconomy is the UK's market-leading provider of outsourced recycling and resource management services. The company operates nationwide and coordinates more than 12,000 waste movements every week, and annually manages approximately 3M tons of waste. The company works with thousands of UK businesses to help them manage their waste in a responsible, sustainable, and cost-effective manner. In doing so, Reconomy enables its clients to maximize opportunities for recycling and reuse, reduce their carbon footprint, and exceed their corporate social responsibility targets for waste management and sustainability.

Reconomy has delivered outstanding growth in sales and profitability through harnessing its innovative technology platform and enhancing key customer relationships. Reconomy's market-leading position and strong growth trajectory are set to continue following the successful acquisitions of Countrywide Waste Management and Network Waste during 2015.



BRANDLESS

Private Equity: Brandless
(Cowboy Ventures Portfolio Company)

Brandless is an e-commerce startup founded in 2012 offering a wide assortment of household and food items, each at a price of \$3. The idea behind Brandless is that it can add value for the consumer by selling quality merchandise without a so-called "brand tax" thus making it more broadly affordable. Additionally, Brandless is designed to make lasting change in the community: every time an individual checks out at Brandless a meal is donated to someone facing hunger. Through the partnership with Feeding America, the nation's largest domestic hunger relief organization, Brandless has donated 1.5 million meals to date.



RESORT FINANCE AMERICA

Absolute Return:
Resort Finance America
(Centerbridge Partners Portfolio Company)

Focused on growing its presence in the shared ownership industry, Resort Finance America ("RFA") owns, operates, and develops mixed use resorts in Nevada, Utah, and Hawaii. In September 2010, Centerbridge formed RFA in connection with the acquisition of \$1 billion+ of timeshare related loans from GMAC Commercial Finance.

As with all investments, Centerbridge's Portfolio Operations Team not only serves on the board of Resort Finance America, but also works closely with the management team in identifying areas of risk and opportunity. Additionally, Centerbridge helps to direct focus on compliance of ESG issues and assists in the implementation of ESG initiatives. Examples of environmental initiatives at RFA include the replacement of 10,000 60-watt bulbs with 18-watt compact fluorescent bulbs and the installation of new, divided garbage stations to help facilitate recycling at the hotels. The bulb replacements have allowed for a 70% reduction in energy use.



Makena's ESG Involvement Beyond Policy

At Makena, we are conscious of our environmental impact, operate within a structure of strong corporate oversight, foster a culture of high moral and ethical standards, and place the utmost importance on transparent and responsible reporting to all stakeholders.

Given that we are committed to being among the active leaders in the ever-evolving responsible investing space, Makena has actively sought partnerships and networking groups to further our involvement and connection with likeminded investors. This endeavor has included becoming a signatory to the United Nations Principles for Responsible Investment ("UN PRI") in 2016 where we joined an international network of over 2,000 investors, representing over \$80 trillion in capital that are committed to promoting and implementing the six core principles. Additionally, Makena joined Ceres, a sustainability nonprofit organization, which works to connect influential investors and companies to build leadership and drive solutions through the economy. Our work with Ceres involves participation in several working groups, including Carbon Asset Risk and Water Risk, that seek to provide investors with the tools to identify risks within their portfolios and engage with companies to press for new standards.

UN Principles for Responsible Investment

Makena became a signatory to the United Nations Principles for Responsible Investment ("UN PRI") in 2016. In becoming a signatory, Makena pledged to pursue the following principles to the best of our ability.

We will incorporate ESG issues into investment analysis and decision-making processes

We will be active owners and incorporate ESG issues into our ownership policies and practices

We will seek appropriate disclosure on ESG issues by the entities in which we invest

We will promote acceptance and implementation of the principles within the investment industry

We will work together to enhance our effectiveness in implementing the principles

We will each report on our activities and progress towards implementing the principles



Signatory of:



Makena's Community Involvement

Founded in 2005 by principals from leading North American endowments and foundations, Makena places a high value on civic mindedness and diversity in our company culture. As a firm, we promote philanthropic involvement and initiatives at multiple levels through leadership, service, and engagement opportunities within communities both near and far from our Silicon Valley headquarters.

At a leadership level, our Managing Directors currently serve or have served on the Investment Committees of leading institutions, including The Rhodes Trust, The Bechtel Foundation, Washington University in St. Louis, Dartmouth College, University of Virginia and the Virginia Environmental Endowment. These positions provide us with a unique opportunity to further awareness and promote strong moral and civic engagement as stewards for future generations.

At a service level, Makena's employees give both physical and financial support to causes that are meaningful to them. As a firm, we particularly enjoy getting out in the community during Makena's Annual Volunteer Day, which was most recently held at the Boys and Girls Club in Napa two months after the devastating wildfires. In previous years, we have also partnered with Second Harvest Food Bank in San Mateo to sort through non-perishable food contributions for distribution to low-income families across the Bay Area. In addition to time and physical service, Makena and its employees have made substantial financial commitments over the years to various charities, non-profits, and causes. We have a generous employee donation matching program which allowed us support seventy-nine civic, cultural, and educational organizations in 2017. This program also allowed us to increase the impact of individuals' contributions to the Napa Wildfire and Hurricane Harvey relief efforts this past year. Outside of these aid opportunities, Makena also routinely sponsors recurring fundraising events including ICA Cristo Rey's Basketball Tournament and California Academy of Science's Gala.

Finally, at the engagement level, Makena has a long history of outreach and involvement in communities, particularly in the education sector and in the areas of diversity and inclusion. Each year Makena hires an intern from ICA Cristo Rey (a Dominican Catholic college preparatory school that empowers girls from underserved communities in SF) to work with and learn from our Client Services Group. This year we also hosted an onsite panel and interview workshop for college students from Meritus College Fund who are looking to break into finance. Beyond this, in 2016, Makena began working closely with Management Leadership for Tomorrow ("MLT") through their Career Prep Programs and recruiting initiatives to bring more diversity directly into our own office.

From leadership to engagement, Makena aspires to be a leader within the investment management industry and to use our position and reputation to promote greater awareness and positive involvement in local and global communities.



*Makena Annual Volunteer Day 2016 at
Second Harvest Food Bank in San Carlos*



*Meritus College Fund's Interview Prep Day
hosted by Makena in 2018*

Select Descriptions of Makena's Recently Supported Organizations



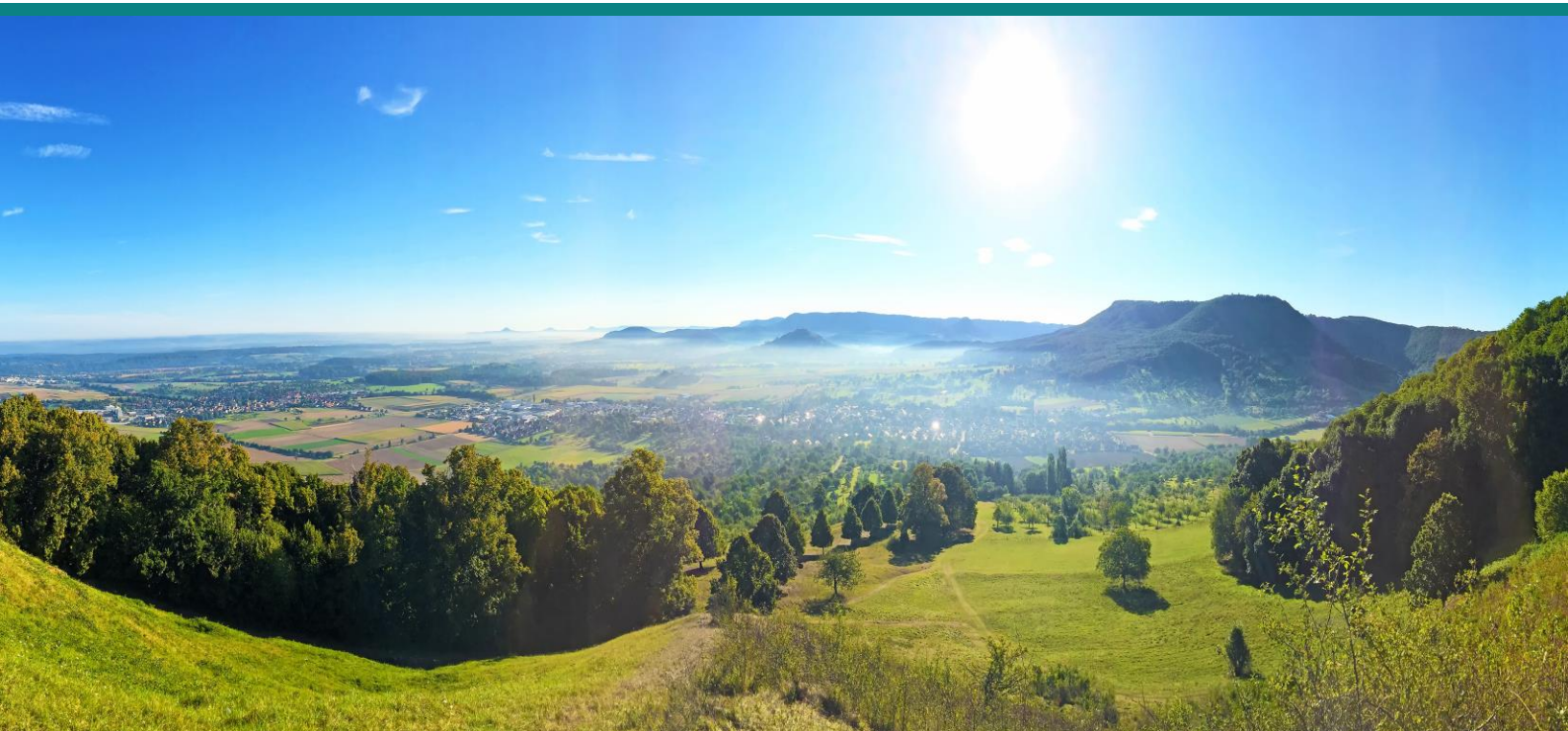
ICA Cristo Rey is an all girls, college prep high-school serving young women from low income families. The mission of ICA Cristo Rey is to empower these young women to realize their full potential through rigorous academics and a corporate work-study program.



Meritus College Fund helps motivated low-income San Francisco youth complete a college degree and prepare for post-college success through a combination of scholarships, coaching, and career mentorship.



MLT equips African Americans, Latinos, and Native Americans with the skills, coaching, and connections they need to lead organizations and communities worldwide. They support their Rising Leaders at all stages: from college to a first job, from B-School to the C-Suite. MLT has partnered with more than 100 corporations, social enterprises and universities to amplify their efforts and provide top talent and data-driven insights into expanding the diverse leadership pipeline.





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