

MAKENA'S SIX INVESTING PRINCIPLES

Timeless Guidelines for Investors

APRIL 2019

Larry Kochard, our Chief Investment Officer and a Manager Director, lays out the six principles of our investment philosophy which we have honed throughout our cumulative experience managing capital on behalf of North America's leading endowments and foundations, family offices, and select high net worth individuals.

Diligently adhering to these six principles ensures that we stick to our competitive edge: constructing high quality portfolios that balance short-term risk and long-term risk by taking a bottom-up approach to asset allocation and seeking to partner with extraordinary investment managers.

Makena's investment philosophy is rooted in six core principles, which we have honed throughout our cumulative experience managing capital on behalf of North America's leading endowments and foundations, family offices, and select high net worth individuals.

Our six core principles include:

1) Maintain a Long-Term Focus

Maintaining a long-term focus is key to building high quality, durable portfolios. Being a long-term investor requires the consistency, patience and discipline to weather short-term market volatility without shifting strategy or portfolio positioning.

Being a long-term investor also allows Makena to build strong partnerships with extraordinary investment managers who demonstrate a sustainable edge in security selection and adding value to their portfolio companies and assets over full market cycles.

2) Play to our Strengths

Elite performance in any field requires an understanding of one's own strengths and vulnerabilities. Our investment philosophy is uncompromisingly bound to those qualities. Makena's core strength is our manager selection and access. Due to our industry network and reputation as a sought-after investment partner, we have a track record of accessing high performing, capacity-constrained managers. This access is available through a variety of avenues, including co-investments.

Equally beneficial to our LPs is Makena's ability to identify and seed the next generation of investment talent, what we refer to as "emerging managers." By seeding emerging managers, Makena can both negotiate preferential economics and earmark scale capacity in future funds.

We also remind ourselves where we have no edge: market timing. While we actively look for investment themes that are based on market dislocations, these themes must demonstrate sound fundamentals and longer duration potential—far from what we would call "market timing," which has a short-term connotation.

3) Understand that Markets are Efficient

Capital markets have become increasingly efficient over time, a trend which we expect to continue, meaning it will be increasingly difficult to generate outperformance.

While we acknowledge this trend, our scale and expertise allows us to identify opportunities and allocate capital to less efficient (and often uncorrelated) investment opportunities, which complement our bottom-up approach in order to outperform.

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We firmly believe that extraordinary managers can outperform the market through private investment strategies (Private Equity, Venture Capital, Private Real Estate and Private Natural Resources) as well as complex credit, arbitrage and activist investment strategies.

4) Maintain Balanced Diversification

Diversification is key to successfully managing the inherent risks of managing long-term capital.

To Makena, diversification means thoughtfully allocating to a variety of asset classes, strategies, sectors, and geographies, to build a portfolio that balances both short-term risk (market volatility) and long-term risk (failing to meet our investment goals). Critically, while diversifying our sources of risk, we must not “over-diversify,” which could dilute our returns; we are seeking balanced diversification.

Therefore, given the scarcity of managers that meet our strict investment criteria, we exercise the conviction to concentrate capital with the 180+ extraordinary managers in our portfolio.

5) Maintain a Value Discipline

A benefit to investing with a long-term focus is the ability to maintain conviction throughout market cycles. This conviction underlies our value discipline: seeking to own high quality assets at opportunistic valuations given our fundamental, bottom-up analysis. While we acknowledge that we can't time markets, we do believe that price matters. There are times when markets overreact to market variables, causing asset prices to disconnect from their fundamental value. These periods of over exuberance or over correction can be short episodes of market volatility or can sometimes persist longer than expected.

When markets overreact on the upside, we look to our managers to focus on intrinsic value and avoid following market momentum that inevitably corrects and leaves investors to capitulate just at the wrong time. Alternatively, mispricing on the downside and other special situations at the security or asset level create opportunities for us to invest in strong companies, real assets and securities that have strong fundamental characteristics and provide real levers for growth. By positioning the portfolio to be able to take advantage of these opportunities and partnering with managers who can nimbly spot and execute at these times, we are often able to secure great assets at attractive pricing. This is a key component of our ability to create more favorable returns while maintaining comfortable risk levels.

6) People Matter

Our most important core principle is that people matter: building a team of the right people and investing with the right people. We seek team members who are collaborative, intellectually curious, humble, ethical and passionate; most importantly, we seek to build a team of diverse backgrounds and perspectives, which we believe leads to the best investment decisions for our LPs.

Our manager selection process is no different; underwriting the quality of the team and each individual who constitutes the team is our most important investment criterion. We believe that when faced with a tough decision, if we have chosen the right people, the right decision will be made on behalf of our LPs and their capital.

Sincerely,

The Partners of Makena Capital Management

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