

Coronavirus Response

Remaining disciplined

March 2020

March 3, 2020

The coronavirus is a serious global event which will continue to influence markets in the near-term. Our portfolio is built for the long-term appreciation of capital, which implies weathering shorter-term events such as the coronavirus. We remain disciplined and have high conviction in the businesses that we own. In addition to managing through this short-term volatility, a top priority for Makena is protecting our greatest asset: our people.

Market Impact

As concerns of coronavirus continue to grow, markets have reacted with a sharp correction and increased volatility. The S&P 500 has corrected 11% since its February 19 all-time high; the 10-year U.S. Treasury yield has fallen to an all-time low, below 1%; oil (WTI) has corrected over 25% and is trading under \$50/bbl.; copper has corrected nearly 10%. The effect of the coronavirus on global economic activity will play out over the coming weeks and months. The negative impact may be cushioned by monetary and fiscal stimuli by policymakers across the globe. For example, the S&P 500 was up nearly 5% yesterday in anticipation of a rumored coordinated policy response by the G7 nations. This morning's 50 basis point cut by the Federal Reserve led to a short-term positive market response, but ultimately produced another 3% loss for the S&P on the day. It was a classic buy-the-rumor-sell-the-news market reaction. Market volatility will continue for some time into the future until the economic damage from the virus and speed of recovery become more known.

Portfolio Impact

Our portfolio is constructed for long-term capital appreciation, which means weathering many different market environments, including the one we are currently experiencing. Deviating from our strategy of balanced diversification to capitalize on short-term market volatility is not a winning investment strategy. Discussions with our global network of managers, including our managers in China, provide confidence in the businesses that we own. While some of these businesses may experience a temporary deterioration of fundamentals, our quality bias and value discipline will help us withstand the economic downturn and market distress. We are rewarded for owning businesses run by experienced management teams benefitting from powerful long-term trends. For this reason, we get most excited about our portfolio in times of market volatility. The investment team is actively monitoring our portfolio and is prepared to rebalance by adding capital to existing and new managers, when the time is right, as we did in Q4 of 2018. Until that time, we will continue to be patient.

Business Impact

We are thankful none of our colleagues at Makena have been impacted by the coronavirus. As we have stated many times, our people are our most valuable asset, and we have taken steps to ensure their safety: following CDC international travel guidelines; promoting basic illness prevention measures (e.g., frequent handwashing); urging sick employees to work from home. Additionally, we are encouraging in-person meetings to be replaced by video conferences. Although we realize this may affect some in-person meetings with our investors, we believe this is in the best interest of both our investors and our colleagues.

We thank you for your understanding. We will continue to monitor the situation and communicate any updates on the portfolio and the team. Please let us know if you have any questions.

Sincerely,

The Partners of Makena Capital Management

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