## **Kayne Anderson**

Capital Advisors, L.P.

2022
ESG INVESTING REPORT



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### > LETTER FROM THE CEO

Eight years after establishing our initial ESG policy, Kayne has made considerable progress in how we integrate ESG factors across each of our investment strategies and throughout our organization. ESG integration is an important part of Kayne's commitment to create value for investors. In 2022, we continued our commitment to ESG by growing and strengthening our practice.

Continuous improvement over time is a core tenet of Kayne's approach to ESG integration. As such, we took steps to expand our data collection processes in 2022, thereby increasing the universe of ESG data available for analysis in decision-making and monitoring. For many of Kayne's private market strategies, these developments were the culmination of multi-year initiatives built on strengthening relationships with our stakeholders including portfolio companies, operating partners, and vendors.

Looking forward, we expect our investment platform to be well positioned to capitalize on opportunities arising from the global transition to a low carbon economy, and to find ways to support the advancement of Diversity, Equity & Inclusion ("DE&I") through our spheres of influence. We believe thoughtfully and proactively addressing ESG considerations enhances the resiliency of our investments, especially amidst an ever-changing business, political, and regulatory environment. For our energy private equity strategies, Kayne's multiyear emissions management initiative has created a competitive advantage as portfolio companies have accelerated changes to eliminate or minimize future methane tax exposure under the Inflation Reduction Act. Similarly, for our renewables business, we are well positioned to take advantage of the decarbonization megatrend. In our real estate business, gathering usage metrics to determine energy, water, and carbon reduction goals has been an essential process to work toward improved property performance.

From a social perspective, we look forward to driving continued impact through the firm's 2022 launch of our multifamily housing strategy, which promotes affordable housing and tenant resiliency, as well as the expansion of the Women's Technology Circle, which is an executive-level initiative launched by Kayne's growth capital group to empower current and future generations of female technology leaders.

We believe industry collaboration and the sharing of knowledge improves firm-level and industry-level impact. In 2022, we became members of the Global Impact Investing Network and the North American chapter of the Initiative Climat International, and also became a public supporter of the Task Force on Climate Related Financial Disclosures. We believe our partnership with these organizations strengthens our collaboration with other firms to promote ESG integration and identify best practices to further incorporate into our investment processes.

I look back with pride over our accomplishments in ESG in 2022 and throughout the past eight years, and look forward to continued progress in 2023. As always, we thank you for your partnership.

## Albert Rabil III

CEO of Kayne Anderson Capital Advisors & Co-Founder & CEO of Kayne Anderson Real Estate

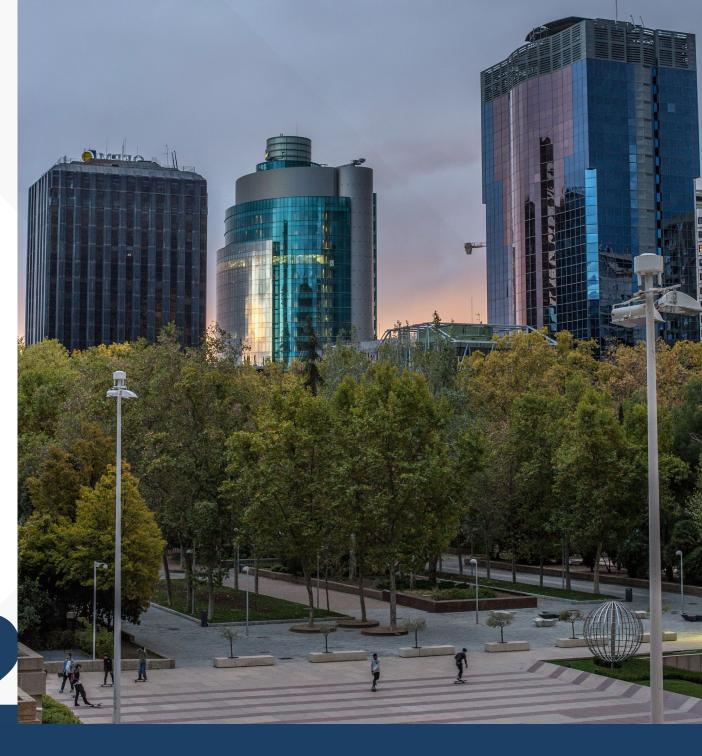
- > Chief Executive Officer
- Kayne Anderson Capital Advisors



### ABOUT KAYNE ANDERSON

#### About the Firm

Kayne Anderson Capital Advisors, L.P. ("Kayne Anderson", "Kayne", or the "Firm"), founded in 1984, is a leading alternative investment management firm focused on real estate, credit, infrastructure/energy, renewables, and growth capital. Kayne's investment philosophy is to pursue niches, with an emphasis on cash flow, where our knowledge and sourcing advantages enable us to deliver above average risk-adjusted investment returns. As responsible stewards of capital, Kayne's philosophy extends to promoting responsible investment practices to create long term value for our investors. As of December 31, 2022, Kayne manages \$32 billion in assets for institutional investors, family offices, high-net-worth and retail clients, and employs 335 professionals in five core offices across the United States.



1984 > 2022

#### Governance at Kayne Anderson

The Kayne Anderson Capital Advisors Board of Directors is tasked with overseeing corporate governance and meets on a regular basis to discuss performance, culture, and the overall strategic direction of the Firm. The Firm has implemented various other governing bodies which influence strategic direction and daily operations, including valuation committees for individual products and an operating committee.

#### Business ethics and compliance

Kayne conducts business according to policies and procedures that promote the highest standards of ethical and professional conduct and in compliance with all applicable laws and regulations. Our compliance program, led by the chief compliance officer, integrates our code of ethics into daily operations. Employees are required to follow the code, certify compliance quarterly, and attend annual compliance training. Our program covers personal securities transactions, handling of non-public information and insider trading, bribery and corruption, political contributions, and conflicts of interest. Our compliance program is independently tested on an annual basis to ensure alignment with industry best practices.

#### Cybersecurity

A vigilant and comprehensive approach to cybersecurity planning is crucial to maintain effective cyber-risk management that keeps up with evolving threats. At Kayne, on-going third-party cyber-risk assessments of our operations and of portfolio companies inform how we enhance our efforts year-to-year. The Kayne Data Protection Task Force oversees these improvements and ensures that our approach aligns with industry best practices. Currently, the program utilizes best-in-class practices and governs any and all significant cybersecurity-related activities to maintain a strong cybersecurity posture and prepare the Firm to respond quickly to unexpected cyber threats.

## **BOARD OF DIRECTORS**

#### Albert Rabil

CEO of Kayne Anderson Capital Advisors & Co-Founder & CEO of Kayne Anderson Real Estate

#### **Paul Blank**

President & Chief Operating Officer, Kayne Anderson Capital Advisors

#### **Terrence Quinn**

Vice Chair, Kayne Anderson Capital Advisors

#### Richard Kayne

Founder & Co-Chair, Kayne Anderson Capital Advisors

#### **Bob Sinnott**

Co-Chair, Kayne Anderson Capital Advisors

#### Jim Baker

Managing Partner & Co-Head, Energy Infrastructure

#### **Danny Weingeist**

Managing Partner & Co-Head, Energy Private Equity

#### **Nishita Cummings**

Managing Partner & Co-Head, Growth Capital

#### **David Selznick**

Chief Investment Officer, Real Estate

#### **Douglas Goodwillie**

Managing Partner & Co-Head, Private Credit

## OUR PROGRESSION

2022

2021

• Published the first

ESG reports for

Kayne Anderson

Real Estate and

the private energy

income strategy

strategy adopted

Adopted real estate

business partner

code of conduct

Private credit

an ESG policy

addendum

2020

2019

2017

Launched

strategy

renewable

infrastructure

2016

2015

Established first firmwide ESG policy

Energy private equity strategy adopted an ESG policy addendum

- Hired head of ESG strategy
  - Held first ESG symposium for energy private equity portfolio companies

- Became UN PRI signatory
- Kayne Anderson's core real estate strategy began participating in GRESB
- Growth equity strategy adopted ESG policy addendum

- Adopted climate change policy
- Released inaugural ESG report
- Became a signatory of the Institutional **Limited Partners** Association ("ILPA") Diversity in Action initiative
- Growth equity strategy piloted the Women's Technology Circle initiative
- Began measuring firm-level carbon footprint
- Conducted TCFD ("Task Force on Climate-Related Financial Disclosures") gap analysis across investment strategies

- Launched multifamily housing strategy, focused on attainable housing
- Launched sustainable bond strategy
- Joined the Global Impact Investing Network ("GIIN")
- Became a member of the Initiative Climat International ("iCI"), a network of general partners collaborating on climate risks and best practices
- Became a public supporter of TCFD
- Renewable infrastructure strategy published first sustainability and ESG report
- Official launch of Women's Technology Circle initiative
- Hired dedicated director of ESG for real estate

2018

## > FIRM-LEVEL ESG & CLIMATE POLICIES

#### How we Define ESG Investing

At Kayne Anderson, responsible investing—also referred to in this report as ESG investing—is rooted in a comprehensive approach to financial materiality that identifies, and accounts for, how ESG factors affect company, asset, and portfolio performance. In practice, we embed this evaluation of environmental, social, and governance-related risks and opportunities into our investment processes.

#### Kayne Anderson's ESG Policy

Consistent with our obligations to our clients, Kayne believes responsible investment practices go hand-in-hand with good business. The Firm's ESG policy serves as a guide to ESG integration and enhances our understanding of material risks and opportunities across investments. The policy outlines an "Assess-Monitor-Engage" approach that includes ESG integration across the investment life cycle and embeds the systematic evaluation of ESG factors into our investment process.

#### Climate Change Policy

Kayne recognizes the global impact of climate change. The Firm's climate change policy defines our processes to account for potentially significant consequences for our investment strategies. The policy details Kayne's integration of climate risks in investment analysis; how we monitor and engage on climate risks and opportunities, governance, and oversight for the policy; and how we report externally.

#### Industry memberships: supporting our commitment to transparency and integrating ESG considerations

Through our participation in ESG-focused initiatives and industry association memberships, we engage in relevant industry discussions, exchange best practices, and anticipate trends. This enables us to better understand industry standards and expectations for ESG practices, as well as convey the importance of ESG to our organization.

#### **ESG-Focused Initiatives**



As part of our commitment to ESG integration, Kayne Anderson became a signatory to the UN Principles for Responsible Investment (PRI) in 2019.



Kayne Anderson Real Estate has been a participating member of the Global Real Estate Sustainability Benchmark, the global ESG benchmark for real estate investments, since 2019.



In 2021, Kayne Anderson signed on to the ILPA Diversity in Action initiative.



In 2019, Kayne Anderson Real Estate became a founding governor of the Pension Real Estate Association Foundation.





Joined the Global Impact Investing Network.



Became a member of iCl, a network of GPs collaborating on climate risks and best practices.



Became a public supporter of the Task Force on Climate-Related Financial Disclosures.

#### CLIMATE STRATEGY & PROGRESS

Prudent risk management involves comprehending and addressing the challenges and opportunities driven by climate change.

Kayne Anderson recognizes that climate change represents significant environmental, social, and financial risks that are not restricted to any one sector. As an alternative investment manager, Kayne believes climate change presents an opportunity to capitalize on attractive investments arising from the transition to a low-carbon economy.

Consistent with our approach as a responsible investor, Kayne believes it is essential to consider the long term impacts of climate change on our investment decisions and their impacts on client portfolios. Understanding the implications of global macroeconomic shifts, impending climate-related regulation, as well as reported risk factors is part of a holistic risk management framework.

## Operationalizing Climate Risks in the Investment Process

Kayne's "Assess-Monitor-Engage" philosophy involves an assessment of how physical and transitional aspects of climate change intersect with our investment strategies during diligence, tracking investment climate performance (e.g., through the monitoring of climate metrics) and engaging our underlying investments on climate risks and opportunities. As part of our commitment to best practices, Kayne recognizes the importance of strengthening our alignment with TCFD to better manage climate-related risks and opportunities, as well as the need to improve overall transparency for our stakeholders.

Kayne is exploring opportunities to invest in climate education for our portfolio companies and our strategic partners. This will help to build a deeper understanding of the impact of climate change on our business and investments, and to promote greater awareness of the risks and opportunities associated with this global challenge.

#### Looking Ahead

The global effort to decarbonize energy consumption is a crucial step towards addressing the challenges of climate change. This transition is dependent on accelerating renewable development beyond recent record growth and we remain committed to growing Kayne's renewables strategy as part of the Firm's efforts to seek economic opportunities that accelerate the transition to a low-carbon economy.

Kayne is committed to enhancing engagement on climate change, particularly where the Firm has exposure to fossil fuels, by encouraging portfolio companies to take steps to better understand exposure to climate risks and identify opportunities to mitigate those risks. Furthermore, the Firm will continue to expand its collection of climate metrics to track progress over time and make more informed investment decisions, as well as explore climate-related targets, where appropriate.



#### Building the foundation for TCFD alignment: Kayne's efforts to promote climate-related financial disclosures

#### **GOVERNANCE**

At Kayne, accountability and oversight are central to the Firm's operating philosophy. The Firm's climate approach, which is a core component of the overall ESG strategy, has an established governance structure.

## Staff leading and overseeing the management of climate-related risks and opportunities

- Oversight by chief compliance officer
- Head of ESG strategy
- Dedicated ESG committees across each core investment strategy

#### **STRATEGY**

Kayne Anderson is committed to growing investment opportunities that facilitate the transition to a low-carbon economy.

## Investment opportunities identified in our focus industries

- Launched sustainability-focused products that include climate change as a key consideration (i.e., multifamily housing strategy, sustainable bond strategy, renewable infrastructure index)
- Renewable infrastructure strategy launched in 2017

#### Scenario Analysis

Multifamily housing strategy: conduct scenario analysis through Carbon Risk Real Estate Monitor Project (CRREM) modeling

#### **RISK MANAGEMENT**

Kayne integrates climate-related impact analysis into existing investments and new opportunities.

## Embed climate change considerations into the Firm's due diligence and engagement

#### Energy private equity:

 Multiyear emissions management strategy, aims to reduce the regulatory risk facing portfolio companies

#### Marketable securities:

- Dedicated climate factor within strategy's ESG scorecard for investments
- Enhanced approach to climate change in our proxy voting guidelines
- Dialogue with companies on key environmental risks, including climate change (2022: 27 engagements on climate-related topics)

#### Private credit:

 Leverage ESG industry frameworks during due diligence to identify climate risks

#### Real estate:

- Assess physical and transition climate risks, as well as resiliency measures during diligence for all equity deals
- Identify opportunities for energy efficiency opportunities and certifications across our real estate equity strategy (e.g., ENERGY STAR, IREM CSP)

#### **METRICS AND TARGETS**

Data collection and climate targets, where appropriate, are an important component of the Firm's approach to understanding climate progress and driving decarbonization efforts.

#### Kayne's operational footprint:

 Commissioned firm-level GHG emission inventories for our 2019-2022 scope 2 and 3 emissions and offset our carbon footprint for those years

#### Strategy-level metrics:

- Energy private equity:
  - Methane intensity
  - GHG intensity
- Real estate:
  - Energy efficiency measures
  - Energy usage
  - Energy use intensity
- Renewables:
  - Calculate potentially avoided emissions
  - Measure installed renewable energy capacity

#### Targets:

- Multifamily housing: net zero by 2040
- Energy private equity: working with portfolio companies to establish GHG emission reduction targets in 2023



### **➤ ALIGNMENT WITH THE UN SDGs**

At Kayne, we are committed to contributing to the 17 Sustainable Development Goals ("SDGs") adopted by the UN General Assembly as part of its 2030 Agenda for Sustainable Development. Our efforts in 2022 aligned with the following SDGs\*:





\*The United Nations Sustainable Development Goals (SDGs) are aspirational in nature. The analysis involved in determining whether and how certain initiatives may contribute to the SDGs is inherently subjective and dependent on a number of factors. There can be no assurance that reasonable parties will agree on a view as to whether certain projects or investments contribute to a particular SDG. Accordingly, investors should not place undue reliance on the Firm's application of the SDGs, as such application is subject to change at any time and in the Firm's sole discretion. Further, metrics relating to ESG matters are estimates and may be based on assumptions or developing standards (including Kayne's internal policies and procedures).

## **▶** DIVERSITY, EQUITY, & INCLUSION

Our commitment to cultivating a diverse workplace and a culture of inclusion reflects Kayne's belief that diversity contributes to our business success and provides a range of perspectives that benefit our employees, clients, and other stakeholders.

To promote a culture where individual differences are valued, and all employees have the opportunity to realize their potential, we aim to promote diversity and equal opportunity through our business policies, practices, and behaviors. Engaging our employees and portfolio companies is fundamental to furthering our work on DE&I.

In 2022, we explored pathways to identify the resources and tools available to support our diversity, equity, & inclusion goals. As we begin to execute our strategy, we will continually assess the effectiveness of our efforts.

#### **RECENT INITIATIVES INCLUDE:**

- Initiating a vendor diversity program with IT to collect data from Kayne vendors about their diversity composition, DE&I policies, and training
- Conducting a two-day training program, run by an external DE&I leader, to understand social and equity structures that have perpetuated systemic racism
- Leveraging our membership with ILPA to benchmark the Firm's policies and strategies for driving DE&I efforts
- Implementing a learning management system that provides DE&I-related micro-learnings and on-demand training for all employees for one year





## **➤ 2022 PERFORMANCE**

#### **ENGAGEMENT**

#### **Enhance existing ESG integration processes**

- Energy infrastructure: 110 engagements in 2022
- Energy private equity: launched proprietary technology platform for ESG data collection from portfolio companies
- Real estate: strengthened ESG processes with operating partners
- Growth capital: developed platform to enhance ESG collection capabilities, to be launched in 2023

#### **MITIGATION**

#### Climate change risk and impact mitigation

- Energy private equity: developed multi-year methane emissions management program
- Real estate:
  - Updated acquisition process to include recently collected historical utility data for ENERGY STAR benchmarking
  - Improved resource use data collection across operating properties now allows for calculation of carbon footprint for 83% of the core strategy
- Energy infrastructure: enhanced the Firm's approach to climate change in Kayne's proxy voting guidelines

#### **COLLABORATION**

#### Industry collaboration to further transparency

- Joined GIIN
- Joined iCl
- Became a public supporter of TCFD



## > ESG GOALS FOR 2023

01

## **CLIMATE**

Support our commitment to prudent risk management and transparency through continued TCFD alignment

02

## **DATA COLLECTION**

Continue to leverage data collection efforts to drive improved ESG performance

03

## **ESG PROCESSES**

Review and strengthen existing ESG processes

#### OUR APPROACH

## Enhancing ESG integration across asset classes

#### Kayne Anderson's ESG tools and methods

ESG integration is not a one-size-fits-all approach. To deliver value, responsible investing needs to be tailored to individual investment philosophies and strategies. Accordingly, we identify specific methods that best fit the levels of influence, asset class, sector, and type of holding.

#### **ASSESS**

#### Due diligence questionnaires

Use proprietary frameworks for ESG risk assessment of prospective investments

#### **Exclusions**

Private credit and growth capital have restrictions prohibiting investments in high-risk industries (e.g., controversial weapons, firearms, etc.)

#### Investment committee memos

Any identified material ESG risks in the due diligence phase are presented in the investment committee memo for consideration

#### **MONITOR**

#### **Tracking ESG events**

A wide range of information and data sources are utilized to monitor corporate ESG events (e.g., incidents) and developments across portfolios

#### **ENGAGEMENT**

#### Dialogues across investment lifecycle

Direct engagement to encourage improved management of material ESG risks

#### **Proxy voting**

Vote our proxies to protect and promote the economic value of our clients' investments

#### Resource development and education

Increase awareness of ESG risks and management through ideas exchange and engagement with industry experts

#### **ESG** scorecards

Provide insights into portfolio company sustainability commitments, strategy, and performance

#### Data collection of ESG metrics

Quantitative metrics: track ESG metrics to help benchmark, establish baselines, and measure progress

## Enhancing our ability to access high quality data

At Kayne, we believe data is critical to the successful integration of ESG within the investment process. While access and quality of ESG data remains a significant challenge across the industry, Kayne has taken steps to further facilitate our access to ESG data relevant to current and potential investments. In 2022, we took measures to increase the availability of quality ESG data across many of the Firm's investment strategies.

#### **➤ MARKETABLE SECURITIES**

#### **ASSESS**

#### Proprietary ESG scorecard\*

- Prioritizes engagement opportunities
- Assesses company management of key ESG considerations (policies, actions, and performance)
- Company events can prompt updates to scores

Renewables: Due diligence: evaluate commitment to decarbonize energy mix.

#### Universe inclusion criteria:

- Pure-Play companies are those whose business activities are predominately derived from the ownership, operation, and development of renewable energy infrastructure and related infrastructure (e.g. grids). We have a preference for companies that have articulated clear business strategy that commits to a decarbonized energy mix and promotes renewables development and an explicit commitment to phase out existing coal assets and not pursue any further coal developments.
- Transition companies are those shifting to a more sustainable mix of lower carbon and renewable energy sources and may be included based on their stage, pace and commitment to the transition. These companies represent a major source of impact through the phasing out of high carbon intensity power generation.

#### **MONITOR**

#### Integrating ESG into investment monitoring and engagement

- Apply scorecard to identify potential concerns
- Inform our engagement

#### **Energy Infrastructure:**

Track ESG developments and engage in active dialogue with management teams across the portfolio and investible universe

#### **ENGAGE**

Engage portfolio companies on key ESG risks and opportunities







#### **DIALOGUES**

Gain ESG and financial updates through direct access to management

#### Pre-investment

• Gain insight to inform decision making

#### Ownership

- Strategy updates and financial performance
- Monitor for material ESG controversies
- Dialogues on ESG issues
- Proxy voting
- ESG initiatives and disclosure

\*Our view of a company's ESG risks may lead to one of several actions depending on the specific circumstances. A poor score may (i) lead to an engagement with company management or (ii) may lead us to exit or reduce the weighting of a portfolio position.

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#### **➤ MARKETABLE SECURITIES**

#### **PROGRESS IN 2022**

#### Stewardship

• Updated proxy voting quidelines

#### Monitoring: data collection

 Launched an enhanced mechanism to track ESG dialogues with portfolio companies on a quarter-by-quarter basis

#### Transparency

Published first inaugural <u>Kayne Anderson Renewable</u>
 <u>Infrastructure Sustainability & ESG Report</u>

#### **Products**

 Launched the Kayne Anderson Renewable Infrastructure Index in collaboration with S&P Dow Jones Indices

#### **Enhancing ESG risk management in 2022:**

Deepening monitoring and active ownership in marketable securities assets

- Updated the Firm's proxy voting guidelines to reflect Kayne's views on a number of new issues including overboarding, board attendance, succession planning, share blocking, and human capital; the guidelines also communicate a more nuanced approach to board diversity, executive compensation, and climate change.
- The Kayne Marketable Securities Stewardship Committee has established weekly meetings during proxy season to review and discuss proxy issues.
- Institutionalized ESG as a core component of dialogues with portfolio companies; increased the number of corporate dialogues across marketable securities investment strategies, with a total of 110 dialogues in 2022.
- Engagement themes: engagements focused on key environmental risks for the sector, including methane emission strategy and carbon emissions targets. Other topics addressed include ESG disclosure and shareholder voting rights.



#### **PERSPECTIVES**

#### The evolution of renewables: from green growth to resilient infrastructure assets

For nearly a decade, Kayne Anderson has invested in companies leading the global buildout of wind, solar, battery storage, electrical grids, and other infrastructure. Since we launched our dedicated renewables strategy over five years ago, we have seen significant growth in the investible universe of listed renewable energy infrastructure companies. Today, the Kayne Anderson renewable infrastructure universe consists of over 135 companies with an aggregate market capitalization over \$1 trillion.

We believe the megatrends of decarbonization and energy security have combined to create a durable global appetite for low carbon, responsibly produced, cost effective, and more secure sources of energy. The shift is, in part, aided by recent legislation, which creates an extremely attractive commercial backdrop for new renewable infrastructure and other energy transition-related investments. Two particularly notable legislative developments in 2022 include the European Commission's REPowerEU Plan and the Inflation Reduction Act (IRA) in the United States, both of which pave the way for an accelerated energy transition. The resulting impact from these incentives is greater visibility into the growth prospects for the sector over the next 20-30 years. Another contributing factor driving decarbonization is the Net Zero Asset Owner Alliance, which includes 84 institutional members representing \$11 trillion in assets under management. Collectively, the alliance has committed to transition their investment portfolios to net zero greenhouse gas emissions by 2050.

The supportive macro backdrop for renewable infrastructure is coupled with continued investor interest in the energy transition. We believe Kayne's renewable infrastructure strategy is well positioned to capitalize on the investor interest in the energy transition to a low carbon economy because the strategy invests in companies that have a significant, quantifiable impact on reducing global industrial CO<sub>2</sub> emissions. Between 2021 and 2022, potentially avoided emissions increased from 1 billion tons of CO<sub>2</sub> to 1.4 billion tons of CO<sub>2</sub> across the investment universe\*, which is the equivalent of 340 coal power plants going offline. Furthermore, we estimate that the near-term development projects in the current investment universe will lead to 318 million tons of additional CO<sub>2</sub> avoided annually.

\*EPA emissions calculator. Calculates the estimated annual output from renewable generation assets owned by the companies in the Fund's investment universe, compared to the estimated emissions from a representative 50/50 mix of coal and natural gas generation at the same level of annual output. The delta in emissions intensity represents the annual CO<sub>2</sub> emissions "avoided" by virtue of companies having undertaken these renewable infrastructure investments. The calculation is an approximation based on issuer or company reporting, press releases, websites, proxy data, and Kayne analysis and utilizes a common industry methodology. The calculation is based on assets under construction or identified in the near-term project backlog of companies. While data is believed to be reliable, no assurance is being provided as to its accuracy or completeness. (as of 6/30/2022).



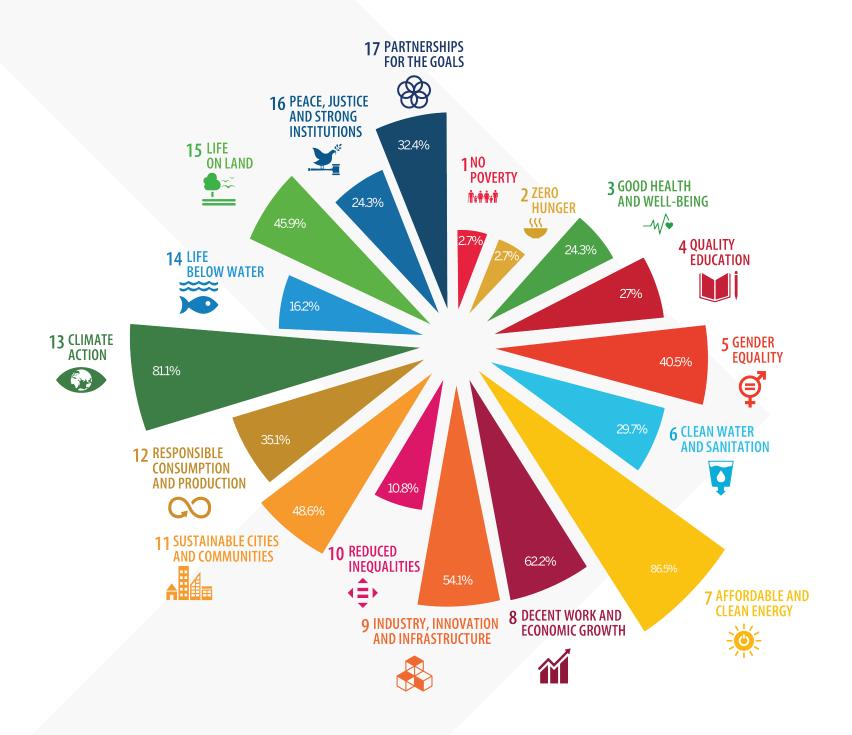
#### **SUSTAINABLE INVESTMENT OPPORTUNITIES**

Kayne's energy infrastructure strategy maintains flexibility to pursue opportunistic private investment opportunities that have a sustainability focus. In 2022, the strategy led a ~ \$48 million series C financing round for Streamline Innovations, a leading environmental service whose flagship technology converts H2S, a hazardous contaminant, into inert, agricultural-grade elemental sulfur, which can be safely used as fertilizer.

## ALIGNMENT WITH THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)

We believe renewable infrastructure plays a critical role in advancing the SDG 2030 Agenda. This visual highlights the percentage of portfolio companies in Kayne's Renewables strategy that have publicly committed to each specific SDG:





## > ENERGY PRIVATE EQUITY

	ASSESSMENT  Assessing ESG risk management capacity	ov	MONITORING Leveraging majority vnership during monitoring	ENGAGEMENT	ACCOUNTABILITY
Due Diligence and Investment Decision	<ul> <li>ESG due diligence questionnaire identifies material ESG risks and a company's ESG risk management resources and capability</li> <li>Analysis weighs ability to manage risks against risk exposure. Topics include natural resources, energy usage, health and safety, social license to operate, cyber, human capital management, board structure</li> </ul>	g monitoring of material across holdings			Investment Committee: Required to consider, evaluate, and document ESG risk factors. Material ESG risks identified in due diligence phase are presented to the investment committee.
Post-investment		nvestment teams: Ongoing ESG developments	Data collection: Develop, collect, and report ongoing relevant ESG metrics and related performance	Thematic engagement across the portfolio (e.g., methane, cyber)  See Emissions Management Program: Reduce regulatory risk facing portfolio companies (p. 24)	Disclosure: Require quarterly and annual reporting of ESG metrics and updates to boards of directors
Post-inv		Inve		Annual ESG summit for portfolio companies: Discuss and encourage best practices across the portfolio	Management KPIs and incentives: ESG performance is considered as part of the team's incentive compensation or the annual compensation determination for all employees

#### **PROGRESS IN 2022**

#### Strategy

• Established reduction of methane intensity as a key priority

#### Engagement

- Portfolio companies implemented DE&I trainings in 2022
- Built relationships with external organizations to identify diversity candidates for future independent board seats
- Kayne encouraged portfolio companies
  to pilot test or implement continuous
  monitoring technologies for their
  operations and organized a roundtable in
  June 2022 for the companies to share best
  practices, learnings, and concerns of
  the tested technologies

#### Data collection

 Launched a proprietary ESG data platform to collect and monitor KPIs quarterly and annually from portfolio companies

#### **EMISSIONS MANAGEMENT PROGRAM**

## Reduce regulatory risk facing portfolio companies

A focus on ESG performance is one of the 2022 goals established by the strategy. Engagement around this goal led to proactive mitigation of anticipated regulatory risk; we believe the majority of our portfolio companies now have a competitive advantage over their industry peers by being ahead of regulatory developments.

For the first time, the U.S. energy industry faces financial liabilities correlated with the generation of methane emissions during production. The Inflation Reduction Act of 2022, through the addition of Section 136 to the Clean Air Act, includes a charge for all emitted methane produced by certain oil and gas operations and facilities that exceed a set threshold. Starting with 2024 emissions, petroleum and natural gas system facilities will face a penalty of \$900 per metric ton of methane emissions surpassing federal limits. The fee will increase to \$1,500 per metric ton in 2026. Kayne's portfolio companies have modified their emissions management plans to accelerate operational and facilities changes to eliminate or minimize future methane tax exposure. Last year, we focused our GHG emissions management program—which we established in 2020—on reducing methane intensity across the portfolio.

Our energy private equity strategy collaborated with portfolio companies to establish a formal methane emissions management program focused on reducing related operational challenges through vendor access, education, and peer-to-peer dialogues. The goal is to enable portfolio companies to identify and apply tailored approaches for methane emissions reduction.

While, typically, methane reduction had been viewed as burdensome, Kayne has developed a process that enables companies to identify a pathway which best fits their business.

Collaborative knowledge-sharing through our program captures collective learnings across portfolio companies. In one instance, this collaborative approach helped spur the company to transition away from a standard industry practice which had been a source of historical vented methane emissions.\* Until recently, the standard industry practice was using natural gas to run pneumatic systems to control gas and liquid flows during operations, where electricity was not readily available in remote locations. An alternative control approach, shared at our ESG summit and at Kayne-organized roundtables, involves using instrument air systems with compressed air—instead of pressurized natural gas—to power control devices. This process eliminates vented methane emissions and is quickly becoming the new standard operating practice.

#### Terra Energy Partners case study

To reduce their largest source of GHG emissions, a Kayne energy private equity portfolio company, is in the process of replacing the power source of most of their pneumatic systems. The conversion of pneumatic instrument systems powered by high pressure natural gas to run on instrument air is estimated to reduce methane emissions by 67% from 2021 levels.

## Energy private equity portfolio benchmarking—comparable consistent metrics

Last year, Flywheel Energy, one of our portfolio companies, built a proprietary ESG data-gathering platform to support common reporting practices and emissions benchmarking. The tool is hosted on Kayne's IT platform and is accessible to all portfolio companies in the strategy. Furthermore, the strategy has engaged a third-party data provider, Enverus, which provides the necessary industry data for peer benchmarking by portfolio companies to better understand portfolio company performance.

<sup>\*&</sup>quot;In the production sector, an estimated 400,000 pneumatic devices are used to control and monitor gas and liquid flows and levels in dehydrators and separators, temperature in dehydrator regenerators, and pressure in flash tanks." EPA: <a href="https://www.epa.gov/sites/default/files/2016-06/documents/ll\_pneumatics.pdf">https://www.epa.gov/sites/default/files/2016-06/documents/ll\_pneumatics.pdf</a>

#### > CREDIT

#### Kayne Anderson's ESG integration process for credit strategies

Kayne Anderson has an integrated credit platform that invests across multiple areas of credit including liquid credit and middle market direct lending. In our middle market direct lending strategies, we target senior secured investmenting in middle market companies across a broad range of industries. The middle market investment committee considers and evaluates ESG risk factors as part of the investment decision-making process. To identify these risks, we apply our own ESG due diligence questionnaire and proprietary ratings framework to middle market and liquid credit investments.

## APPLY ESG QUESTIONNAIRE AND RATINGS FRAMEWORK

#### Identify main ESG risks:

Improve understanding of issuer or borrower risks

#### Due Diligence:

Leverage ESG industry frameworks to identify ESG risks and opportunities

## Risk management component:

Identify issuer tools to mitigate identified ESG risks—related policies, actions and performance

## ACCESS TO ESG EXPERTISE

Analysts consult head of ESG strategy as needed on potential risks and additional due diligence

## >

## MONITORING & BENCHMARKING

#### Metrics gathered:

- 1. Board-level independence
- 2. Diversity metrics

#### All new deals:

Measuring alignment with industries that generate positive social externalities

## **>**

#### **ESG RATING**

Assessment results in ESG rating

Included in investment committee memos

#### Sustainable bond strategy launch

There is a large and growing investible universe of sustainable debt, with the sustainable bond market totaling \$2.5 trillion outstanding as of July 2022. Recognizing the dramatic growth of this market and the compelling investment opportunity for investors who seek to achieve environmental impact, Kayne Anderson launched a sustainable bond strategy in 2022 with a focus on below-investment-grade credit. The strategy seeks to invest in fixed income securities issued to advance global sustainability goals. Eligible securities include green bonds, sustainability bonds, and sustainability-linked bonds, as well as unlabeled green bonds that have an underlying business strategy aligned with renewable energy generation. In accordance with Kayne's "Assess" approach to ESG integration, the strategy employs a robust ESG process that incorporates an industry based exclusion policy (e.g., fossil fuels, nuclear power, etc.), a review of second-party opinions to ensure compliance with well-established external frameworks (e.g., International Capital Market Association Green Bond Principles), and leverages third-party ESG service providers to evaluate the underlying management of ESG risks by investee companies. Another core aspect of the strategy's ESG approach, post investment, involves the regular monitoring of the underlying companies for ESG controversies through the use of the third-party providers and, where appropriate, engaging the underlying companies regarding ESG risk factors throughout the life of the investment.

## > REAL ESTATE

#### Approach

Our focus is to minimize negative environmental impacts and increase positive social impacts through efforts that lower the overall operating cost of investments while enhancing resident retention. The following methods drive ESG considerations across all three key investment stages in our portfolio:

	DUE DILIGENCE	OWNERSHIP PRACTICES	NEW CONSTRUCTION
	Evaluating material ESG risks and opportunities is a key component of the due diligence process	Three core practices: 1. Operating efficiency 2. Utility monitoring 3. Partner engagement	Identify opportunities in new construction and major renovation projects
Environmental	Due diligence assessments address air quality, building resiliency, energy use, environmental liabilities, potential physical and transition climate risks, water use, and waste management	Operating efficiency and utility monitoring practices seek to reduce property-level costs through energy efficiency, water conservation, and waste reduction measures in operations and construction	Energy efficiency upgrades include, but are not limited to, HVAC equipment and automation systems, LED lighting fixtures, high-efficiency water fixtures, occupancy sensors, natural lighting maximization, and repurposed building materials
Social	Social factors assessed include accessibility—a key concern for senior housing (e.g., interview tenants to understand their needs and desire for improvements)	Tenant engagement and programming	On-site health and wellness facilities
Governance	Due diligence assessments address the capabilities of service providers	<ul> <li>Business Partner Code of Conduct</li> <li>Responsible Contractor Policy</li> </ul>	

#### **PROGRESS IN 2022**

#### New product

• Launched multifamily housing strategy, focused on tenant resiliency and environmental sustainability.

#### Performance

- Core strategy received a GRESB 3-star rating
- Awarded ENERGY STAR Premier Member of Certification Nation in recognition of earning ENERGY STAR certification for 18 buildings in 2022
- Achieved 8 IREM CSP certifications
- Earned 3 BOMA 360 designations
- Completed 9 ASHRAE Level 2 audits to identify energy and water savings measures at properties

#### Data collection

- Improved energy usage data collection across operating properties from 47% in 2021 to 85% in 2022 within the core strategy\*, exceeding the GRESB benchmark across all sectors
- Medical office 77%
- Senior housing 96%
- Student housing 100%

#### New hire

• Director of ESG, Kayne Anderson Real Estate

<sup>\*</sup>KA Real Estate is benchmarking properties in ENERGY STAR portfolio manager, which is also used to generate carbon emissions data.

#### PRODUCT LAUNCH:

## Launch of the Multifamily Housing Strategy: creating sustainable communities, enhancing resident resiliency

In 2022, Kayne Anderson Real Estate launched a multifamily housing strategy, an impact strategy which acquires, renovates, and develops multifamily housing that supports environmental sustainability and preserves housing attainability for middle market renters.

As of year-end 2022, we owned 2,112 units across major metropolitan markets where there was a clear absence of attainable housing. The strategy is focused on promoting attainable housing for middle market renters while providing social, community-driven activations with a focus on economic mobility, health & wellness, and education. One example is Kayne Anderson's partnership with Esusu, a financial technology firm that reports on-time rent payments to the credit bureaus. This activation has helped to improve credit and establish credit scores for renters within the portfolio. The Firm also provides rent relief for residents experiencing hardship through their microloan program, supporting housing stability.

#### Beneficial effects of reporting on-time rent payments to credit bureaus:

#### Social Impact:

- Value created by 97% residents' participation rate in Esusu credit reporting services. 2,264 residents are enrolled in, and benefitting from, the reporting of on-time rent payments

#### Performance:

- 66% of residents saw an improvement in their credit score, with an average improvement of 25 points.
- 122 residents have established credit scores

#### Microloans:

- 44 residents experiencing hardship qualified for microloans through Esusu (Esusu's microloan program supports Kayne's multifamily housing strategy's eviction diversion efforts.)

#### **REAL ESTATE**

#### Industry collaboration

Throughout 2022, the real estate strategy has continued to drive industry collaboration on ESG-related topics in several ways:

- Partnered with Project Destined, an established education platform focused on training underserved youth, to develop a real estate fellowship program for launch in Spring 2023. The program will provide exposure to alternative investments to 25 minority college students.
- ENERGY STAR Premier Member In 2022, Kayne Anderson Real Estate was recognized as an Energy Star Premier member for completing over 15 ENERGY STAR certifications for buildings across our portfolio. To earn an ENERGY STAR certification, a commercial building or industrial plant must be independently verified to operate more efficiently than 75% of similar properties nationwide.
- Became a member of the ULI Greenprint Center for Building Performance. KA Real Estate team is an active participant of the subgroups on multifamily housing, embodied carbon, and renewable energy.

## Kayne's multifamily housing strategy addresses several societal and environmental gaps:

	ACCESS TO HOUSING AND LIVING COSTS	RACIAL AND SOCIOECONOMIC EQUITY	ENERGY USAGE AND CLIMATE CHANGE
Environmental or societal considerations addressed in multifamily housing strategy	<ul> <li>Growth of rent costs outpaces wage growth nationally. The U.S. is now rent burdened nationwide for the first time</li> <li>The 2022 rent-to-income ratio is 30%, compared to 28.5% in 2021, and 25.7% in 2020</li> </ul>	<ul> <li>Wealth gaps remain significant, with the median wealth for a white family eight times that of a Black family</li> <li>Housing inequality is directly related to racial, social, income and wealth inequality</li> </ul>	<ul> <li>70% of multifamily properties are over 20 years old, with outdated and inefficient systems</li> <li>Real estate is the largest contributor to greenhouse gases and global warming</li> </ul>
How multifamily housing strategy achieves impact housing goals	<ul> <li>Preserve affordability and promote tenant retention and longevity in conjunction with stabilized occupancy</li> <li>Providing housing for residents earning 60% to 120% of Area Median Income</li> <li>Individuals and families that live in the strategy's properties are predominantly renters by necessity, making on average \$65,000/year</li> <li>Majority of the strategy's properties (more than 90% of units) is affordable to individuals making 80% of AMI (Area Median Income)</li> </ul>	<ul> <li>Improve tenants' credit scores, which can often be suppressed for BIPOC communities reflecting historical bias and the lack of access to generational wealth</li> <li>Partner with minority owned developers, sourcing and utilizing minority owned/led vendors, suppliers, banks, and investment banks to assist these firms to grow, scale, and thrive</li> <li>Through our partnership with Veritas Impact Partners, the strategy is providing access to healthcare via Teladoc at no cost to residents. Teledoc is a virtual care system that allows users 24/7 access to licensed doctors by phone or video</li> </ul>	<ul> <li>Green building certifications where applicable</li> <li>Energy audit and modeling for development as parts of diligence</li> <li>2040 net zero portfolio level goal</li> <li>Strategy to achieve at least 20% Energy Use Intensity (EUI) reduction at existing assets during the first 10 years of ownership</li> <li>ENERGY STAR certifications pursued at every asset, in an effort to achieve energy efficiency and generate less GHG emissions than typical buildings. Developments will be in the top quartile of comparable new buildings for energy efficiency and meet defined ZNE-ready EUI standards</li> <li>Align with Carbon Risk Real Estate Monitor (CRREM) 1.5-degree carbon pathway. All assets will be below the pathway by year three</li> </ul>

### **➤ GROWTH CAPITAL**

#### **DUE DILIGENCE**

#### Identify main ESG risks: Improve understanding of issuer or borrower risks

#### Due Diligence:

Leverage ESG industry frameworks to identify ESG risks and opportunities

## Risk management component:

Assess the capacity and capability to successfully manage ESG risks based on collected ESG metrics & review policies, programs, and performance range of material

Range of material ESG risks include governance, cyber, emissions management, health and safety, human capital, natural resources, social license to operate

## ACCESS TO ESG EXPERTISE

Analysts consult head of ESG strategy as needed on potential risks and additional due diligence

## MONITORING & BENCHMARKING

ESG metrics:
Laying the foundation for monitoring as well as future reporting

Annual request for

## >

#### **ENGAGEMENT**

#### Providing resources

- Biennial ESG summit
- Women's Technology Circle

## **PROGRESS IN 2022**

We developed a comprehensive platform to enhance ESG collection capabilities using improved technology. Our platform, which will be launched in 2023, reflects the expansion of our due diligence questionnaire, as well as tracking quantitative ESG metrics from portfolio companies on a quarterly and annual basis. The expanded questionnaire will assist in assessing companies' progress in the following areas: ESG oversight and corporate governance, environmental management, GHG emissions, cyber security and data privacy, DE&I and human capital, and controversial products or services, among others.

### LAUNCH OF THE WOMEN'S TECHNOLOGY CIRCLE

Recognizing that executive women in technology face unique gender-parity challenges in their professional development, Kayne's growth capital group, Kayne Partners, identified an opportunity to be part of the solution and developed the <a href="Women's Technology Circle">Women's Technology Circle</a> to address this issue.

Borne out of both Kayne Partners and Kayne Anderson's commitment to the advancement of under-represented groups within the Firm and across its investments and partners, the Women's Technology Circle is a platform designed to empower the advancement of female technology leaders through a wide range of resources, tools, and most importantly, a network of professionals who are united around a similar vision. The initiative is built on three main pillars:

- Leadership development: innovative approaches to career and leadership development to advance female leaders in technology
- Community: a supportive network of women, who are passionate about diversifying the technology industry
- Educational content: valuable educational content, including event and speakers that align with furthering its core mission

Following a successful pilot of the Women's Technology Circle in 2021, the initiative was formally launched in 2022. In practice, the network brings together a community of executive-level women on a quarterly basis across Kayne Partners' portfolio companies and operator network. At these meetings, ideas are exchanged, aspiring female leaders are mentored, and relationships are built.

Notably, the initiative has provided a network for women to form meaningful connections with other women in the technology industry, and to grow by empowering one another.

In 2022, the initiative established a board of directors and built valuable partnerships to maximize the impact of the Women's Technology Circle. We partnered with <u>Him for Her</u>, a social impact venture aimed at accelerating diversity on corporate boards to identify diverse board candidates for Kayne Partners' portfolio companies, a key goal of this initiative.

To date, the Women's Technology Circle has been highly successful with 200 members across all of Kayne Partners' portfolio companies. Relationships and partnerships with members and organizations has collectively helped place three board roles and two senior management positions at Kayne Partners' portfolio companies, as well as three operating partner roles within Kayne Partners' network. Going forward, the vision is to continue strengthening the impact and reach of the Women's Technology Circle by building additional partnerships and exploring opportunities to expand this initiative to other strategies across Kayne Anderson and beyond.

"Nishita, the leader of the Women's Technology Circle, taught me how to use the power of my network to unlock my career potential. The group has been an invaluable source of support and encouragement for me as a woman in the workplace. It has helped me to build my confidence and become a better leader."

- Bethany Ellis, Chief People Officer, CreatorlQ



### Supporting board diversity:

Six of eleven independent directors across Kayne Anderson's registered products are underrepresented members.



## **➤ MOVING FORWARD WITH ESG**

Successful integration of ESG is an iterative process, and one that must address value creation while mitigating risk. Recognizing that continuous improvement is key to implementing lasting change, we have continued to refine our approach to ESG over the past year and take great pride in the results. As we look forward, we remain dedicated to enhancing our commitments and delivering on the expectations outlined in our policies.

We value the trust our investors have placed in us and we look forward to a successful 2023.

We welcome your comments on this report.

You may contact us at: <a href="mailto:investorrelations@kaynecapital.com">investorrelations@kaynecapital.com</a>.

# 2022>2023