

First Quarter 2020

## Quote of the Quarter

*“Those who are happiest are those who do the most for others.”*

— Booker T. Washington

## Market Commentary

### Market Madness

There is turmoil across multiple fronts at home and abroad as the first quarter draws to a close. The turmoil is both personal and professional. Our businesses are affected, as are our families, friends, 401(k) plans and much more. North Sky’s two active strategies, **impact secondaries** and **sustainable infrastructure**, also are impacted by the historic volatility in the public equity and debt markets, the Wuhan Coronavirus pandemic, the Saudi-Russian oil price war and other factors. This brief market commentary will update you on our corner of the world, recognizing you already are aware of the ups and downs of the S&P 500 and are looking elsewhere for updates about the virus.

### Impact on our Portfolios and Activities

- **Manufacturing delays.** Our infrastructure team reports that many U.S. developers have received “force majeure” notices from overseas equipment vendors, which claim deliveries of solar panels and other renewable energy components may be delayed due to virus-induced plant closures and shipping delays. Developers should reject such notices unless shown quantifiable evidence of a specific delay. Some legal wrangling seems inevitable, but we have not yet seen significant overseas shipping delays. Transportation or construction delays could occur within the U.S. due to the virus, but we haven’t seen any delays yet. We are seeing a slow-down in the residential solar market, which relies heavily on door-to-door sales efforts. However, our infrastructure funds have no exposure to residential solar and our secondaries and other private equity funds have only small and indirect exposure via two PACE financing companies. Note, construction of large infrastructure projects normally would involve travel to the site by vendors, financing parties, government agents and utility companies. Participants are developing virtual solutions to this and similar logistical issues. Finally, as an aside, when this is all over, we expect a push to bring many manufacturing jobs back home.
- **Slower exits?** At any given time across our portfolio, a handful of companies or projects have reached the exit phase and a sale process has begun. We have several companies and projects at that stage now. Although there may be some delays, at this point all such sale processes are proceeding as planned. We are closely watching Culligan’s ongoing acquisition of AquaVenture Holdings, which is expected to very positively impact several of our funds. As of this writing, it is still on track. Going forward, if this market shock turns into a recession, (1) we will see a pause and a re-pricing of assets, which is generally viewed as good for buyers and bad for sellers, and (2) we should expect to see less availability of acquisition debt and, with respect to infrastructure, less appetite for tax equity from large corporate tax payers.

- **Travel curtailed.** Like many other firms, we have temporarily stopped all non-essential travel. Our work continues unabated, just largely online and on the phone. Notwithstanding the foregoing, due diligence meetings with general partners, company management and development teams/sites continues but with social distancing and other common-sense precautions.
- **Canceled events.** Most upcoming conferences and trade shows have been canceled or rescheduled for a later date (e.g., Infocast Solar 2020 was moved from March to October of this year). Some events, like the Impact Capitalism Summit, have been moved online. Similarly, most annual meetings with private equity managers have been moved online. These events serve as opportunities for deal-making for us. We prefer to attend such events in-person, but we have been very proactive in seeking remote interaction with attendees to ensure we do not miss new investment opportunities. The phrase “improvise, adapt and overcome” has been our approach here.
- **Investment opportunity.** Major disruptions present opportunities as well as challenges. We are already seeing significant investment opportunities as a result of the distress caused by this new economic uncertainty. Some holders of interests in impact funds who previously were on the fence about selling their interests are now making emotional or bureaucratic decisions to sell and doing so at lower prices than they previously were considering. A survey of secondary buyers conducted March 13-18, suggests bid prices have dropped 25-30% since yearend, which is good news for us as buyers. We are being prudent, biding our time and selecting what we believe are very attractive investment opportunities with appropriate risk and downside protection. Similarly, we suspect many infrastructure projects that were poised to be constructed may be in jeopardy of having debt and/or equity financing retracted. We saw the same thing happen in the great recession and took advantage of it. We have capital to invest and are open for business. Great returns often come from moments of disruption. We have several letters of intent outstanding for sustainable infrastructure investments within opportunity zones right now.
- **Looking through to the other side.** As my late father often said in tough times, “this too shall pass.” We are ultimately optimistic about the future. We are expanding our capabilities and team, including new additions to the secondaries and infrastructure investment teams in Q2.

## North Sky Capital Named to 2020 ImpactAssets 50



For the third consecutive year, we were named to the ImpactAssets 50 list. We appreciate the recognition of our commitment to making positive environmental and social impacts through our investments. ImpactAssets 50 is a publicly available, online database for impact investors, family offices, financial advisors and institutional investors regarding private capital fund managers that deliver social and environmental impact as well as financial returns. Click [here](#) for more info.

## Reflect and Then Act

Professionally, the North Sky team will continue to work hard to source, evaluate and make prudent new investments for our active funds and proactively manage our existing portfolios, seeking exits when we believe the time is right. Yet major disruptions like this induce some self-reflection. The virus is taking a terrible toll on people around the world and here at home. Some of you have sick family members and an unfortunate few may already have experienced a terrible loss. Our hearts go out to you.

We are all in this together and each of us can do something to help those around us. The service industry is going to be particularly hard hit as many of us self-quarantine. That means employees of restaurants, hotels, theaters, arenas, barber shops and many others are going to have a tough time paying their rent. Please tip them extra if you can or find another way to help, such as buying gift cards at local restaurants to assist them get through this rough patch.

Personally, we are buoyed by uplifting stories of people doing kind-hearted deeds for their neighbors, co-workers, the homeless and elderly shut-ins. A favorite story so far is of a woman who found an elderly couple sitting in their car in a grocery store parking lot, afraid that they might catch the virus if they entered the store. Our heroine took their shopping list, did the shopping and put the groceries in the trunk, all while keeping a safe distance from the couple. A simple but huge act of kindness. Let's all find ways to help each other and we will get through this. **In this vein, North Sky is immediately giving \$500 to each employee to spend on the cause(s) he or she believes is best.**

We will sign off by thanking all the doctors, nurses, orderlies, EMTs, nursing home staff, police, firefighters, other first-responders and of course the great men and women in our armed forces who are working to keep us safe and help us persevere. You inspire us. Thank you.

## Let's Keep Talking

We are eager to hear from you. Please contact us through the below hyperlinks if you have:

- an interest in impact investing and would like to learn more about how we can help you take the [first step](#),
- capital gains that you are thinking about [reinvesting](#) in an Opportunity Zone,
- an existing impact investment that you would like to [sell](#), or
- a sustainable infrastructure project in need of [financing](#).

## Upcoming Events

We are regular speakers and attendees at key industry events. We hope to see you at these upcoming events:

- June 1-3            [Confluence Advisors Forum](#), New York, New York
- June 8-10          [US SIF Forum 2020](#), Arlington, Virginia
- September 13-15   [Gratitude Railroad Investor Retreat](#), Park City, Utah
- September 14      [2020 Visions, Insights & Perspectives \(VIP\) Infrastructure](#), Toronto, Canada

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