

First Quarter 2016

Quote of the Quarter:

“Liquidity is never free. You pay for it, usually in the form of lower returns.”

– John Mauldin,
Economist

Liquidity Has a Price

Following the December announcement that Third Avenue Focused Credit Fund would liquidate due to a flood of redemption calls by investors, we read numerous commentaries about it. The best one was written by the esteemed John Mauldin, whom we have known since 2010. This is not the first such “run on the bank” story, nor will it be the last. We liked the skillful way John painted this investor lesson so much we excerpted part of it below:

“Back when banks actually paid interest, you could have a savings account or a certificate of deposit (CD). What was the difference? Well, the savings account allowed you to take your money out whenever you wanted. The CD kept it locked up for a defined number of months or years.

Which one paid higher interest? The CD, of course. The extra return was your reward for giving up liquidity. The interest forgone for owning a savings account instead of a CD was essentially a penalty. You paid it in exchange for the right to demand your cash at any time.

The same principles apply to securities. Open-end mutual funds and ETFs have to be prepared to meet redemptions at any time. That forces them to keep some uninvested cash and to buy only liquid securities that they can unload on short notice. Furthermore, if they are forced to sell due to redemption requests, buyers know this and lower their bids. This further reduces any potential profit and, as we saw in the case of Third Avenue, can lead to very large losses.

A closed-end fund...offers less liquidity to investors but greater flexibility to managers. These funds can take advantage of opportunities a public fund can't. Other things being equal, this usually translates into higher returns over time.

If you are investing for retirement or some other long-term goal, do you really need instant liquidity? Probably not. So why pay for it? The usual answer is “just in case.” That’s a perfectly respectable answer, too. Just realize that you’re paying a lot for a privilege you probably won’t avail yourself of very often.

This principle points to an opportunity: your willingness to give up liquidity is an asset that will buy you a shot at significantly higher returns.”

Source: John Mauldin, Thoughts from the Frontline, December 20, 2015. To see his full commentary, please click [here](#).

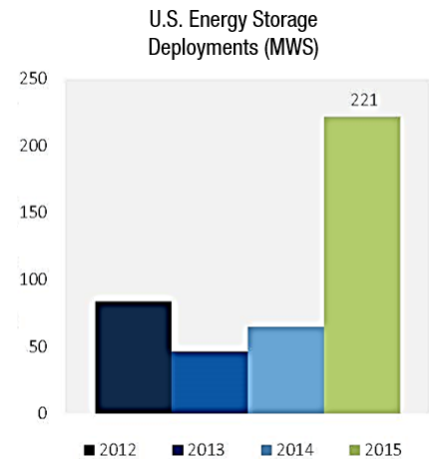
Energy Storage Inflection Point

Solar power, LED light bulbs and electric cars have become mainstream in the last ten years. Energy storage experienced a big inflection point in 2015, with installations jumping 240% from 65 MW to 221 MW. Energy storage is expected to have a rapid ascension into the mainstream over the next few years, with annual storage installations expected to reach 1.7 GW in 2020. Energy storage in today's parlance means the ability to store electrons so that they may be dispatched as needed, and such storage is going to be in high demand as we remake the way we power our everyday lives. Top markets so far have been California, Hawaii, Arizona and the PJM interconnection region (basically Pennsylvania, New Jersey, Maryland and surrounding areas).

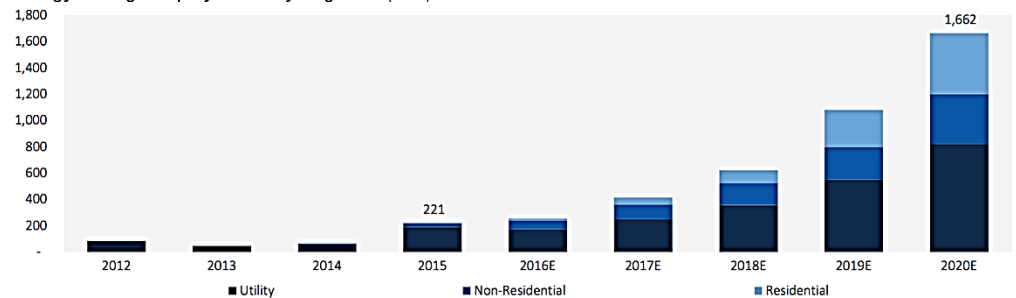
Primary uses for energy storage are:

- Homeowners with solar panels and/or an EV (e.g., Tesla's [Powerwall](#))
- Businesses seeking to reduce peak energy demand charges to save money (e.g., Stem's [system](#))
- Utilities time shifting wind and solar power or load balancing (e.g., Imergy's [products](#))

We are watching the rapid development of this market and are beginning to see additional investment opportunities, although this area is not without risks such as commoditization (particularly from China) and technological obsolescence (i.e., leap-frogging). Many of the energy storage companies are venture-backed and are in various stages of proving their technology works in the field. To become mainstream, they will need more installations and a longer track record. This will require partnering with firms like North Sky to bridge them into the senior bank/equipment finance arena.



Energy Storage Deployments by Segment (MW)



Source: [Greentech Media](#)

Active Private Equity Secondary Market

Last year was the second most active year for PE secondaries, according to Greenhill Cogent, with approximately \$40 billion in global transaction volume.* In high volume sectors, such as secondary purchases of large buyout funds, pricing has been close to par for several years. The ability for buyers to command attractive discounts for buyout, venture capital, real estate and mezzanine funds decreased in recent years as the great recession has faded from view and as competition among buyers has increased. As of this time last year, some top buyout names were trading at 15% premiums over net asset value, although pricing overall generally declined in the back half of 2015 due to volatility in global equities and commodities markets. Average

pricing for buyout, real estate and venture capital funds in 2015 were 91%, 87% and 74% of net asset value, respectively. *

Niche markets—cleantech, tail-end funds, fund of funds, etc.—generally were attractive to buyers in 2015 and remain so today. Deep discounts can be negotiated by those with superior knowledge and access.

There is a broad spectrum of sellers today, including endowments, foundations, pension plans and sovereign wealth funds. Reasons for selling range from portfolio rebalancing to removing underperformers to locking in gains.

* Source: Greenhill Cogent, Secondary Market Trends & Outlook, January 2016

North Sky News

- **2016 Impact Report.** We recently completed our latest impact report, which encapsulates the beneficial impact our forward-thinking investors have had on the environment and society at large. The report highlights investments from our first and second cleantech funds of funds, Clean Growth Fund III (growth equity and cleantech secondaries) and our Alliance Funds (clean energy infrastructure). Impact investing has evolved significantly since we expanded our research and investment efforts into this area in 2003. We are now entering Phase III in our journey. In Phase I (2005-9), we focused on technological innovations in the areas of solar power, electric vehicles, LED lighting, agriculture and water, among others. In Phase II (2010-15), we focused on moving those innovations into the mainstream by providing growth capital or by directly building renewable energy power systems into the grid throughout the USA and Canada (and creating many high quality jobs along the way). All of these efforts will continue in the coming years and, with the support of our terrific investors, we will broaden our impact yet again into the areas of education, healthcare and poverty alleviation (Phase III). We hope you enjoy our 2016 report and we welcome your feedback.
- **Staff promotion.** At yearend, we promoted Tom Jorgensen to Vice President. This is an important milestone and a well-deserved achievement. Tom joined us in 2010 as an Analyst and this is his third promotion within the firm. Please join us in congratulating Tom on his promotion and in recognizing his tireless efforts and significant contributions to the investment successes achieved during his tenure thus far.
- **2016 North Sky Capital Open House.** If you are available, please join us on Monday April 11th from noon to 4:00 pm for our annual Opening Day Open House. We are conveniently located on the 46th floor of the City Center in Minneapolis, which perfectly overlooks Target Field. Appetizers and refreshments will be served as well as a great view of the on-field baseball activities. To RSVP, please contact Sam Bystedt at (612) 435-7174 or sbystedt@northskycapital.com. We look forward to seeing you!

Upcoming Events

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

- Mar. 30-31 ESG, SRI & Impact Investing Summit, New York, NY
www.frallc.com
- Apr. 14-16 IBEW Construction & Maintenance Annual Conference, Washington, DC
www.ibew.org
- Apr. 20 Investing for Impact, Portland, OR
www.investingforimpacetevents.com
- Apr. 26-27 Impact Capitalism Summit, Chicago, IL
www.impact-capitalism.com
- May 3-5 Family Office Exchange – Wealth Advisors Forum, Miami, FL
www.familyoffice.com
- May 11 Investing for Impact, Chicago, IL
www.investingforimpacetevents.com
- May 23-25 US SIF Annual Conference 2016, Washington, DC
www.ussif.org

North Sky Capital Contacts

Scott Barrington
Managing Director and CEO
(612) 435-7170
sbarrington@northskycapital.com

Danny Zouber
Managing Director
(612) 435-7180
dzouber@northskycapital.com

Michael Pohlen
Managing Director
(612) 435-7190
mpohlen@northskycapital.com

Mark Austin
Managing Director
(612) 435-7160
maustin@northskycapital.com

Gretchen Postula
Head of Investor Relations
(612) 435-7177
gpostula@northskycapital.com

Denise Galvin
Chief Financial Officer
(612) 435-7166
dgalvin@northskycapital.com

© 2016 North Sky Capital. Information contained in this publication is based on data obtained from sources we deem to be reliable, however, it is not guaranteed as to accuracy and does not purport to be complete. Nothing contained in this publication is intended to be a recommendation of a specific security or company nor is any of the information contained herein intended to constitute an analysis of any company or security reasonably sufficient to form the basis for any investment decision. These materials are not intended as an offer to sell, or the solicitation of an offer to purchase, any security. Any offering will be made only by means of a private placement memorandum or other appropriate materials (the "Offering Documents") that will contain detailed information about any investment to be offered; no sales will be made, and no commitments to enter into investments will be accepted, and no money is being solicited or will be accepted, until the Offering Documents are made available to prospective investors.