

Second Quarter 2020

Quote of the Quarter

"Hate cannot drive out hate; only love can do that."

— Dr. Martin Luther King, Jr.



The Next Opportunity

First Opportunity Zone Investment

Over our 20-year history, we have made numerous impact investments and formed several impact funds that have been the “first-ever” in the private equity industry. We are proud to announce we have made what we believe to be another industry-first investment, namely, the first investment made by a diversified Opportunity Zone infrastructure fund to develop, construct and operate a sustainable infrastructure project. We recently made the first investment from the North Sky Infrastructure Investment Fund (“IIF”), which focuses on sustainable infrastructure in Opportunity Zones across the USA and its territories.

This \$18mm preferred equity investment will be used to build a facility that captures methane from a wastewater treatment plant and converts it into renewable natural gas (“RNG”). The site is in a Qualified Opportunity Zone (“QOZ”) in California (see pictures below). The RNG will be sold under long-term contract to a NYSE-listed gas utility that requires additional RNG to continue complying with California’s environmental mandates. Once complete, the facility is expected to produce approximately 250,000 mmbtu/year of RNG.



Project site: wastewater treatment plant



Existing digester tanks onsite

IIF’s second potential investment is a planned plastics recycling facility in a QOZ in the Midwest and is now under exclusive Letter of Intent. This facility will operate under long-term feedstock and offtake contracts with several Fortune 500 consumer packaged goods companies that are committed to reducing their plastics waste footprint. We intend to invest \$20mm to purchase preferred equity in the project, pending successful completion of diligence.

We are in various stages of due diligence review for other potential investments, including several near-term solar (and solar plus storage) and waste-to-energy projects across the U.S. We expect one or more of these will close in Q3.

If you are interested in learning more about how OZ investments work, and North Sky’s approach, please contact [Gretchen Postula](#) or [Andrew Harris](#).

Market Insights

By Mid-February, much of the world's economic activity was shutting down due to Covid-19. From February 12 to March 23, the Dow dropped 37% but then began to rebound. By May 25, just as many of the Covid-19 stay-at-home orders were beginning to be lifted, civil unrest began in Minneapolis related to the tragic homicide of George Floyd. The unrest then spread to other cities. Given these events and the fact that this is a Presidential election year, we expect the economic and political volatility to continue through mid-November.

As we have said in previous market commentaries, market volatility and economic dislocation provide both fear and opportunity. Indeed, we certainly are finding plenty of opportunity these days. Within our impact secondaries strategy, we have seen a shift from opportunistic selling by LPs in early Q1 to more GP-initiated opportunities in Q2. These include fund restructurings and preferred equity deals where new money is provided to a fully-drawn fund to finance one or more follow-on investments in the existing portfolio in exchange for a preferred return to the new money provider. We completed one such deal using an innovative structure in April.

There remains a significant bid-ask spread in the traditional secondary market around LP transfers. Some LPs are beginning to lower their pricing expectations, and we expect them to re-enter the marketplace soon. Yet other LPs are watching the stock market rebound and believe they should hold out for higher offers that may (or may not) be right around the corner. Many GPs have carried their yearend valuations forward rather than writing their portfolios down after public equities traded down. As public equities have rebounded (the Dow is now just 12% off its peak), this has stiffened the resolve of many of these GPs. With M&A and IPO activity markedly down, we think private equity valuations should, on average, come down a bit further given current market risks and valuation metrics.

As of right now, we are in deep due diligence and negotiations on one fund restructuring and one preferred equity opportunity. Both types of transactions require LP approval, so they will take more time than a traditional fund secondary or direct investment. We also have two fund secondaries nearing the final stages of negotiation. We expect to be very busy during the second half of the year thanks to these and other opportunities in our pipeline.

We already commented on the opportunity zone segment of the infrastructure market—deal flow is very strong for value added strategies like ours. As for the rest of the infrastructure marketplace, there are numerous sellers (including our prior funds) of existing development and operating assets, particularly in solar. Interesting greenfield/new build opportunities tend to be in energy storage, RNG and mid-sized commercial and industrial solar projects.

2020 Impact Report

We have just published our 2020 Impact Report – please click [here](#) to view. We have been compiling firmwide impact reports since our first such report in 2012. Each report is a labor intensive but rewarding exercise in quantifying the “good” that we, our investors and our underlying portfolio companies and projects have created together. Fifteen years ago, we were investing in innovative companies in sectors like renewable energy, transportation and materials science. Fast-forward to today and you will see the impact areas that need investment capital include food & agriculture, healthy living & aging and water & wastewater. To help visualize the multiple areas represented by our 2020 Impact Report, we have mapped our featured investments to the United Nations’ Sustainable Development Goals (see chart below).



Size is based on number of portfolio companies mapped to a given SDG.

More information on the targets and indicators outlined for each of the SDGs is available on their website: <https://sustainabledevelopment.un.org/>

In this latest report, the impact spotlight features an in-depth discussion about Opportunity Zones, where we see the prospects for enhanced returns due to tax advantages, as well as job creation and economic development in low income areas across the USA.

Finally, we included a brief retrospective that highlights a large and growing opus of notable impact investments we have supported over time. Names like Tesla, Bare Foods, First Solar, TPI Composites, SpaceX, Sprouts Farmers Market, FLS Energy and SunEdison appear here.

As we issue this report, we are celebrating our 20th anniversary as a firm. For many years now, we have been investing with the goals of earning an attractive return and doing good in the world. As we reflect on some of our past achievements, there is a sense of satisfaction but also restlessness. There is so much yet to do.

Nature's resources are finite. The human condition varies dramatically from region to region and even from person to person within the same region. For those of us having the presence of mind to recognize this, and the means to do something about it, the time to act is now. Together, we can make the world a better place. We can make our air and water cleaner, our food healthier, our industries less harmful to the environment, our communities safer and right the wrongs of abuse, neglect and inequality. We can use our investment capital to effectively drive much needed social and environmental change—and we have shown you can do so while earning a good return. Talk about a win-win.

We are blessed to have the support of like-minded investors seeking to align their values with their investment portfolios. It has been our distinct pleasure to have assembled such a terrific portfolio of impact companies and projects over the last 20 years. We look forward to the next chapter and hope you will join us in writing it.

[Read Full Report](#)

New Additions to the Team

In late April, we announced that Patrick Kay and Ryan Fraser had joined the firm – press release [here](#). Pat is a Principal in the Boston office. Ryan is a Vice President in the Minneapolis office. Pat is on our sustainable infrastructure team, which is playing a vital role of creating jobs, often in low income areas, and accelerating the transition to a clean energy future. Ryan is on our impact secondaries team, which is providing liquidity to private equity funds, their portfolio companies and their investors during this economic dislocation. Their collective experience strategically enhances our new investment capability.

Prior to joining North Sky, Pat was a Senior Director at BlueWave Solar, a Boston-based solar development firm, where he led development activities on more than 30 solar-plus-storage projects in Massachusetts. Previously, he was a Director on the Corporate Finance team at SunEdison, the global renewable power company, where he managed the financial planning and analysis for approximately 8 GW of wind and solar assets in North America, as well as the sale of more than 500 solar projects.

Prior to joining North Sky, Ryan played a senior role at Archer Venture Capital, a Los Angeles-based venture capital firm, where he sourced and executed direct secondary transactions in venture-backed companies. Previously, Ryan was at SightLine Partners, a Minneapolis-based venture capital firm that specializes in direct secondary investments in venture-backed life sciences companies.

Please join us in welcoming Pat and Ryan to the team.

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](#).

Happy Independence Day!

We wish you all a safe and fun July 4th weekend.



Upcoming Events

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

February 3 – 6, 2021 [Sorenson Winter Summit](#), Salt Lake City, Utah

March 2 – 4, 2021 [Confluence Philanthropy 11th Annual Practitioners Gathering](#),
Los Angeles, California

June 14 – 16, 2021 [US SIF Forum 2021](#), Chicago, Illinois

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