

Wayzata firm making climate change difference with its impact investments

● North Sky Capital is a pioneer in sustainable infrastructure and impact secondaries investing.

By Patrick Kennedy

Progress toward global climate goals is going to have to take more than reducing the use of plastic drinking straws. Local investment firm North Sky Capital is a pioneer in the movement after making profitable investments in projects and companies that have made a dent in sustainability goals.

The Wayzata-based company — which makes sustainable infrastructure investments and also puts money into the impact secondaries market — has been operating quietly for years.

Now that environmental, social and governance (ESG) and impact investing have grown mainstream, North Sky Chief Executive Scott Barrington and his colleagues are more willing to discuss their business.

A 2020 report from the US SIF Foundation found that at the start of 2020, the amount of assets managed under sustainable investing strategies had grown to \$17.1 trillion, or one in three dollars of the \$51.4 trillion in assets in the U.S. under professional management.

Barrington was director of Piper Jaffray Private Capital in 2004 and looking for an investment focus. He found some early work being done in clean and green technologies, improving industrial processes and alternative energy projects.

Barrington saw an “early innovation supercycle” underway that included the development of electric cars, LED lights, bio-fuels and efficient solar panels. He and his other portfolio managers were out evange-



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Scott Barrington, managing director and CEO of North Sky Capital.

lizing on this growing investment category.

“We were telling people this is a movement, this is coming, this is an investment trend and you should get on board early because there are a lot of things that are going to happen,” Barrington said.

The sector grew from 15 managers to 50 in 2005. A year later, it had 75 managers, then 300 in 2008, he said.

In 2006, Barrington and his group launched their first impact private equity fund while still at Piper. Before, they had been investing mainly using a fund of funds approach. The group’s early successes included investments in Elon Musk’s companies Tesla, Solar City and

SpaceX.

For regulatory and strategic reasons, the team spun off from Piper Jaffray through a management buyout to form North Sky Capital. The split was amicable and many of those Piper veterans are still with North Sky.

Now the group has two signature styles of investing: sustainable infrastructure and impact secondaries.

The firm’s sustainable infrastructure investments have focused on environmental infrastructure (waste to energy projects, water treatment, pollution control systems), clean power (solar, wind, hydro) and electric grid efficiency and en-

hancement (energy storage, transmission and grid optimization and stabilization).

“The biggest opportunity we see right now is in environmental infrastructure,” Barrington said, “in particular in renewable natural gas.”

A recent example of one of those investments is Project Golden Bear in Victorville, Calif. The project captures methane from a wastewater treatment facility that was being released into the atmosphere and converts it to pipeline quality natural gas that is sold to the local regulated gas utility.

The project, North Sky said, will prevent 6,000 metric tons of methane per year from being flared or released into the atmosphere while producing enough energy to supply nearly 4,470 homes a year.

“The economics are really attractive,” Barrington said of the potential of methane gas capture projects. “And from a market sizing standpoint ... it feels as if almost nothing has been done in this regard so far.”

There are 16,000 wastewater treatment plants and 13,000 landfills in the United States and only 860 wastewater plants and 550 landfills that have any sort of gas capture/reuse system connected to them, Barrington said.

Knowing nearly all the early impact investors and fund managers gave North Sky a leg up in developing its second strategy. In 2013, North Sky launched the first-of-its-kind impact secondaries fund.

With these funds, North Sky provides liquidity to venture and private equity investors seeking early exits from multi-year commitments.

“Typically they are already in a portfolio, and we come in five or six years after the portfolio started and we buy out an existing investor’s interest in that portfolio,” Barrington said. “Or maybe we



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North Sky Capital managing directors Mike Pohlen, left, Danny Zouber and Scott Barrington (who is also CEO).

are layering some fresh capital on top of some very mature portfolio.”

On the impact secondaries side, North Sky invests across four themes: clean tech/climatech; sustainable food and agriculture; health care; and waste and water.

One of the clean tech/climatech investments is in STEM, a California-based artificial intelligence-driven energy storage company for industrial applications that recently became public.

It also invested in Intellihot, a maker of tankless hot water systems for residential and commercial applications; Zevia, a naturally sourced zero-calorie sugar substitute; and Medable, a California company transforming the way medical trials are done.

Since 2006, North Sky has invested more than \$1 billion in nine impact funds for clients that include pension funds, endowments, foundations, family offices and certain qualified individual investors. It currently has \$237 million invested through 57 investments in three active impact secondaries funds

and \$629 million invested through 33 investments in three active sustainable infrastructure funds.

Barrington couldn’t comment on whether new funds were being considered, but the success and age of current funds suggests there will be more. Not to mention that the recent Glasgow Climate Change Conference has increased the realization that more aggressive climate change actions are needed worldwide, and President Joe Biden’s new \$1 trillion infrastructure bill has billions earmarked for clean energy, electric vehicles and other sustainable infrastructure areas.

A recent Form D filing with the Securities and Exchange Commission also suggests North Sky is in the early stages of a new \$350 million sustainable infrastructure fund.

“We think we have something pretty unique, pretty special, and we like to share it,” Barrington said about making the funds accessible to customers.

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