

First Quarter 2023

Quote of the Quarter

“He who jumps into the void owes no explanation to those who stand and watch.”

— *Jean-Luc Godard*

Powering Through Choppy Seas

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Introduction

North Sky had a great start to 2023. Among our accomplishments:

- We completed two big exits for our sustainable infrastructure strategy (KDC Solar and Volney-Marcy transmission line)
- Added preeminent impact investor Stefan den Doelder to our impact secondaries team (Rotterdam)
- Congratulated Tom Jorgensen for being named “one of eight people who will shape sustainable private markets in 2023” by New Private Markets
- Bolstered our impact data collection, analysis and reporting technology and successfully navigated the Article 8 requirements under Europe’s Sustainable Finance Disclosure Rules for Clean Growth VI (“CG VI”)
- Enhanced our investment process by adding Lucy Fan to the Sustainable Infrastructure Fund IV (“SIF IV”) investment committee and Angie Wood to the CG VI investment committee
- Created a new ESG policy committee to bolster our ESG risk assessment and reporting procedures
- Successfully navigated the stormy Silicon Valley Bank waters
- ImpactAssets named North Sky to its [IA 50 list](#), for the sixth consecutive year, which recognizes investment managers who demonstrate a commitment to generating positive social, environmental and financial impact.

Our secondaries team is benefiting from the intersection of several trends that are setting up for a buyer's market in key impact sectors such as circular economy, sustainable food and climatech. We also are happy to report that pricing held steady in our impact secondaries niche, while pricing in the traditional secondaries market ticked up from 79.9% of 6/30/22 NAV to 82.9% of 9/30/22 NAV as those fund managers rushed to make up for previous quarters of lower activity. Average pricing for traditional secondaries from March 2017 through September 2022 (most recent data available from PEFOX) has been 89.0% of NAV. Pricing for our Clean Growth strategy has been well below that level (approx. 58%) due to our position in this impact marketplace, among other factors.

In a follow-up to our Q4 market commentary, our infrastructure team is reporting that there has been a sharp drop in lithium carbonate prices, which was welcome news for energy storage developers and investors like us. The team also set the stage for a win in our third infrastructure fund by assisting in the sale of a portfolio of community solar assets that will occur in installments over the next 18 months. The IRS and other federal agencies have been busy writing regulations to clarify how to qualify for the incentives in the Inflation Reduction Act ("IRA"). More on this below.

There was one other noteworthy occurrence in Q1, the horrific train derailment in East Palestine, OH (followed by others in Minnesota and North Dakota and elsewhere). These accidents caused immense damage to the people and the environment in those areas and remind us that we must keep striving to do better. We must upgrade our aging infrastructure—rail, bridges, highways, airports, seaports, energy production and distribution. We should also create new infrastructure such as recycling capabilities for [EV batteries](#), [solar panels](#) and [wind turbine blades](#) and more efficient shipping methods such as [hyperloops](#) between major cities to reduce trucking and safe, [quiet drones](#) for last mile delivery to homes. We are moving into a new era and our infrastructure needs an upgrade. We hope you will join us as we do our part.

Market Update

Impact Secondaries

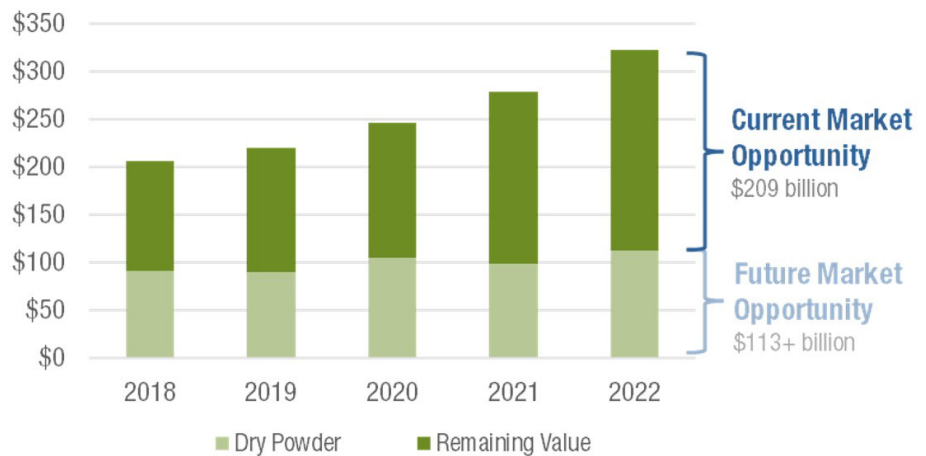
Vast untapped impact secondaries market. Our impact secondaries strategy is focused on opportunities that have largely been overlooked, orphaned or misunderstood. We believe the impact secondaries market is vastly untapped, which provides pricing power and attractive entry points for buyers like us that have both capital and deep industry expertise.

The *traditional* secondaries market began in 1984 with a \$6 million fund managed by VCFA but did not become part of the institutional investment vernacular until about 2003. It is a very mature marketplace today with over 400 active secondaries firms and \$103 billion in transaction volume in 2022 (source: Secondaries Investor). We believe the *impact* secondaries market we created in 2013 will follow a similar relative path.

We did a little math to show that potential. Since 2007, traditional secondary funds accounted for about 3.7% of all private capital raised (Source:

Pitchbook). In the same period, we believe dedicated impact secondary funds accounted for 0.1% of all impact capital raised (\$422 million of \$380 billion). That is quite a gap between the secondary dollars raised for the traditional market vs. the impact market. Based on fundraising data from Pitchbook, an average of \$47 billion was raised by impact funds in each of the last four years. Extrapolating, that means \$1.7 billion in impact secondaries funds should have been raised (3.7% of \$47 billion) in 2022 for example but instead only about \$100 million was raised. Furthermore, by our estimates, there is approximately \$209 billion of potential market opportunity for impact secondary transactions. All of this indicates there is great potential to grow this strategy.

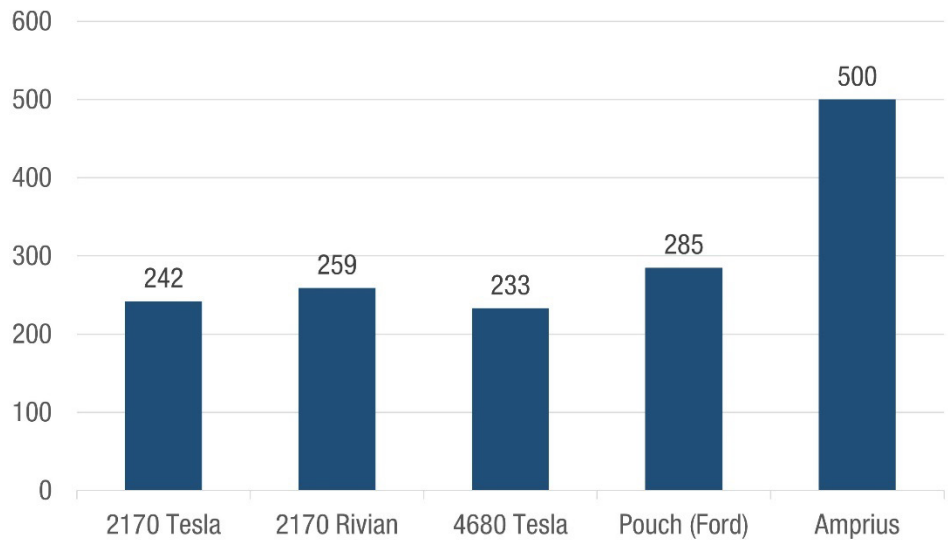
Global Impact Private Market Fund AUM (\$ billions)



Source: Pitchbook

Battery breakthrough. One of our Clean Growth IV portfolio companies, Amprius (NYSE: AMPX), recently reported a tremendous battery breakthrough. Using proprietary silicon anodes, the company’s lithium-ion batteries deliver double the energy density compared to other common batteries such as those used in Tesla, Rivian and Ford EVs. This has important implications for future EVs and for electric powered drones and other aircraft. This allows customers to “either increase energy content in a battery pack without increasing weight, reduce weight in applications that target a fixed energy content, or combinations of both,” according to the Amprius [press release](#).

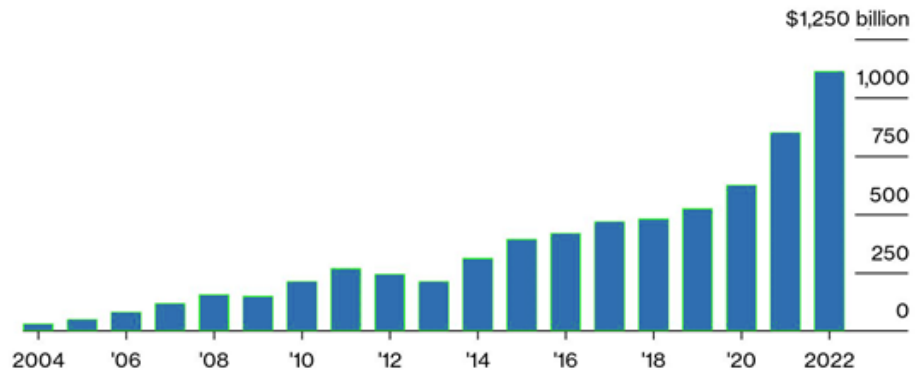
Energy Density (Wh/kg)



Source: Munro & Associates

Mega trend of decarbonization. Per Bloomberg, over \$1 trillion was invested in decarbonizing energy in 2022, an increase of more than \$250 billion over the prior year. Renewable energy and EVs accounted for most of this, with the installation of 350 GWs and the sale of more than 10 million such vehicles.

The First Trillion is the Hardest Global investment in energy transition



Source: Bloomberg NEF

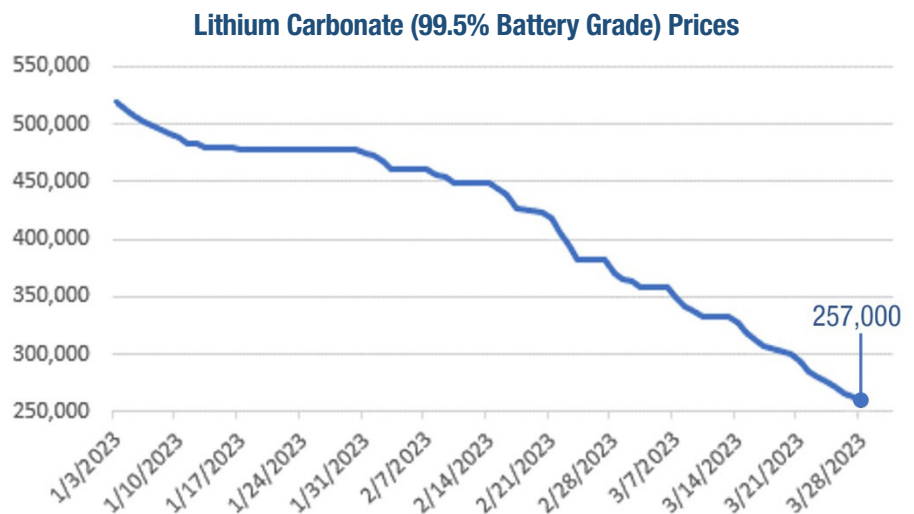
Sustainable Infrastructure

Exit activity. North Sky's Infrastructure team had an active start to 2023. We closed on the sales of a high voltage transmission line in New York State (Volney-Marcy) and a 34 MW solar portfolio in New Jersey (KDC), resulting in a large cash distribution to investors in our second infrastructure fund in Q1. Additionally, one of our solar developer partners for our third fund closed on the sale of a 76 MW portfolio of community solar projects in Maine. We also continued to invest in the construction of our recent investments in renewable natural gas, energy storage and solar projects.

Policy update. On the policy front, the first quarter of 2023 saw continued rulemaking activity regarding the IRA. As a reminder, once federal spending legislation is passed, agencies such as the Internal Revenue Service, US Treasury, Department of Energy and Department of Labor must issue the “fine print” detailing how businesses can achieve the incentives in such legislation. In February, the federal government issued initial rules governing the issuance of an additional 10% Investment Tax Credit (“ITC”) for renewable energy projects in Qualified Low Income Communities. This 10% ITC is additive to the existing 30% ITC for certain renewable energy projects such as wind and solar facilities. Renewable energy developers and project owners had been awaiting this rulemaking, and it gives some clarity to 2023 project proformas.

Lower lithium prices. In our [last market commentary](#), we wrote about the demand for battery materials increasing almost 30% over the previous year, straining the market. Supply chain pressures resulted in production and delivery delays and significantly higher prices for battery components such as lithium carbonate. Wood Mackenzie reported that the US grid-scale segment installed only 848 MW of batteries in Q4, a decline from the previous two quarters of 1+ GW deployments in each.

However, the rapid rise in lithium carbonate prices observed in 2022 underwent a strong reversal in the Q1 of 2023. During the quarter, pricing dropped from over 500,000 RMB/ton to just over 250,000 RMB/ton today.



Source: Shanghai Metals Market

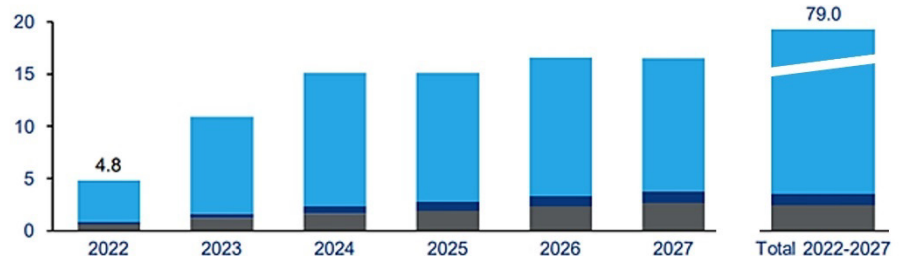
Demand remains strong, but prices had been unsustainable for some time. Supply is finally coming on stream faster, a large portion from China, Australia and Chile. The turning point for lithium prices came late in 2022 as electric vehicle demand in China slowed sharply ahead of Beijing’s planned halt to subsidies for the \$87 billion industry. With the increased supply, experts forecast the global market deficit of lithium will shrink from 76,000 metric tons in 2022 to 20,000 metric tons in 2023. Looking forward to 2025, experts expect lithium supply growth of 34% a year to outpace the demand growth rate of 25%.

While prices on battery precursors peaked in Q4, labor costs are expected to remain elevated. The IRA has driven higher labor costs, both by increasing demand for EPC companies across the renewables industry and by leaving EPC

firms responsible for compliance with the Act's apprenticeship and prevailing wage requirements.

While the storage industry faced headwinds in 2022, the longer-term outlook remains strong, as illustrated below. North Sky's infrastructure portfolio contains several battery storage projects, and we expect those assets to grow in 2023.

US Annual and Cumulative Battery Market Outlook (GW)



Source: Wood Mackenzie

North Sky News



North Sky is pleased to announce that [Stefan den Doelder](#) has joined the firm as Head of Europe. He is based in Rotterdam, the Netherlands.

Stefan is responsible for sourcing, analyzing, executing and monitoring secondary investments, as well as fund development, marketing and market research activities in Europe.

Read the full press release [here](#).



For the sixth consecutive year, ImpactAssets has named North Sky Capital to its IA 50 list. This year is North Sky's inaugural recognition on the IA 50 Emeritus Impact Managers list, a list that showcases fund managers who have achieved consistent recognition on the IA 50.

Read the full press release [here](#).



[Tom Jorgensen](#) was named to New Private Markets list of the **Eight People Who will Shape Sustainable Private Markets in 2023**. This list recognizes individuals in a position to make a meaningful impact this year. Tom was recognized for his leadership work in building our impact secondaries strategy over the last decade. Congratulations, Tom!



North Sky CAPITAL
North Sky exits KDC Solar investments out of second Sustainable Infrastructure Fund

North Sky is pleased to announce its second sustainable infrastructure fund has successfully exited its investment in Upstate Transmission Holdings, LLC (“UTH”). UTH is the owner of the Volney-Marcy transmission line, a 66-mile high-voltage electric transmission line connecting Oswego and Oneida Counties in central New York that supports the delivery of clean energy to the region. The Volney-Marcy transmission line is leased to Niagara Mohawk Power Corporation, a subsidiary of National Grid plc, through 2043. North Sky sold the asset to a large infrastructure investment fund.

Read the full press release [here](#).



Our 2023 Impact Report will be released next month. This in-depth report will highlight the positive environmental and social impact generated from the investments across our existing portfolios.

Read the 2022 Impact Report [here](#), and follow us on [LinkedIn](#) and [Twitter](#) for the 2023 release!

Upcoming Events

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

- March 28-29, 2023 [Phenix Capital Impact Summit Europe 2023](#), The Hague
- April 18, 2023 [ACG Minnesota Monthly Luncheon - ESG: The New Standard](#), Minneapolis
- May 16-17, 2023 [Impact Investor Global Summit London 2023](#), London
- May 16-18, 2023 [NY-BEST Annual Capture the Energy Conference & Expo](#), London
- June 7-8, 2023 [Confluence 6th Annual Advisors Forum & Climate Solutions Summit](#), New York
- July 12-13, 2023 [TIDE SPARK 2023](#), Dana Point

Let's Keep Talking

We are eager to hear from you. Please contact us if you have:

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

For more information, please see our [North Sky Capital Firm Brochure](#).



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