JUNE 2025

The Specialist Advantage: Standing Out in a Crowded and Dynamic Market

In today's crowded private capital arena, specialist funds are carving out a distinct edge—and North Sky Capital's Impact Secondaries strategy stands at the forefront. This report explores how specialist managers surpass generalists by leveraging exclusive deal flow, deep industry expertise, limited competition and disciplined underwriting to deliver strong financial returns. We highlight North Sky's trailblazing role in the underserved impact secondaries space—targeting climatech, waste and water, healthy living & aging, sustainable food and education. Whether you are seeking diversification, liquidity or a fusion of profit and intentional impact, North Sky provides a proven roadmap for succeeding in this dynamic market.

Introduction

This whitepaper builds upon our prior report, "Investing in Secondaries: The Basics," which explored the key advantages of secondary funds over primary funds, including faster capital deployment, greater diversification and shorter hold periods. In this expanded discussion, we examine what it means to be a specialist manager and how that expertise can lead to outsized financial returns.

How Managers Specialize

Over the past 25 years, the private investment market has grown rapidly in terms of size and variety of investment strategies. Fund managers ("GPs") have evolved to meet the changing requirements of investors ("LPs") and to take advantage of new investment sectors. Many new GPs also emerged. For example, in the U.S. there were 850 venture capital firms in 2000, but that number swelled to 6,175 by 2024. The number of buyout, infrastructure, private credit, impact and other types of GPs has also grown, leading to a broader landscape of generalist and specialist investment managers differentiated by stage of investment, use of proceeds, security type, sector, size and geography, among other attributes.

- **Security Type –** Managers focus on specific securities, such as equity, debt or hybrid instruments like convertible notes, developing expertise in structuring deals that align with their risk-return profile and have unique legal attributes.

- **Stage of Investment –** Specialization can occur by targeting companies at specific stages of their lifecycle (e.g., start-up, growth-stage or cash flow positive businesses) where longer investment duration and greater risk tend to be associated with earlier stage investments.

- **Use of Proceeds –** Managers may acquire majority control of a business from existing investors, provide growth capital to fund company-level initiatives or provide secondary liquidity to indirect or non-control investors, each of which has a different purpose and amount of influence over the strategic direction of a company post-transaction.

- **Sector –** Focusing on specific industries, such as technology, healthcare or clean energy, allows managers to leverage deep domain knowledge and networks to identify high-potential opportunities.

- **Size –** Managers may target companies of a certain size, such as lower middle market, mid-market or mega-cap to align with growth expectations, operational influence and risk tolerance.

- **Geography –** Specialization by region, such as Northern Europe, enables managers to capitalize on local market dynamics, regulatory environments and economic trends.

When a manager emphasizes one or more these differentiating characteristics in their strategy, they commonly are categorized by LPs as a specialist. North Sky's Impact Secondaries strategy focuses on providing secondary liquidity to LPs who have direct or indirect exposure in growth equity and cash flow positive companies that are headquartered in developed markets and can deliver positive environmental or social impact alongside strong financial returns.

Illustrative Map of Fund Managers

Source: North Sky internal analysis. Subjective analysis and may not be comprehensive or complete

Why Specialists Outperform

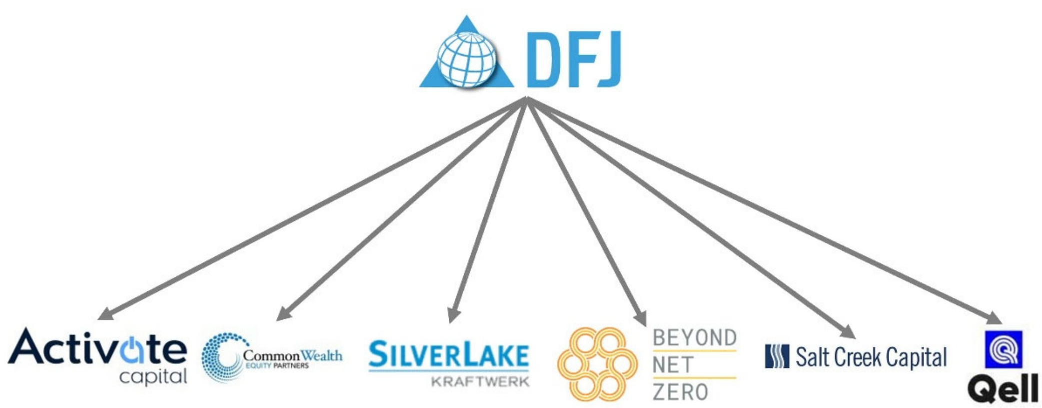
Specialist managers provide advantages that go beyond what broader, multi-strategy managers can offer. Here is why they stand out:

Strategic Industry Relationships Drive Proprietary Deal Flow

Specialist funds thrive in unique spaces, leveraging deep, trust-based relationships with key industry players—founders, executives, advisors and other fund managers—to source exclusive, often off-market deals. These strategic relationships, built on years of cultivated trust and completed transactions, enable access to high-value opportunities whereby specialist funds avoid crowded auctions, experience smoother deal execution, craft bespoke terms and in some cases enjoy longer deal review periods which enables more in-depth analysis. These factors increase their probability of achieving outsized returns.

North Sky stands out as a pioneer in the impact investing landscape with an expansive network of GPs, LPs, brokers, bankers and other advisors, having cultivated an enviable number of relationships over its 20+ years as an impact specialist. In addition, our early entry into the impact market allowed us to build a robust network of entrepreneurs, co-investors and other stakeholders, which is a critical asset in the world of private equity and venture capital.

To illustrate, a single investment in one fund (DFJ Element I) formed critical relationships with senior investment professionals that held senior roles at six additional private equity firms. More so, these relationships have provided introductions to other GPs (e.g., Mubadala and Masdar) and created numerous investment opportunities for North Sky, including two primary fund commitments, two direct co-investments, four LP secondary investments, one single asset continuation vehicle commitment and one secondary direct investment.

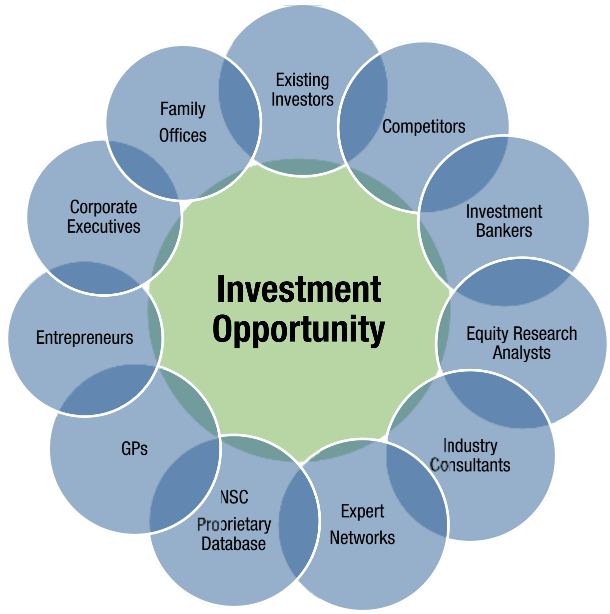


Experience and Knowledgebase Help Navigate Complex Transactions and Industry Dynamics

Specialist funds bring a wealth of experience and a refined skill set to the table, honed through years of industry sector focus. This isn't just general financial know-how, but a granular understanding of the nuances, trends and pitfalls within their chosen domain. Investors benefit from this mastery because it translates into sharper insights, better risk assessment and the ability to spot opportunities that broader, less specialized funds might overlook. Specialist funds have the tools, data and instincts to dig deeper into potential investments, spotting red flags or value drivers that others might miss, neglect or deemphasize.

In impact sectors, change is the only constant – e.g., evolving tax credits, emissions standards, water usage policies or subsidies for renewable energy or grid enhancements. A generalist might scramble to keep up while a specialist brings deep, hard-earned expertise and an insider's grasp of the landscape. They can anticipate how a new regulation might affect cleantech valuations or how food safety standards could reshape agribusiness supply chains. This foresight enables sharper deal sourcing, smarter risk management and the ability to spot new opportunities.

North Sky Deal Information Sources

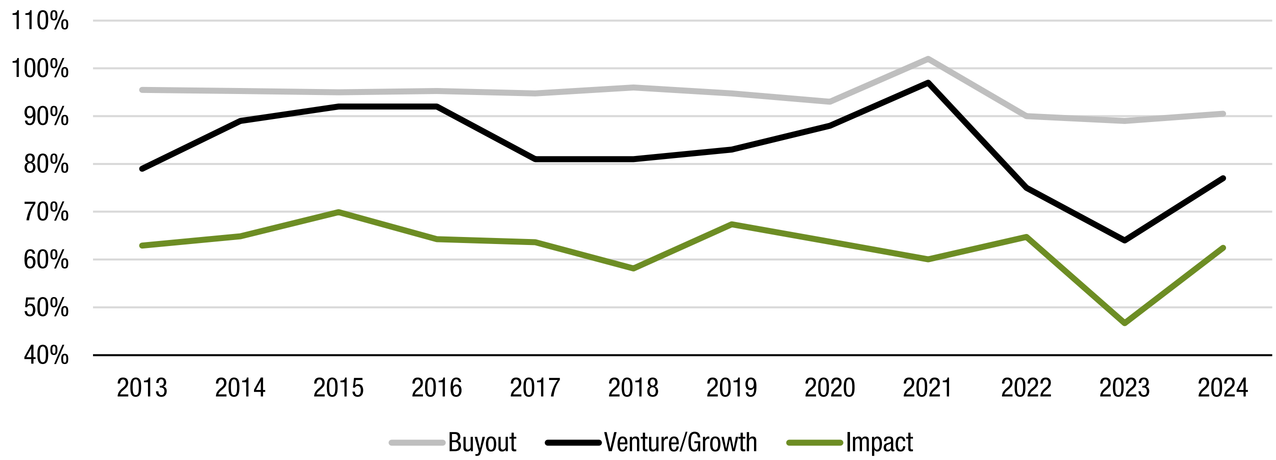


Niche Focus Limits Competition and Improves Buyer Pricing Power

Less competition in any market segment improves a buyer's pricing power. This is true for specialty managers who focus on specific niches and may even create proprietary investment opportunities where they are essentially the only bidder for the asset. **This is especially true for the impact secondaries market, which North Sky created in 2013 and continues to dominate today.** The impact secondaries market is still nascent and primed for growth. To illustrate this growth potential, we will walk through some quick math. If you compare (a) all secondaries capital raised from 2013-2024 ($0.6 trillion) to (b) all capital raised for buyout, venture, infrastructure, secondaries and other private markets capital (about $14.9 trillion), you get a ratio of about 4%. Meaning, traditional secondaries funds represent about 4% of the total private market. The roots of the secondary market can be traced to the early 1990s and has since developed into a mature market with several multi-billion-dollar funds. However, if you do the same calculation solely for the private market impact sector, impact secondaries capital raised in that period represents only 0.1% of the roughly $1.1 trillion total of all impact capital raised from 2013-2024. That means there is a 40:1 ratio compared to the broader, much more mature secondaries marketplace, demonstrating the tremendous growth potential for impact secondaries!

Niche markets often have smaller average deal sizes, which may fly under the radar of generalist managers. For example, deals under $25 million garner less attention, as large generalist funds target bigger portfolios to justify their allocation of internal resources (i.e., time), due diligence costs and investment minimums. Less competition leads to advantageous pricing, which provides more attractive entry points for North Sky and other specialists.

Secondaries Pricing Over Time – Expressed as Percent of Net Asset Value at Close (2013-2024)

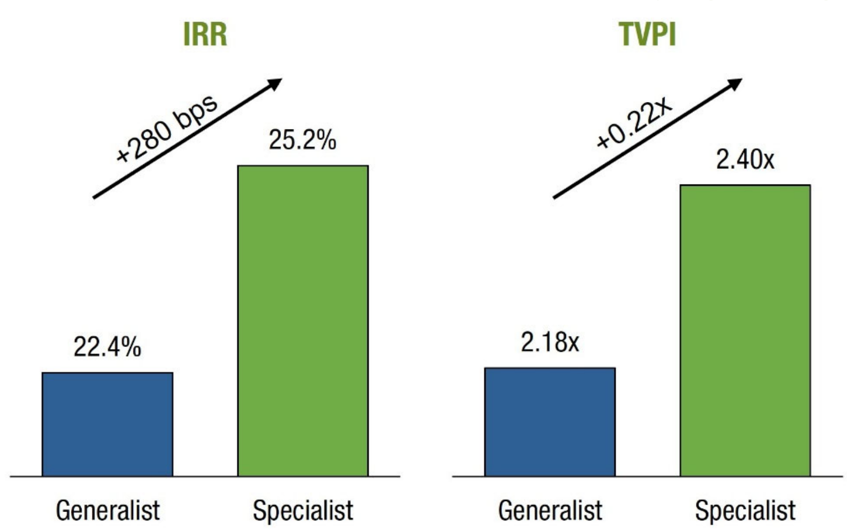


Sources: Evercore Private Capital Advisory - FY 2024 Secondary Market Review (February 2025); North Sky Capital provided the Impact data

Focus on Fundamentals and Value-Add to Drive Financial Returns

To achieve superior returns, specialist managers focus on undervalued, smaller companies with less competition, allowing for selective and patient deal-making. Their due diligence prioritizes business fundamentals driving the income statement over financial engineering via balance sheet optimization. This analysis enables GPs to align post-investment priorities with management teams, increasing the likelihood of successfully executing value creation plans and delivering strong financial outcomes. PitchBook data shows top-performing, sector-specific managers outperform generalists by up to 280 basis points.

Top Quartile Performance for Generalist vs. Specialist Managers (2005-2020)



Source: Pitchbook. Analysis includes 3,568 buyout, growth, and venture capital funds from 2005-2020 vintages with a fund size >$25 million. Generalist versus specialist determined by Pitchbook. As of 12/31/2024

North Sky's Leading Role as an Impact Investor

North Sky is an evangelist and innovator in the impact investing arena, having launched the first impact fund of funds in North America (2005), the first sustainable infrastructure fund focused on the triple bottom line of attractive returns, renewable energy and jobs creation in the U.S. (2010) and the world's first impact secondaries fund (2013). In addition to financial returns, North Sky's investments generate positive environmental and/or social benefits which it memorializes in fund-specific quarterly reports and an annual firm-wide impact report. To learn more, please see our impact reports found here.

Conclusion

In today's complex private market landscape, sector-specialist secondary funds deliver a powerful edge for institutional investors. North Sky's approach to impact investing reduces blind pool risk while providing investors diversification, shorter hold periods and discounted entry points. To explore how we can align your capital with your goals, please reach out to Tom Jorgensen, Co-Head of North Sky's Impact Secondaries Strategy, or Gretchen Postula, Managing Director & Head of Investor Relations.

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