

Second Quarter 2015

Quote of the Quarter:

“When I drive that slow, you know it's hard to steer. And I can't get my car out of second gear. What used to take two hours now takes all day. It took me sixteen hours to get to L.A.

... I can't drive fifty-five!”

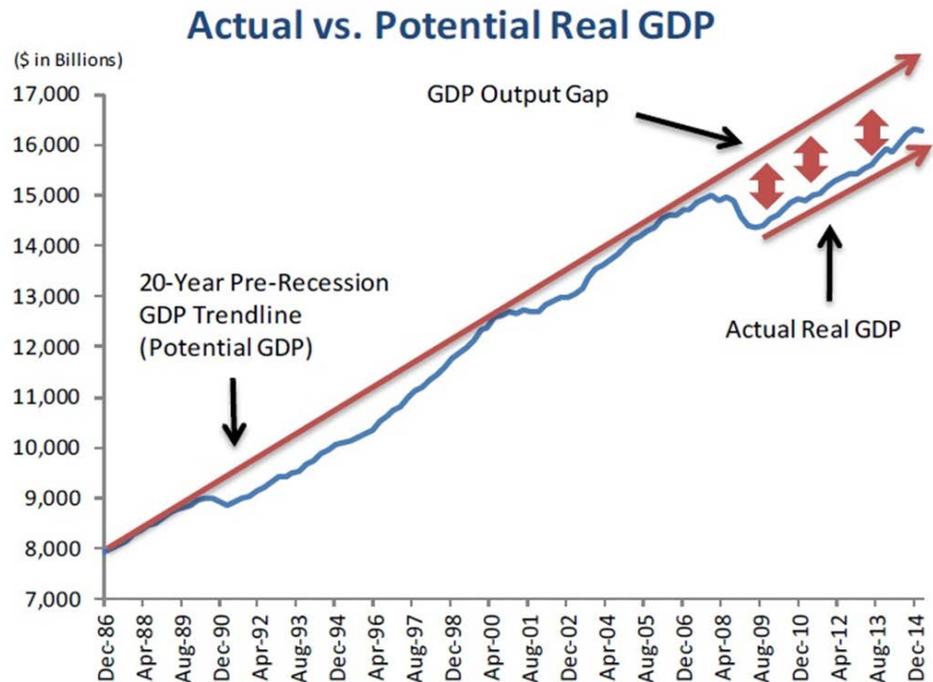
– Sammy Hagar
©1984

Shifting Into Third Gear

Our economy is stuck in second gear but wants to move up to third gear. That is the consensus of our investment team as we compare notes from recent infrastructure projects, secondary investments, business trips, fundraising meetings and annual gatherings with the fund managers in our fund of funds program. Certain signs of economic growth are visible to the general population, such as Nasdaq hitting an all-time high, the sharp rise in consumer sentiment since early 2014 or the boom in apartment and condo construction from San Francisco to Minneapolis to NYC. But the real story is how widespread the underlying good news really is. Through our various funds, we have directly or indirectly invested in over 2,500 companies and infrastructure projects, spanning energy, water, healthcare, financial services, manufacturing, computing, social media, entertainment, construction, transportation, agriculture and education, among many others. Broadly speaking, we see growth across the board.

Having recently returned from MIT's EmTech Digital 2015 conference in San Francisco, we also can report on amazing innovations and entirely new industries being created such as personalized healthcare, virtual reality, robotics/automation and big data analytics. Recent advancements in healthcare in terms of diagnostics and treatments are impressive. Such advancements seem to be accelerating as computing power, genomics and big data converge. We could write an entire commentary on this topic but will save that for a later date. However, the three panelists from virtual reality company Magic Leap stole the show while describing how the company's technology may be used in the near future—primarily in entertainment, gaming, art and education. We are not investors in this company but it is worthy of comment nonetheless. The tech is a little hard to describe but basically it shines images into your eye and uses your brain as the screen. This is very different from holographs. It is amazingly realistic and content will be interactive and engaging. The possibilities are wide-ranging. This tech will enable you to perhaps be Harry Potter casting spells on monsters and other wizards in your own living room or to play HoloChess against Chewbacca. If you choose, the Mouse and the Motorcycle might live under your child's bed or, on the opposite end of the spectrum, a poltergeist could haunt you for the weeks leading up to Halloween. At the kitchen table, your kids might learn geometry from Euclid, physics from Einstein and history from George Washington. You might enjoy an African safari from the car in your garage or tour the Louvre or the Sistine Chapel from the gym at your local school. Perhaps your doctor or your personal trainer will be able to make house calls using this technology. Further down the road, you might be able to upload an AI version of yourself so that others can interact with the digital you. Initial content will be developed over the next three years, and we can hardly wait to see it.

All of this growth and innovation comes in spite of the wet blanket thrown on the global economy by the actions (and inactions) of the political elites. As the chart below shows, the USA has been under-performing its potential for years. The same is true for other major economies globally.



**Source: Stifel Nicolaus, Bloomberg (Data as of 3/31/15)*

Our current economic state of affairs is highly complex, but it seems pretty clear that increasing taxation and regulation after an economic shock is counterproductive. Others may draw different conclusions or offer justifications—economics is the dismal science after all where clarity and certainty are rarities. The main point we want to make is that capital, innovation and the human spirit yearn to be free and may be only temporarily constrained by the political class and other impediments. So take heart. Great things, perhaps even a few magical ones, are just around the bend.

Fund Updates and Observations

The last few months have been active here at North Sky Capital. Our pre-2010 funds are all in harvesting mode. In our more recent funds, we are reaching the end of our investment phase (Alliance Fund I, Clean Growth Fund III and PEP V). AF I will make one last investment in the next few weeks, but it too has really moved into harvesting mode, with additional liquidity expected in the next two quarters.

Impact Investing

- Clean Energy Infrastructure
 - Water—Given the drought and water restrictions in California, stories about shortened shower times, fines and turf removal are in the news. We have several water investments already in our funds (Quench, Seven Seas, Pure, Takadu) and more on the way. We see water desalination as an area of opportunity, especially projects that incorporate solar power and recent advancements in design efficiency like those demonstrated at Sorek, the world's largest modern desalination plant (Israel). Sorek recently ramped up to full capacity, producing 627,000 cubic meters of water per day at a cost of less than \$.06 for 100 liters of water. We are not an investor in Sorek, but it shows what is technologically possible. In addition, we see attractive opportunities to finance graywater and water re-use infrastructure projects. We have one such investment under review now.
 - Energy storage—We were excited about Tesla's April 30th announcement about its new energy storage system, the PowerWall. Tesla will sell the

PowerWall directly, through distributors and also in partnership with Solar City. As Tesla's first Gigafactory comes online, we expect pricing to drop even further and sales to ramp up. Tesla and Solar City are in our funds. We currently are reviewing a financing opportunity in this area with another company. We think energy storage is crossing over to be economic on a standalone basis in many markets. Recent mandates for energy storage, like the statewide mandate in California, will only accelerate the mainstreaming of energy storage into our electric grid, our businesses and our homes. Germany is currently ahead of the USA in this regard and China is making a big push here too. This will become a huge market in the next five years.

- Solar panels are being installed at a feverish pace across the USA and Canada. Some of this is based on beating the yearend 2016 deadline to get a 30% tax credit in the USA (dropping to 10% thereafter), but solar's cost benefits have created long-term momentum. Bloomberg New Energy Finance is projecting there will be \$3.7 trillion of new solar investments made between now and 2040, which means that solar is becoming an ubiquitous global juggernaut. We are very hard at work in this arena, with our most recent financing being a series of 14 rooftop projects in Ontario, Canada. (Nautilus Solar in AF I)
- Growth Equity
 - We continue to see interesting investment opportunities in the energy efficiency, renewable energy, water and agriculture sectors.
 - With the recent signing of a contract with Vestas, portfolio company TPI Composites now has blade supply agreements with the top wind turbine manufacturers. The company already had agreements with General Electric, Nordex, Acciona, Mitsubishi and Gamesa, among others. (CleanTech Ventures and CleanTech IV)
 - Bosch Group recently acquired Climatec Building Technologies, a leading provider of building control and energy efficiency systems, generating a very strong return for CleanTech IV.
 - We have several other investments preparing for liquidity events via IPO or M&A and look forward to sharing that news in the near future.
- Secondaries
 - We made two secondary investments and another co-investment out of Clean Growth Fund III in Q2. Several more investments are pending. Our focus remains on Europe and North America.

Traditional Private Equity

- Buyouts
 - Steady as she goes. Valuations are a little fuller today, but we still appear to be mid-cycle, not at the top of an economic cycle. We see very good investment and returns opportunities here, especially for smaller deals where there are significant opportunities to optimize and grow good regional players into great national and international players. We are very bullish on the USA, Canada and Northern Europe; still bearish on China.
- Venture
 - We are monitoring developments in 3D printing with fascination but have yet to commit capital to this area. Interestingly, Dutch start-up MX3D is going to "print" a steel bridge in Amsterdam. It will take two months to construct using six-axis printing robots and will be completed in 2017. This construction technique will be quicker and cheaper than traditional methods and also allow for more intricate and aesthetic designs. Basically, they are drawing a bridge in thin air.
 - You will soon be able to summon your Tesla car from your garage or a nearby parking space to pick you up. Mighty cool. But a cautionary note on the next step, which is autonomous (driverless) cars: they still tend to make people nauseous. They also do not drive in a humanlike fashion and can cause trouble

for human-driven cars. Google's autonomous cars have been rear-ended by humans expecting the Google car to go through a yellow light or drive around a biker...but the Google car instead stopped short. It is one thing for autonomous cars to navigate a test track or even the tranquil back roads of Palo Alto, but how would today's autonomous cars fare in NYC where humans ignore the center lines, weave in and out of traffic, and generally go with the flow? Computers will take another year or two to match wits with NYC cab drivers, who for now will merely game the hesitancy of autonomous cars to the cab drivers' advantage. More improvements are required but the prospects are exciting. See also our investment in GeoDigital and its role in such cars. (Direct Fund IV and AF I)

Conclusion

We hope your summer is off to a terrific start. Have a happy and safe Fourth of July.

Upcoming Events

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

- Oct. 21-23 **Family Office Exchange Fall Forum Chicago, IL**
<https://www.familyoffice.com/learning-events/forums/2015-fox-fall-forum>
- Nov. 3-5 **SRI Conference, Colorado Springs, CO**
<http://www.sriconference.com>
- Nov. 6-11 **IFEBP Conference, Honolulu, HI**
<https://www.ifebp.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

© 2015 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.