North Sky Capital

Second Quarter 2011

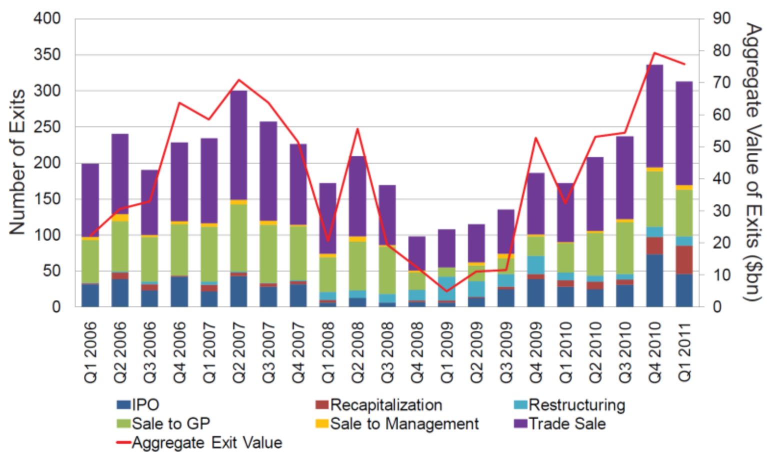
MARKET UPDATE

Private Equity Exits on the Rise

Here in Minneapolis, we had a gloomy start to the summer—weeks of overcast skies, rain and cool temperatures. But now that is behind us and the summer sun has arrived! What a difference a little sunshine (and a spate of successful IPOs) has on the human spirit.

Markets are of course cyclical (see red line below), but many private equity investors are riding high today after a tough couple years of recession. Liquidity events are occurring at a good clip, refilling the coffers of LPs and enabling them to make fresh commitments to the sector. As the chart below shows, IPO and M&A exits began to rebound in Q4 2009 and the good news keeps coming. Globally there were 811 private equity-backed exits in 2010 with an aggregate value of $203 billion, approximately three times the 2009 amount. The pace remained robust in Q1 2011 with just over 300 exits and an aggregate value of roughly $70 billion.[1] Clearly, a significant liquidity cycle is underway for private equity. Let's enjoy it.

PE-Backed Exits by Type[1]



North Sky Capital Commentary on Manager Selection and Monitoring

Today, approximately 1,600 private equity firms are seeking to raise new funds (with an aggregate target of $600 billion).[2] The following are a few brief lessons we keep in mind as we evaluate this universe and make investments on your behalf. Use them if you can effectively do so; use us if you can't.

1. *Do your homework.*
   - Returns – We are highly attuned to the marketing puffery and window dressing that can be found in some private equity marketing materials.
   - Team – Who is really active on the team and are they good, smart, hard-working folks?

[1] Preqin Special Report: Exits in Private Equity. April 2011.

[2] Preqin Quarterly, Q1 2011.

i. Professional background checks, augmented by your own searches, are essential. Nothing beats good old fashioned detective work. These checks coupled with calls to past portfolio companies, social media searches and less common sources like GHIN have led us to draw investment conclusions that differ from the herd. Who is really doing to work vs. who is golfing, speaking at conferences or just collecting a paycheck from their beach house?

ii. Turnover. Talk to people who have left the firm and learn why they left, what they had contributed and whether the partnership's interpersonal dynamics are positive.

2. ***The presence of a large, well-known LP should neither give nor take away comfort.***
   - Smart money? Motivation? Often, motivations and staffing capabilities differ substantially among LPs. Corporate LPs may be investing for strategic reasons rather than expecting a high investment return. Large endowments or pension plans may be re-upping without doing a de novo review of the prospects of the manager. Staff changes within other LPs may lead to better or worse scrutiny of the fund in question. That big fund of funds may have raised too much capital and has lowered its selection standards to get money put to work. A really big investor in the fund may have negotiated a side deal to receive part of the GP's economics or structure some downside protection for the investment. The point is you don't know, so don't assume.
   - Monitoring. Don't make the mistake of assuming other LPs are helping to monitor the investment. Case in point: When GPs ask for an amendment to extend either a fund's investment period (typically three to five years) or the original term of the fund (typically 10 years), many LPs automatically sign these amendments without considering the ramifications or they have reasons to do so that may not be in another LP's best interest.

3. ***Big name funds, high roman numerals and a great return a few years back may not foretell another great fund in the future.***
   - Access to tech VC funds, for example, is less of an issue today than it was in the past, but this doesn't mean it is time to invest in what used to be hard-to-access funds. Past performance is not prologue. These days, the brand name is bigger than the future prospects for many firms. We believe stellar performance in a bygone fund often just benefits the GP by giving an otherwise undeserving manager another chance to lock in ten more years of management fees. No firm is a sure thing. Nope, not even that one that just popped into your head. Have a great summer everyone!

Upcoming Events

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

July 20	Family Office Exchange Private Markets Commentary Webinar Danny Zouber will be presenting. www.foxexchange.com
September 13-15	Modern Energy Forum, Denver www.minellc.com
October 2-5	SRI in the Rockies, New Orleans www.sriintherockies.com
October 30-November 2	US Annual Employee Benefits Conference, New Orleans 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

Megan McElroy
Vice President
(612) 435-7162
mmelroy@northskycapital.com

Brennan Plaetzer
Analyst
(612) 435-7156
bplaetzer@northskycapital.com

Tom Jorgensen
Analyst
(612) 435-7158
tjorgensen@northskycapital.com

Kevin Buchholz
Staff Accountant
(612) 435-7168
kbuchholz@northskycapital.com

Connie Conover
Administration
(612) 435-7164
cconover@northskycapital.com

Rachael Welk
Administration
(612) 435-7174
rwelk@northskycapital.com