

A Day in the Sun

These are good times for private equity investors. Portfolio companies are growing, financing is cheap and plentiful and the IPO and M&A markets are humming in top gear. Despite paltry GDP and unemployment numbers, public and private equity investors are enjoying a day in the sun. Until the most recent quarterly reporting cycle, we had been so busy with investment and other daily matters that the magnitude of this wave of exit activity had gone unnoticed. But a few days ago, when we paused to take it all in, we allowed ourselves just a bit of a smile.

Fully half of the Top 10 first-day “pops” for 2013 IPOs were in our portfolios: Sprouts Farmer’s Market (LBO II), BenefitFocus (VC II and III), RocketFuel (VC II), Marketo (VC III and IV) and Oncomed (VC II). Furthermore, our current marks on these companies are, from smallest to biggest, 1.8x, 3.9x, 4.0x, 8.1x and 29.6x. See table below for additional info.

Top 10 First-Day IPO Returns in 2013 as of 9/24/13

Company	Ticker	Industry	Deal Size (\$mm)	First-Day Return
Sprouts Farmers Market	SFM	Consumer	\$333	122.8%
Noodles & Company	NDLS	Consumer	\$96	104.2%
BenefitFocus	BNFT	Technology	\$131	102.1%
Rocket Fuel	FUEL	Technology	\$116	93.4%
FireEye	FEYE	Technology	\$304	80.0%
Marketo	MKTO	Technology	\$79	77.7%
Agios Pharmaceuticals	AGIO	Health Care	\$106	73.8%
Tableau Software	DATA	Technology	\$254	63.7%
OncoMed Pharmaceuticals	OMED	Health Care	\$82	59.9%
Xoom	XOOM	Financial	\$101	59.3%

We have had similar M&A wins this year, ranging from 2-11x our investment cost, such as Bausch & Lomb, ExactTarget, Capol, Sarcodex, Securus Technologies, Polaris Wireless, Vanguard Health Systems and QuadraMed. Also, Yankee Candle, Domestic & General and Neiman Marcus have announced their acquisitions, and we expect 2-3x our money on them. We also have had a few significant “saves” such as Realogy, Countrywide, Hilton Hotels and Allen-Edmonds. During the downturn, these companies appeared over-levered and likely to be write-offs, but they have managed to power through it all.

The investment world is cyclical. It bounces between highs and lows; the pendulum swings back and forth between greed and fear. Looking back over the last 5-6 years, we have all endured a protracted period of anxiousness and at times outright fear. The

smiles have been few worldwide since 2008 due to unemployment, war/terrorism, rising food/fuel/healthcare/college costs, national debts/deficits, higher taxes and the list goes on and on. But today is a good day from an investment point of view. Let's all revel in it, if only for just a moment.

Two Other Great Things That Happened This Quarter:

1. We helped finance the first community solar farm in Minnesota and the union job creation that went with it. Five of the six main participants are based in Minnesota: TenKSolar (panels), 3M (reflectors used in TenK's rack systems), Silent Power (energy storage systems), Wright-Hennepin Coop (an innovative local utility) and North Sky (financing). The overall coordinator of the project was Colorado-based Clean Energy Collective. We believe community solar is going to be an important trend over the next three years. These projects typically allow anyone to buy one or more panels and receive an offsetting credit from the utility company for the electricity created by the panel(s). It allows participants to buy at volume discounts and both home owners and apartment renters are able to participate as the panels are centrally located at a third-party site. Phase I is now online and Phase II is being readied.



Community-owned solar array. Rockford, MN.

2. Twitter announced its registration for an IPO, in a Tweet of course.

Upcoming Events

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

September 30- NCCMP Annual Conference, Hollywood Florida
October 2 www.nccmp.org

October 18-22 59th Annual Employee Benefits Conference, Las Vegas
www.ifebp.org

October 28-30 SRI Conference, Colorado Springs
www.SRIconference.com

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