CALEDON
CAPITAL MANAGEMENT

As we approach the end of 2016, Caledon Capital would like to take this opportunity to provide an update on the private equity and infrastructure markets as well as the Firm and some of its recent activities.

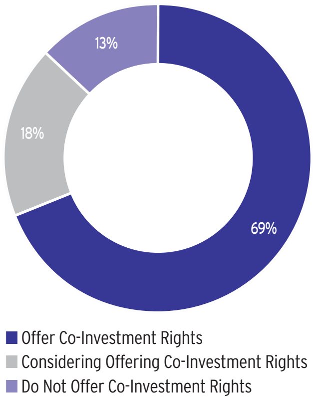
Private Equity Co-Investment Activity

Co-investing continues to gain popularity with both LPs and GPs. A recent Preqin report on co-investing found that nearly 70% of GPs surveyed offer some co-investment rights to their LPs. GPs ability to develop better relationships with LPs, gain access to additional capital, and cultivate relationships with new potential LPs are some of the most compelling reasons for GPs to offer co-investments. LPs are also expressing a strong desire for co-investments due to the lower fee structure, potential for outsized returns, and ability to gain access to specific companies and sectors.

The majority of co-investment activity is driven by post close syndications where a GP sells an equity stake in a business to its LPs after it has purchased the company. There are also transactions where GPs require the LP to co-sponsor or co-underwrite the investment and work towards the closing concurrently with the GP. In both instances, extensive due diligence and tight timelines associated with live deals require significant resources and expedited decision making by LPs. These factors often lead to delays due to the LPs inability to execute quickly and efficiently. Many LPs who express initial interest in co-investing during a GP's fundraising period are not able to conduct sufficient due diligence, or do not have sufficient internal resources to execute on investments when they are presented. As a result, the speed at which an LP can make a decision and LP reliability have become some of the primary requirements for receiving co-investment rights from GPs.

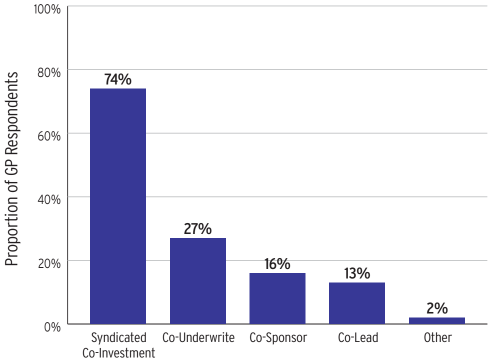
Looking ahead, both LPs and GPs see significant benefits in growing their co-investments strategies. However, GPs will continue providing co-investment opportunities (and rights) to reliable LPs that have the ability to conduct due diligence efficiently and make decisions decisively.

Proportion of GPs Offering Co-Investment Rights to Their LPs



Source: Preqin

Type of Co-Investment Opportunities GPs Offer LPs



Source: Preqin

Recent Caledon Co-Investments

European Online Retailer

Overview

- Buyout of rapidly growing online retail business in middle market Europe, October 2016
- The business is a leading Nordic online retailer of home improvement products
- Strong online presence with 17 sales websites, 680,000 active customers, 31% repeat orders, and 1.5 visits per second
- Additional sales from 21 physical stores, which support the websites and act as showrooms for its top products

Investment Rationale

- Rapidly growing business with strong management team and significantly positive customer feedback
- Company has consistently remained a leading online retailer in its product segments
- Strong tailwinds as market segment is less cyclical than broader retail, and online penetration expected to reach developed market levels
- Trusted fund partner with expertise and experience investing in middle market Nordic companies, and executing on rapid growth plans

Software Businesses

Overview

- Complex carve-out of the software division of a large U.S. technology company consisting of seven unique software business lines in October 2016
- The businesses acquired span a range of infrastructure software markets, including Windows Management, Information Management, Endpoint Management, Performance Monitoring, Data Protection, Identity and Access Management and Network Security

Investment Rationale

- The complex nature of the transaction enabled Caledon's partner to acquire the business at an attractive entry multiple
- The businesses generate ~$350 million of EBITDA across a diverse set of end markets and use cases
- Approximately 55% of revenues are recurring, and the combined businesses serve over 180,000 customers across 60+ countries with limited customer concentration
- Significant potential for performance improvement given mismanagement of the various businesses under prior ownership
- Trusted, experienced fund partner with expertise and experience in executing corporate carve-outs

Opportunities in the Renewable Infrastructure Market

Caledon believes that the renewable sector in the infrastructure market is and will continue to present some very attractive investment opportunities over the next three to five years. The team has reviewed a number of potential investments both in North America and Europe and is confident that the right opportunity will surface in the near future.

The case for the economic viability of renewable energy continues to grow stronger as new installations of wind and solar photovoltaic ("PV") continue to grow at an accelerated pace globally. As installation costs fall rapidly – 35% for onshore wind and 80% for solar PV from 2008 to 2015 – and renewable technologies gain broad acceptance, wind and solar PV have become the fastest-growing sources of new electricity generation across both emerging and developed countries.

Driving this trend is a combination of cost competiveness, regulatory support and investor appetite for assets.

Cost Competitiveness: As compared to other forms of electricity generation, wind power and utility-scale solar PV now have the lowest levelized cost of electricity ("LCOE"). LCOE is a proxy for the average electricity price a new asset requires to break even over its operating life. Wind and utility-scale solar PV now have an LCOE of US $55 and US $64 per MWh, respectively, as compared to US $65 per MWh for combined-cycle gas and US $108 per MWh for coal. Just a few years' ago, in 2009, the LCOE for wind and utility-scale solar was US $135 and US $359 per MWh, respectively, highlighting the extraordinary decline in cost for these technologies.

Regulatory Support: Policy-driven, grid de-carbonization objectives continue to encourage renewables installations. This is expected to continue broadly under the Paris Agreement as well as through country-specific policies. In the United States, the recent election results initially put into question the degree of federal support for renewables going forward; however, the general industry view is that current incentives (e.g. PTC, ITC) will be very difficult to unwind and that by the time they expire in four years' time, the economic case for wind and solar PV will be locked in.

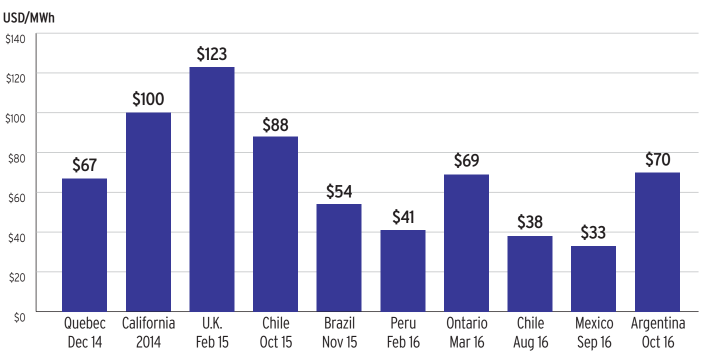
Investor Appetite: The current low return environment continues to drive institutional investors to pursue investments in alternative asset classes, which include an ever-growing allocation to renewables. This has resulted in valuations being driven up and return spreads being compressed between established and emerging markets. Investors have responded by moving up the risk curve to attain higher returns through investment into late-stage greenfield projects or platforms offering development exposure.

Renewables infrastructure is now a mature asset class that is in high demand. Barring unforeseen technological advancements in electricity generation, we expect this

demand to continue growing.

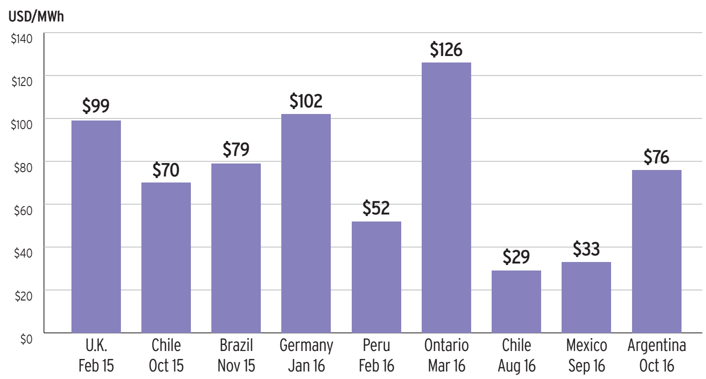
The graphs below show pricing for awarded power purchase contracts for utility scale wind and solar PV across various auctions globally. Offtake prices across markets are not directly comparable given local nuances to offtake terms and other incentives; however, the average awarded price across markets gives an indication of the contracted power price needed to make utility scale projects economically viable. As mentioned, pricing for both types of energy has come down significantly.

Utility Scale Wind (Onshore)



Source: Lazard

Utility Scale Solar PV



Source: Lazard

We've Expanded Our Team

Lee Anderson (Assistant Vice President) – Lee joined Caledon in 2016 as an Assistant Vice President on the investment team. Prior to joining Caledon, Lee was a Director in KPMG's Deal Advisory – Infrastructure Investments practice where he focused on M&A and strategy in the renewables sector. Prior to KPMG, Lee managed development for Canada for Mainstream Renewable Power, a global renewables developer. Lee received his MBA specializing in finance from the Rotman School of Management, an MSc in Conservation Biology from the University of Alberta, and a BSc First Class Honours in Mathematics & Engineering (Electrical) from Queen's University.

Ruijiang Ma (Analyst) – Ruijiang joined Caledon in 2016 as an Analyst on the investment team. Prior to joining Caledon, Ruijiang was an Analyst in the Investment Banking Division of BMO Capital Markets, where he assisted in the completion of over $1 billion of equity financing and worked on several M&A transactions in the mining sector. Ruijiang received his Bachelor of Commerce with Distinction from the Rotman School of Management at University of Toronto.

Caledon's Speaking Engagements

Upcoming Conferences

Global Summit, Berlin, March 21, 2017
Stephen Dowd will be speaking about *"Infrastructure Portfolio Construction"*

SuperReturn U.S. West 2017 Conference, San Francisco, February 6, 2017
Martin Day will be moderating a panel on *"A Complete Guide to Structuring the Co-investment Deal"*

Recent Conferences

Toronto Pensions Conference 2016, Toronto, November 29, 2016
David Rogers presented on *"The Changing World of Pension Investment: Evaluating New Rules on Ownership Restrictions, Infrastructure Investment, and other Critical Issues"*

SuperInvestor Amsterdam 2016, Amsterdam, November 15, 2016
Martin Day moderated a panel on *"What makes the Perfect Co-Investment Partner?"*

Canadian Private Equity Summit 2016, Toronto, November 9, 2016
Martin Day spoke about *"Co-Investments and Going Direct"*

SuperReturn Infrastructure 2016, London, September 21, 2016
Martin Day moderated a panel on *"Infrastructure Investment Models: Why are Investors Gravitating to Direct and Co-Investment Models Whenever Possible?"*

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