

Sky Island Capital LP Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Sky Island Capital LP (“Sky Island” or the “the Firm”). If you have any questions about the contents of this brochure, please contact us at (469) 399-7225. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. The Partnership is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Sky Island is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2: Material Changes

This brochure represents the initial filing of Form ADV Part 2 filed with Sky Island’s request for registration with the Commission filed in August 2019.

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Item 4: Advisory Business

Sky Island, a Delaware limited partnership which commenced operations in September 2018, is jointly owned and controlled by the Company’s Managing Partner, Mr. Jack Waterstreet, Mr. Patrick Murley, Partner and Mr. William Dobbs III, Partner. Sky Island MSC Investment GP LP (together with any future general partner, “General Partner”) and is affiliated with Sky Island and is subject to the Investment Advisers Act of 1940, as amended (“Advisers Act”), pursuant to Sky Island’s registration in accordance with SEC guidance.

Sky Island provides discretionary investment advisory and management services to its clients, which consist of investment funds privately offered to qualified investors, seeking to invest in lower/middle market manufacturing companies based in North America. Sky Island’s clients include Sky Island MSC Investment LP and Sky Island MSC Investment – A LP (collectively, “Sky Island MSC”) and future private investment funds (each a “Private Fund” and collectively, “Private Funds”). Each Private Fund is managed in accordance with the Private Fund’s investment objectives, strategies, restrictions and guidelines as disclosed in the relevant offering documents.

Sky Island is responsible for evaluating and monitoring Private Fund investments and providing day-to-day managerial services to such Private Fund. Sky Island sources, structures and negotiates potential investments, monitors the performance of underlying portfolio companies and advises the Private Funds as to the disposition of investment holdings.

Since Sky Island does not provide individualized advice to investors, investors should consider whether a particular Private Fund meets their investment objectives and risk tolerance prior to investing. Information about the investment strategy of each future Private Fund can be found in the Private Fund's offering documents.

As of July 31, 2019, Sky Island had approximately \$125,000,000 in assets under management on a discretionary basis.

Item 5: Fees and Compensation

The following is a general description of fees, compensation, and expenses of the Private Funds. In the future, differences will exist from Private Fund to Private Fund, and certain Private Funds may not charge certain fees, compensation, or expenses that other funds charge. The governing documents of the Private Funds describe fees, compensation, and expenses in greater detail.

Management Fee

Sky Island or a General Partner will assess a Private Fund a management fee for advisory services provided to the Private Funds in accordance with their respective offering documents and limited partnership agreements. Private Funds, with the exception of Sky Island MSC, are expected to pay the Firm a management fee of up to 2.0% of each limited partner's committed capital during the Investment Period and 2% of invested capital after the Investment Period as defined in each partnership's offering documents. For Sky Island MSC, the underlying portfolio company pays the Firm a fixed management fee negotiated at the time of acquisition.

In addition, each limited partner may be subject to performance fees as documented in Item 6 below.

Organizational Expenses

Future Private Funds will reimburse Sky Island (or the General Partner) for the Private Funds' organizational and startup expenses, including legal, travel, accounting, filing, capital raising and other organizational expenses. Additionally, the General Partner will bear the cost (through an offset against the Management Fee or otherwise) of any placement fees payable directly or indirectly to any placement agent in connection with the formation of the Private Funds.

Other Expenses

In addition to the Management Fee, the Private Funds generally will pay, or reimburse the relevant General Partner for, all other fees, costs, expenses, liabilities, and obligations related to a Private Fund and/or its activities, business, portfolio companies, or actual or potential investments that are not reimbursed by portfolio companies, generally including all fees, costs, expenses, liabilities, and obligations relating or attributable to the Private Fund and its portfolio company or companies, including:

- Legal;
- Auditing;

- Consulting;
- Financing;
- Accounting and custodian fees and expenses;
- Expenses associated with the Private Funds' financial statements, tax returns and Schedule K-1s;
- Out-of-pocket expenses incurred in connection with due diligence related to a potential portfolio fund investment or transactions not consummated;
- Expenses for travel to portfolio funds' annual meetings;
- Insurance expenses and other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); and
- Any taxes, fees or other governmental charges levied against the Private Funds. Fees for each Private Funds are described in each partnership's offering documents.

Co-Investments

When the General Partner of a Private Fund deems it appropriate and consistent with the interests of the Private Fund, it may, but shall not be obligated to, provide co-investment opportunities to the Private Fund's limited partners or third parties. The General Partner may allocate the available investments among the Private Funds, limited partners and any third party as the General Partner may, in its sole discretion, determine. The General Partner may consider any factors it deems relevant in determining such allocations, including, without limitation, the potential co-investor's size, sophistication, tenure as an investor with Sky Island generally, commitment to making co-investment funds available, ability to consummate co-investments within a specified time frame, interest in pursuing co-investment opportunities, or strategic expertise. The terms of any such co-investment are negotiated by the General Partner and the potential co-investor on a case-by-case basis in their respective sole and absolute discretion.

From time to time, the General Partner may elect to facilitate co-investment opportunities with respect to a particular investment within a certain period of time after such investment is consummated by a Private Fund through subsequent sales or dispositions of portions of such investment to co-investors. Proceeds received by the Private Fund in connection with any such sale or disposition are generally distributed on a pro rata basis to all partners of the Private Fund in proportion to their respective interests therein. In addition, the General Partner reserves the ability to charge any co-investor participating in such co-investment opportunity a cost of carry based on the cost basis of the interest in the investment being acquired by such co-investor. Any cost of carry paid to the Private Fund by a co-investor is also generally distributed on a pro rata basis to all partners of the Private Fund and may be treated as part of cumulative distributions to such partners under the Partnership Agreement for purposes of computing the preferred return. If a Private Fund facilitates a co-investment opportunity in this manner, it will bear the risk that any or all of the excess portion of such investment may not be sold or may only be sold on unattractive terms and that, as a consequence, among other things, the Private Fund may hold a larger than expected interest in such portfolio investment, may bear a greater amount of fees, costs and expenses associated with

such portfolio investment, or may realize lower than expected returns from such portfolio investment.

Co-investors typically bear their pro rata share of various fees, costs and expenses related to their co-investments and may be required to pay their pro rata share of fees, costs and expenses related to their potential co-investments that are not consummated, such as reverse breakup fees or broken deal costs. To the extent co-investors do not agree to or do not otherwise bear fees, costs and expenses related to unconsummated co-investments then such fees, costs and expenses will be borne by the Private Fund.

Other Information

Sky Island generally has the right to exempt certain investors in the Private Funds from payment of all or a portion of management fees and/or carried interest, described below. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate, or through other funds which co-invest with the relevant Private Fund. Sky Island may enter into side letter arrangements with certain investors in a Private Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

Item 6: Performance Based Fees and Side-by-Side Management

Carried Interest

Sky Island or an affiliate of Sky Island is also entitled to receive performance based distributions (“Carried Interest”) on a tiered basis based on capital commitments generally starting with 8% of the profits on distributions derived from the disposition of investments or securities after taking into account certain expenses of the Private Funds and a preferred returned allocated to each limited partner.

Although Carried Interest is a method of compensation that is generally used to align Sky Island’s interests with those of its Private Funds’ limited partners, it may also create an incentive for Sky Island to make more speculative investments. In addition, compensation in the form of Carried Interest may incentivize Sky Island to make different decisions regarding the timing and manner of the realization of its Private Funds’ portfolio investments than would be the case if such Carried Interest were not part of its overall compensation structure. Sky Island seeks to address these conflicts through careful vetting of investment opportunities by its investment professionals and disclosure of investments to limited partners through capital call notices and periodic reports. Additionally, Sky Island’s partners and certain investment professionals will often invest in or along side the Private Funds intended to align the interests of Sky Island and those of the Private Funds.

Detailed information regarding the Carried Interest to be borne by the limited partners in each of the Private Funds is contained in the relevant Private Fund’s offering documents. Investors should

not consider an investment in a Private Fund without fully understanding the Private Fund's Carried Interest structure.

Item 7: Types of Clients

Sky Island provides investment advisory services to privately-offered pooled investment vehicles. For information on minimum commitment amounts, please see the related Private Fund's offering documents.

Investment in the Private Funds is limited to investors that meet certain financial sophistication requirements. Investors in the Private Funds must be (i) "accredited investors" within the meaning of Regulation D under the Securities Act of 1933, as amended, and (ii) "qualified purchasers" within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act"). Certain Sky Island's employees who qualify as "knowledgeable employees" under Rule 3c-5 of the 1940 Act are also permitted to invest directly or indirectly in the Private Funds. Investors considering an investment in the Private Funds should consult with their own investment, tax and/or legal consultants prior to investing. Sky Island may waive such minimum investment amounts and qualification requirements in its discretion.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

The objective of the Private Funds, excluding Sky Island MSC and any future single investment Private Funds, is to make investments in a diversified portfolio of lower/middle market manufacturing companies based in North America. By pursuing an opportunistic, theme-based approach, Sky Island retains the flexibility to target investment opportunities and assets that it believes offer attractive risk-adjusted returns. Within its identified investment themes focusing on manufacturing, Sky Island seeks potential investment opportunities for the Private Funds through a variety of sources and market relationships including industry professionals, brokers, operating partners, joint venture partners, consultants, and other professionals within the manufacturing sector.

Risk of Loss

Investing in securities involves risk of loss that Investors should be prepared to bear. Investors should consider the risks before investing in the Private Funds. Prospective investors are urged to consult their professional advisers before deciding to invest in the Private Funds. The list of risk factors below is not a complete enumeration or explanation of the risks involved in an investment through Sky Island or any of the Private Funds, co-investment or Special Purpose Vehicles it manages. Prospective investors are urged to consult their professional advisers and review the offering memorandum and other legal documents of the particular Private Fund, co-investment or Special Purpose Vehicle before deciding to invest.

Management of the Operations

There can be no assurance that we will be successful in achieving the Private Funds' investment objective or the strategies set forth herein. Past results of the principals or portfolio managers of Sky Island are not necessarily indicative of the future performance of the Private Funds. There can be no assurance that the Private Funds' objective will be achieved or that Investors will not lose money.

No Assurance of Profit or Distributions

There is no assurance that the investments of the Private Funds, co-investments or Special Purpose Vehicles will be profitable or that any distribution will be made to Investors. Any return on investment to limited partners will depend upon successful investments being made by the Private Funds. The marketability and value of any such investment will depend upon many factors beyond the control of the Private Funds. The expenses of the Private Funds may exceed its income, and Investors are at risk of losing the entire amount of their contributed capital.

Illiquidity of Investment Vehicle Investments

The Private Funds' investment portfolio will primarily consist of investments in privately held manufacturing companies. The investments in such securities are highly illiquid because the market for the sale of such investments is limited, and the transferability of such investments is also generally restricted. There are no assurances that the Private Funds or private companies will be able to liquidate a particular privately held assets at the time and upon the terms it desires.

Co-Investments

Sky Island may in its discretion, make available co-investment opportunities to certain Investors that Sky Island, in its sole discretion, deems suitable or strategic. Sky Island is not required to offer such co-investment opportunities to all Investors and may select certain investors that it deems appropriate for co-investment opportunities. Co-investment opportunities may be made available through limited partnerships or other entities formed to make such investments (i.e. "Co-Investment Funds"). Sky Island will allocate available investment opportunities among the Funds, any Co-Investment Fund and any third parties as it may in its sole discretion determine. Therefore, in the event that a co-investment is a successful investment, an Investor(s) that did not participate in such co-investment or Co-Investment Fund will not participate in the profits of such investment upon a liquidity event of the underlying investment company or private fund. Sky Island has adopted policies and procedures to address co-investment opportunities, in an effort to offer co-investment opportunities to Investors and/or third parties, to which Sky Island believes may be suitable for co-investment opportunities.

Nature of Direct Investments

An investment in the Private Funds requires a long-term commitment with no certainty of return. There is most likely little or no near-term cash flow available to the Investors. Most of the Private Funds investments are highly illiquid, as the Private Funds generally acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act or in a private placement or other transaction exempt from registration under the Securities Act. Accordingly, there

can be no assurance that the Private Funds will be able to realize such investments in a timely manner. Distributions in kind of illiquid securities to the Investors may be made.

Losses on unsuccessful investments may be realized before gains on successful investments are realized. Private equity investments often involve equity investments in businesses undertaking a significant amount of debt, thereby subjecting them to significant financial risks. Such investments are inherently more sensitive to declines in revenues, to increases in expenses and to other general economic conditions. In addition, the Private Funds may hold non-controlling interests in many of its portfolio companies, and therefore may have a limited ability to protect its position and interests in such portfolio companies. In addition, general economic or industry-specific conditions, which are not predictable, can have a material adverse impact of such investments.

Economic and Market Risk

Companies in which the underlying private equity funds or the Private Funds invest may be sensitive to general downward swings in the overall economy or in their specific industries or geographies. Factors affecting economic conditions, including, for example, inflation rates, currency devaluation, exchange rate fluctuations, industry conditions, competition, technological developments, domestic and worldwide political, military and diplomatic events and trends and innumerable other factors, none of which will be in the control of the Private Funds, can substantially and adversely affect the business and prospects of the Private Funds. A major recession or adverse developments in the securities market might have an impact on some or all of the Private Funds' investments. In addition, factors specific to a portfolio company may have an adverse effect on the Private Funds, the private equity fund's investment in such company

Lack of Liquidity of the Interests

Prospective investors should be aware of the long-term nature of their investment. There is not now nor will there be a public market for the Interests. The Interests may not be assigned, transferred or encumbered without the permission of the General Partner. Accordingly, an Investor may not be able to liquidate its investment. The Interests will not be registered under the Securities Act, or under the various "Blue Sky" or securities laws of the state or jurisdiction of residence of any Investor.

Consequences of Default

If an Investor fails to pay in full any requested capital contributions, the General Partner may take certain actions which may result in a sale of such Investor's Interest or a forfeiture of all or a portion of such Investor's Interest. Additionally, the General Partner may pursue any available legal remedies, with the expenses of collection of the unpaid amount, including attorneys' fees, to be paid by such defaulting Investor. A defaulting Investor will be responsible for interest charges and default charges imposed by an underlying fund that arise from or relate to such Investor's failure to pay requested capital contributions. The General Partner will be granted additional powers to deal

with defaulting Investors as described in the Private Funds' Limited Partnership Agreements or other governing documents.

Cybersecurity

Sky Island, the underlying managers and portfolio companies may face cybersecurity threats to gain unauthorized access to sensitive information, including, without limitation, information regarding the limited partners and the Private Fund's investment activities, or to render data or systems unusable, which could result in significant losses. If such events were to materialize, they could lead to losses of sensitive information or capabilities essential to the operations of Sky Island and the portfolio companies and could have a material adverse effect on their reputations, financial positions, results of operations, or cash flows, could lead to financial losses from remedial actions, loss of business, or potential liability, or could lead to the disclosure of limited partners' personal information.

Cybersecurity attacks are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Sky Island or a portfolio company's controls and procedures, business continuity systems, and data security systems could prove to be inadequate. These problems may arise in both Sky Island's or a portfolio company's internally developed systems and the systems of third-party service providers.

Item 9: Disciplinary Information

Sky Island and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Item 10: Other Financial Industry Activities and Affiliations

As previously noted, an affiliate of Sky Island serves as the General Partner of the Sky Island MSC.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Sky Island has adopted a formal compliance code of conduct that includes a securities trading code of ethics, insider trading policies and procedures, and procedures to address "pay to play" rules and regulations. Among other things, the code of conduct requires that employees act with integrity, place the interests of clients above their own, and comply with applicable provisions of laws. The policies also require employees to pre-clear certain personal securities transactions, report personal securities transactions on at least a quarterly basis, and provide Sky Island with a detailed summary of certain holdings annually. Sky Island reviews its compliance systems and procedures with experienced compliance consultants.

The investment professionals of Sky Island may invest in or alongside the Private Funds. As such, the investment professionals of Sky Island invest in transactions made by the Private Funds. While investments by related persons and investment professionals of Sky Island are intended to align

interests of Sky Island and its related persons with those of the Private Funds, such investments may create conflicts (for example, in a diverse group of investors, including the investment professionals, with conflicting tax or other interests, decisions may be made that are more beneficial to one type of investor). Generally, investments and divestures are made on the same economic terms at the investment level for all partners of the Private Funds, including for Sky Island's related persons.

Sky Island and its related entities engage in a broad range of advisory and non-advisory activities. Sky Island will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Private Funds in an appropriate manner, as required by the relevant governing documents, although the Private Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Sky Island conducting its activities, the interests of a Private Fund may conflict with the interests of Sky Island, one or more other Private Funds, portfolio companies or their respective affiliates. As a general matter, Sky Island will determine all matters relating to structuring transactions and Private Fund operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by limited partners or the advisory committees of the participating Private Funds.

In certain cases, Sky Island will have opportunity (but, subject to any applicable restrictions or procedures in the relevant governing documents, no obligation) to identify one or more secondary transferees of interests in a Private Fund. In such cases, Sky Island will use its discretion to select such transferees based on suitability and other factors, and unless required by the relevant governing documents, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Private Fund investors.

As a result of the Private Funds' controlling interests in portfolio companies, Sky Island and/or its affiliates typically have the right to appoint portfolio company board members (including current or former Sky Island personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Sky Island and/or its affiliates. Unless such amounts are subject to the governing documents' offset provisions, if any, they will be in addition to any management fees or carried interest paid by a Private Fund to Sky Island. In addition, because certain expenses are paid for by a Private Fund and/or its portfolio companies or, if incurred by Sky Island, are reimbursed by a Private Fund and/or its portfolio companies, Sky Island may not necessarily seek out the lowest cost options when incurring (or causing a Private Fund or its portfolio companies to incur) such expenses.

Additionally, a portfolio company typically will reimburse Sky Island or service providers retained at Sky Island's discretion for expenses (including without limitation travel expenses) incurred by Sky Island or such service providers in connection with its performance of services for such portfolio company. This subjects Sky Island and its affiliates to conflicts of interest because the Private Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Sky Island determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Private Fund, their effect is reflected in each Private Fund's audited financial

statements, and any fee paid or expense reimbursed to Sky Island or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related potential conflicts of interest.

Item 12: Brokerage Practices

Being an adviser to private equity funds, Sky Island does not make investments in securities listed on national exchanges. While we primarily make investments directly with private issuers or through private partnerships, there may be situations where we place a trade(s) through a broker, particularly if there has been a liquidity event in a portfolio holding. In such circumstances, we will seek “best execution” in light of the circumstances involved in transactions. In selecting a broker for any transaction, we may consider a number of factors, including, for example, broker’s reputation, net price or spread, financial strength and stability, market access, efficiency of execution and error resolution, and the size of the transaction. We will not be obligated to obtain the lowest commission or best net price for a client on any particular transaction.

In certain instances, investment opportunities identified by Sky Island may be limited in terms of the capacity to invest. Typically, limited investment opportunities will be allocated at the discretion of Sky Island between the Private Funds. While Sky Island will seek to allocate these opportunities across all clients in a fair and equitable manner, the ultimate allocation will be determined by the underlying managers.

Item 13: Review of Accounts

All Private Funds managed by Sky Island are reviewed on at least a quarterly basis by the partners. The investments made by the Private Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. The Investments are periodically reviewed to confirm that each Private Fund is managed in accordance with its stated objectives.

Sky Island generally will provide limited partners quarterly statements and audited financial statements annually.

Item 14: Client Referrals and Other Compensation

Sky Island does not currently pay third parties a fee or compensation for the referral of a client or Investor to Sky Island.

Sky Island may engage third party placement agents to solicit prospective investors to invest in the Private Funds.

Item 15: Custody

Private Fund assets including cash, cash equivalents and, generally, certificated securities are held by unaffiliated, qualified custodians. Sky Island is deemed to have custody of the Private Fund assets because the General Partner can access the Private Funds' assets. In compliance with the Advisers Act, Sky Island has arranged for an annual audit of the Private Funds which is performed in accordance with U.S. generally accepted accounting principles (GAAP). Sky Island expects to provide limited partners audited financial statements.

Sky Island may also establish co-investment vehicles or special purpose vehicles (collectively "SPVs") to invest in a particular investment side-by-side with one or more of the Private Funds. If any investor(s) in such SPV is not an investor in a Private Funds related to the SPV, Sky Island will ensure the such SPV is (i) audited at least annually and (ii) such audited financial statements are distributed to all investors in such SPVs.

Item 16: Investment Discretion

Sky Island serves as the investment adviser with discretionary authority to implement investment decisions on behalf of the Private Funds. Sky Island's investment decisions and advice with respect to the Private Funds is subject to the applicable limited partnership agreements and any side letters that it executes with investors.

Item 17: Voting Client Securities

In the event the Private Funds hold equity positions or other positions that may solicit proxies, it is Sky Island's policy to review the proxies to determine whether a vote is material to shareholder value and in the best interest of the Private Funds. When a vote is deemed material to shareholder value it is Sky Island's policy to vote in a manner which it believes will increase shareholder value the most or decrease shareholder value the least. Sky Island's may abstain from voting if it deems that abstinence is in the Private Funds' best interests or when Sky Island has determined that the vote is immaterial to the value of the securities held by the Private Funds.

Current investors may request a copy of Sky Island's full proxy voting policies and procedures and record. Please contact Sky Island's CCO at jack@skyislandcap.com.

Item 18: Financial Information

Sky Island has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to provide investment advisory services to the Company.