Opportunity Zone Overview

June 21, 2018

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Enhanced Capital Overview

- Founded in 1999, Enhanced Capital (Enhanced) is a national investment firm focused on **Public Policy Investment Strategies**:
  - Tax credit finance transactions and related lending
  - Targeted direct lending, customized for Community Reinvestment Act (CRA), environmental, social and governance (ESG) and other mandates
- Executed over $1B in tax credit transactions, and raised over $650M in capital through targeted public policy-driven funds and Enhanced's Small Business Investment Company (SBIC)
- Robust asset management team that tracks and reports ancillary benefits such as job growth, economic impact, community revitalization and carbon mitigation
- Enhanced is licensed to participate in various federal and state programs:
  - A community development entity (CDE) regulated by the U.S. Department of the Treasury
  - A registered investment advisor (RIA) regulated by the U.S. Securities Exchange Commission (SEC)
  - A small business investment company (SBIC) regulated by the Small Business Administration (SBA)
  - Numerous investment entities regulated by state agencies

Enhanced's History Managing Targeted Funds

- Enhanced has deep experience in structuring targeted investment funds through state-targeted funds, the SBIC program, and other targeted community development programs:

Fund	Year	Investment Focus
Louisiana Investment Fund	2000	Small businesses
New York Investment Fund	2000	Portion into Empire Zones or underserved areas; early-stage businesses
Colorado Investment Fund	2002	Portion into rural areas; early-stage and seed-stage businesses
Louisiana Investment Fund II	2002	Portion into low-income communities; early-stage or start-up businesses; technology-based businesses
Louisiana Investment Fund III	2003	Portion into low-income communities; early-stage or start-up businesses; technology-based businesses
Alabama Investment Fund	2004	Portion into diversity businesses
D.C. Investment Fund	2004	District-wide
New York Investment Fund II	2004	Portion into Empire Zones and underserved areas; early stage, start-up and, emerging technology
Texas Investment Fund	2005	Portion into low-income communities and underserved areas; early-stage businesses
New York Investment Fund III	2005	Portion into Empire Zones and underserved areas; early stage, start-up and, emerging technology
Texas Investment Fund II	2008	Portion into low-income communities and underserved areas; early-stage businesses
Alabama Investment Fund II	2008	Portion into diversity businesses
Tennessee Investment Fund**	2010	Equity only; portion into seed-stage and early-stage businesses
Connecticut Investment Funds I-III	2011	Portion into pre-seed and green-technology businesses; other targeted industry sectors
Jobs-For Texas Program Fund	2011	Small businesses
Wyoming Investment Fund	2012	Small businesses
Enhanced SBIC Fund*	2012	Lower middle market investing
Mississippi Investment Fund	2013	Small businesses
Connecticut Investment Fund IV	2013	Portion into pre-seed and green-technology businesses; other targeted industry sectors
Utah New Markets Tax Credit Fund I	2014	Low Income Census tracts
Connecticut Investment Fund V	2015	Portion into pre-seed, green-technology businesses and urban areas; other targeted industry sectors
PR Public Welfare Investment Fund*	2017	Small businesses in CRA-eligible zones in Puerto Rico
Utah New Markets Tax Credit Fund II	2017	Low Income Census tracts
Utah Rural Investment Fund	2017	Rural areas of Utah

Opportunity Zone Program Overview

- Tax Cuts and Jobs Act of 2017 created a new community development program that encourages private investment in opportunity zones through tax incentives for capital gains
  - U.S. investors currently hold trillions of dollars in unrealized capital gains a significant untapped resource for economic development

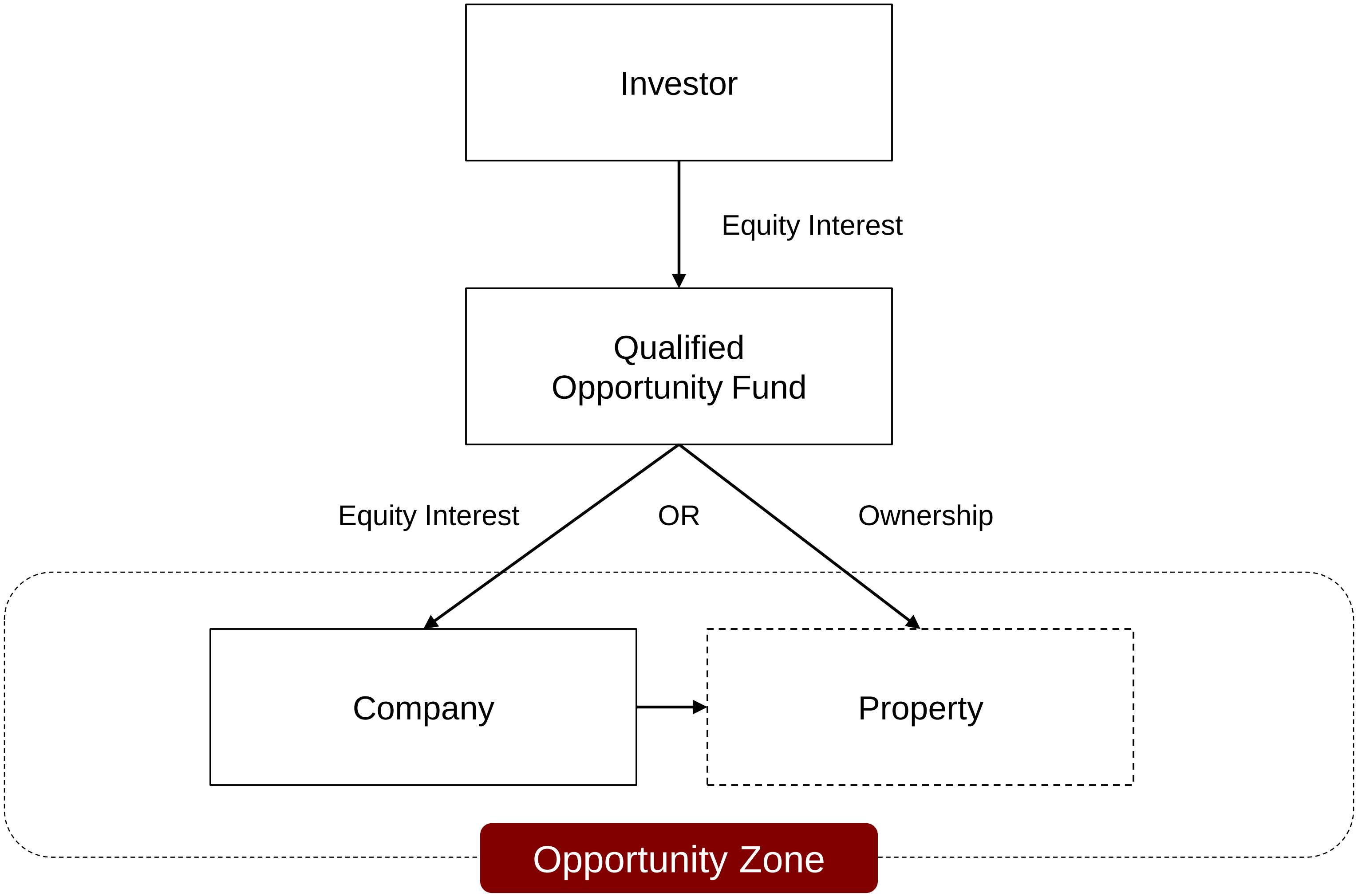
- The program allows taxpayers to defer and reduce capital gain if the taxpayer reinvests all or a portion of capital gain proceeds in a opportunity zone fund within 180 days of the sale or exchange (with an unrelated party) that creates capital gain

- The opportunity zone funds must invest 90% of its assets in opportunity zone businesses (Stock and partnership interests) and opportunity zone property

- Opportunity zones have been designated for all 50 states and territories.

- Treasury will issue regulations regarding the opportunity zone program over the coming months

Example Structure



Opportunity Zone Tax Benefits

- The opportunity zone program allows investors to potentially defer all or a portion of capital gain, get a partial forgiveness of capital gain and a full forgiveness of additional gains on the investment in the opportunity zone fund

1. Defer the payment of capital gains tax until earlier of sale or exchange of investment and December 31, 2026

2. Partial forgiveness of capital gains tax for specified holding periods
   - 5 years – basis increased by 10% (pay 90% (or less depending on FMV)* of original capital gains tax due)
   - 7 years – basis increased by another 5% (pay 85% (or less depending on FMV)* of original capital gains tax due)

3. Forgiveness of gains on investment in opportunity zone fund if investment held 10 years

*The amount of capital gains tax paid at the earlier of sale or exchange of investment and December 31, 2026 is based on the lesser of:

1. Amount of gain deferred; and
2. Fair market value of the investment in the opportunity zone investment

Opportunity Zone Fund

- The opportunity zone fund must:
  - Be a corporation or partnership
  - Be certified by the U.S. Department of Treasury (self-certification)
    - The IRS is expected to issue the self-certification form, which needs to be filed with an opportunity zone fund's annual tax filing, this summer
    - The IRS form must be timely filed
      - The form for funds that want to self-certify for 2018 will be due when the funds file their tax returns in 2019
  - Invest 90% of its assets in <u>opportunity zone businesses</u> (stock and partnership interests) or <u>opportunity zone property</u>
    - Tested on:
      1. The last day of the first six month period of the fund's taxable year
      2. The last day of the fund's taxable year

Opportunity Zone Business

- The investor can hold stock or partnership interests in an opportunity zone business or a business being organized for the purpose of being an opportunity zone business
- The interest in the opportunity zone business must be acquired from an unrelated party after December 31, 2017
  - An unrelated party requires the selling party to hold less than 20% of the business after the sale

- An opportunity zone business is a trade or business in which:
  - Substantially all of the tangible assets of business must be used in an opportunity zone;
  - At least 50% of gross income earned in active conduct of a business in an opportunity zone;
  - Substantially all of intangible property used in active conduct of business;
  - Less than 5% unadjusted basis of property is nonqualified financial property; and
  - Is not a “sin business”
    - Includes golf courses, country clubs, massage parlors, hot tub facilities, gambling facilities, and stores with principal businesses of selling alcoholic beverages for consumption off premises.

Opportunity Zone Property

- The interest in the opportunity zone property must be acquired from an unrelated party after December 31, 2017
  - An unrelated party requires the selling party to hold less than 20% of the business after the sale

- Opportunity zone property is:
  - Tangible property used in a trade or business;
  - Property is substantially all used in an opportunity zone
  - Either:
    - Original use of the property commences when opportunity zone fund takes control of property; or
    - The opportunity zone fund substantially improves the property
      - During the 30-month period after acquisition, the opportunity zone fund spends as much money improving and/or rehabilitating the property as it did on purchasing the property (i.e. additions to basis equal or exceed the adjusted basis of such property at beginning of 30-month period)

Opportunity Zone Fund Investments

- Opportunity zone funds are likely to focus on the following types of investments:

1. Real estate that requires rehabilitation
   - Low income housing
   - Historic rehabilitation
2. Businesses
   - New businesses in opportunity zones
   - Expansion of existing businesses into opportunity zones
   - Expansions of businesses already within opportunity zones
3. Infrastructure Projects
   - Renewable energy and energy efficiency
   - Broadband and other technology services
   - Healthcare facilities

- The opportunity zone investments may be combined with other incentives as well
  - State incentives
  - Federal tax credits
  - Other programs

Investor Focus

- Opportunity zone funds will attract investors for various reasons:
  - Impact investors with focuses on:
    - Particular types of investments (i.e. solar or healthcare)
    - Specific geographies (i.e. rural or local)
  - Strong risk-adjusted returns for equity investments
  - Tax strategies
  - Match with other incentives

Q&A

- Any questions?

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