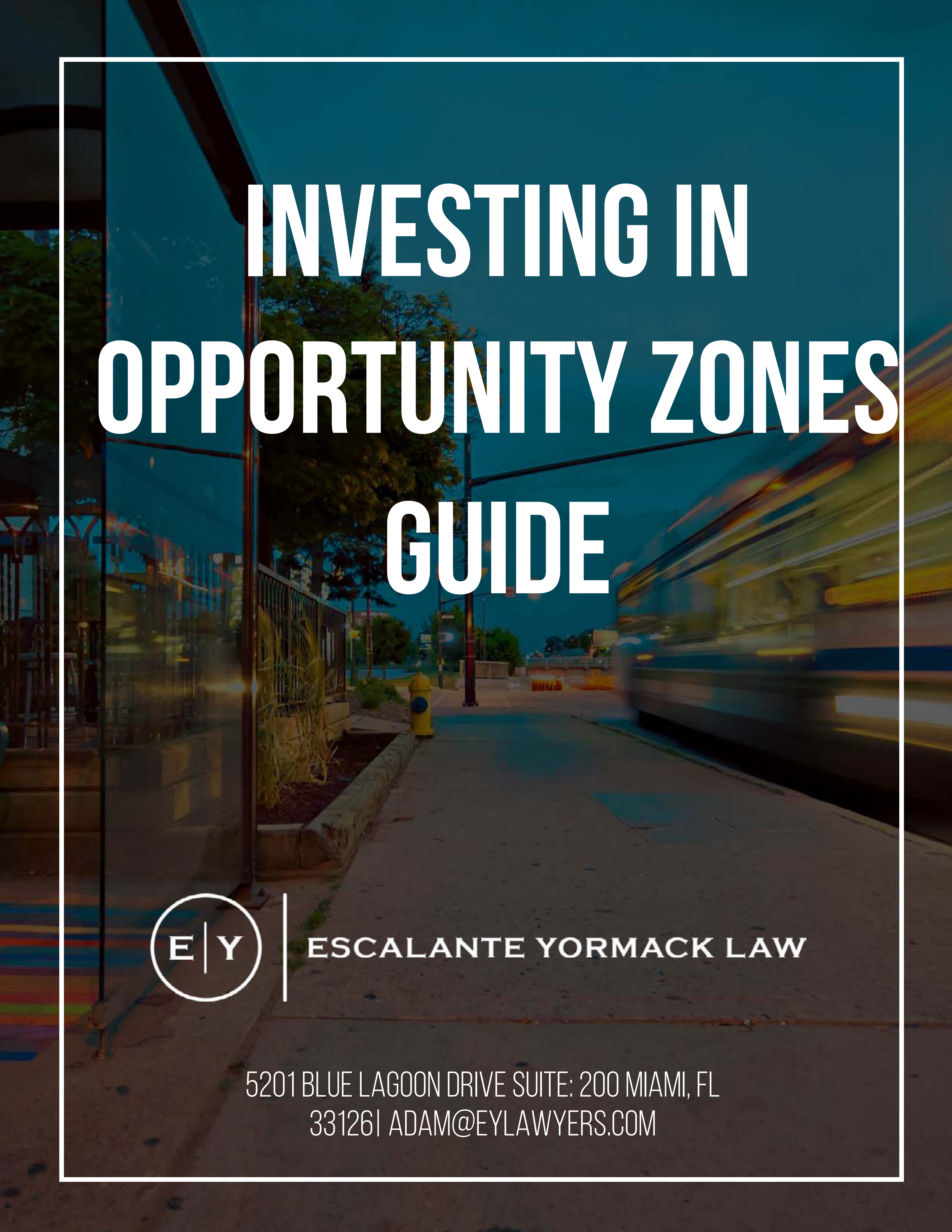

INVESTING IN OPPORTUNITY ZONES GUIDE

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WHAT IS THE OPPORTUNITY ZONES PROGRAM?

The Tax Cuts and Jobs Act of 2017 created a new section of the Tax code (26 U.S. Code § 1400Z) that outlines exciting new tax incentives for investments in specifically designated areas.

- These tax incentives are obtained through investment vehicles known as **opportunity funds**
- Opportunity funds are designed to promote economic development and growth in designated areas called **qualified opportunity zones**
- Investors in these opportunity zones qualify for substantial tax advantages

WHAT IS AN OPPORTUNITY ZONE?

An opportunity zone is a census tract nominated by its state's governor and certified by the U.S. Department of the Treasury. It is an area in which economic development is desired, in the form of investors investing in new projects. Investors who do so qualify for certain federal tax benefits.

WHAT IS AN OPPORTUNITY FUND?

An opportunity fund is an investment vehicle that invests at least 90% of its capital in qualified opportunity zones. The design of the fund allows investors to pool resources within opportunity zones to increase the amount of capital for investments selected by the manager. To receive the aforementioned tax benefits offered through an opportunity fund, investors must invest the gains from a sale of a prior investment (stock, bonds, real estate, a company) into an opportunity fund within 180 days of the sale of that investment. The investor only has to roll in the gain or profits from the sale of the investment, not the original principal of the investment. Only the taxable gains rolled over into an opportunity fund may receive the tax incentives.

THREE SUBSTANTIAL TAX ADVANTAGES OPPORTUNITY FUNDS CAN PROVIDE TO INVESTORS:

1. DEFERRAL OF CAPITAL GAIN

A tax deferral for any capital gains rolled over in an opportunity fund. The deferred gain would be recognized on the earliest of December 31, 2026 or the date on which the investment in the fund is sold.

2. REDUCTION OF THE CAPITAL GAINS TAX REALIZED

A step-up in basis for capital gains rolled into an opportunity fund. The basis of the original investment is increased by 10% if the investment is held by the taxpayer for at least 5 years, and by an additional 5% if held for at least 7 years. In other words, if by December 31, 2026 an investor has held an investment in an opportunity fund for 7 years, then the tax on the initially deferred gain is expected to be reduced by 15%, or reduced by 10% if by then held for only five years.

3. NO TAX ON ANY CAPITAL GAINS FROM AN INVESTMENT IN AN OPPORTUNITY FUND

In the case of any investment in an opportunity fund held by a taxpayer for at least 10 years, the basis of such property shall be equal to the fair market value of such investment on the date that the investment is sold or exchanged. In short, after 10 years, thereafter there would be zero federal capital gains tax on profits from the sale of an investment in an opportunity fund. As clarified by the regulations, the appreciation in the value of the Opportunity Zone project is in effect tax-free until the project is disposed of, subject to an outside limit in the year 2047.

4. WHAT IS A "PROJECT"?

The projects must be located within the designated Opportunity Zone and must be part of a qualified business, which can include both real estate and tangible properties, including operating businesses. The funds can invest in a partnership interest and stock on a corporation or membership interest in a limited liability company and there can be a pre-existing entity that likewise acquires the interest in the Opportunity Zone fund or becomes an Opportunity Zone fund even if it was established prior to 2018.

5. OPPORTUNITY ZONE BUSINESS, AND HOW WORKING CAPITAL IS TREATED

The regulations identify the safe-harbor rules for qualified Opportunity Zone businesses to apply the definition of working capital to property held by the businesses for a period of up to 31 months. In other words, it is understood that investments may be made in Opportunity Zones where the initial cash exceeds 10% of the total asset value, providing there is a workable plan in place to justify holding the funds (namely for future development and construction), and the regulations expand the definition of working capital to include developing working capital.

6. SUBSTANTIALLY ALL, AND HOW THE REGULATIONS SPECIFY THAT

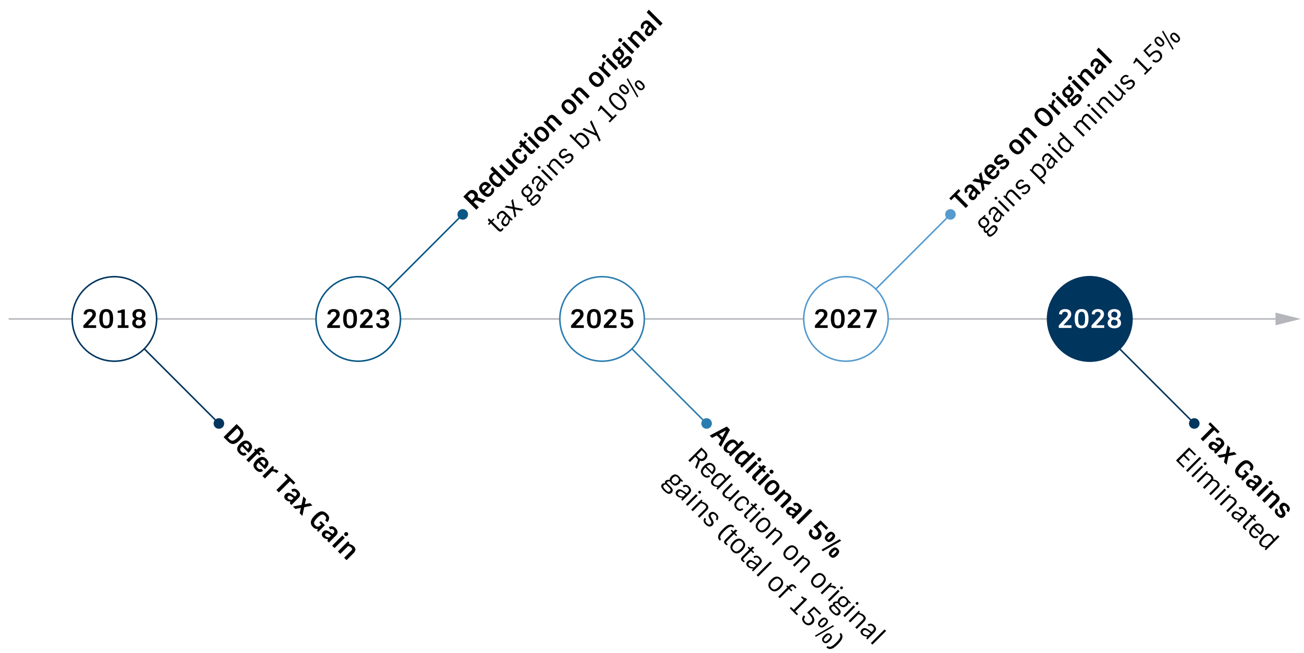
70% of the tangible property under lease by trade or businesses as qualified Opportunity Zones business property will be required to satisfy the "substantially all" requirement. Therefore, the 70% requirement will give QOF's an incentive to invest in an Opportunity Zone business rather than owning qualified Opportunity Zone property directly. For example, by forming a subsidiary entity to own an Opportunity Zone property, the 70% rule would apply instead of the 90% rule. Accordingly, the intent was to reduce but not eliminate the intent that the QOF have a direct investment in qualified property zone business rather than directly owning a qualified Opportunity Zone business.

7 FOREIGN INVESTORS, HOW WILL THEIR CAPITAL BE TREATED DIFFERENTLY

Currently, there is no limit on the type of taxpayer that can benefit, and therefore, foreign investors, including trusts, may benefit. Under U.S. tax law, non-U.S. investors are generally not subject to U.S. tax on the sale of appreciated capital assets not treated as a U.S. real property interest, or USRPI. Therefore, as is applies to unrealized gains in capital markets, non-U.S. investors are not anticipated to liquidate their portfolios in time for a 2019 investment in a qualified fund. However, the is direct addressing of the applicability to USRPI and or Foreign Investment in Real Property Tax Act (FIRPTA) withholding. In principle, non-U.S. investors may sell appreciated real property an reinvest the gain in a qualified fund. Since the consideration may be subject to 15 percent FIRPTA withholdings, investors may find it complicated to utilize. For example, under a Section 1031 exchange, under the new provision, if the "replacement" property is held for more than 10 years, the appreciation would be completely tax free and only 85 percent of the deferred gain would be taxed.

HOW TO BEST INVEST IN AN OPPORTUNITY FUND

To receive the most favorable tax treatment on an investment, investors are incentivized to retain their stakes in an opportunity fund over the long term. The program provides the most potential upside to those who hold their investment for ten years or more.



The above figure illustrates how an investor's potential after-tax returns compare when assuming a ten-year holding period, as well as an annual investment appreciation of 7%, and a long-term capital gains tax of 23.8% (note: federal capital gains tax of 20% and net investment income tax of 3.8%).

As an example: after ten years, an investor would see an additional $44,000 for every $100,000 of capital gains reinvested into an opportunity fund on December 31, 2018, compared to an equivalent investment in a more traditional stock portfolio. (Keep in mind that performance assumptions are shown only for illustrative purposes and do not reflect the actual experience of any individual investor.)

INVEST IN YOUR OPPORTUNITY FUND EXPERTLY

Properties that qualify for opportunity funds must follow these requirements:

- At least 90% of assets must be located and invested in qualified opportunity zone property; and
- Properties acquired after December 31, 2017
- Qualifying assets must be equity investments, not debt (however, equity structured as debt may); and
- The original use of such property must commence with the opportunity fund, or the fund must substantially improve the property within 30 months of acquisition.

Over the coming months, the IRS and Treasury Department are set to release further guidance on the implementation of this program. In October 2018, updated guidelines and regulations were proposed. The main takeaways from the new guidelines

- All opportunity zone designations expire on December 31, 2028. Investors who invest after 2018 will still meet the 10-year holding period, regardless of when the designation of their opportunity zone(s) expire.
- Opportunity zone assets may be held until January 1, 2048. The basis step-up election can be made even after December 31, 2028, when the opportunity zone designations expire.
- Only an equity investment will qualify, including a preferred interest.
- Only capital gains are eligible for the deferral, however, more capital can be invested and will be bifurcated for tax treatment purposes.
- The appreciation in the value of the Opportunity Zone project is in effect tax-free until the project is disposed of, subject to an outside limit in the year 2047
- Investments in an opportunity zone must be exited by December 31, 2048.
- These regulations, while still proposed, can be considered reliable.
- Investors were previously unsure how to raise capital for a long-term project while also being required to deploy cash into that project within six months of purchase. Now, a safe harbor will provide 31 months to deploy cash.

- Land value is not included when calculating "substantial improvement," only the value of the existing buildings when the land was purchased.
- Individuals, C Corporations, real estate investment trusts, partnerships, and certain pass-through entities (limited liability companies) are eligible opportunity zone investors.
- Partnerships may defer all or part of capital gains be investing in a qualified opportunity fund. Deferred gains can not be included in distributive shares among the partners.
- Investors may invest in more than one qualified opportunity fund.
- Deferring capital gains can be achieved by attaching Form 8948 to one's federal income tax returns for the taxable year in which the gain would otherwise have been recognized.

To best prepare for Opportunity Fund investment, ask questions, or learn more, contact

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DISCLAIMERS

OVERVIEW

The Tax Cuts and Jobs Act (TCJA) provides that, for investors who have rolled capital gains into an opportunity fund and hold that investment in the opportunity fund for a period of ten years or more, that any additional gain realized by such investor from liquidating such investment will not incur additional federal capital gains taxes. However, please note that, given further Treasury Department guidance, each prospective investor should consult with their personal tax advisors before making any investment into an opportunity fund.

DEFER CAPITAL GAINS

Section 1400Z-2(b)(1) states that capital gains rolled into an opportunity fund within 180 days of being realized shall be included in taxable income for the year ended December 31, 2026.

REDUCE TAX YOU OWE

Section 1400Z-2(b)(2)(B) states that an investor's basis in the capital gain rolled into an opportunity fund will have a step-up in basis of 10% if held for at least five years, and a step-up in basis of an additional 5% if held for at least seven years. Note, however, that as the deferred capital gain will be taxed on December 31, 2026, we expect that these holding periods would need to be satisfied prior to that date in order to receive the benefits described herein.

DISCLAIMER ON ILLUSTRATIVE SCENARIO ON POTENTIAL AFTER TAX RETURNS

The TCJA provides that, for investors who have rolled capital gains into an opportunity fund and hold that investment in the opportunity fund for a period of ten years or more, that any additional gain realized by such investor from liquidating such investment will not incur additional federal capital gains tax. However, please note that, given the uncertainty regarding future Treasury Department guidance, prospective investors should consult with their tax advisor before making any investment into an opportunity fund

*The calculations show an investor's potential after-tax returns under different scenarios, assuming an investment of capital gains prior to December 31, 2019, a 10 year holding, annual investment appreciation of 7%, and a long-term capital gains tax rate of 23.8% (federal capital gains tax of 20% and net investment income tax of 3.8%), only taking into account tax at a federal level (not state). Note, however, that the performance assumptions shown are for illustrative purposes only, and are not intended to reflect the actual experience of any individual investor. The calculations for the standard stock portfolio are based on rolling over capital gains equal to $100,000, at an initial tax of 23.8% (using the same assumptions described above), into a standard stock portfolio, the remaining $76,200 of which then appreciates at a compounding return of 7%. At the end of each holding period, the investment in the standard stock portfolio is assumed to be sold and long-term capital gains at a tax rate of 23.8% paid on the capital gains from the investment in the standard stock portfolio. The ten-year hold calculations for the Opportunity Fund are based on rolling over gains of $100,000, at an initially deferred tax of 0%, into an Opportunity Fund, with the entirety of the $100,000 then appreciating at a compounding return of 7%, until December 31, 2026, at which time the initially deferred tax is reduced by 15% and the net amount is taxed at a rate of 23.8%, effectively reducing the principal invested in the opportunity fund accordingly. Thereafter, returns continue to compound at the same initial rate selected by the user of 7%. At the end of the tenth year of the holding period, the investment in the Opportunity Fund is sold and the capital gains on the investment in the Opportunity Fund itself is taxed at a rate of 0%.

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