

**CAPGrow
Opportunity Fund
2019**



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FUND OVERVIEW - EXECUTIVE SUMMARY

Fund

- **CAPGrow QOF** is a 10-year Qualified Opportunity Fund (QOF) targeting stable, long-term alternative real estate investments in high-yield, industrial warehousing and agricultural land.
- Seeking investments with strong compounding growth; targeting baseline pre-tax IRR and cash yields of 20%+.
- QOF incentives designed to boost returns up to 26-58% over non-QOF returns (depending on ARR).

Market Opportunity

- Hemp demand, especially for craft-hemp biomass / cannabidiol (CBD) products, is surging after USDA reclassification. Billion dollar hemp-centric investment opportunities slated to grow 2-3x by 2022. ⁽¹⁾
- By 2020, reports estimate \$10-15b in investment opportunities in medical / recreational cannabis - a large percentage of which is in infrastructure critical to cultivation, extraction, production and distribution. ⁽²⁾

Investment Strategy

- Identify investments that offer a clear adaptive reuse opportunity to purchase industrial property and land at sub-market rates and lease property turnkey (post retrofit) at above-market rates to niche industrial markets.
- Prioritize unique, off-market, complex transactions with high barriers to entry, thus optimizing entry pricing.
- Structure real estate leases specifically to capture yield premiums from lessor market offtake.

Competitive Advantage

- Intersection of market-leading real estate and domain expertise in craft hemp and cannabis provides unique private market opportunities not readily available and reduces risk through diversification.
- Established domain-centric developer network provides access to deep investment pipeline (\$500mm+).
- Team includes industry leading financial, real estate, legal and accounting experience in maximizing QOF benefits.

FUND OVERVIEW - QOF STRUCTURE

Structure

- CAPGrow QOF will be managed by the CAPGrow General Partnership, co-managed by Capfi Partners, LLC and Cultivate Ventures, LLC.
- CAPGrow offers a single investment commitment structure designed specifically to comply with the unique rules and regulations governing QOF compliance.
- Committed capital will be invested in a portfolio of stand alone 10-year CAPGrow QOFs, which will in turn purchase stand-alone Qualified Opportunity Fund Properties (QOZPs).
- Investment commitments can include realized or unrealized capital gains, or non-gain investment capital. Unrealized gains will qualify for QOF benefits once realized. Non-gain investments do not qualify for QOF tax or deferral benefits, but will receive non-OZF targeted investment returns.
- Capital call schedule determined by capital gain timing and construction capital requirements, ensuring QOF timing requirements are met throughout the life of CAPGrow QOF funds.
- CAPGrow QOF legal and tax compliance is designed to be low maintenance, with an overarching CAPGrow QOF subscription agreement, with identical partnership agreements for each CAPGrow QOF fund invested. All agreements will include reps to ensure full QOF compliance.
- Investment structure specifically designed to maximize returns and ensure QOF compliance. Principals have ability to co-invest in all CAPGrow investments.

Advantages

- ★ DIVERSIFIED PORTFOLIO
- ★ CAPITAL GAIN FLEXIBILITY
- ★ QOF COMPLIANT
- ★ SEAMLESS DILIGENCE
- ★ STRONG GOVERNANCE
- ★ PRINCIPAL'S COMMITMENT

FUND OVERVIEW - MANAGING PARTNER

Investment Team

CAPGrow QOF Funds will be managed by the CAPGrow General Partnership, co-managed by Capfi Partners, LLC and Cultivate Ventures, LLC. This partnership brings:

- Extensive fund management and transactional experience.
- Market leading real estate track record.
- Domain expertise and deep networks in select, high-yield real estate markets.

CAPFI PARTNERS, LLC

CapFi Partners LLC is a broker dealer and registered investment advisory firm. CapFi serves as a private placement agent providing services to private, corporate and institutional clients. CapFi has an experienced core team of diverse, hands-on investment professionals.

CapFi Representative's bring extensive regulatory and public policy experience.

Member SIPC / FINRA.

Cultivate Ventures

Cultivate Ventures is a boutique advisory and private equity firm excelling in long-term alternative investments in private companies and real estate, specifically in niche sectors defined by high barriers to entry and complexity.

Cultivate's Partners and network bring an unequalled combination of domain expertise in hemp and cannabis, with strong QOF real estate, legal and accounting experience.

Advisors

- **Developer Partners**
 - Greensage, LLC
- **Legal**
 - Bean, Kinney & Korman
 - Woombie Bond Dickinson
- **Accounting**
 - Aiken Associates
- **Affiliates / Advisors**
 - U.S. Cannabis Bar Association

FUND OVERVIEW - RETURN ANALYSIS

Return Drivers - Indoor / Controlled Cannabis

Adaptive reuse play where rates of return are driven by identifying and purchasing undervalued property; partnering with top-of-class cannabis oriented developers to retrofit property with state-of-the-art, turnkey infrastructure designed to maximize output; and securing lease rates and exit value per square foot materially higher than normalized market rates.

Return Drivers - Outdoor Hemp / Cannabis

Rates of return are driven by targeted land and real estate investments tied directly to vertically-integrated outdoor cultivation and extraction. Investments are specifically structured to capture premium investment yield and income from the value add derived from the extraction of industrial and craft biomass - specifically hemp (CBD) and cannabis (THC) oils.

Return Profile

	CANNABIS (Indoor / Controlled)		HEMP / CANNABIS (Outdoor)	
	Traditional	QOF	Traditional	QOF
Cash Yield (%) (Pre-Tax / Y 1-5)	20-40%	20-40%	20-40%	20-40%
Cash Yield (%) (Pre-Tax Y / 6-10)	30-50%	50%+	30-50%	50%+
IRR (%)	20-40%	30-50%	20-40%	30-50%
Leveraged Multiple (x)	3-6x	6-10x	3-6x	6-10x

FUND OVERVIEW - FUND OFFERING TERMS

Terms

Investment Entity:	CAPGrow QOF Funds will be managed by the CAPGrow General Partnership, co-managed by Capfi Partners, LLC and Cultivate Ventures, LLC. The structure of the fund(s) is designed to comply with the rules and regulations governing the establishment of Opportunity Zone Funds.
Capital Call Period:	Each project fund shall have 36 months from the initial closing to invest and draw capital.
Target Investment:	Optimal fund investment size and minimum commitment targets determined by the Manager in its sole discretion and may be adjusted over time with investor interest. Principals have ability to commit investment.
Distributions:	First, pro rata to the investors, in proportion to their capital contribution, until the investors have received the amount equal to their aggregate contribution. Second, 80/20 Limited Partner (LP) split with General Partner (GP) "catch up."
Return Targets:	10-year Aggregate IRR: 20% to 40% (Pre-Tax) / Cash Yield: 20%+ (Pre-Tax).
Expenses:	Each QOF will be responsible for organization, accounting, legal, operational and broken deal expenses - to the extent not offset by net profits.
Management Fee:	A management fee at a blended rate per annum of two percent of aggregate commitments to the Funds.
Investment / Capital Calls:	Commitments generally will be drawn during a "commitment period" on an on-going, pro rata, as-needed basis (with a minimum of 10 business day's notice) to fund investments and to pay fund expenses and management fees.
Term:	Ten years from the date of initial Fund investment, subject to extension to up to two successive one-year periods at the discretion of the Manager to allow for orderly liquidation of the Fund's assets. If capital event occurs, investors will be offered an off-ramp at year five, but will lose full benefits of Opportunity Fund, most importantly loss of -0- tax rate on 10-year fund investment returns.

INVESTMENTS - CANNABIS (INDOOR) - OVERVIEW

Investment Strategy

- Adaptive reuse, real estate investments targeting purchase of undervalued property, and retrofitting space with turnkey grow / processing infrastructure specifically designed to maximize output through multi-floor grows.
- Assets aligned with cannabis-centric developers to build out and manage the property, identify tenants and secure debt.
- Properties leased turnkey to one or multiple solid category leading businesses driving above-market rental income and exit value.
- Leases are 10-20 year guaranteed with one-year rental security deposit and short-term rent abatement.
- Where possible, focus is on securing multiple real estate deals per tenant to maximize efficiency and reduce tenant risk.
- Asset locations are QOZP, supported by strong market economics to ensure competitive exit value.

Asset Attributes

- 15-100k sq. ft. established or new build properties or lots located in QOFs.
- Warehouses / lots suitable for turnkey cultivation operations
- Ample power, water, and high ceilings (for multi-floor grows).
- Buy or sale lease back optionality.
- Cannabis-zoned and licensed.

Tenant Attributes

- Category leading businesses - publicly traded if possible.
- Deep market presence, with established licenses.
- Strong balance sheets and governance.
- Prior relationship with developer partners.

Geographical Focus

- States and municipalities with defined pro-cannabis sentiments, including (but not limited to) Las Vegas, NV (and surrounding counties), Oakland, CA and Denver, CO.

INVESTMENTS - CANNABIS (INDOOR) - RETURN ANALYSIS

Return Drivers

- Rate of return driven by ability to purchase undervalued property and post-retrofit, secure lease and exit value per square foot materially higher than normal market rates.
- Build in downside protection against market fluctuations by targeting rental rates at 5-10% of revenue of company.
- Achieve a three year post- stabilization cap rate target of 8-10%. Positive delta is driven by high capital expenditure investment in the property.

Sources and Uses

- **Targeted Capitalization:** \$10mm - \$50mm
- **Capital Stack:**
 - **Equity investment:** \$4.5mm - \$22.5mm
 - Debt: \$5.5mm - \$27.5mm
- **Sources and Uses:**
 - Asset Purchase: ~50%
 - Capital Expenditures: ~40%
 - Soft Costs: ~10%

Return Profile

	Traditional Investment	QOF Investment
IRR (%)	20-40%	30-50%
Cash Yield (%) (Pre-Tax / Y 1-5)	20-40%	20-40%
Cash Yield (%) (Pre-Tax Y / 6-10)	30-50%	50%+
Leveraged Multiple (x)	3-6x	6-10x

Above returns based on actual Cultivate Venture investments made in Las Vegas market. Note that cash yields are modeled to approximately double after investment property is sold / refinanced and proceeds are reinvested into additional larger opportunity(ies) (modeled to occur between years 2-4). Post tax benefit of QOF investments will be at least 50% higher than a traditional fund investment.

INVESTMENTS - CANNABIS (INDOOR) - INVESTMENT PIPELINE

Overview and Strategy

- Investment pipeline targeted in markets with high availability of warehouse properties suitable for cannabis production, cultivation, extraction.
- Investments focus on cities with defined pro-cannabis sentiments and robust markets with strong market economics and licensing regimes.
- Investments have scalable capital deployment opportunities, available immediately.
- Where possible, focus is to secure multiple deals per tenant.
- Pipeline designed to identify and invest at least \$100mm in next 12-24 months (prior to market normalization).

Pipeline (Six Months)

INVESTMENT	SQ. FT.	DEAL*	OZQ (Y/N)	STATUS	CLOSE
Industrial / Las Vegas	65k	\$15.1mm	Y	LOI	CLOSED 7/2019
Palm St. / Las Vegas	37k	\$6.9mm	Y	LOI	LOI-8/19
Craig I-V / Las Vegas	111k	\$27mm	Y	DD	
Cheyenne / Las Vegas	86k	\$18mm	Y	DD	
Slymar / Oakland	80k	\$20mm	Y	DD	
54th / Oakland	100K	\$20mm	Y	DD	
Geist St. / Las Vegas	63k	\$15mm	N	DD	

LOI - Project under Letter of Intention (Live) / - Live Deal.

DD - Project under formal due diligence.

MR - Project identified for pipeline, initial due diligence process started.

*Deal value noted is an estimated total deal value.

INVESTMENTS - HEMP / CANNABIS (OUTDOOR) - OVERVIEW

Overview and Strategy

- Target land / real estate investments tied directly to vertically-integrated outdoor cultivation and extraction.
- Investments are specifically structured to capture premium investment yield and income from the value-add derived from the extraction of industrial and craft biomass - specifically hemp (CBD) and cannabis (THC) oils.
- Land improvements focus on infrastructure related to irrigation, cultivation and value-add extraction / processing.
- Yields driven by designing real estate investment specifically to capture long-term investment value from extraction based revenue / returns.
- To mitigate higher outdoor business risk / exposure, land investments will only target tenant companies with validated cultivation and extraction capacity.
- Targeted investments are specifically focused on scaled levels of industrial acreage under cultivation.

Investment Attributes

- Vertically integrated hemp and / or cannabis oriented companies with validated capacity in both outdoor cultivation and extraction.
- Business has locked in secure access to large scale acreage (1,000 acres +) for cultivation, and has business model and capacity to locate extraction infrastructure on site.
- Business has strong marketable end-product and clear off take agreements in mature and robust markets.
- Investments can be tied to land and / or capital expenditures that meet QOF rules.
- Grow operations located in QOZP.

Geographical Focus

- For hemp and cannabis, initially target states where strong market economics and licensing regimes are already in place, including OR, CO, PR and VA.
- As market normalizes, broaden investment focus.

INVESTMENTS - HEMP / CANNABIS (OUTDOOR) - RETURN ANALYSIS

Return Drivers

- Rates of return are driven by purchase of undervalued, agricultural focused land investments specifically suitable for to vertically-integrated outdoor cultivators / extractors.
- Investments specifically structured to capture investment yields from the value derived from the extraction of industrial and craft hemp (CBD) and cannabis (THC) oils.
- Exit return downside protected by base land asset value.

Investments

- **Targeted Capitalization:** \$10mm - \$50mm
- **Capital Allocation:**
 - **Equity investment:** \$4.5mm - \$22.5mm
 - Debt: \$5.5mm - \$27.5mm
- **Sources and Uses:**
 - Asset Purchase: ~50%
 - Capital Expenditures: ~40%
 - Soft Costs: ~10%

Return Profile

	Traditional Investment	QOF Investment
IRR (%)	20-40%	30-50%
Cash Yield (%) (Pre-Tax / Y 1-5)	20-40%	20-40%
Cash Yield (%) (Pre-Tax Y / 6-10)	30-50%	50%+
Leveraged Multiple (x)	3-6x	6-10x

Above returns based on modeled investments made in Oregon. Note: cash yields in years 6-10 are modeled to approximately double after investment property is sold / refinanced and proceeds are reinvested into additional larger opportunity(ies). Post tax benefit of QOF investments will be at least 50% higher than a traditional fund investment.

INVESTMENTS - HEMP / CANNABIS (OUTDOOR) - INVESTMENT PIPELINE

Overview and Strategy

- Targeting below-market agriculturally zoned acreage suitable for outdoor hemp or cannabis cultivation, processing and extraction.
- Investments focus on states with defined hemp and / or pro-cannabis sentiments and robust markets with strong market economics and licensing regimes.
- Land must align with vertically-integrated extractors scalable capital deployment opportunities, available immediately.
- Where possible, focus is on securing multiple real estate deals per tenant.
- Pipeline designed to identify and invest at least \$50mm in next 12-24 months.

Pipeline (6 Months)

INVESTMENT	ACRES	DEAL*	OZQ (Y/N)	STATUS	CLOSE
Front Royal I / Virginia	800	\$7mm	Y	DD	
Culpeper I / Virginia	129	\$1.5mm	Y	DD	
Orange I / Virginia	370	\$3.4mm	Y	DD	
Primal I / Oregon	2,000	~\$15mm	Y	MR	
SeedHW / Canada	200	\$5-10mm	N	MR	
Agromed / Pennsylvania	300	~\$9-15mm	Y	MR	

LOI - Project under Letter of Intention (Live) / - Live Deal.

DD - Project under formal due diligence.

MR - Project identified for pipeline, initial due diligence process started.

*Deal value noted is an estimated total deal value.

RISK FACTORS - INVESTMENT AND QOF RISK

Investment Risk

- *Business Financial Projections.* Financial projections provided are based on assumptions that are not certain to occur. In all likelihood, the actual revenue and operating expenses of the projects will vary from those upon which the projections are based. Since events may not occur as assumed, the actual results achieved by illustrative projects may vary materially and substantially from projected results.
- *Certain Construction and Operational Risks.* Real estate projects are subject to the risks incident to development, construction, ownership and operation. These risks generally include, among others, economic conditions, demand, customer demand and preferences, market acceptance, competitor activities, dependence on key employees, contractors, and financing, development and operating costs. Given the nascent nature of the foundational policy and financial framework of the industry, cannabis related investments / business may add an additional level of complexity and / or risk.
- *Successful Implementation of Business Strategy.* Projects may not be able to successfully implement their business strategies, especially related to making investments in QOFs which could adversely affect its business, financial condition, results of operations and cash flows.
- *Lack of Adequate Acquisition and Development Financing.* Regardless of the success of investments, projects may require additional financing to complete the project as envisioned. The availability of such additional financing is not guaranteed nor are the costs associated with such financing known. If the project does not obtain such additional financing, the full development of the projects may not be feasible
- *Competitive Market for Investments.* There is possibility of competition from other funds with similar investment objectives. Potential competition includes other venture funds, private equity, corporations, and strategic industry acquirers. This competition could limit the suitable investment opportunity landscape for the fund and investment returns may be decreased as a result of this competition.
- *Government Regulation and Tax Law Changes.* Changes in government regulations and tax laws may result in uncertain consequences for the entity and/or some Members, depending upon their particular situations. Further, the tax consequences of an investment in the entity will not necessarily be the same for each Member due to the varying circumstances of each individual.

QOF Risk

- Overall tax benefits are well-defined, but some uncertainties require clarity through regulation and interpretive guidance. Key issues:
 - Treatment of debt in the context of allocation of gains in a partnership.
 - Movement of gains between QOF funds and if new funds have preparatory period before the fund must invest.
 - Clarity on how QOF benefits will work after 2028.

RISK FACTORS - DOMAIN RISK

Industrial Hemp

Risks

- Business: Companies have a very limited operating history in light of the scale of the business it intends to undertake.
- Regulatory: Currently deemed agricultural product by USDA reducing regulatory risk. If CBD becomes designated by FDA as a drug, regulatory burden, risk and costs could increase.
- Intellectual Property: Unknown and broad IP claims may limit overall CBD market potential if product value is questioned.
- Market: Tenant risk due to nascent hemp industry effect on traction and growth projections.

Mitigants

- Company's founders have extensive experience in the hemp industry, and companies have with strong background in vertically-integrated industrial hemp cultivation and production.
- Companies have strong market connections and offtake agreements and diverse product offering.
- Companies have strong balance sheets and are operationally secure.
- Identifying investments with clear exit opportunities - agriculture or alternative real estate.

Industrial Cannabis

Risks

- Business: Companies have a very limited operating history in light of the scale of the business it intends to undertake.
- Regulatory: Legal frameworks shallow and fragmented due to uncertainty related to state-by-state legalization. If Federal law enforced, assets may be seized or have to seek non-cannabis tenants.
- Liquidity: Limited banking, capital, and overall liquidity in the market.
- Market: Tenant risk due to nascent industry effect on traction and growth projections and market overcrowding.
- QOF: Unclear if "sin law" rules apply to industrial cannabis assets.

Mitigants

- Investing initially only in secure, high-yield, real estate.
- Targeting projects supported by senior project teams with diverse backgrounds in cannabis, real estate development.
- Targeting projects specifically focused and licensed.
- Focused only on real estate investments with strong master tenant guarantees and scalable capital deployment.
- Focus on category leading tenants with strong balance sheets.
- Focus investment in target principalities with pro-market sentiments and more mature cannabis legislative frameworks (e.g. Oakland, CA).

MANAGEMENT - OVERVIEW

Overview

- The CAPGrow investment team and advisors bring a unique combination of real estate and operational, fund management and transactional experience providing a basis for driving strong investment objectives and returns.
- Industry leading internal financial, real estate, legal and accounting experience in maximizing QOF benefits.
- Diversified, sector specific, regional experience managing funds (including QOFs) and as well as decades of collective experience working with and through family offices and institutional and accredited investors.
- At every level, bring tangible knowledge in investment management, financial modeling and controls, and operational and transactional value creation.
- Intersection of market leading real estate and domain expertise in both industrial hemp, CBD, and medical / recreational cannabis, cultivation, production, distribution drives superior risk-adjusted returns.

Advantage

100+ YEARS

Collective experience value investing in and working with a diverse portfolio of high growth company and real estate investments, including QOF managed assets

\$1B+ COMPANIES AND PROJECTS

Collective experience value managing and investing in and advising a diverse portfolio of high net worth individuals, high growth companies and real estate investments.

500+ TRANSACTIONS

Collective experience value investing in and working with a diverse portfolio of high growth company and real estate investments.

MANAGEMENT - GENERAL PARTNERS

Overview

- Leverage decades of experience building investment vehicles to maximize returns while mitigating risk, the General Partnership - co-managed by CAPFI and Cultivate Ventures - will oversee CAPGrow QOFs.
- Asset and business investments will be structured as discrete, individual ten year funds, set from the date of initial Fund investment and subject to extension to up to two successive one-year periods (at the discretion of the Managers to allow for orderly liquidation of the Fund's assets).
- Fund investors will be Limited Partners (LPs). CAPGrow QOF will engage in an investment thesis focused reducing overall operational and reputational risk while ensuring strong upside with ample levels of control over investment priorities and tax minimization.

Key Tasks of Management Company

- **DEAL ORIENTATION AND APPROVAL.** Oversee fund management day-to-day, most importantly identification, selection due diligence of pipeline of investments for the Fund.
- **FUND MANAGEMENT.** Oversee investment management from due diligence, to investment committee, to deployment, to exit.
- **COMPLIANCE.** Ensure fund and all investments meet investment and reporting requirements. For Opportunity Fund, manage all compliance requirements and ensure Opportunity Zone incentives are maximized.
- **VALUE ADD.** In conjunction with network advisors and project partners, use activist approach to drive growth, capital appreciation, liquidity and overall IRR throughout portfolio.

Mark
Kimsey

- 20+ years experience in investment banking, asset management and risk management at Lehman Brother and BOA.
 - Experience managing over \$400 million for a group of high net worth individuals and providing hedging and monetization guidance to a broad array of clients including individuals, hedge funds and financial intermediaries. Founding partner of CapFi Partners.
 - Executive MBA in Finance from NYU. BBA. in Business Management from James Madison University (1988).
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James R. (JT)
Taylor

- 15+ years in the securities industry working with private equity firms, institutional investors and sell-side research firms - most recently as Managing Director and Senior Policy Analyst at Hedgeye Potomac Research overseeing the Washington investment policy team.
 - Extensive public / private sector experience in investment policy research strategic consulting, business development, and marketing.
 - BA Economics from University of Pittsburgh.
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Joe
Gargan

- A 35-year career in the private equity, venture capital, real estate, distressed debt, and structured settlement industries. Current President and CEO of The Pension Company, Inc. and CourtroomConnect, Inc. as well as recent former CEO of InstantLabs, Inc.
 - Prior, served as Senior MD at Mesriow Financial, a \$100+ Billion AUM Chicago based investment firm. Oversaw TALF Fund.
 - BS in Business Administration and Finance from Georgetown University.
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Steve Holm

- 18+ veteran of Wall Street with leading corporate finance, strategy, re-engineering and analytics groups at Citigroup, Credit Suisse and Lehman Brothers responsible for tens of billion billions in cost reductions and growth.
 - Co-founded Cultivate Ventures that led a series of successful buyouts, turnarounds, equity capitalization and exits since 2011.
 - MBA Finance / Accounting from Fordham University. BS in Finance and Management from the University of Delaware.
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Vikram Agarwal

- 17+ years experience in financial market and real estate investment analysis with extensive portfolio practicing real estate, tax, and corporate law with Skadden, Arps, Slate, Meagher & Flom and Bean, Kinney & Korman.
 - Investor/developer in residential and commercial real estate projects, with specific expertise obtaining state and local incentives.
 - LLM / JD from Georgetown University Law Center. MBA / Accounting from George Washington University
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Caesar Layton

- An economist and investor with a successful 18-year track record in deal origination, business investment analysis and building, managing and turning around companies across 35 countries.
 - Co-Founder, Cultivate Ventures that led a series of successful buyouts, turnarounds, equity capitalization and exits since 2011.
 - MA Economic Policy from American University. BA History / Political Science from University of Delaware
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Rick Graf

- 30+ years experience as lead counsel on more than 100 venture capital and seed investments valued in excess of \$500 million; more than 75 M&A transactions, ranging in size from \$250,000 to in excess of \$5 billion; and a variety of public and private securities offerings.
- Formerly a partner at Katten Muchin Rosenman LLP, Mintz Levin Cohn Ferris & Glovsky Popeo, and Arnold & Porter.
- JD from Boston College Law School. BA and MA from the University of Chicago.

QUALIFIED OPPORTUNITY ZONES - OVERVIEW

Overview - Opportunity Zones (OZs)

- As part of the Federal Tax Cuts and Jobs Act of 2017, the Qualified Opportunity Zone Investment Program was enacted to drive long-term capital to rural and lower-income urban communities throughout the nation, using a series of tax deferral and reduction incentives to encourage private investment.
- While the federal government is responsible for defining and overseeing the investment process, each state has nominated 25 percent of qualified census tracts as QOZP.
- Fund investments can be used for new shares or real property, as long as investments are focused on driving new economic growth and investment, and the qualified gain is held in a QOF for between 5-10 years.
- QOFs allow investors to receive tax benefits for capital gains if they invest these qualified gains in QOFs within 180 days.
- Certified qualifying QOFs are able to raise and invest QOF investments in qualified OZ property or shares of businesses located in select OZs.
- The proposed investment vehicle for Opportunity Funds (QOFs) is a self-certified qualifying entity.
- QOF entities are either a domestic corporation or partnership.

QUALIFIED OPPORTUNITY ZONES - BENEFITS

Overview - Opportunity Zones

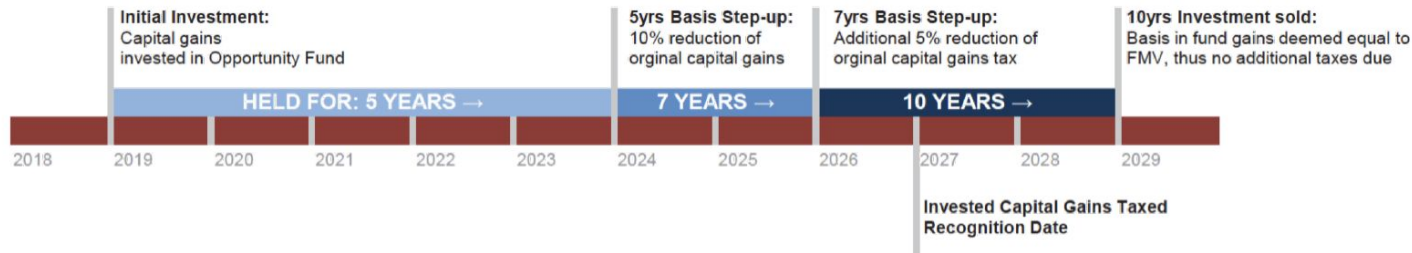
- DEFERRAL:** A temporary deferral of inclusion in taxable income for capital gains reinvested into a QOF until December 31, 2026.
- BASIS STEP UP:** A 5-15% step-up in basis for capital gains reinvested in an QOF based on the length of time investment. See graph right.
- EXCLUSION:** At 10 years, investor receives a permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an QOF. This exclusion only applies to gains realized over the initial investment in an QOF

INCENTIVE

YEAR	1	2	3
5 Yr	★	5%	-
7 Yr	★	10%	-
10 Yr	★ *	15%	★

* 10-Year Tax Deferral Ends in 2026.

Overview - Opportunity Funds



Source: Wall Street research, Morgan Stanley, Department of Treasury

Note: ~76% of zones lie within metro areas and ~10% of U.S. population live within a designated zone

¹ Low-income census tracts typically have poverty rates of at least 20%, or a median family income of no more than 80% of the surrounding area; contiguous areas were also considered

QUALIFIED OPPORTUNITY ZONES - INCENTIVES

Benefits

Underlying incentives relate to the tax treatment of capital gains, and all are tied to the longevity of an investor's stake in a QOF, providing the most upside to those who hold their investment in a QOF for 10 years. The below table illustrates how an investor's available after-tax funds compare under different investment scenarios. At 10 years, QOF investments will offer an 26-58% higher return than a traditional fund or project depending on ARR.

Comparison

TRADITIONAL FUND

Annual Rate of Return	Investment Capital	Initial Tax Liability	After Tax - Invested	Future Value Invested	Exit Capital Gain Tax	Total Return
5%	\$ 1,000,000	\$ 238,000	\$ 762,000	\$ 1,241,218	\$ 114,054	\$ 1,127,164
10%	\$ 1,000,000	\$ 238,000	\$ 762,000	\$ 1,976,432	\$ 289,035	\$ 1,687,397
15%	\$ 1,000,000	\$ 238,000	\$ 762,000	\$ 3,082,715	\$ 552,330	\$ 2,530,385
20%	\$ 1,000,000	\$ 238,000	\$ 762,000	\$ 4,718,103	\$ 941,553	\$ 3,776,551

OPPORTUNITY FUND

Annual Rate of Return	Investment Capital	Initial Tax Liability	After Tax - Invested	Future Value Invested	Exit Capital Gain Tax	Total Return
5%	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,628,895	\$ 202,300	\$ 1,426,595
10%	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 2,593,742	\$ 202,300	\$ 2,391,442
15%	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 4,045,558	\$ 202,300	\$ 3,843,258
20%	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 6,191,736	\$ 202,300	\$ 5,989,436

QUALIFIED OPPORTUNITY ZONES - QOF VERSUS 1031 EXCHANGES

Main Benefits of QOF over 1031 Exchange

- Ability to invest the gain versus the full corpus of the investment.
- Have a broader range of gains eligible for deferral.
- A potential step-up basis of 15% for initial deferred capital.
- An opportunity to abate all taxation on capital gains post-investment.

Comparison

	1031 Exchange	Qualified Opportunity Fund
Eligible Asset Classes	Only real assets held for productive use.	Any.
What Needs to be Invested?	All proceeds.	Only capital gains.
Investment Timing?	Within 180 days.	Within 180 days.
Intermediary Required	Yes	No
Tax Benefits	<ul style="list-style-type: none"> • Can delay taxes indefinitely, but capital gains are fully taxable at the time of the sale of the new property. • Standard depreciation treatments apply. • Heirs get step-up in basis to the market value, but can eliminate tax up to the estate tax exemption. 	<ul style="list-style-type: none"> • Depending on time invested, QOF investment receives up to a 15% step-up in basis (after seven years). • Depreciation can be taken on debt financing recapture at exit with fair market step-up in basis of investor's QOF interest.. • Capital gains deferred to Dec 2026 and no capital gains after 10 years upon sale or exchange of investor's QOF interest.



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