WELLS FARGO Advisors

A guide to investing in opportunity zone funds

What you should know before you invest

Before you make an investment decision, it is important to review your financial situation, investment objectives, risk tolerance, time horizon, diversification of your assets, and liquidity needs. When considering tax planning opportunities, you should discuss tax strategy objectives with your legal or tax advisor. This guide will help you better understand the general investment characteristics and risk factors and costs associated with investments in opportunity zone funds, as well as how your financial advisor and Wells Fargo Advisors are compensated when you invest in these funds through Wells Fargo Advisors. For detailed information about a particular opportunity zone fund, you should read the private placement memorandum (PPM) and the offering documents for that fund. A PPM is a securities disclosure document that contains a complete description of the security and the terms of sale in addition to information about the management company, its compensation and financial situation, the investment's structure, risks, how to subscribe, and other important information.

What is an opportunity zone fund?

The 2017 Tax Cuts and Jobs Act (TCJA) created the Opportunity Zone program. An opportunity zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. A state can nominate an area as an opportunity zone. The nomination must be certified by the Secretary of the U.S. Treasury, which administers the program through the Internal Revenue Service. The U.S. Treasury department has certified opportunity zones in all fifty states, Washington, D.C., and five U.S. territories. The zones are located in both urban and rural areas. Each certification is valid for 10 years and offers investors the ability to defer tax on capital gains from the sale of existing property that are reinvested within 180 days into a designated opportunity zone. The investment offers two potential tax benefits: temporary capital gains deferral and no taxable gains on the Qualified Opportunity Fund investment if held for 10 or more years.

Corporations or partnerships can form an opportunity zone fund by self-certifying when filing their federal income tax return. To qualify as an opportunity zone fund, the corporation or partnership must invest at least 90% of its assets in "Qualified Opportunity Zone Property," which are businesses or properties (including real property) located in areas designated as qualified opportunity zones. There are numerous requirements under the TCJA that an opportunity zone fund must meet to establish that it has 90% of its assets in qualifying property.

Opportunity zone funds are typically not available to the general public and are often limited to institutional investors and qualified high net worth individuals. Opportunity zone funds often organize as limited partnerships and seek investors called limited partners to pool investor capital for investing in eligible Opportunity Zone Property. The fact that this is a relatively new product and still subject to regulatory change creates additional risk for this product and its potential tax benefits.

We have a responsibility to consider reasonably available alternatives in making a recommendation. We do not need to evaluate every possible alternative either within our products or outside the firm in making a recommendation. We are not required to offer the "best" or lowest cost product. While cost is a factor that we take into consideration in making a recommendation, it is not the only factor.

You should consider factors such as those below prior to accepting a recommendation:

- The potential risks, rewards, and costs in purchasing and in the future selling of a security.
- Your age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, and risk tolerance.
- The security's investment objectives, characteristics (including any special or unusual features), liquidity, volatility, and likely performance in a variety of market and economic conditions.
- For complex products, you should consider whether less complex or costly products achieve the same objectives.

By accepting a recommendation, you acknowledge that you have considered the above factors to your satisfaction.

Investment characteristics

Capital commitment. In an opportunity zone fund, the fund's managers can seek capital from a number of institutional and/or qualified high net worth individual investors through "capital commitments," which can be a large investment. Similar to a closed-end fund, after one or more fundraising stages (called "closings"), new investors are not accepted. A fund will not launch if it does not receive a minimum level of capital commitments.

Capital calls. For the most part, opportunity zone funds are "needs-based" investments. This means that limited partners of the fund will commit to giving the fund manager installments of capital, up to a predetermined dollar amount, on an as-needed basis. As the fund's manager identifies investment opportunities, the manager will send investors a formal notice to submit the money they have committed to the program. This formal notice is a "capital call" and is a contractual obligation that each partner must satisfy. Capital calls may occur only once or throughout the life of the fund. A situation could arise where the capital gains an investor expected to use to fund the opportunity zone fund investment do not materialize. However, once the investment commitment is made, the investor must comply with all capital calls — whether there are available qualifying capital gains or not. The timing restrictions applicable are relatively tight. The investor will generally need to be ready to deploy capital gain funds generated within 180 days of the sale of the property or securities that generate the gains.

There are serious consequences for an investor who fails to satisfy a capital call. A fund's offering documents typically provide a number of potential actions against investors who fail to meet capital calls. For example, a fund may require defaulting investors to forfeit their entire ownership interest in the fund and offer the other fund investors the ability to purchase the forfeited interest.

Capital distributions. Over the long term, the investments that the managers make in the portfolio may become a realized profit to the fund if those managers sell, merge, recapitalize, or bring the investments to the public market at a higher value. If the fund makes such a profit, the opportunity zone fund will typically dispense those proceeds to its partners on a pro-rata basis through a capital distribution. This is how the fund pays investors. Capital distribution issuance is at the discretion of the fund manager. Not all opportunity zone funds will hold investments for the full tax realization period, which would require investors to owe taxes on any opportunity zone fund gains and potentially risk capital gain tax advantages.

Investor characteristics

Opportunity zone funds are not appropriate for all investors. Prospective investors are required to meet minimum financial eligibility guidelines (typically "qualified purchaser" requirements, which are defined below) to invest in opportunity zone funds. These investments offer the potential of unique tax advantages for investors willing to invest in low-income and economically distressed areas. As outlined in more detail below, there are unique and additional risks associated with investments in opportunity zones that you should consider before investing. Each investor will have a unique tax situation and should work with their own tax advisor. You should evaluate your individual financial condition and your ability to tolerate risk before you invest in these funds.

Opportunity zone funds typically do not register with the Securities and Exchange Commission (SEC); consequently, they can offer or sell securities to only certain types of individuals known as "accredited investors." Accredited investors are individuals with at least $1 million (exclusive of the value of the primary residence) in individual or joint net worth or individual annual income of at least $200,000. Also included are couples with combined annual income of at least $300,000 for the past two calendar years, with the reasonable expectation that the income will continue in the current calendar year. Accredited U.S. institutional investors, who have at least $5 million in investable assets, can also purchase the funds.

Though requirements may vary by fund, most offerings at Wells Fargo Advisors require investors to meet SEC guidelines of a "qualified purchaser," which require that U.S. individual investors have at least $5 million in investable assets in order to be eligible to invest in an opportunity zone fund. U.S. entities should have at least $25 million in investable assets.

Prior to investing in opportunity zones, it is important to remember that regardless of your ability to qualify financially to invest in these products, you must fully understand the products' risks and characteristics, including tax implications, and be capable of tolerating the risk involved with the investment — including the potential loss of the entire investment.

Diversification. Wells Fargo Advisors believes that you should diversify your investments. We recommend that you observe an asset allocation strategy and not overweight your overall portfolio in any one class of securities, particularly in private equity, and private real estate funds, including opportunity zone funds. It is important to note asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss.

Phantom income. Invested capital gains can be deferred up until the tax filling following December 31, 2026, assuming no earlier sale of the opportunity zone fund. The tax on the invested capital gains will be payable without any corresponding cash distribution from the fund, which will require you to use other sources of liquidity for this tax. Keep in mind tax laws or regulations are subject to change at any time and can have a substantial impact on your individual situation.

Certain Risks

Understand that this list only highlights some of the key risks associated with opportunity zone funds and is not an exhaustive list of risks. For a comprehensive discussion on risks, please refer to the fund offering documents.

Investing in opportunity zones is speculative. The TCJA created opportunity zones and they are newly formed entities with no operating history. There is no assurance of investment return, property appreciation, or profits. The ability to resell the fund's underlying investment properties or businesses is not guaranteed. Investing in opportunity zone funds may involve a higher level of risk than investing in other established real estate offerings.

Long-term investment. Unlike mutual funds, which generally invest in publicly traded securities and offer daily liquidity, opportunity zone funds have illiquid underlying investments that may not be easy to sell and the return of capital and realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition or refinancing of such investments. Opportunity zone funds have limited provisions for redemptions and you should therefore expect that they would not receive a return of capital for an extended period, with expected holding periods of more than 10 years. As a result, investments into opportunity zone funds are not appropriate for all investors, especially those who need liquidity. In an effort to maximize profits, an opportunity zone fund manager may choose to hold onto an investment beyond 10 years. Before investing, it is important to read and consider carefully the detailed information found in the fund's offering documents, including details about the investment's objectives, risk/return profile, and fees and to understand the fund's potential holding periods.

Illiquidity and limited transferability. Opportunity zones funds are not "liquid" (they cannot be sold or exchanged for cash quickly or easily), and the interests are typically non-transferable without the consent of a fund's managing member. As private funds, there are no established secondary markets for opportunity zone fund interests and none are expected to develop. Given this lack of an active trading market for fund interests, any sale to a replacement investor performed in accordance with the fund transfer restrictions may result in a discounted sale price relative to current valuations. Wells Fargo Advisors does not participate in, or receive compensation for, such secondary sales. As a result of this illiquidity and restrictions on transferability, opportunity zone funds are generally only appropriate for sophisticated investors who have carefully considered their financial capability to bear large fluctuations in value and hold these investments for the long term.

Lack of portability. Most private equity and real estate offerings, which include opportunity zone funds, are unique to the selling firm. In most cases, if you or your financial advisor leave Wells Fargo Advisors, your investments will be unable to transfer to another firm.

Difficult valuation assessment. The portfolio holdings in opportunity zone funds may be difficult to value because financial markets or exchanges do not usually quote or trade the holdings. As such, market prices for most of a fund's holdings will not be readily available. Additionally, it may be hard to quantify the impact a manager has had on underlying investments until the manager sells the investments.

Capital call default consequences. Meeting capital calls to provide managers with the pledged capital is a contractual obligation of each investor. Failure to meet this requirement in a timely manner could elicit significant adverse consequences, including, without limitation, the forfeiture of your interest in the fund.

Leverage. Opportunity zone funds may use leverage in connection with certain investments or participate in investments with highly leveraged capital structures. Although the use of leverage may potentially enhance returns and increase the number of investments that can be made, leverage also involves a high degree of financial risk and may increase the exposure of such investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the assets underlying such investments.

Unregistered investment. As with other unregistered pooled vehicles, the regulatory protections of the Investment Company Act of 1940 are not available with opportunity zone funds, and as such, offer fewer legal protections than you would have if you invested in a more traditional investments, such as a mutual fund. For instance, Opportunity zone funds are not required to provide you with information about their underlying holdings or provide periodic pricing and valuation information. Therefore, you are often putting your complete trust in the managers' abilities to meet their funds' objectives, without the benefit of knowing their investment selections. This lack of information may make it more difficult for you to evaluate the risks associated with the funds.

No assurance of achieving tax benefits. It is possible, due to tax, regulatory, or investment decisions, that a fund, or it's investors, are unable realize any tax benefits. Accordingly, opportunity zone funds generally provide no assurances that an investor will realize any tax benefit or that the fund itself will satisfy all the requirements of the opportunity zone regulations for an investor to be able to realize the associated tax benefits. You should evaluate the merits of the underlying investment and not solely invest in an opportunity zone fund for any potential tax advantage.

Consult with your tax advisor

Wells Fargo Advisors, its affiliates, and your financial advisor are not tax or legal advisors. Opportunity zone funds have unique tax issues that you should discuss with your tax and legal advisor prior to investing. You should discuss with your tax or legal advisor whether any tax benefits of the Opportunity Zone program benefit your unique tax situation and outweigh the potential risks involved in this investment. An opportunity zone fund involves unique tax reporting requirements that may be more complex, including state tax rules that may be different than federal tax treatment.

In general, if an investor sells any asset that generates a capital gain and invests an amount equal to, or less than, the realized capital gain within 180 days into an opportunity zone fund, the taxpayer could defer taxation of the eligible capital gains up to December 31, 2026 ("Investment Cutoff Date") or when the investment in the opportunity zone fund is sold or exchanged, whichever is earlier. The capital gains tax will be due with the first tax filing following the Investment Cutoff Date.

If the opportunity zone fund investment is held for 10 years from the time you invest in the opportunity zone fund, any capital appreciation generated by the opportunity zone fund investments receives a 100% fair market value basis step-up (effectively making the appreciation on opportunity zone fund investment tax-free after a 10-year hold).

Tax treatment

Generally, investors in opportunity zone funds are subject to income taxes on the income and/or capital gains distributed to them from those funds. In some years, your tax liabilities may exceed any distributions received from a fund. Additionally, you may be subject to various limitations on your ability to use your allowable share of deductions and losses from the fund (for example, passive loss limitations, investment interest limitations, capital loss limitations, and limitations on the deductibility of miscellaneous itemized deductions).

Opportunity zone funds are not appropriate for retirement accounts such as IRAs. Investors considering using retirement accounts or tax-exempt entities, such as endowments or foundations, should consult with their legal or tax advisor and their financial tax professional. Regardless of the type, before investing in an opportunity zone fund, accounts should be scrutinized for tax consequences with your legal or tax adviser. There are a number of adverse tax consequences that should be taken into account when considering an investment in opportunity zone funds. Most are organized as limited partnerships (LPs), which for tax purposes are "pass-through" entities where the income, expense, and other tax items of the partnership are "passed through" to you on a Schedule K-1. You report these items on your individual tax returns. Due to possible delayed delivery of the Schedule K-1, you may need to file an extension on your tax return.

In an effort to maximize profits, an opportunity zone fund manager may choose to liquidate an investment prior to realization of any tax benefit. As noted above, prior to investing, a fund's offering document should be consulted to understand potential holding periods, tax implications, and risks, among other important considerations.

Tax deferral

Under current federal law, the federal income tax on any deferred capital gains that are invested in an opportunity zone fund will be due as if the gain were recognized on December 31, 2026. Most funds will have to be in the realization period in order to capitalize on tax-exempt capital appreciation for their partners. There likely will not be a distribution to pay your tax liability for 2026 when the tax on the deferred capital gains will be due. As a result, you will have to pay the tax from sources other than its investment in the opportunity zone fund.

Costs of investing in opportunity zone funds, including compensation to your financial advisor and Wells Fargo Advisors

Expenses associated with opportunity zone funds are significantly higher than many other traditional investment vehicles. There are no limits on the fees opportunity zone funds can charge you, and several types of fees and charges are associated with these funds. You need to understand these expenses before investing. Costs will reduce the value of your total investment and your return. You should analyze the added cost against the benefits obtained by investing in opportunity zone funds.

Wells Fargo Advisors and your financial advisor receive payments depending on the fund, amount invested, and class you select. For helping you invest in these funds, Wells Fargo Advisors and your financial advisor are compensated in ways that vary depending on the selected investment. Funds pay Wells Fargo Advisors from the fees paid by you. Part of that payment then goes to your financial advisor, and the remainder is retained by Wells Fargo Advisors.

For brokerage accounts, a financial advisor's compensation is based on the sales fees mainly set by the funds and described in the offering documents. For advisory accounts, a financial advisor's compensation is based on a percentage of the assets in the account rather than on the sales fees associated with a given fund.

The compensation formula that determines the amount of payment to your financial advisor is the same across many funds. Some funds, however, may carry higher sales charges than others, which may create an incentive for the financial advisor to recommend those funds. Typically, registered funds have higher upfront sales charges and lower investment minimums than unregistered funds due to the costs associated with filing the registration statement.

All fees and expenses associated with the fund must be disclosed in the fund offering documents. Prior to investing, you should carefully review these charges and expenses and understand their implication regarding your potential investment. Typical fees and expenses include, but are not limited to, the following:

Performance or incentive fee. In addition to the annual management fee, an opportunity zone fund may charge a performance-based fee referred to as "carried interest." This fee is usually a fixed percentage of the performance and typically accrues only after the fund's net returns clear a predefined hurdle rate of return.

As an example, assume that an opportunity zone fund has a carried interest charge of 20% and a pre-established 8% hurdle rate. A total return of 10% (net of management fee) by the fund in any given year would entitle the manager to collect 20% (performance incentive fee) on 2% of the profits or, in other words, those returns that were in excess of its 8% hurdle rate. This would result in a total net return to you of 9.6%. A performance fee, such as the one described, could motivate a fund manager to take greater risks in the hope of generating a larger return and, in turn, receiving a higher fee.

Placement fee (generally applied only to brokerage share classes). The placement fee is a front-end sales charge (a sales charge that must be paid immediately upon purchase) paid to the placement agent. In turn, the agent may pay a portion of those fees to affiliated or unaffiliated registered broker-dealers or other entities involved in the offer and sale of the private capital or private real estate fund interests.

For brokerage accounts, you may pay Wells Fargo Advisors directly prior to investing into an opportunity zone fund, or Wells Fargo Advisors may receive all or a portion of the placement fee that you otherwise pay to the fund or fund manager. Wells Fargo Advisors uses this fee to compensate its financial advisors.

Management fee. You are charged an annual management fee on the value of your investment. This fee is the cost of a fund manager making the investment decisions for you and for managing the fund. The fund manager typically receives a fee of 1% to 2% of net assets, although this amount depends on various factors, including the type of fund.

For brokerage accounts, all or a portion of the management fee may be paid to Wells Fargo Advisors to compensate it and your financial advisor for distribution and marketing, as well as for other continued services provided to the fund and your account. This fee is often called a "trail fee," which alternatively (or a portion of which) may be treated as a separate fund fee or expense. See the "trail fee" section below.

Transaction and administrative expenses. As a limited partner, you are charged a pro-rated percentage (based on your investment) of all transactional, administrative, and other expenses incurred by the fund. These expenses are not paid directly as a fee, but rather are deducted from the fund's assets, resulting in the reduction of investment returns.

Trail fees (generally applied only to brokerage share classes). As noted above, in lieu of paying trail fees from (or exclusively from) the management fee, some funds may charge trail fees. All or a portion of the trail fees are generally paid to fund placement agents for the on-going services provided to the fund and investor accounts.

For brokerage accounts, Wells Fargo Advisors generally receives all or a portion of the trail fee, which is used, in part, to compensate your financial advisor.

Intra-company compensation arrangements

Wells Fargo Advisors may also receive compensation from other Wells Fargo & Company subsidiaries, including for the referral of certain business among such subsidiaries. Additionally, within the division that operates in Wells Fargo Bank financial centers and some Wells Fargo branches, both financial advisors and licensed bankers can assist you with your investment needs. A licensed banker is a Wells Fargo Bank associate who is registered with Wells Fargo Advisors.

Licensed bankers may also refer you to a financial advisor. In these instances, both the financial advisor and the licensed banker may be compensated for the sale of an opportunity zone fund, but the licensed banker may receive less through this referral arrangement than from a direct sale. Referrals and recommendations are made independent of compensation arrangements and based solely on the client's needs and objectives.

Additional compensation received by Wells Fargo Advisors from fund sponsors and other fund relationships

In addition to transaction-based commissions received by Wells Fargo Advisors and your financial advisor described above, Wells Fargo Advisors may receive compensation paid by the fund companies, a specific share class, or account type. This "non-commission" compensation received by Wells Fargo Advisors from fund companies and/or their managers, may include payments for training, educational conferences, meetings for financial advisors and clients, and overall marketing support, as well as for other general services provided to fund companies and/or their managers. This compensation may be paid directly by the fund manager or charged as a fund expense.

As a large financial holding company, Wells Fargo & Company provides a wide range of financial services to various fund companies through its subsidiaries and affiliates. A Wells Fargo Advisors affiliate may have lending, trading, investment banking, or other relationships with funds offered by Wells Fargo Advisors and their fund managers. A Wells Fargo Advisors affiliate may also have an equity interest in such fund managers. These other relationships with funds and fund managers across Wells Fargo & Company provide financial and other benefits to Wells Fargo & Company, as well as Wells Fargo Advisors.

These amounts are not part of the compensation formula for your financial advisor. We believe that these financial arrangements do not compromise the advice your financial advisor offers you. Additionally, these arrangements do not affect your sales charge.

Talk to your financial advisor

Determining whether opportunity zone funds are an appropriate investment strategy for you requires an in-depth evaluation of your individual financial situation and the objectives you want to achieve. Talk to your financial advisor today about how opportunity zone funds may help you work toward your investment goals.

Other important risk information

Opportunity zone funds are not appropriate for all investors and are only open to "qualified" investors within the meaning of the U.S. securities laws. They are speculative, highly illiquid, and are designed for long-term investment, and not as trading vehicles. There is no assurance that any investment strategy pursued by the fund will be successful or that the fund will achieve its intended objective. Investments in these funds entail significant risks, volatility, and capital loss, including the loss of the entire amount invested. The increased risk of investment loss is only appropriate for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund for which the fund does not represent a complete investment program.

While you may potentially benefit from the ability of opportunity zone funds to potentially defer and reduce capital gains and realize tax-exempt capital appreciation, consideration should be given as the tax benefits outweigh the performance and returns you may realize by investing in more traditional investments. The investments themselves can carry significant risks. Opportunity zone funds are subject to market, funding, liquidity, capital, regulatory, and other material risks. There is no guarantee any investment strategy will be successful under all market conditions. The value of any property may decline as a result of a downturn in the property market, and economic and market conditions. Investments in an opportunity zone fund bear the highest level of risk among real estate strategies as they typically involve a significant amount of "value creation" through the development of underperforming properties in less competitive markets. There is no guarantee value appreciation will be achieved and the operating company may be forced to sell properties at a lower price than anticipated. There is often limited (or even non-existent) liquidity and a lack of transparency regarding the underlying assets. They do not represent a complete investment program. Opportunity zone investments often demand long holding periods to allow for disposition and exit strategy. Each exit strategy has its advantages and disadvantages. There is no guarantee any exit decision will be successfully implemented and concluded. There is generally no secondary market for interests and restrictions on transferring such interests. Opportunity zone funds involve other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Additional information

Determining whether opportunity zones are an appropriate investment strategy for you requires an in-depth evaluation of your individual financial situation and the objectives, including tax strategy, you want to achieve. Talk to your legal or tax advisor and your financial advisor today about how opportunity zone funds may help you work toward your investment goals, or visit the following websites:

Wells Fargo Advisors
wellsfargoadvisors.com

Financial Industry Regulatory Authority
finra.org

U.S. Securities and Exchange Commission
sec.gov

Securities Industry and Financial Markets Association
sifma.org

Opportunity Zones
eig.org/issue-areas/opportunity-zones

Opportunity Zones are economically distressed communities. Investors should, therefore, carefully assess each investment opportunity on its own merits exclusive of any potential tax benefit. There can be no assurance that any tax-managed strategy will be successful or will not be changed or eliminated because of legislation or regulation.