

Tocqueville Asset Management Announces First Opportunity Zone Funds Focused on Strong ESG Guidelines and Sustainable Infrastructure

BY RICHARD ZHANG ON *OCTOBER 7, 2021*

Video Transcript

Joseph Zock [00:00:05] Thank you, everyone, for joining us today for the discussion of the launch of the Tocqueville CapZone Opportunity Funds. My name is Joseph Zock and I am a portfolio manager at Tocqueville Asset Management. Joining me today are Peter Shawn, who is also a portfolio manager at Tocqueville and Al Puchala, who is the [CEO] of CapZone Impact Investments. They are our partner in this venture and we're happy to be working with them. As you know, Tocqueville is an independent registered investment advisor. We manage approximately \$8 billion of assets and that spread across a variety of clients [including] private family offices, high net worth individuals, institutions, and public funds. But before we start this discussion, we're going to take a minute to pause for our safe harbor announcement, which will be published right now in front of you on the screen...

There are some basic questions that we're going to cover, and we're going to start with what is an opportunity fund or opportunity zone? And go on to the more esoteric questions as we roll through this presentation. Thank you very much and I'm going to hand it over to Al.

Al Puchala [00:01:18] Thank you, Joe. And I do want to say we are very excited at CapZone to partner with Tocqueville. We found the right partner to build this asset class. So, what are the basics [around] opportunity zones? Opportunity zones are census tracts that represented low income communities that were chosen by the governors and the local stakeholders to have a long term tax benefits accrue for new investments. There are 8800 opportunity zones in America in every state, five territories and the District of Columbia. And they represent urban areas, rural areas, places that have military bases, places that have universities, pretty much all of America. Thirty five million people live in opportunity zones, and the footprint represents over 10 percent of America. They're a very important part of how will be bringing capital [to] these communities. Now zones are a very bipartisan approach to how we can all work together as a country. Number one, they were put into the tax cut bill in December 2017 but supported through the former administration and current administration to guide dollars to these low income communities. Current pending legislation is actually to support the zones, to potentially lengthen the period of investment and potentially add more zones that need capital. So, we think there's a very much bipartisan support to making sure this program helps these communities. We also want to get the terminology right. The IRS has issued over five hundred pages of tax regulations and have created two new entities that allow these investors to tap the program. Number one, an investor has to invest a capital gain into a qualified opportunity fund a QOF, a Q O F. That fund can be owned by the investor. Can have multiple investors multiple investments. Very flexible, but that's a mandatory step. Investor gain into the fund. And then number two, the only other piece of the program that investors should understand is the QZOB, the qualified opportunity zone business that

sits underneath the fund and represents an operating company. But the fund that invests in it helps support economic activity in that zone. We [at] CapZone will be working with Tocqueville to develop a program that covers multiple sectors, not just real estate, but sustainable infrastructure and operating companies that are job creating all throughout America. We're very excited to do so.

Joseph Zock [00:03:52] Peter, what is being announced today by Tocqueville Asset Management and CapZone Impact Investing? What is the strategy and how will it operate?

Peter Shawn [00:04:00] Sure. Tocqueville and CapZone are jointly forming the Tocqueville CapZone Opportunity Zone Funds series, which will be a multi-sector ESG compliant investment strategy [in] opportunity zones. It will pursue investments in a variety of businesses ranging from sustainable infrastructure, clean or alternative energy, operating companies such as agriculture and certain forms of real estate, such as workforce housing or government supported real estate projects. We have a division of labor between our two organizations, where Tocqueville will take the lead on the capital raising process and managing investor relationships and CapZone will take the lead on sourcing the investment projects and ensuring the compliance of both the Qualified Opportunity Zone Funds and the Qualified Opportunity Zone Businesses that are the underlying assets. The investment decision making process will be handled by a committee that has equal representation from our two organizations and decision making will be unanimous.

Joseph Zock [00:05:11] And how will this be different than other strategies that are focused on opportunity zones?

Peter Shawn [00:05:17] Well, the important differentiator for us is that this is truly a multisectoral approach. Almost all of the opportunity zone investments that have come before us have been commercial real estate. The other differentiating factors between our opportunity zone strategy and traditional private equity investments are that traditional private equity investments tend to be blind pool structures. They are long term commitments. They have fees that accrue from the moment of commitment, and the investor really doesn't have a great deal of flexibility or transparency as to how their capital is used. In our opportunity zone strategy, it's eminently more flexible. The investor has the ability to essentially create their own personalized Qualified Opportunities Fund or QOF, which could be done as a SMA. They have the ability to participate through a single deal, but multiple client individual QOF or they have the ability to participate in a vintage series of multiple investments during a particular time period, say, 2021, where there would be multiple clients and multiple deals, but within the same time period. So that is a great deal more transparency, transparency that is available in additional private equity investment. The other important differentiator is that in the typical private equity investment fees accrue from the moment of commitment, whereas in our structure they only accrue from the time of investment. So, compared to typical private equity, where it might take six months to several years to become fully invested, that's a significant cost advantage for the investor. [Also], we think that we will be able to deliver a much more ESG compliant program because we will be in the individual markets measuring the actual impact that we are able to have on the local communities. There's been some criticism leveled at opportunity zone investing in that it has led to gentrification in certain communities, and I think that what we're doing is really engaging with the local community, trying to understand what kinds of projects they would be supportive of and using that to guide us choose a particular investment.

Joseph Zock [00:07:49] So would it be fair to summarize that it's not enough to just be a tax advantaged

investment, but the investment has to stand on its own in terms of the rates return and simultaneously benefit the community.

Peter Shawn [00:08:00] I think that all of those are important. I think that what we're looking at is projects that in and of themselves would get done without the tax benefit. You know, a tax benefit in this instance should not enable a bad project to get done. It's just the gravy on top of a good project that we think meets the needs of the community and the return requirements of our investors.

Joseph Zock [00:08:23] And could you briefly give one example of something that's currently under consideration by the Tocqueville CapZone strategy?

Peter Shawn [00:08:31] Sure. So, the project that we've most recently completed is a workforce housing project in Connecticut that is supported by a large contract for General Dynamics, which is the largest employer region. And they have a great underlying need for local housing for their workforce there because [of the size of] the contract award that they have received. They're going to need, you know, thousands of additional employees and there is a significant housing shortage in that market. So this is something that we think will be greatly helpful to the local community.

Joseph Zock [00:09:10] Great. Well, thanks for your time. Appreciate it.