# The Puerto Rico Opportunity Zone Fund

PROZ

OpportunityDb
The Opportunity Zones Database

OZ PITCH DAY
March 9, 2021

PRESENTED BY:

MCP
MONLLOR CAPITAL PARTNERS

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# Executive Summary

## Over 95% of Puerto Rico is within an Opportunity Zone

- **In September 2017,** Hurricane Irma and Maria passed through the center of Puerto Rico causing massive destruction.
- **Puerto Rico** has been allocated over $61 billion in U.S. federal aid to rebuild infrastructure damaged by the hurricanes.
- **Private capital** will also be necessary to rebuild Puerto Rico and its economy.
- **Qualified Opportunity Zone Funds** provide investors with a unique tax-advantaged opportunity to invest in the recovery of Puerto Rico.
- **Puerto Rico Opportunity Zone Fund, LP** ("PROZ" or the "Fund"), seeks to invest in a diversified portfolio of sustainable businesses, renewable energy and infrastructure to help the local communities devastated by the recent natural disasters and economic downturn.
- **PROZ has secured exclusivity** for its first investment and is accepting commitments from accredited investors.

## Puerto Rico

| | | |
|---|---|---|
| **Population** | 3.2 million | 2019 |
| **GDP** | $100 billion | 2019 (e) |

## IMPACT OF HURRICANE MARIA

- **2,975 lives lost**
- **11 months without electricity**
- **$94 billion in physical damage**
- **200,000 residents left the island**



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# Monllor Capital Partners LLC

- **Monllor Capital Partners LLC** (“MCP”) was founded in late 2018 by Jose A. Torres, as a minority owned alternative assets investment management and advisory firm in Puerto Rico.
- **Mr. Torres**, born in Ponce, Puerto Rico, brings over 25 years of private equity and investment banking experience.
- **MCP’s goal** is to achieve socially sustainable impact investing in Puerto Rico by creating a portfolio that provides attractive risk adjusted taxed-advantaged returns.
- **MCP’s mission** is to invest in the future of Puerto Rico by making and facilitating investments in renewable energy, infrastructure and sustainable businesses.
- **MCP is committed** to comply with Environmental, Sustainable, Governance ("ESG") guidelines.
- **MCP organized PROZ**, a Qualified Opportunity Fund (“QOF”) formed in Delaware to invest in Puerto Rico.

**13+ Years** Private Equity Experience

**12+ Years** Corporate and Investment Banking Experience

**$4+ billion** Assets under Management

**$1+ billion** Loans under Management

Committed to Puerto Rico

Committed to Sustainable Investing

Committed to Opportunity Zones

# Puerto Rico Opportunity Zone Fund, LP

*"Investing in the future of Puerto Rico"*

- **PROZ is** a tax-advantaged private equity fund created for ESG investing in Puerto Rico.
- **PROZ seeking to raise an initial $20 million** to invest in a portfolio of sustainable businesses, renewable energy and infrastructure in Puerto Rico.
- **PROZ has secured** exclusivity for its initial investment.
- **PROZ provides diversification to** OZ investors from real estate asset class.

## INVESTMENT STRATEGY

- Invest $8-10 million in a sustainable biorefinery
- Invest $8-10 million in renewable energy and infrastructure
- Have board representation in each investment
- Reinvest distributions from portfolio companies to maximize capital gain treatment
- Make a meaningful distribution on or before 12/31/2026

PUERTO RICO OPPORTUNITY ZONE FUND

## WHY PUERTO RICO?

**Educated Labor Force:** Highly skilled, bilingual labor force with ample experience in processing operations (large pharma presence on island).

**Strategic Location**: Central location in Atlantic shipping route (San Juan has 9th highest container traffic in US).

**USA Jurisdiction:** Use of USD and federal laws means currency import/export security.

**Incentives:** Significant government incentives for Renewable Energy, R&D, Manufacturing, including 4% income tax and tax free distributions (among others).

**Land of OZ:** Over 95% of Puerto Rico is in an Opportunity Zone.

**TARGET FUND: $20,000,000** **TARGET RETURN: 20%** **MINIMUM INVESTMENT: $100,000**

# Anchor Investment: Seaweed Biorefinery

**C-Combinator** Is a for-profit, Public Benefit Corporation creating valuable products from seaweed and using that economic return to regenerating life and health in the oceans while improving economic equality.

- **Sargassum** is a genus of large brown algae that includes over 300 species.
- **Starting in 2011,** floating Sargassum began to impact coastal communities around the Atlantic including Puerto Rico

**The Fund has secured the exclusive right to invest in C-Combinator Puerto Rico LLC**

C-Combinator

**Celignis Ltd**
**(JV Partner)**
Research & Development

| C-Combinator (100%) | C-Combinator (100%) | C-Combinator (100%) | C-Combinator (80%) / Celignis Ltd (20%) |
|---|---|---|---|
| **C-Combinator Mexico LLC**<br>Collection and Processing | **C-Combinator Puerto Rico LLC**<br>Collection, R&D and Biorefinery | **C-Combinator UK Ltd**<br>Sales and Product Development | **C-Combinator Intellectual Property JV LLC**<br>Research & Development |

**Current Operations**

**Puerto Morelos:**
Collection and Processing, Biostimulant Product Development and Sales

**Current Operations**

**Yabucoa:**
Collection and Initial Processing
**San Juan:**
R&D and Biorefinery

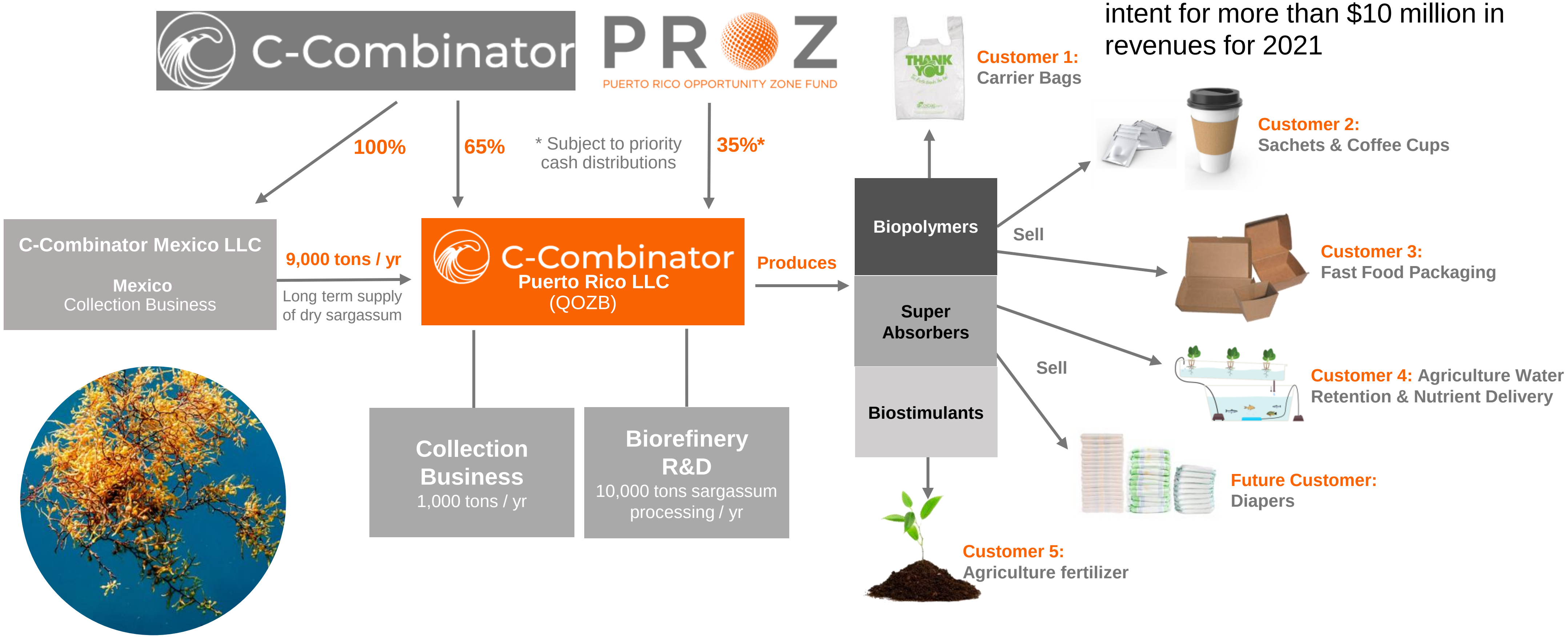
**Current Operations**

**C-Combinator UK Ltd :**
Remote Sales, Marketing and Product Development Team
**C-Combinator IP JV:**
Delaware LLC holds Intellectual Property Developed with Celignis

# Anchor Investment

## Transaction Structure

C-Combinator has secured letters of intent for more than $10 million in revenues for 2021




C-Combinator PR has received a Manufacturing Tax Incentive Decree under Act 60

# Anchor Investment

## Transaction Valuation

PROZ invests $8 million for a 35% ownership interested in C-Combinator PR

Investment proceeds will be used to fund capex for biorefinery and working capital

**PROZ's 35% ownership in C-Combinator PR will have the following priority over distributions:**

- **First,** 100% of all cash distributions to the Fund until it receives 100% of capital invested,
- **Second,** 75% of all cash distributions to the Fund until it achieves a 75% IRR and a 3x multiple on capital invested,
- **Thereafter,** 35% of all cash distributions to PROZ.

**PROZ will have Right of First Offer on future CC Puerto Rico investment opportunities**

1. First $8 million of distributions to PROZ
2. 75% of distributions to PROZ, until PROZ receives at least $24 million and a 75% IRR
3. 35% of distributions to PROZ





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# Anchor Investment

## Environmental and Economic Impact

**Improving Economic Activity**

Private sector investment will create high paying direct jobs in the local economy. IP value added products create a new economic development and tax revenues.

**Improving Quality of Living**

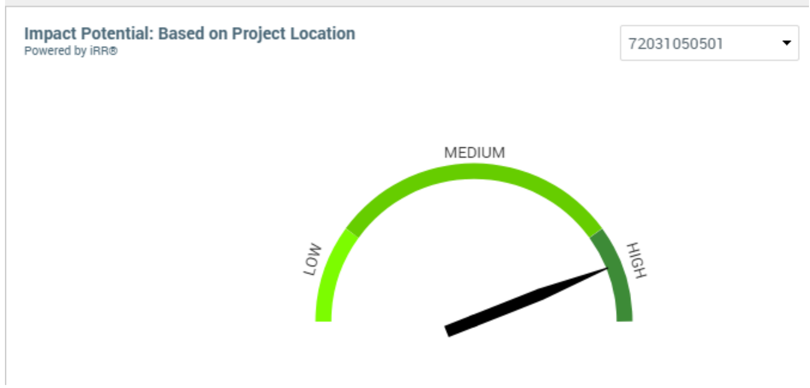
Solve the problem of sargassum for the local communities and the tourism industry.

**Environmental Impact**

Removing and processing of sargassum eliminate 160,000 C02e per annum, equivalent to removing 34,780 cars from the roads. *EPA: 1 car per year = 4.6 tons CO2e*

### JOB CREATION

| Type of Jobs | # of Jobs |
|---|---|
| Direct jobs during construction | 20 |
| Indirect and induced jobs during construction | N/A |
| Direct jobs during operations | 25 |
| **TOTAL** | **45** |




*Impact Rate of Return as Calculated by Global Impact LLC and NES Financial*

# Renewable Energy Opportunities

## Over 5 GW / $5 Billion of Opportunities in Puerto Rico

- **Puerto Rico Law 17-2019** mandates to achieve generation from renewables of 40% by 2025, 60% by 2010 and 100% by 2050.
- **Integrated Resource Plan ("IRP")** was approved by the Puerto Rico Energy Bureau ("PREB") in August 2020 and requires the issuance of Request for Proposals ("RFP") for new renewable generation to comply with Law 17.
- **PREPA** issued the first of 6 RFPs on February 22, 2021.

| Year | Target |
|---|---|
| 2025 | 40% |
| 2040 | 60% |
| 2050 | 100% |

**Renewable Generation**
**2.5%**
**as of July 2020**

**Q1 2021** — **Tranche 1:** 1000 MW generation, 500 MW storage

**Q3 2021** — **Tranche 2:** 500 MW generation, 250 MW storage

**Q1 2022** — **Tranche 3:** 500 MW generation, 250 MW storage

**Q3 2022** — **Tranche 4:** 500 MW gen., 250 MW storage

**Q1 2021** — **Tranche 5:** 500 MW generation, 125 MW storage

**Q3 2023** — **Tranche 6:** 750 MW generation, 500 MW storage


PROZ and MCP are well positioned to participate in these opportunities

# Renewable Energy Projects

## Environmental and Economic Impact

**Improving Economic Activity**

Private sector investment will create direct and indirect jobs during 18 months of construction and 25 years of operations

**Improving Quality of Living**

Lower electricity prices will benefit Puerto Rico residents, businesses and industry

**Environmental Impact**

Clean renewable energy will help the environment, by allowing the retirement of dirty oil plants that do not meet EPA standards

### JOB CREATION (per 25 MW solar project) *

| Type of Jobs | # of Jobs |
|---|---|
| Direct jobs during construction | 122 |
| Indirect and induced jobs during construction | 115 |
| Direct jobs during operations | 16 |
| **TOTAL** | **253** |

Each project provides electricity for approximately 5,483 households

* Source: FOMB Critical Project Report June 13, 2018

*32,349 tons $CO_2e$ per annum, equivalent to removing 7,032 cars per annum from the roads*

*EPA: 1 car per year = 4.6 tons $CO_2e$*



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# Executive Summary of Principal Terms

| | |
|---|---|
| **The Fund:** | Puerto Rico Opportunity Zone, LP, a Delaware limited partnership |
| **The General Partner:** | Monllor Capital Partners LLC, a Puerto Rico limited liability company |
| **The Manager:** | PROZ Management Co, a Puerto Rico limited liability company |
| **Limited Partners:** | An investor committing capital will become a Limited Partner of the Fund |
| **Fund Legal Counsel:** | DLA Piper LLP |
| **Fund Administrator:** | NES Financial Corp |
| **Target Size:** | $20,000,000 |
| **Investment Minimum:** | $100,000 except as otherwise agreed by the General Partner in its discretion |
| **GP Commitment:** | Minimum of 1% of the total Capital Commitments to the Fund |
| **Term:** | 13 years with potential extensions to allow for 10-year hold period |
| **Investment Period:** | 10 years |
| **Investment Strategy:** | Renewable energy, infrastructure and sustainable businesses in QOZs in Puerto Rico |
| **Management Fee:** | 2% of total assets under management |
| **Carry:** | 20% carried interest to GP after 6% hurdle |

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# Founder Bio

## Jose A. Torres - Founder & Managing Partner

- Mr. Torres, born in Ponce, Puerto Rico, brings over 25 years in private equity and investment banking experience.
- Mr. Torres founded MCP in late 2018 and relocated to Puerto Rico in 2019.
- Prior to founding MCP, Mr. Torres worked for 13 years at Ares Management in San Francisco, CA, where he led the office for the last 4 years and was a member of the Investment Committee.
- From 2003-2006, Mr. Torres held various posts at CoBank in Colorado, including head of structure finance group in the energy sector.
- Between 1993 and 2003, Mr. Torres held various investment banking positions at ING Barings (Chile, Amsterdam, New York) and Société Generale (New York).
- Mr. Torres holds a B.A. in Economics from The Colorado College and an International M.B.A from the American Graduate School of International Management (Thunderbird).

**13+ Years** Private Equity Experience

**12+ Years** Corporate and Investment Banking Experience

**$4+ billion** Assets under Management

**$1+ billion** Loans under Management



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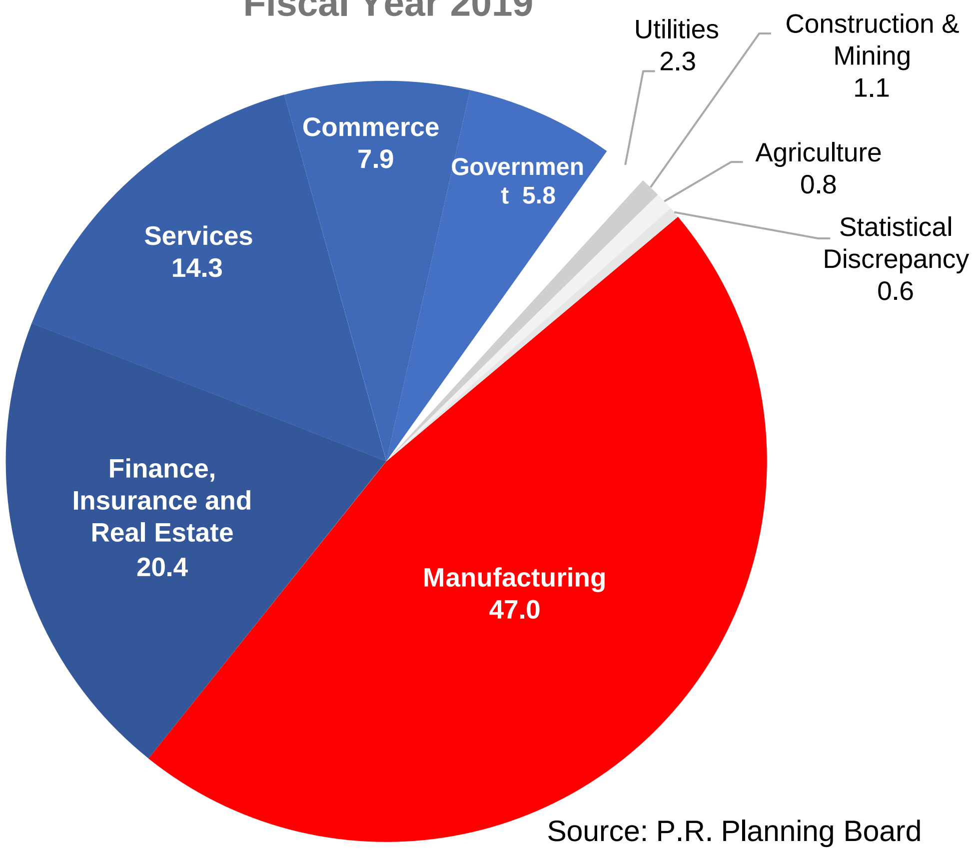
# Puerto Rico

# Puerto Rico

## QUICK FACTS:

- **The Commonwealth of Puerto Rico ("Puerto Rico")** is an unincorporated territory of the United States located in the northeast Caribbean Sea, approximately 1,000 miles (1,600 km) southeast of Miami, Florida.
- **Spanish and English** are the official languages.
- **Puerto Ricans** have been citizens of the United States since 1917.
- **Puerto Rico** does not have a vote in the United States Congress, which governs the territory with full jurisdiction under the Puerto Rico Federal Relations Act of 1950. Puerto Rico does have one non-voting member of the House called a Resident Commissioner.
- **The Puerto Rico Oversight, Management, and Economic Stability Act** ("PROMESA") is a US federal law enacted in 2016 that established a financial oversight board, a process for restructuring debt, and expedited procedures for approving critical infrastructure projects in order to combat the Puerto Rican government-debt crisis. Through PROMESA, the US Congress established an appointed Fiscal Control Board ("FCB") to oversee the debt restructuring.

**Gross Domestic Product Share by Main Economic Sector**
**Fiscal Year 2019**




Source: P.R. Planning Board





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# Puerto Rico

## ENERGY QUICK FACTS:

- Imported petroleum products fuel transportation, electricity generation, and industry in Puerto Rico, typically supplying three-fourths of the energy consumed in the commonwealth.
- In 2020, 49.5% of Puerto Rico's electricity came from petroleum, 29% from natural gas, 19% from coal, and 2.5% from renewable energy.
- Utility scale renewable generation as of June 30, 2019 was 201 MW (97 MW solar, 101 MW Wind, 2.4 MW landfill gas).
- As of June 2020, Puerto Rico had 97 megawatts of utility-scale solar photovoltaic generating capacity

**Prices (PR rates do not include paying for any debt service since filing for bankruptcy protection)**

| Electricity | Puerto Rico | United States | Period |
|---|---|---|---|
| Residential | 20.06 cents/kWh | 13.26 cents/kWh | Jul-20 |
| Commercial | 20.93 cents/kWh | 10.89 cents/kWh | Jul-20 |
| Industrial | 19.14 cents/kWh | 7.17 cents/kWh | Jul-20 |

Utility has not been paying any debt service during debt restructuring. Electric prices are expected to rise post debt restructuring.

**Reserves**

| Reserves | Puerto Rico | United States | Period |
|---|---|---|---|
| Crude Oil | 0 billion barrels | 42 billion barrels | 2019 |
| Natural Gas | 0 trillion cu ft | 4,656 trillion cu ft | 2020 |
| Recoverable Coal | 0 million short tons | 253,455 million short tons | 2017 |
| **Capacity** | | | |
| Total Electricity Installed Capacity | 6 million kW | 1,084 million kW | 2017 |

Source: EIA Last Updated: October 15, 2020

# Puerto Rico

**The *"Puerto Rico Energy Public Policy Act"* was signed into law May 2019 ("Act 17-2019")**

## Public Policy

- The Act formally declares the end of PREPA's monopoly.
- The Act establishes key guiding for the electric grid based on efficiency, quality, continuity, adaptability.
- Conversion of public lighting to LED.

## Energy Goals

- Eliminate use of coal-based energy companies by no later than January 1, 2028, which currently accounts for 18% of the generation.
- Provide for the integration of consumer through net metering or tariff designs which promote behind the meter generation.
- Reaching 40% compliance with the Renewable Portfolio Standard by year 2025; 60% 2040; and 100% compliance by year 2050.

## Transfer of Operations and Assets

- By December 31, 2019, the Puerto Rico Electric Power Authority ("PREPA") must have delegated or transferred the operation, administration, and/or maintenance of the energy transmission and distribution system to a private Concessionaire.
- On June 2020, PREPA announced a 15-year contract with Luma Energy (a consortium between ATCO Ltd. and Quanta Services Inc.) for operation, maintenance, repair, restoration of PREPA's electric transmission and distribution system.
- PREPA issued a request for qualification for managing, operating maintaining and decommissioning PREPA's 3,600 MW of fossil fueled owned generation.

| Actual Renewable Generation | |
|---|---|
| 2019 | 2020 |
| 2.3% | 2.5% |

| Renewable Portfolio Standard | | |
|---|---|---|
| 2025 | 2040 | 2050 |
| 40% | 60% | 100% |

## PUERTO RICO: THE LAND OF

# Qualified Opportunity Zones

# Qualified Opportunity Zones

## QUALIFIED OPPORTUNITY ZONES

- The Tax Cuts and Jobs Act of 2017 created Qualified Opportunity Zones ("QOZs") to provide potentially significant tax benefits to investors who re-invest capital gains into long-term investments into communities designated for economic development
- There are over 8,500 QOZs across all US states, Washington DC and Puerto Rico. They offer investors the ability to positively impact communities struggling to attract capital to generate sustainable economic opportunity for their communities.

## QUALIFIED OPPORTUNITY ZONE FUNDS

- A Qualified Opportunity Zone Fund ("QOF") is an investment vehicle which is organized as a corporation or partnership for the purpose of investing (at least 90% of its assets) in qualified opportunity zone assets or businesses.
- A qualified opportunity zone asset/property can be (so long as acquired after December 31, 2017):
  - Stock in a domestic corporation that is a QOZ business
  - Any capital or profits interest in a domestic Partnership that is a QOZ business
  - Tangible asset used in the trade or business of a QOZ business, where the QOF substantially improves the asset

## QOZF BENEFITS TO THE TAXPAYER/INVESTOR

- Taxpayers may defer paying tax on capital gains, if such capital gains are invested in a QOF, within 180 days from the gain. The deferral period ends the earlier of when the tax-payer sells its interest in the QOF or December 31, 2026.
- Investments held for 5 years prior to December 31, 2026 will also qualify for a 10% increase in the tax-payer's tax basis of the amount of the deferred gain.
- Any taxpayer that holds its investment for a minimum of 10 years, can achieve no capital gain tax on the appreciation of its investment.

# Qualified Opportunity Zones

**LAND OF OPPORTUNITY ZONES**

*"Investing in the future of Puerto Rico"*

- **10 Year Anniversary** — 100% STEP UP TO FMV AT TIME OF SALE
- **Year 2026** — TAX ON DEFERMENT WITH 10% REDUCTION IN BASIS
- **5 Year Anniversary** — 10% STEP UP IN BASIS
- **Initial Investment Into Fund** — 100% DEFERMENT OF GAIN

# Qualified Opportunity Zones: Puerto Rico

## PUERTO RICO OZ LAW

To attract more investments to Qualified Opportunity Zones in Puerto Rico, Act 21-2019, known as the Act for the Development of Opportunity Zones of 2019 (PR-QOZ Act), was enacted on May 14, 2019 (now part of the Act 60 of July 1, 2019 – Puerto Rico Incentives Code). As local counterpart to the U.S. QOZ provisions, the PR-QOZ Act provides for additional incentives for investment in Puerto Rico. Final PR OZ Regulations were issued in October 2020.

## MAIN ASPECTS OF PR-QOZ ACT

Amended the PR Internal Revenue Code to provide the same federal tax incentives in the local tax jurisdiction for PR tax-payer with capital gains that invest in a QOF (that invest only in PR).

## LOCAL OZ TAX BENEFITS FOR PRIORITY PROJECTS

Some of the additional benefits provided by the Puerto Rico OZ Law for Priority Projects:

- 15 years exemption period
- 18.5% flat income tax rate on income derived from eligible activities by an exempt business
- 100% tax exemption on dividend distributions from earnings and profits generated from eligible activities
- 100% tax exemption on subsequent dividend distributions, no implicit dividend
- 18.5% withholding tax rate on royalties paid by the exempt business to a non-resident party
- 25% exemption on i) Municipal License Tax, ii) Personal Property Tax, iii) Real Property Tax, and iv) Municipal Construction Excise Tax (May be increased by the Municipality up to 75%)
- Up to 25% transferrable investment credit
- Net operating losses from eligible activities are available against other OZ Exempt Business

# QOZ Benefits

## QOF After-Tax Returns Benefits

**After-tax gains on a QOF investment can be more than double those of a similar investment without the QOZ benefits.**

This table illustrates an investor's potential after-tax returns in a QOF Investment compared to the investment of capital gains in a traditional investment, both appreciating at 15%.

- Assumes 23.8% Federal Capital Gains Tax rate.

* *Assumes investment is held for at least 5 years before 12/31/2026 to receive a 10% step-up in basis is applied to original capital gain invested and same Federal Capital Gains Tax rate

** *Assumes 10-year holding periods, annual rate of investment appreciation of 15% and Federal Capital Gains Tax rate of 23.8%.

The amounts shown do not include impact of fees and carry in either investment. Only use to illustrate the potential tax benefits of QOF investments prior to any fees and carry structures.

| | Traditional Investment | QOF Investment |
|---|---|---|
| | | |
| Invested Capital Gain | $1,000,000 | $1,000,000 |
| Less: Capital Gain Tax (23.8%)* | (238,000) | 0 |
| After-Tax Investment | 762,000 | 1,000,000 |
| | | |
| Year 10 Value (assumes 15% annual investment appreciation) | 3,082,735 | 4,045,578 |
| Less: Year 10 Capital Gains Tax (23.8%)* | (552,335) | 0 |
| Year 10 After-Tax Value | 2,530,400 | 4,045,578 |
| | | |
| Less: Cap Gains Taxes on Invested Gains Due on 12.31.26** | 0 | (214,200) |
| Total Year 10 After-Tax Value | $2,530,400 | $3,831,378 |
| Total Year 10 After-Tax Net Gain*** | $1,530,400 | $2,831,378 |