



Credit funds: virtual tax series

Session two

May 19, 2020



EY

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Today's agenda

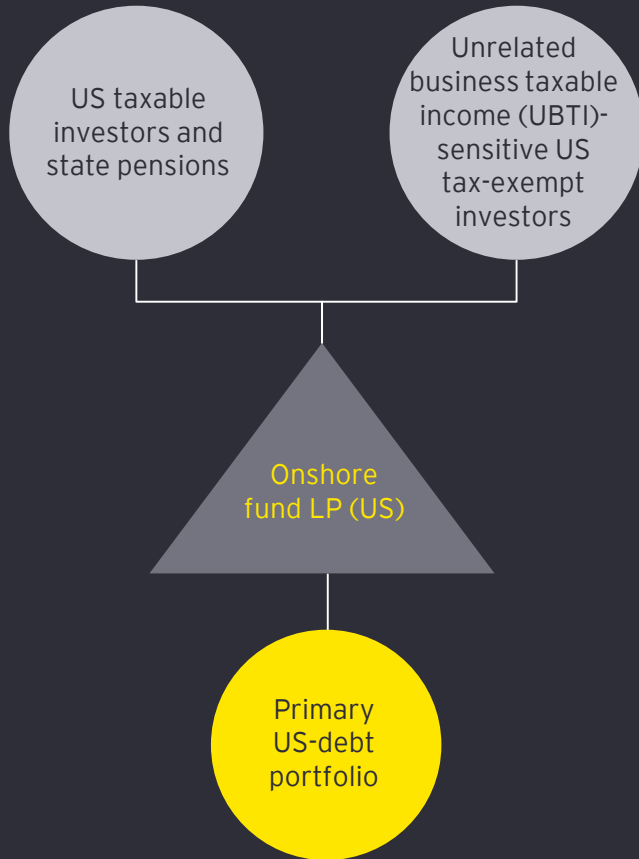
Credit funds continue to weather the COVID-19 crisis and take advantage of the unique market opportunities, pivoting investment strategies as the market dictates. As a result, credit funds must be more in tune than ever with the tax considerations presented in the existing environment. This session focuses on the business and tax issues presented across the spectrum of direct and secondary lending strategies, and also highlights the relevant state and local tax considerations.

During this session, we will discuss the latest trends and practical matters affecting credit managers including:

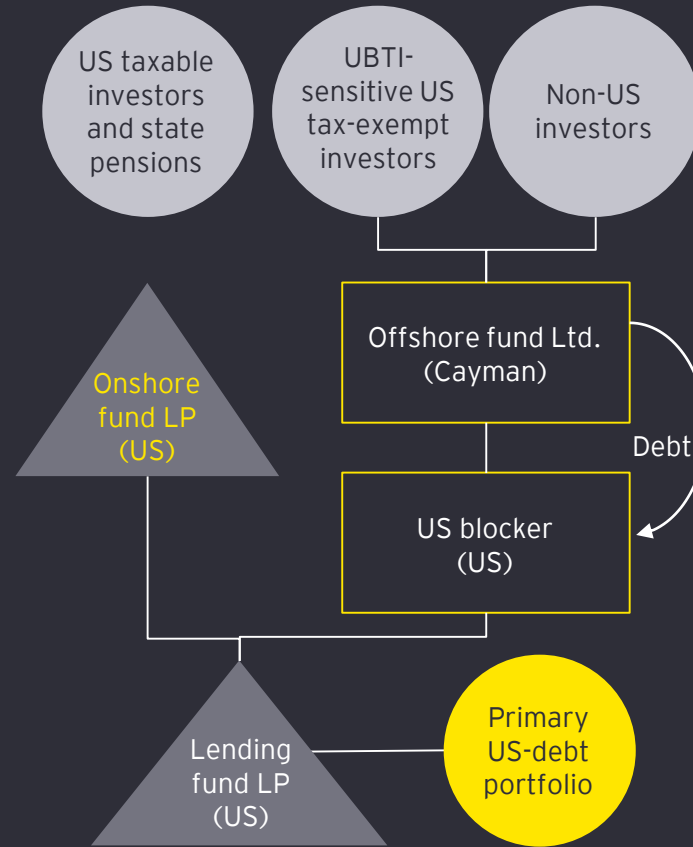
- 01** Direct lending, special situations and distressed strategies
- 02** Secondary market strategies
- 03** Evolving structures and investment strategies

Alternative lending structures

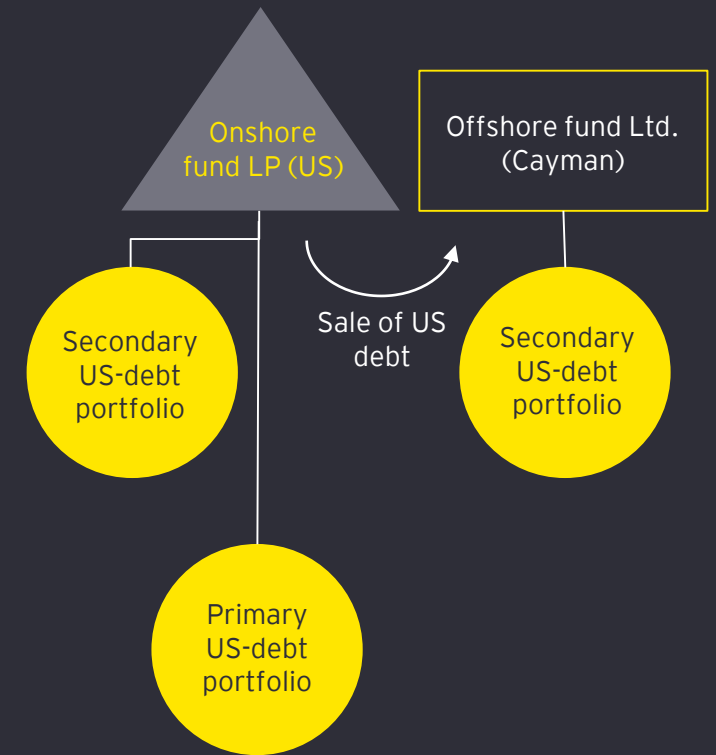
Fund for US investors only (base case)



Leveraged C-corporation

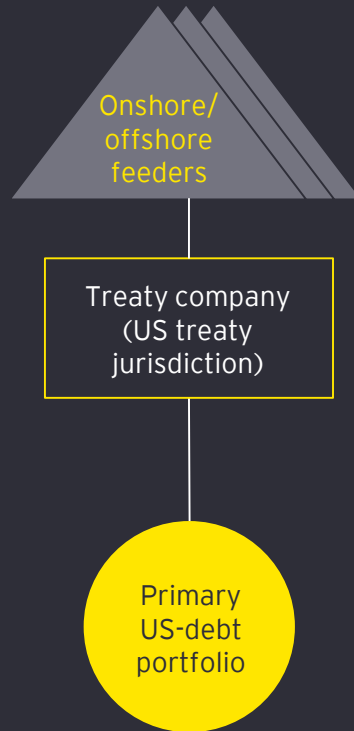


Purchase of affiliate originated loans

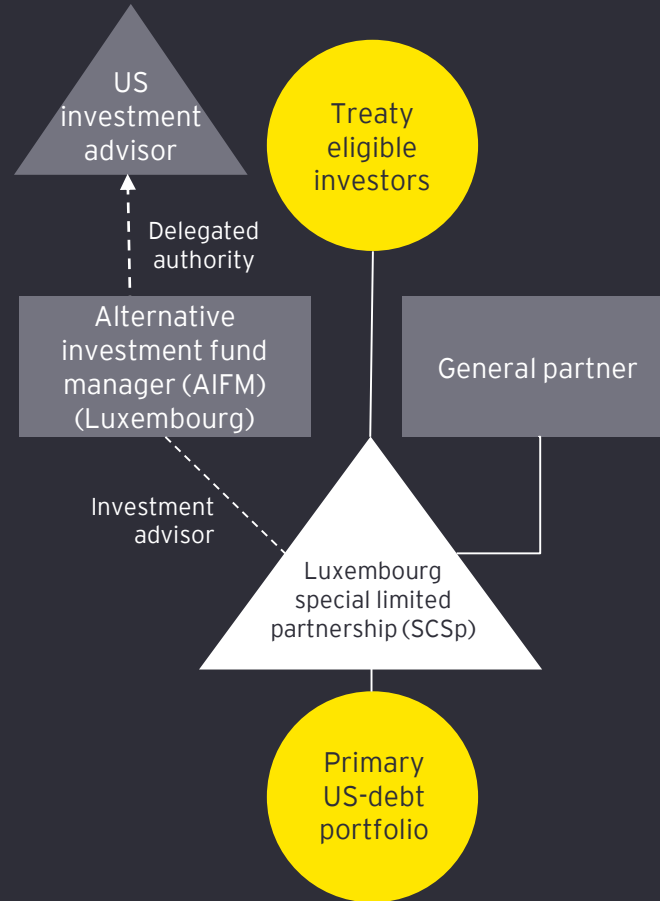


Alternative lending structures

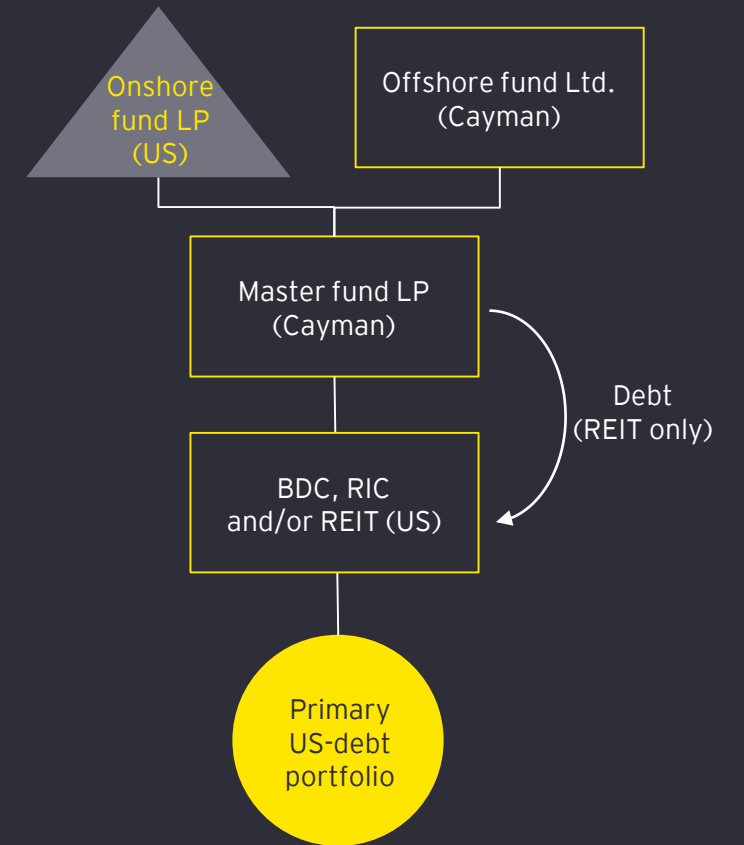
Treaty platform structure



Fiscally transparent treaty investor fund



Business development company (BDC), regulated investment company (RIC) and/or real estate investment trust (REIT)



Secondary market strategies



LP fund interests	Corporate fund interests	Collateralized loan obligation (CLO) and collateralized debt obligations (CDO) investments	Secondary-debt instruments
<ul style="list-style-type: none">▶ Section 743(b)	<ul style="list-style-type: none">▶ Passive foreign investment company (PFIC)▶ Controlled foreign corporation (CFC)	<ul style="list-style-type: none">▶ Market discount▶ Debt under partial prepayment rules▶ Sections 163(j) and 212, vs. PFIC and CFC▶ Purchase of vertical strips of CLO-debt residuals and cancellation-of-debt income (CODI) considerations	<ul style="list-style-type: none">▶ Sections 165 and 166, bad debt issues▶ Market discount and cost recovery methodologies▶ Pool loan vs. individual loans▶ Expectation of collection of contractual interest

Evolving structures and investment strategies

- ▶ Considering the Section 475(f) solution
- ▶ Vetting debt to own opportunities
- ▶ Fielding board queries
- ▶ Revisiting COVID-19 impacts on direct lending strategies

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Years of pent-up demand has created a wall of cash eager to support companies on the brink.

Brian Chappatta, “Distressed-Debt Vultures Might Already Be Too Late,” *Bloomberg*, March 31, 2020.

What are the key takeaways from today's session?

Recap and Q&A





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