SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS SPRING 2015

FUND UPDATE

YOU BETCHA!

ANOTHER TERRIFIC QUARTER LEADS TO SUBSTANTIAL INCREASE IN INVESTOR VALUE

Higher earnings payouts expected this year

On all accounts, the first quarter of 2015 was excellent. Quality loan volume was strong, the fund's non-performing asset percentage receded to historic lows and fund earnings rose yet again. In fact, the fund posted a net profit of **$1.4 million** for the quarter, **over and above investor payout, leading to enhanced investor value.** The fund is operating at a very healthy capacity. Perhaps the most encouraging statistic is the continued rise in our base interest revenue without ancillary income such as default interest and late fees. It is up over 36% from this time last year, reinforcing the reality that SFG Income Fund VI is in full swing with fresh loans and a very consistent income stream. And we are ready for higher investor distributions ahead. The year 2015 should be very good to SFG Investors, continuing the trend of positive results. The fund is now positioned exactly where we want it for maximum productivity to your portfolio – **Providing a predictable, stabilizing element with reasonable liquidity and enhanced yield, flying well below the turbulence of typical market fluctuations.**

It's good to be a part of a fund engineered to resist typical market swings while producing solid consistent returns investors can rely on. We thank you for your loyalty and confidence and look forward to many years of top of class fixed-income performance.

WHAT THE GREAT RECESSION TAUGHT US

SIMPLE REFINEMENTS ENHANCE SFG INCOME FUND RESILIENCE

SFG Income Fund managers John Odegard (above) and Greg Elderkin (below).

We are proud of SFG Income Funds' ability to navigate the historic economic storm we all lived through, although, as fund managers we are on a constant quest to be better, refine our strategies and enhance our performance. With that in mind, we have spent countless hours of reflection and debate on ways we can sharpen our strategies to enhance our defense against another drastic market decline. Today we are even better and our portfolio is stronger than at any time in our history. Keep in mind, however, it has been the disciplined execution of our core principles that has enabled us to be where we are today – investor capital safeguarded, liquidity intact and higher yields likely for 2015.

So what did we learn over the last few years that renders us even better; the portfolio even stronger? There are a few key distinctions that makes today's SFG Income Fund portfolio healthier than ever.

Why Today's SFG Income Fund is Better than Ever – What We Learned From the Great Recession

What Didn't Change – Foundational SFG Principles. As fund managers, carrying investors through the last few years with their principle protected and with positive returns was very gratifying. In the face of irrational mortgage market exuberance during 2004-2007, we adhered to SFG's fundamental underwriting principles when so many lenders lost their way. Our discipline positioned us to make it through a market that most, if not all, our peers could not – including many banks. We remained *selective on property locations, conservative on our valuations and appropriately skeptical of third party appraisals.* Because of our strategies, it took until 2010 before we had to make the necessary adjustments to investor yields and liquidity. It wasn't until a majority of the real estate markets dropped by 35-50%, and banks, for the most part, stopped lending, that we became principally affected. But our disciplined underwriting and investor confidence allowed us to get to where we are today. For all of your support along the way, we thank you.

Foundational SFG Principles Stand the Test of Time

- **Low Loan to Value ratios (typically 65% or below) after a thorough value debate**
- **First Position Loans**
- **Quality marketable properties in growing proven areas**
- **Diversified portfolio (limit investments with one borrower or with one loan)**
- **Triangulated property values**

We also make sure that:

- **Borrowers have a sufficient amount of their own cash in the deal**
- **Each borrower has a sensible exit strategy out of our loan, prior to loan approval**
- **We stay disciplined during rising markets and underwrite for down markets**

WHAT WE HAVE IMPROVED THAT MAKES US BETTER – ADJUSTMENTS AND REFINEMENTS

1 Borrower Quality Matters

As an "asset-based" lender with a strong protective equity cushion behind us, it is easy to underestimate the power a lousy borrower has to mess up a good thing in extreme markets. Prior to getting our hands on the wheel, we had to go on a few "crazy rides" with some borrowers while the market was rapidly declining. The cost was primarily time. Conversely, higher level borrowers are typically more cooperative and work with their lender to minimize the challenge for everyone's good. Dealing with lesser quality borrowers, a few at a time, has proven to be no problem and usually provides ancillary Fund income from default interest and late fees. However, dealing with all of them at once in a declining market is not so fun, or profitable. **THE LESSON: Upgrade borrower credit standards as a whole, and compensate even more on loan to value for borrowers with below par credit.**

2 Tighten the location rope and compensate even further when approving outlying areas.

We have always recognized and adhered to the importance of location, both general and site specific. In fact, we have always espoused that "a pond dries from the edges in," and kept our portfolio out of irrelevant locations. It has been our disciplined eye on this basic reality over the last 20 plus years that has served SFG Income Fund investors so well. However, in the spirit of "where we can enhance fund resiliency even further during down economic cycles," we tightened our belt on location one more notch. **THE LESSON: Limit the amount of loans in outlying areas and compensate further in those markets on borrower quality and loan to value.**

3 Scrutinize the borrower's exit strategy even further.

Reviewing the borrower's plan to retire our loan has always been fundamental to our underwriting process. During 2004-2007, however, borrowers could point to a myriad of exit strategies. Lenders were clamoring to refinance and new buyers were standing in line. Today though, we dig a little deeper into the borrower's capacity to attract exit lenders and who those lenders might be. If the exit strategy is a sale, we keep the loan term timeframe in line with sale expectations and monitor the borrower's marketing efforts. The practice of customizing our loan timeframes and scrutinizing exit strategies to a higher level has also enhanced the fund's liquidity. Even during the depths of the recession we maintained solid liquidity, serving the needs of our investors. **THE LESSON: Tighten the lending leash and closely scrutinize the borrower's exit strategies for practicality and probability. Then monitor their progress along the way to ensure action steps are taken.**

The SFG Investment Team, Seattle Office

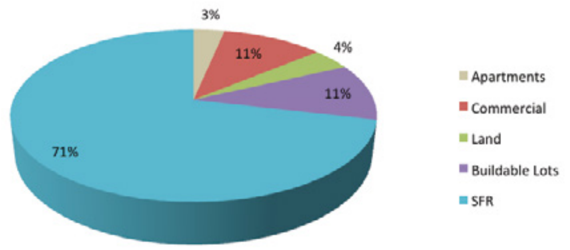
Summary

While keeping all of our key employees and a super majority of our hundreds of investors throughout the United States during the Great Recession, navigating the course of the SFG Income Funds has made our company better, wiser, stronger…and more grateful. The experience challenged our assumptions; strategies and resolve like no other circumstances could in the last 50 years. We believe that grinding through all elements to a successful conclusion sets us apart from all others who jumped ship during the crisis. They missed all of the tough lessons, and today they are out raising money for their mortgage funds, all the while saying they are "just like SFG."

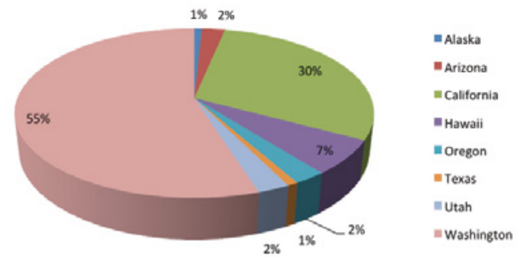
Today, our leadership position in the investment market is revered, but it didn't come without a lot of effort, lessons learned and refinement of our strategies. In 2015, we celebrate 27 years in business. Successfully piloting our investors through such an historic event as the Great Recession is our greatest achievement. With all of the lessons firmly entrenched in our minds, we are uniquely confident in our ability to deliver SFG investors a "best in class" fixed income investment long into the future. One they can count on to balance their portfolios while mitigating unnecessary risks. It's a great time to be an SFG investor. We believe the best is yet to come.

CHARTING SFG PORTFOLIO RESULTS

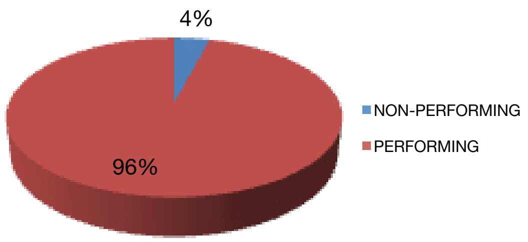
Loans by Property Type (by Number)



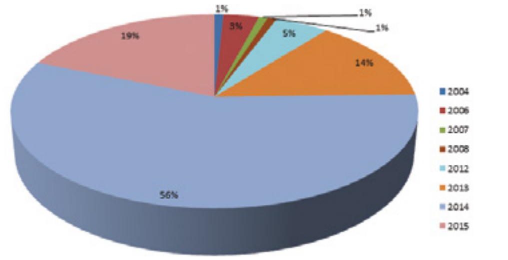
Loans by State (by Number)



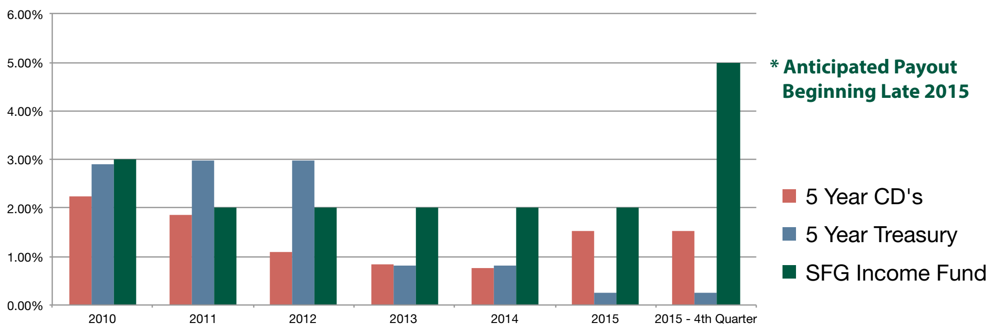
Loans by Performance (by Balance)



Active Loans – Year Originated (by Number)



Fixed Income
vs SFG VI
2010 – 2015



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