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SFG INCOME FUNDS

Year-end 2009



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NEWS OF INTEREST

SFG...
Since 1988



The Right Team to Meet the Challenge

This issue of *News of Interest* features a look back over more than 15 years of communicating with investors in SFG Funds. Simply by scanning the headlines, you'll see that we have consistently talked about our disciplines: the fundamentals of underwriting, loaning on properties with conservative loan to value ratios, and managing a diversified portfolio with safety in mind. As we traverse through the challenges of one of the most difficult real estate markets in American history, we are

confident that these disciplines and our seasoned management team will allow SFG Income Fund to navigate the current downturn and return to the well-regarded investment characteristics we have always been known for.

We recognized the bull market fervor of this decade and have always stayed defensive in our approach. As prepared as we were for a market correction however, we underestimated the magnitude unnatural liquidity and overzealous wall-street lending practices had on real

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estate valuations during 2006-2007. Even so, our prudent philosophies will allow us to navigate through this unique market cycle by making temporary adjustments to our cost structure and investment features.

Over the years, through a variety of market cycles, SFG has been there for investors protecting their capital while providing attractive yields. Although the economic circumstances in the real estate markets today pose a greater test than ever before, we have the foundation and team in place to meet the challenge.

Track Record

For over fifteen years SFG Income Funds have provided a vehicle for investors that has focused on protecting capital while offering attractive liquidity options and comparatively strong yields. For a period of time your SFG Income Fund investment will not be as high yielding, or as liquid as in years past. But as you would expect in this unique market, capital preservation is our top priority

and must take center stage.

Our chief aim is for investors to look back over these historic times with their SFG investment having navigated through with positive returns. That is the SFG plan, that is the SFG way. Our history of performance and disciplines of the past will set the stage for a terrific future.



Mid-year 2009



Year-end 2008



Mid-year 2008



Year-end 2007

Commitment

Right now, SFG is positioned to become better and stronger than ever. In our lending market, we are a recognized industry leader. That position is based on years of credibility we've established with our clients, partners and lending markets. We have been here for many years serving investors and intend to be here for many more years to come. We recognize it is times like this where our commitment to your protection is valued most. History shows that time is on your side, if you are a patient investor committed to quality, value and capital conservative strategies. That's SFG's approach and, we believe, it is the philosophy of the vast majority of our clients.

NEWS OF INTEREST

Mid-Year 2007 SFG FUND OF FUNDS

SFG
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"Location of a securing property has the largest effect, is unchangeable, and therefore primary."

More Lessons in Underwriting

Mastery of the basics can't be understated in most skilled endeavors, including asset based lending. We will continue our discussion of the basics of underwriting, and remind you they are just that, basics. However simple they may seem, much of the sub-prime debacle seen today arose from gross neglect of the basics. We recognize the importance of these sometimes simple concepts and make them apart of our everyday discussions. Lesson number one was "Avoid borrowers desiring their capital out of the property through the proposed loan." Lesson number two was "Avoid borrowers with poor credit on performance based loans." Here we go with a few more.

Geographic Location

We are really back to basics here. It is pretty obvious that certain neighborhoods hold stronger values and can better weather economic storms. In addition, certain cities hold real estate

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"The Finest in Mortgage Investments Since 1988"

Mid-year 2007

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Year-End 2006 SFG FUND OF FUNDS

SFG
SEATTLE FUNDING GROUP, LTD.

Discipline
Consistency
Patience
Growth

Disciplined underwriting leads to healthy loan volume in 2006

SF Fund Managers have always put portfolio health ahead of loan volume. This principle has been part of our fundamental discipline since the inception of the SFG Income Funds.

Know when to say "no"

2006 was not the year to chase loan volume, it was a year to maintain vigilance. As many traditional lenders shifted focus and discontinued a variety of loan programs, the quantity of loan requests at Seattle Funding Group picked up tremendously. Many of these additional applicants came with requests that just didn't meet our strict underwriting guidelines. Examples include borrowers with an insufficient amount of their own capital in the transaction, large tracts of land with no immediate commercial prospects, high

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"The Finest in Mortgage Investments Since 1988"

Year-end 2006

NEWS OF INTEREST

Mid-Year 2006 SFG FUND OF FUNDS

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Checks, Balances and Business Success

SFG delivering predictably year after year

Aside from disciplined underwriting, our cornerstone, SFG's consistent growth and success can also be attributed to our operations structure. This includes checks and balances, overlapping responsibilities, an exceptional staff and constant communication. Divided into these five functional areas, each is a key piece to the balanced puzzle.

#1 Accounting:

Overlapping systems

Anytime you are responsible for investor capital, you are in the numbers business. We do not take this responsibility lightly. SFG has a firm grasp on the numbers at all times. We have divided our accounting into three areas: the SFG Income Fund, Seattle Funding Group (our lending operations) and loan servicer. Each keeps separate books allowing us the ability to continually compare and correct any variances. We have assigned professionals in each department as well as outside consultants to insure all numbers are accurate and immediately accessible. We depend on our three department accounting system, complete with checks and balances, to keep our business running smoothly and our reporting accurate.

The culmination of this effort is our detailed investor reporting. We are proud of the depth and timing of our financial reporting.

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"The Finest in Mortgage Investments Since 1988"

Mid-year 2006

NEWS OF INTEREST

Year-end 2005 SFG FUND OF FUNDS

SFG
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SFG enjoys rapid growth in 2005 while sticking to its fundamental disciplines

Expansion in both the Mortgage and Investor Markets Creates Another Record Year

As early as October of 2005, it became abundantly clear it was going to be a very special year. We had already recorded our highest annual loan volume ever, with three historically strong months remaining. In fact, the year 2005 ended posting a 60% increase over the previous year and a 90% increase over 2003. Needless to say, loan volume is on the rise and is expected to remain as our name recognition spreads throughout the mortgage community across the west coast.

Strategic planning bears fruit

What explains our success in 2005? We feel strongly that our growth over the last couple of years is by design—a direct result of the strategic planning we began in 2002-2003 and have been implementing throughout 2004 and 2005. The bull market for real estate certainly contributed, but foremost markets do not really explain our robust growth in loan volume. That's because our markets also draw a lot of attention, which means increased competition, yet SFG managed to grow and increase its share in an extremely competitive environment.

You can track our growth plans by reviewing past issues of *News of Interest*. At the end of 2003, we announced the opening of our first satellite office in the Phoenix metropolitan area, step one in having a physical presence in the primary markets we lend in. Although we had been lending in Arizona for some time, this was the point where we identified our growth plan.

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"The Finest in Mortgage Investments Since 1988"

Year-end 2005

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Mid-Year 2005 SFG FUND OF FUNDS

SFG
SEATTLE FUNDING GROUP, LTD.

SFG Underwriting- A valve of protection for real estate investors.

Results for Seattle Funding Group and SFG Income Funds have been more than just inspiring in the first half of the year; they have been great! Loan volume is 30% higher than the same period in 2004, more than double what it was in 2003. We expect another record year in volume, with some of the best quality loan opportunities on record.

We could indeed enter this *News of Interest* on the many great things that are happening in the world of SFG. We could discuss how:

- Our portfolio is more diverse now than ever before, both geographically and numerically.
- Our growing physical presence in major metropolitan areas has been a key factor in our spike of quality loan volume, and has enabled us to give incomparable service to the mortgage community.
- Thank you letters from happy mortgage brokers and borrowers are sent to us frequently, and employment applications arrive almost daily.

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"The Finest in Mortgage Investments Since 1988"

Mid-year 2005

Competence

There is no substitute for skill and experience. The SFG team has both. Reviewing the headlines, you can see we had a strategy in place for dealing with the stagnant markets of the early nineties, as well as one for the dotcom disasters of 2001, when we were "wrestling with the bear." Hot markets also present challenges. Our skill and discipline have always carried us through. And, in each case, we pay careful attention, so we can apply the lessons of experience to the next set of challenges.

Through it all, SFG Income Fund has been there, serving investors by protecting capital in all types

of economic cycles. One of the many values of the SFG business model is the short-term nature of our loans. This allows us the best opportunity to get back to cash and adjust our portfolio, one loan at a time, to today's market realities. Although today's market conditions have temporarily blocked many of our borrowers exit options, we still expect a significant portion of our portfolio to be renewed over the next couple of years. Though volume is relatively low, we are seeing exceptional quality in today's lending prospects. As the market leader, we generally get the first look at many of the most attractive loans available. We are very excited about our future and the opportunities ahead.

Getting investors through the storm with positive returns is our primary objective.

~ SFG Management



Year-end 2004



Mid-year 2004

The SFG Team

Many of SFG's key professionals have been with the company for more than a decade. Having a seasoned team working together towards a common goal is an enormous value. We are intimately aware of each and every borrower on our books and the corresponding collateral. This knowledge is key to maximizing returns. Coming together, working together, succeeding together: We have the proven team in place to accomplish our corporate objectives.

Over the years, SFG investors have come to appreciate our conservative investment philosophies.



Year-end 2003



Mid-year 2003



1st Quarter 2002



2nd Quarter 2002



3rd Quarter 2002



4th Quarter 2002



1st Quarter 2001



2nd Quarter 2001



3rd Quarter 2001



4th Quarter 2001

2000



Consistency

Returning to the covers of *News of Interest* over the decades: We've always espoused best practices, discipline, safety and focused on preserving the principal of your hard earned investments. These are our foundational philosophies and will never change.

We see brighter days ahead. By focusing on each individual opportunity, applying our underwriting discipline, insisting on conservative LTV ratios, and diversifying our portfolio...we continue to build the foundation for a rewarding future.

1999



1998



1997



SFG's Bright Future

As we stand poised at this moment in time prepared to face the challenges before us, we also look forward to the great opportunities of tomorrow. We can't predict the future, but we know that by following the conservative investment principles that have brought us the success we have experienced the last two decades, we will also be successful in the decades to come.

We realize nothing overrides the importance of wise asset management and prudent investment decisions. Our management team is dedicated to this tireless quest for excellence and exceptional service to our investors. It

is through our commitment to your protection—in good times and bad—that the opportunities of tomorrow will be realized.

As the market recovers, SFG expects to stand tall and proud, delivering to investors what they have come to appreciate from their SFG investment: capital protection, above average fixed income returns and flexible liquidity provisions. One step at a time we continue our stride back to a healthy future and the SFG investment you have come to know—the SFG that has always been, perhaps, your favorite investment.

1996



1995



1994



1993



Special Editions



1988 - 1992 pre newsletter era



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