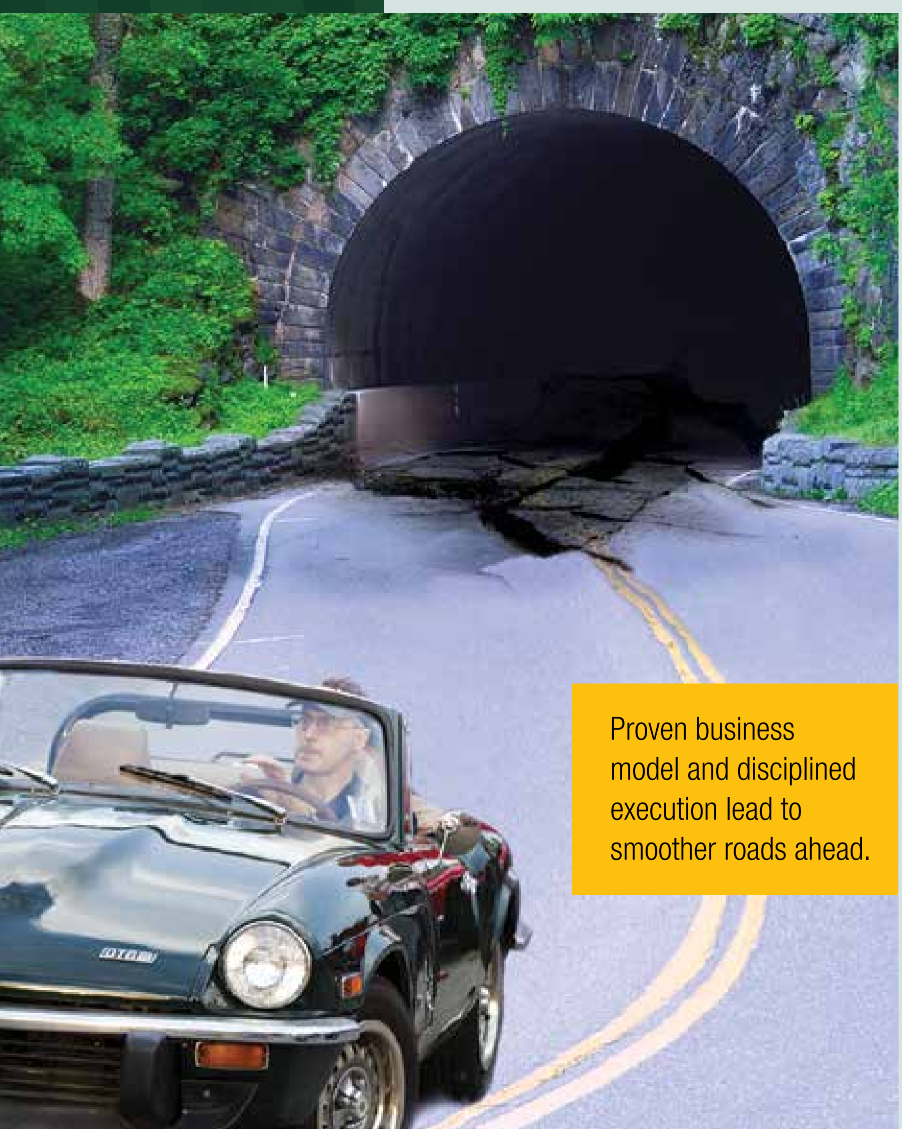
SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS SUMMER 2013

FUND UPDATE

ANOTHER STRONG QUARTER POINTS TO IMPROVED INVESTOR VALUE



Proven business model and disciplined execution lead to smoother roads ahead.

It was another very positive quarter for SFG investors. The trend of profitability continued with second quarter 2013 net profit exceeding $1.0 million. In fact, the first two quarters of the year yielded more than $1.6 million, over and above investor yields. Not bad. Our base lending revenue is quite encouraging, coupled with the sale of an investment property that bolstered our bottom line. With the achievement of non-performing assets at target levels, we have turned focus to profit and it shows. As we move toward our goals, we anticipate additional improvement in our base lending results and a continued downward trend on REO (foreclosed real estate) expenses. Occasional sales of value-enhanced investment assets may further complement profitability along the way.

What does this mean for SFG investors?

The Fund's continued profitability points toward a good-sized improvement to investor value at the re-calculation next spring. Investors should be reassured knowing the Fund is operating profitably with most of the risk inherited from the Great Recession eradicated. Your SFG investment is once again proving resilient with positive momentum toward our aims.

We appreciate your confidence in us and expect the path from this point forward to be comfortably certain and significantly smoother.

SFG INCOME FUND
FUND MANAGERS


Greg Elderkin


John Odegard

Over the last 25 years SFG has built a reputation in the real estate lending markets as a leader – a "best in class" firm that is trusted and reliable when a time sensitive, asset based lending decision is critical.

NEW SFG BORROWER QUALITY AT AN ALL-TIME HIGH

As banks and conventional lending sources maintain retrenchment post-Great Recession, many of today's best borrowers go without short-term, transitional, borrowing needs. Fortunately, Seattle Funding Group is an industry leader in this exacting market. Over the last few years, the SFG portfolio has been rejuvenated with not only terrific properties securing loans, but terrific borrowers as well. During the 2009-2011 malaise, loan demand was down to levels we haven't seen in 20 years, since most entrepreneurs were reluctant to take any sort of action in the real estate market. Fear, doubt and pessimism reigned while business ground to a slow crawl. Although we are still operating at about 40% below our typical lending volume, the loans we are funding are exceptional and loan demand is on the rise. This is terrific news for SFG investors. Strong loan demand employs our capital more efficiently and magnifies our volume of choices, which is conducive to optimal portfolio performance. This is reflected in our negligible non-performing asset percentage on all loans originated after 2008. Today, our typical borrower is very bankable yet has a performance-based, time-sensitive request that banks can't service. While markets continue to heal, time is of the essence for buyers looking to seize opportunities. Where conventional lenders have lost their ability to move quickly as heightened regulatory requirements thwart their timely performance, SFG is the logical solution. Seattle Funding Group has long been positioned at center stage in this performance-based, transitional lending market. Today we are ubiquitous across many west coast real estate markets, further amplifying our lending options.

Over the last 25 years, SFG has built a reputation as an industry leader in the markets we serve. We earn "first look" at the very best loans the industry has to offer. With our advantage and market position well established, the SFG Income Fund continues marching from one decade to the next, navigating some of the worst real estate and banking markets in the last 80 years. Today the SFG Income Fund portfolio is not only proven, but perhaps harbors one of the best mixes of securing properties and borrowers in our history. We look forward to, and strongly believe, our very best years lie ahead.

We recently updated our lending website at SeattleFundingGroup.com and implemented a SFG Mobile site for better viewing on smart phones and mobile devices. The site is filled with example transactions, news stories, business tips for mortgage brokers as well as a description of our lending programs, people and office locations. We have seen substantial increase in our web traffic over the last year. This trend is expected to endure as our market position continues to strengthen. There are currently more than 16,000 active mortgage professionals on our database who consider Seattle Funding Group a laudable lending source within their repertoire. Our team stays in regular contact with those on our database including phone calls, events, mailers and email communication. The Seattle Funding Group website is integral to bringing our message to the market.

VALUE CREATION DURING DOWN MARKET

REAPS TODAY'S REWARDS

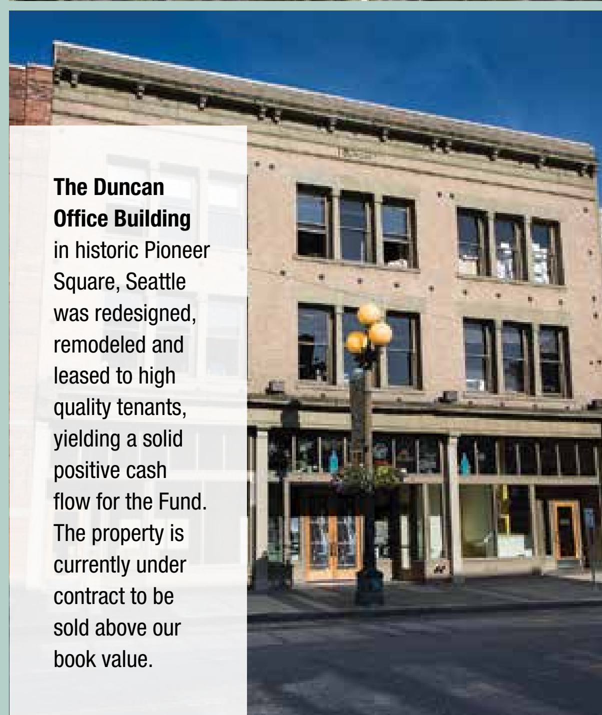
The disposition of foreclosed assets during a historic market down draft is difficult and typically doesn't capture the highest value. Yet it is crucial to avoid continuing price declines and excessive holding costs. As Fund managers, however, we felt certain properties in the portfolio posed "value add" opportunities to maximize returns, and would be unfairly discounted if a sale were forced during the teeth of the recession. We have been proven right. Over the last few years SFG Fund managers have enhanced value on a number of properties in preparation of a better selling market. On several commercial properties, we made improvements and executed new leases to provide cash flow and solidify investor value upon resale. Likewise, over the last two years, we re-designed and engineered a 44-lot REO preliminary residential plat in Auburn, Washington to a 55-lot plat that better suited today's specific home builders. In June of this year we sold this improved plat to a national homebuilder, contributing net proceeds above our book value for the asset. These are just a few examples of "value-add" REO properties.

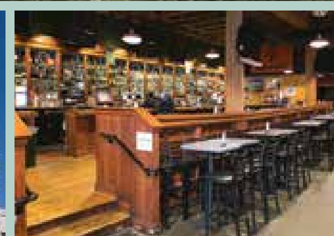
Additionally, the Fund had an investment interest in an apartment community in Salem, Oregon. That property was also sold in June of this year at a handsome profit above book value – a profit we would not have realized if a sale had been unwisely pressed in previous years.

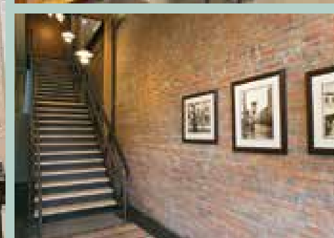
Over the last few years much of this value creation was developed by SFG Fund managers to protect fund investors and position for a better market cycle. As the real estate markets continue to heal, we anticipate capturing a few more sales that reflect our sustained value enhancement efforts during the market malaise.

SFG's re-design and re-engineering of two plats in this Auburn, Washington subdivision helped the property sell above book value.

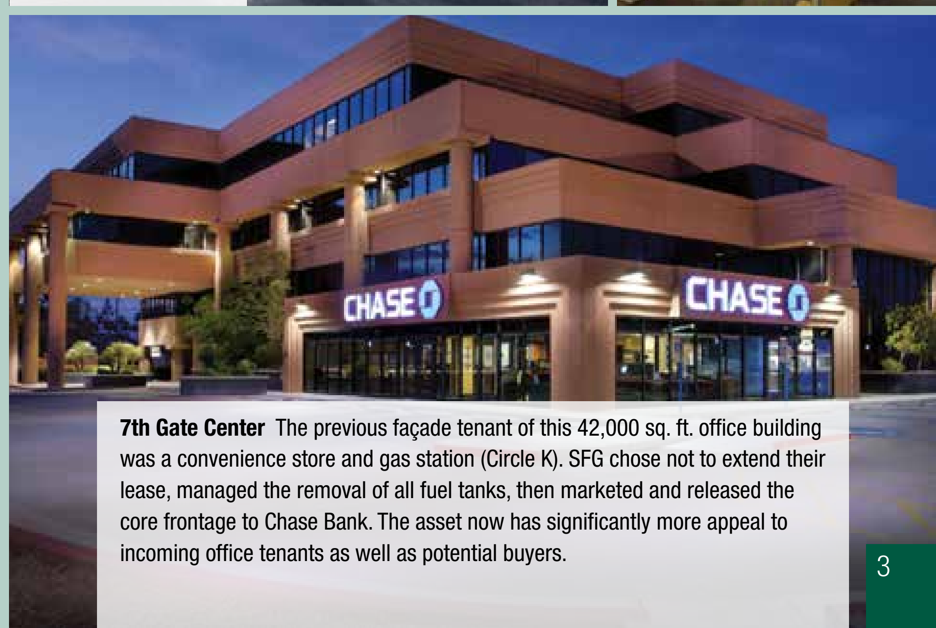
Artist's rendering







The Duncan Office Building in historic Pioneer Square, Seattle was redesigned, remodeled and leased to high quality tenants, yielding a solid positive cash flow for the Fund. The property is currently under contract to be sold above our book value.



7th Gate Center The previous façade tenant of this 42,000 sq. ft. office building was a convenience store and gas station (Circle K). SFG chose not to extend their lease, managed the removal of all fuel tanks, then marketed and released the core frontage to Chase Bank. The asset now has significantly more appeal to incoming office tenants as well as potential buyers.

BACK TO BUSINESS AS USUAL

SFG Portfolio re-establishes solid footing

Before the Great Recession

As an inherent part of our business, we have to use foreclosure as our primary collection strategy. Since we generally work with struggling borrowers and lead them to the most sensible resolution for all parties, SFG borrowers in foreclosure are typically just avoiding responsibility and/or buying time. Know that we are firm in our resolve to achieve a satisfactory solution, but we are never a bully lender.

Over the years SFG's conservative underwriting and sizable equity cushions in the securing properties have allowed us to profit handsomely from time to time with the receipt of late fees and occasional default interest from these situations. This ancillary income is a function of our business model as a short-term real estate bridge lender. To most conventional lenders foreclosure means loss. However, at SFG, while foreclosures are management intensive, rarely have they been a worry and they usually come at a profit. Getting paid in full was a matter of time. *Then came the historic real estate crash of 2008-2011.*

During the Great Recession

After the initial unprecedented and rapid drop in real estate values of the Great Recession and pesky continual decline, time became our enemy. Delay meant greater risk. For the first time in our history, foreclosure became a real concern as our once substantial equity cushion rapidly eroded. However, our conservative, disciplined business model positioned SFG Income Fund to make it through the Great Recession while many others in our market could not. Nevertheless, the last few years required us to navigate the foreclosure process on numerous properties simultaneously, fight borrower-sympathetic bankruptcy courts, recapture properties, maximize values, and manage and sell these assets during the most difficult market in the last 80 years. **Now for the good news.**

Today

Our portfolio has been substantially rejuvenated with new loans underwritten at today's market realities, supplying durable equity protection against loss. This, coupled with a more cooperative market backdrop, makes for significant positive change within the fund. Much of the SFG machine has been fixed and profits are on the rise.

Today, new foreclosures are much more infrequent, back to typical levels. Recently two newer loans in default were placed in foreclosure, both underwritten in 2011. As in years past, the minute we revisited the underwriting file there was little need for concern. The securing properties were well located with strong equity cushions, protecting our position. Once again, getting paid in full with interest, and most likely with additional late fee income, is just a matter of time. With real estate markets beginning to heal, our borrowers have more options today for a cooperative resolution prior to the ultimate foreclosure sale.

Of all loans originated after 2008, only five have been placed into foreclosure. None have created any loss. In fact, all have, or are expected to, create an additional profit for The Fund. It's back to business as usual for SFG.

As before, the occasional foreclosure means business as usual, a reassuring reality. The sporadic new foreclosure may make our non-performing asset percentage bounce around within the normal course of business, but the category is back under control and expected to vibrate its way to even better numbers over the next year. As an SFG Income Fund investor, you can gain comfort in knowing the worst is behind us. Our resilient business model is proven. We are well on our way to achieving all our objectives.

SFG
INCOME FUNDS

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