SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS

SUMMER 2019

SFG INCOME FUNDS
A RESILIENT INVESTMENT
AND YOUR HEDGE AGAINST VOLATILE MARKETS

It is not hard to stay the course when economic headlines are generally positive, the economy is dynamic, and everything seems to be working, like it has the last eight years or so. But what if the headlines change, the stock market declines, real estate shows signs of stress, and emotions are triggered. How investors behave during down markets has a large impact on their overall investment results. This is a well-documented fact for the stock market, and it holds true for your SFG investment as well.

One of the best things an investor can do, with the help of a trusted advisor, is design a portfolio with down market cycles in mind. Create a balanced portfolio with appropriate liquidity so you can withstand market cycles, financially and emotionally, without liquidating your investments at unfavorable times. If you have chosen good investments and proven fund managers, the best decision is usually to stay patient and let the fund managers do their job. Like good pilots, this is what they are trained for. The worst thing an investor can do during down markets is panic and make rash emotional decisions. When markets get tough, SFG is typically at its best, acting as a shelter of protection as it has for over 30 years. SFG is an "all weather" investment vehicle, engineered and proven to perform in all market conditions, not just in "up markets." In fact, we often profit more in down markets than in up. Let's re-visit a few key reasons why.

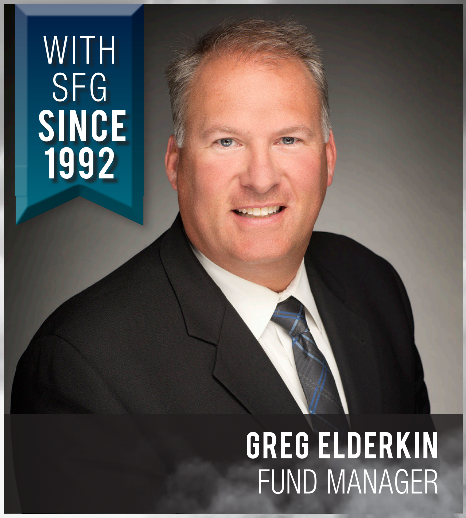
Continued on next page

ALL FIRST MORTGAGES

All SFG loans are in first position on the securing property, so in a worst -case scenario the SFG portfolio gets the property back free and clear, no debt. And since on average the SFG portfolio maintains a 30-40% protective equity cushions at the time the loan was made, there should be sufficient room to protect our invested capital even during unfavorable markets. SFG is the last to be impacted in a down economic climate. It was only during the Great Recession that our profits were compressed due to tough real estate markets. With the exception of this extraordinary event between 2008-2010, SFG Income Fund's earnings can be augmented during rough real estate cycles with additional late fees and default interest.

UNLEVERAGED FUND

The SFG Income Funds are unlevered, except for a modest and rarely used warehouse credit line designed to increase efficiency; this is where other funds get into trouble. They raise equity capital and then leverage that capital with low interest credit lines designed to amp up yields. This works well in up markets but can be disastrous in down markets. With capital preservation our primary objective, we do not chase yield, and we keep our funds basically unlevered.



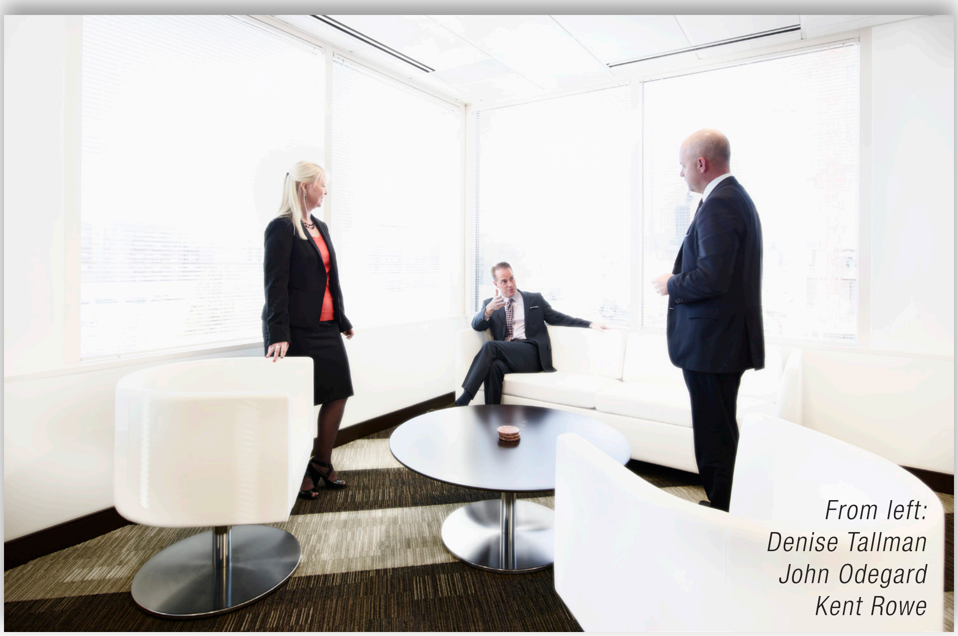
PROVEN MANAGEMENT TEAM

The SFG Income Funds are some of the longest standing funds of their kind on the West Coast. Our management team has been working together for three decades, refining risk mitigation strategies with a relentless focus on portfolio resilience. These strategies were battle tested during the Dot Com bubble at the turn of the century and again during the Great Recession of 2008-2010. Today, we feel more prepared than ever to withstand the next economic storm.

In the end, your SFG investment is a highly productive piece of your portfolio that also offers you peace of mind knowing it is prepared for whatever tomorrow brings. Whether in an up or down market cycle, we will be here focused on keeping your capital safe and productive, long into the future.

TYPICAL RETIREMENT PORTFOLIOS OPERATE WITH THE 4% WITHDRAW RULE.
SFG OFFERS MORE.

After many years of working with some of the finest financial advisors in the business, we at SFG believe the best thing an investor can do is work with a skilled and trusted investment advisor. We have seen the good having an expert investment advisor does in helping investors construct portfolios that balance risk, yield, income, and liquidity in ways that best serve the investor financially and, in most cases, emotionally. The benefits of having someone who is knowledgeable and clear



From left:
Denise Tallman
John Odegard
Kent Rowe

headed in the face of investment volatility or market correction are immeasurable. Investors without investment advisors are much more likely to get caught up in the emotion of "headline news" and make knee jerk decisions that don't serve them well. In our view, quality financial advisors who charge industry standard fees are usually well worth the cost.

INCOME IS OUR MIDDLE NAME!

One common practice used in many advisory plans is the 4% rule. The 4% rule states than an investor should plan on withdrawing no more than 4% of their portfolio balance, per year, as income. In doing so they can expect their money to last

"During the 2008-2010 financial crisis, we were fortunate to be working with high level investment representatives who guided their investors through prudent decision making, avoiding rash emotional reactions that would be detrimental to positive results. They stayed in close communication with the SFG team, but for the most part, let us do our job. In the end, SFG investors who stayed the course came out well ahead."

decades. This retirement income rule also helps investors reverse engineer how much money they will need for retirement. For example:

If one wants to live on
$100,000 PER YEAR
one will need an investment portfolio of approximately
$2.5 MILLION

as **$100,000** is **4%** of **$2.5M**.

Want **$200,000** per year?
Your investment portfolio should be about **$5M,** and so on.

HERE IS WHERE IT GETS GOOD FOR SFG INVESTORS.

SFG typically produces 50-60% more income than this standard retirement withdraw rate, without touching the principal! This means an SFG investor needs less money invested to produce the same amount of income at retirement. Most of our investors recognize how SFG is laser focused on protecting capital in all market conditions while producing a very productive return.

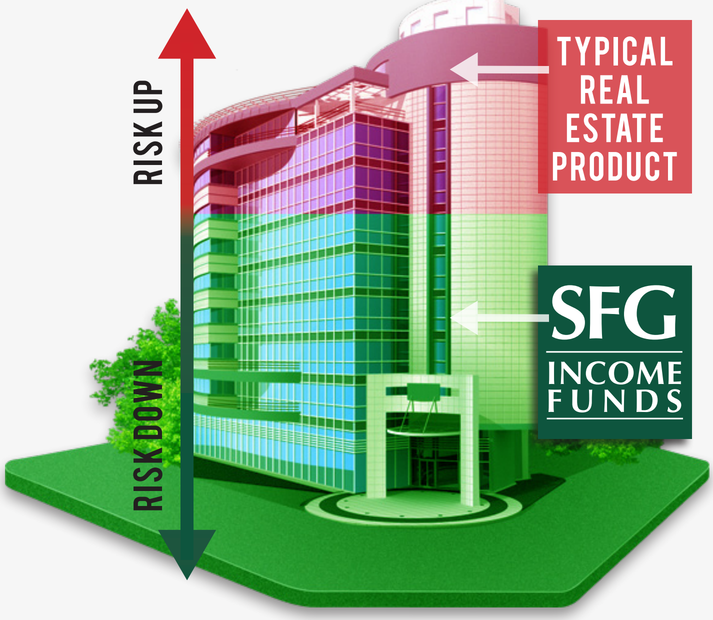
However, since so many of our investors reinvest their SFG distributions to capture the compounded effect on returns, the income their SFG investment produces may not be fully appreciated until it's time to switch from compounding to income. At that point the income becomes self-evident and in many cases addictive. Consistent income, above model distributions, quarter after quarter, allows investors to fully revere the fruits of their SFG Income Funds investment.

AFTER ALL,
INCOME
IS OUR
MIDDLE NAME.

4% RULE

TERRIFIC PROPERTIES.
SOLID LOCATIONS.
STRONG EQUITY CUSHIONS.
JUST TAKE A LOOK!

We have long stated that investments in SFG Income Funds should not be compared to real estate investments. We don't have the risk inherent in real estate investments, and we don't model such high returns. An investment in the SFG Income Funds is better likened to an income producing bond, without the typical value fluctuations, and secured by real estate. For this reason, real estate is a crucial component of our investment strategy as it supports our valuations; however, because we fly well below real estates' typical turbulence, as you can see in the chart, SFG investors are not susceptible to normal market value swings.



Having said that, we pride ourselves on securing our investments in first priority, against relevant properties with large equity cushions for protection. This is a key component to our business model, in which capital preservation is our top priority. For that reason, quality properties matter.

Let's take a look at some examples of recent transactions, how our investment is well protected and what our loan meant to the borrower.

THE GOOD LIFE!

This stunning 8,000 plus square foot luxury home is located in the exclusive Madison Club community and home of the rich and famous. SFG paid off the borrower's construction loan, giving the borrower more time for marketing. (This home was recently sold and our loan paid off). Visit our website for more pictures of this incredible residence.

EIGHT TOWN HOMES IN ST. JOHNS

Another repeat builder returns to build eight upper end town homes, with views of the Willamette river in Portland, Oregon.

STUDENT HOUSING AT ITS BEST, AND IN TIME FOR THE 2019 FALL SCHOOL SEASON!

A very successful and experienced student housing builder from Los Angeles, turned to SFG when time was of the essence to build this 104 unit en suite student housing project steps from the U of A campus, before the start of the 2019 school season. These are fabulous units with garages, pools and community area.

More deals on back page

$3,500,000 | 62% LTV
KENMORE, WA

EIGHT HIGHER END TOWN HOMES

Borrower buys out equity partner and pays off construction loan on this eight unit townhome development in Kenmore, Washington. The property is well located, ten minutes from Bellevue, WA. Time was of the essence.

$1,776,000 | 60% LTV
SAN DIEGO, CA

THE CARL. PERFECT OPTION FOR STUDENTS OR LOCAL RESIDENTS

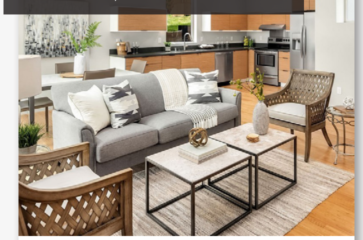
Modern seven unit apartment building construction loan blocks from The University of San Diego (USD).

$5,850,000 | 65% LTV
SEATTLE, WA

42-UNIT APARTMENT BUILDING ON BEACON HILL, SEATTLE

Borrower has done several loans through Seattle Funding Group. SFG's in house construction department is a favorite among many boutique builders across the west coast.

$3,900,000 | 68% LTV
SEATTLE, WA



EIGHT BRAND NEW TOWN HOMES

Luxury town homes in the heart of Seattle. Well established builder turned to SFG to pay off a construction lender and provide capital to finish the project and sell the townhomes.

$2,222,500 | 65% LTV
PHOENIX, AZ

22 UNIT APARTMENT BUILDING IN PHOENIX

A small group of proven fix and flip apartment experts have turned to our Scottsdale office (SFG of AZ) several times to capture exceptional buying opportunities before they hit the market. This well located 22 unit building located in the Arcadia lite neighborhood went from “drab” to “terrific” in about 90 days.

**Keep in mind that these sample SFG loans are representative and may not be currently in the portfolio.*

SFG INCOME FUNDS

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www.SFGIncomeFunds.com *(Investor Website)*
www.SeattleFundingGroup.com *(Lending Website)*