

SFG

**INCOME
FUNDS**

NEWS OF INTEREST

SFG FAMILY OF FUNDS

SPRING 2014

FUND UPDATE

REAL ADVANCEMENT ... REAL RESULTS!

In the first quarter of 2014, the SFG Income Fund VI showed healthy statistics in all vital areas and posted another strong quarter of profits. This is the seventh straight quarter of excess earnings over and above investor interest and operating costs, and the fifth straight quarter of

considerable improvement in equity position. Not bad. This consistent earnings surplus leads directly to a substantial increase in SFG investors' investment value, a trend we expect to carry on. Additionally, the abnormal risk inherited from the Great Recession has been predominantly eradicated, with only a few remaining vestiges. The Fund is healthy and operating nicely with the lowest non-performing asset percentage in several years. We are well down the path toward achieving the recapitalization goals and getting back to normal operations with full investor value and higher investor interest payouts. Positive momentum from past efforts has taken hold. There is still work to do, however, we maintain a laser-like focus on goal achievement with a high sense of urgency toward our intended objectives. We expect positive quarterly results to continue as the Fund builds on its health and the momentum of each success.

Discipline and enduring effort produces increased value
for SFG Income Fund VI investors.

Loan Volume Healthy and Increasing

Our current priority is to continue increasing investor value by bolstering the Fund's interest earnings with higher capital re-employment. Loan

continued on page 2

continued from page 1

volume is the key. We ended the quarter with a high cash position, but quality loan volume is on the rise. The first quarter of 2014 ended with a 50% increase in loan volume as compared to the same period last year. Overall, we expect to produce a 20% increase over 2013 by year end. Seattle Funding Group's comprehensive marketing campaign, touting their long-standing history and responsive lending services, is an integral part of recently enhanced loan demand as well as achieving steady capital employment. Trade shows, speaking engagements, broker newsletters and a state-of-the-art website designed to better capture customers searching on Google

and other search engines, are all part of the 2013-2014 commitment to increasing loan production. Seattle Funding Group has made sizable investments in time and money to maintain its market leadership position, and SFG investors should reap the rewards from the investment opportunities these efforts produce. Although we ended the quarter with a high cash position, our steady rise in loan production should absorb an appropriate portion over the next few months and interest earnings will lift proportionally. Keep in mind a measurable portion of our cash position is simply the process of "getting back to cash" on non-performing assets. As the Fund has nearly

purged all the remnants of the old economy loans and foreclosed properties, there will be less additional cash infusion from sales proceeds, and new loan volume will catch up, better balancing our cash to working capital ratio. On the other side of the coin, our high cash position underscores the liquidity of our business model. The SFG Income Fund has always maintained healthy cash positions over the last 20 years, even during some of the most difficult markets in recorded history. The fluid nature of our investment strategy has served investors well for many decades and will continue to do so for many years to come.



SFG Income Fund managers Greg Elderkin (left) and John Odegard (right).

SFG fund managers stay focused on the primary objective we deliver to investor portfolios – *Certainty.*

CERTAINTY – THE MAIN OBJECTIVE

As we enter the final phase of our investment recovery strategy, and completion is in sight, one might inquire, "Could the Fund achieve its objectives for investors (return to 100% value and increased interest rate) even faster?" It's a good question and worthy of discussion. To properly address the query, one must reconnect with our business model and the primary role SFG plays in an investment portfolio. It is important to remember we are a lending firm and our asset base consists of loans well secured on real estate. Our primary income stream is interest income, a steady and deliberate source. Investors have always valued SFG as a stabilizing force designed to avoid value fluctuations and high levels of

risk, offering investors a synergistic balance of safety, liquidity and yield. It is for this reason SFG has always maintained a defensive posture, seeking safety over yield. Not to mention, SFG's recapitalization strategy tightened our risk prevention belt a few notches tighter to defend against the threat of further drastic market conditions.

As many residential real estate markets have recovered and commercial markets have strengthened, some on the more risky, volatile equity side investments have profited nicely. Keep in mind however, that market segment declined drastically when the markets crashed and many never

We have now sold most of SFG Income Fund's foreclosed assets from the historic market correction, while adding terrific new loans to the portfolio. The SFG Income Fund VI portfolio is replete with high level, well secured loans at today's evaluations, supported by quality borrowers at the helm. SFG investors should feel confident about where their money is invested today.

SUCCESS STORIES: OUT WITH THE OLD... FORECLOSURE RESOLUTION

Downtown Office Building Albuquerque, New Mexico



AFTER



BEFORE

The Fund foreclosed on this 60,000 square foot, downtown office building in early 2010. The local office market had been hit harder than most. Fund managers cosmetically improved the exterior of the asset as well as resolved a minor hazardous waste issue from a previous owner. Note the before and after pictures. The property ultimately was sold to the best potential user, the State of New Mexico, at slightly more than book value.

Sales Price: \$1,770,000

Costs of Sale: \$105,000 (approximate)

Net Proceeds: \$1,665,000 (approximate)

Property Value on our books: \$1,665,000 (approximate)

Gain/Loss: \$0 (approximate)

Sale Date: 2014 February

“SFG’s steady strategy toward a full recovery took the path most certain by precluding excessive risk and profit chasing.”

recovered. Through a wide variety of market conditions over the last 20 plus years, we have maintained a consistent, stable investor value. Only after historic market conditions was SFG investor value touched. SFG’s steady strategy toward a full recovery took the path most certain by precluding excessive risk and profit chasing. SFG Fund managers stay focused on the primary objective we deliver to investor portfolios – *Certainty*. In the case of the Great Recession, world economic certainty was shattered as the national and world economies’ downward spiral hit investor portfolios hard, offering little to no respite or indication of ceasing. SFG Fund managers presented investors

with an adjusted strategy to better defend their capital from the unnerving and historic breakdown of the real estate markets, with the intent of returning to a sense of certainty and predictability within the portfolio, which has distinguished SFG for so many years. The SFG Income Fund’s defensive posture has now positioned SFG investors to recapture 100% of their investment value, plus positive returns along the way. On the road to recovery, SFG Fund managers were shedding risk and enhancing portfolio health to avoid any additional downside and improve fund profitability, and it worked. However the fund is *not* designed to chase profits on risky loans or use high leverage to

inherit the entire lift of real estate values in any given hot market. We have, nonetheless, captured some of the value enhancement associated with an improved real estate market by selling several of our REO holdings at a gain. Yet the vast majority of our earnings are more deliberate, which takes time. Although the continued low interest rate environment, slow economic recovery and early-on extended value erosion have stretched our plan out longer than we all may have hoped, achieving the fund’s main objectives of capital preservation for investors has never been more...*certain*, which we believe is in our investors’ best interest. (Pun not intended). **SFG**

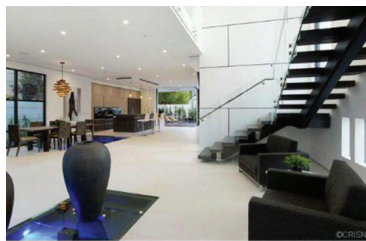
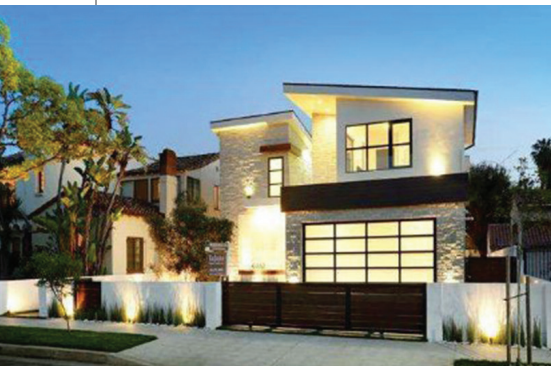
SUCCESS STORIES: ...IN WITH THE NEW. SFG PORTFOLIO KEEPS GETTING BETTER

\$2,300,000 Luxury Rental Property Bellevue, WA

First position loan

A well-qualified foreign national buyer was looking to build a portfolio of luxury rental properties, but needed a responsive lending partner. Enter Seattle Funding Group. The ability to close quickly combined with common sense underwriting was a perfect fit for them. This waterfront home is located in Bellevue, Washington on over 1.5 acres with 150 feet of prime Lake Washington waterfront and a deep water dock. Purchase price was \$3,550,000 and the borrower paid the difference in cash.

Loan to Value Ratio (LTV) 60%



\$1,600,000 Beverly Grove (LA), CA

Cash Out Bridge Financing, First position loan

This was a rather straightforward bridge loan on a terrific, new contemporary spec home in LA's Beverly Grove neighborhood. It had been built with cash, was within days of being completed, and the owner required SFG's sensibly priced transitional financing for the purchase of another development opportunity. Time was important and SFG worked closely with the referring broker to ensure all construction labor and material had been paid for.

Built by a strong, experienced sponsor, with excellent design and finishes, the product is a perfect fit for this upscale neighborhood, and the SFG portfolio.

Loan to value Ratio (LTV): 65%



SFG

INCOME FUNDS

188 – 106th Avenue NE, Suite 600
Bellevue, WA 98004
425.455.1733
888.734.3863

www.sfgfunds.com