

SFG**INCOME
FUNDS**

NEWS OF INTEREST

SFG FAMILY OF FUNDS

SPRING 2016

FUND UPDATE

RESULTS... AND EXTRA RESULTS

SFG Income Fund VI posts another terrific quarter – indicative of future increased investor yield!

Consistent with the role SFG plays in investor portfolios, nothing is more important than capital preservation. To that end, perhaps nothing is more enjoyable than strong returns along the way. This is exactly what the fund achieved in the first quarter of 2016. In addition to productive lending operations, augmented by some borrower default and late charges, a few positives from past efforts manifested within the quarter as well, boosting earnings. While SFG investors should not count on exceedingly high level performance every quarter, our fund is positioned to capture a little ancillary income from time to time. Let's discuss how and why that occurs.

SFG fund managers and investment underwriters have a high disdain for non-performing loans. In other words, we examine each loan request with the intent of mitigating the likelihood of default. Nevertheless, things happen and some borrowers get off track. Their behavior at that point determines the cost of their stumble. If they are communicative, forthcoming and actively engaged in rectifying the challenge, we will work with them to keep punitive costs at a minimum. We are not a bully lender. If, however, loan holders become misleading in their communications, disrespectful of their obligations and lack a sense of urgency towards a solution, it will cost them. Such was the case this quarter with a couple borrowers. They went into default, blamed their investment partners and primarily ignored us. Because they only owed SFG about 65% of





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

As earnings have been consistently strong from our very effective loan portfolio, we are considering paying out some additional interest in 2016 to increase investor's current yield. Stay tuned for more information!

the properties' market value, sufficient motivation finally achieved prompting them to pay the loans in full. Our payoff figures included late fees and default interest, in addition to back due regular interest. In the spirit of being a good neighbor, we reduced our late fees a bit, but the damage on the loan had already been done. As a result our ancillary fees increased and earned money for the fund's investors. These loans were management intensive, frustrating, yet in the end very profitable. Over the years we have many times stated, "Don't confuse our non-performing asset percentage with loss. These aspects of investing are not one and the same." The only time our non-performing asset percentage reflected our risk of loss was during the financial crisis, at which time our protective equity eroded.

For the most part, our non-performing loans have proven to be some of our most profitable loans, even though we paradoxically underwrite to avoid them. Keep in mind, our first priority is capital preservation, then yield. For this reason, we have found it best to underwrite with extreme prudence to avoid defaulted loans. In doing so, we remain confident in our position when defaults inevitably occur.

As of this writing, our non-performing asset percentage is at historic lows. This will naturally ebb and flow, however, based upon future borrower behavior. Nevertheless, we remain steadfast in the practice that today's prudent underwriting will be tomorrow's protection, and provide potential ancillary rewards. [SFG](#)

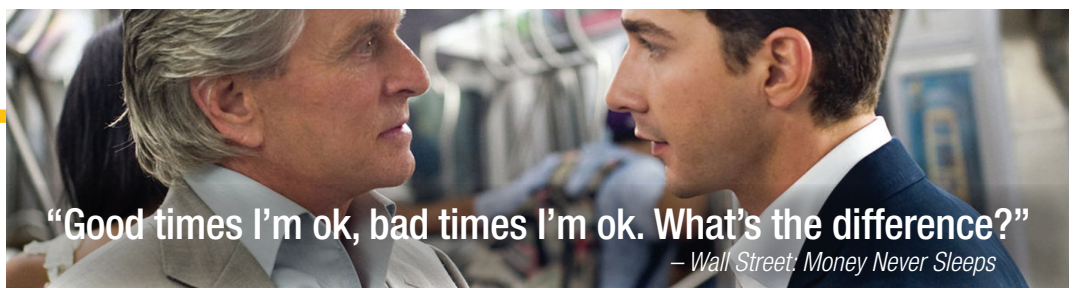
SUCCESS STORIES



\$1,625,000
San Diego, CA
65% LTV



\$3,000,000
Queen Anne Hill
(Seattle), WA
43% LTV



SFG INCOME FUNDS – AN ALL-WEATHER INVESTMENT VEHICLE

Since Seattle Funding Group began operations 28 years ago, borrowers have received loans for various reasons in various markets. In good markets, they borrow for opportunity. In difficult markets, they borrow to solve challenges. Some borrowers, though, want loans for opportunity in difficult markets. SFG's responsive, entrepreneurial lending approach serves both market cycles with exacting solutions. Speed becomes the issue in rising markets and certainty becomes the value in challenging markets. Our practical, yet prudent, lending approach fits both the Yin and Yang of typical market cycles. Such is the case with your SFG investment. It is designed to perform and protect through both the ups and downs of market conditions.

We recently spoke to a high level investment fund manager who had heard about the success of the SFG Income Funds. Naturally this gentleman was highly intelligent, but we found his philosophies and questions incongruent with the foundation of SFG. His group focused more on "getting in when markets are good" and "getting out when markets are bad." There was little recognition for the skills and discipline needed, in our industry, to navigate a

variety of markets over decades. It seems he has been conditioned by investing in things outside of his control, such as stocks. This practice limits his control mechanism to the "in or out" switch. SFG is a little different. Although there are forces outside of our control, a majority are within our control—primarily who we lend to, what we lend on and how much we lend. It takes catastrophic economic events to interrupt our flow, not simply hot and cold markets. Economic conditions may dictate our pricing but not our significance or effectiveness in protecting investor capital. SFG is an all-weather investment vehicle that has navigated a variety of market conditions over the last 28 years, including two major recessions. There are no tricks or special codes to our strategy. To produce superior performance over many years, it takes daily discipline, effort and a commitment to excellence. It is refinement and execution of the fundamentals not market timing that has allowed SFG to consistently perform and endure the test of time.

We will be here for many years to come, giving our fund participants an investment they can count on to resist the forces of typical market swings.



\$3,900,000
La Jolla, CA
65% LTV



\$1,985,000
Alki
(Seattle), WA
68% LTV

THE SFG 15 YEAR CLUB

THE INDUSTRY ELITE

No other firm in our industry has reached SFG's level of performance. SFG companies have:

- Funded over 2,000 loans
- Served more than 2,200 investors across 33 states
- Paid out well over \$100 million in interest and profits to investors
- Provided over \$50 million in liquidity to investors
- Carried investors through two major recessions

- Posted positive returns every year since our inception, for those who stayed with us.

Not too shabby. As we look back on our achievements, we want to give credit and thanks to our team's long-term key players who have helped make all of this happen.

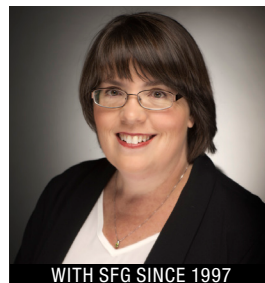
Our tradition of performance is not by accident. It has taken the tireless efforts of the very best staff in all of our departments. We can't thank them enough and we know investors feel the same way.



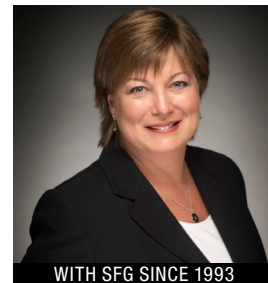
WITH SFG SINCE 1998
Kent Rowe
VP/Senior Underwriter



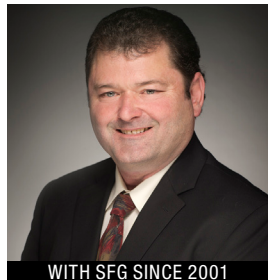
WITH SFG SINCE 2000
Ron Lorentsen
Senior Underwriter



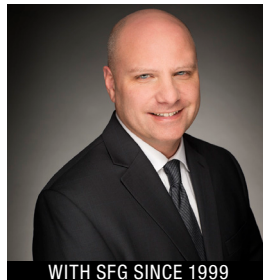
WITH SFG SINCE 1997
Karin Case
Controller



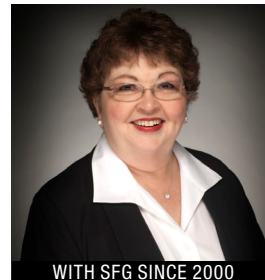
WITH SFG SINCE 1993
Jan Jeffery
Senior Accounting
Administrator



WITH SFG SINCE 2001
Jim McBride
Construction Manager



WITH SFG SINCE 1999
Eric Benzel
Income Fund Administrator



WITH SFG SINCE 2000
Barbara Ulrich
Loan Servicing Manager

These outstanding individuals continue to play a skillful and committed role for SFG Income Funds every day on your behalf.

SFG

INCOME FUNDS

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