SFG
INCOME FUNDS
SFG FAMILY OF FUNDS

NEWS OF INTEREST

SUMMER 2022

Rising rates, rising inflation, stocks in bear market, war in Ukraine and….

all is steady at SFG.

As SFG Fund Managers, we dislike tough economic conditions as much as anyone. Good is always better than bad. Yet as we look at the conditions impacting us today, it may be better for SFG, over time, than the last few years have been. And, as an SFG investor, that is good news for you.

Here is why...

Pricing power...
back in balance

In the last couple News of Interests, we discussed the cascade of new, less experienced lenders flooding the market, sourcing their money through credit lines with exceptionally low interest rates. Low credit line interest rates provided them temporary pricing power, which has now been interrupted. Their capital supply, which seemed endless, is now circumscribed. They pushed leverage within their funds and loans, touting loan volume as their singular measuring stick for success. SFG remained disciplined, capturing baseline yields but conceding some of our loan volume, which kept our portfolio growth flat the last few years. Forced loan growth is never a smart thing. We remain patient and prepared, knowing markets always change.

Now these same volume-touting lenders are entering a shifting market. Many find themselves with tenuous portfolios and less competitive tools. Perhaps the economic adjustments we are experiencing will help reduce the excess. With pricing power back in line with reality due to rising interest rates, SFG sees opportunity ahead. We are in the nascent stage of this market shuffle, yet our business model is durable. We are confident in our portfolio and in our position to not only weather the new market reality, but to also capitalize on it.

> We remain *patient & prepared,* knowing markets *always* change

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Returns may rise...
gradually over time

Capital is a commodity, but excellent service, trust, and brand recognition are not. Though our capital cost to the borrower has been higher than that of other lenders in our industry the last few years, many borrowers still chose SFG because of the reputation of integrity and stability we have built the last 30+ years. No borrower wants to be in the middle of a project and have their lender run into their own financial problems. This could interrupt expected construction draws and customer follow through, create delays, and perhaps even increase costs. So while pricing is not the only decision metric, it matters. Pricing headwinds the last few years frustrated our loan volume and challenged our desire for slightly higher investor yields. Going forward we expect to see yield resistance begin to ease, allowing for stronger portfolio returns over time as older lower yielding loans mature and newer higher yielding loans are captured. Keep in mind this will not be an overnight change as there are other factors at play, such as loan volume and capital employment. Also, the global higher cost of capital will have a dampening effect on real estate activity and values. However, SFG is better positioned today for yield enhancement than we have been in the last few years.

Loan volume...
may increase

With rising rates tightening the gap between our offered rates and conventional financing, and while competing lenders' business models are being tested, Seattle Funding Group may be the benefactor of greater loan volume which is good for investors. Higher loan volume leads to more choices and steadier capital employment. But this again, will not happen overnight. In fact, we expect there will be an overall market pause for a few months as real estate entrepreneurs digest the meaning and effects of the higher cost of capital. Additionally, SFG remains a "quality over volume" lender with strong disciplines. We will never chase yield or volume by taking on greater risk. Yet some of the forces that are out of our control, and that have not been in our favor the last few years, have shifted back into balance, making Seattle Funding Group's loan programs more competitive. And going forward, that is good news for SFG investors.

2022
Loan Programs

SFG interest rate risk is mitigated with *short term loans*

One of the benefits of SFG's lending model is the short-term nature of our loans. The typical Seattle Funding Group loan is written for 1-2 years, with a majority written for one year. Our average loan pays off inside of 14 months, which is in line with our lending objective—get the borrower from point A to point B, at which time they are well positioned to pay off the loan through a conventional loan refinance or sale of the asset. If a loan extension is requested and deserving, it is typically granted, and the interest rate is then adjusted to the appropriate level. Everyone wins. This is one key piece to the SFG business model that has allowed us to withstand the test of time during various interest rate cycles; we keep our loans short to hold our borrower's performance in check and our interest rates at opportunistic levels.

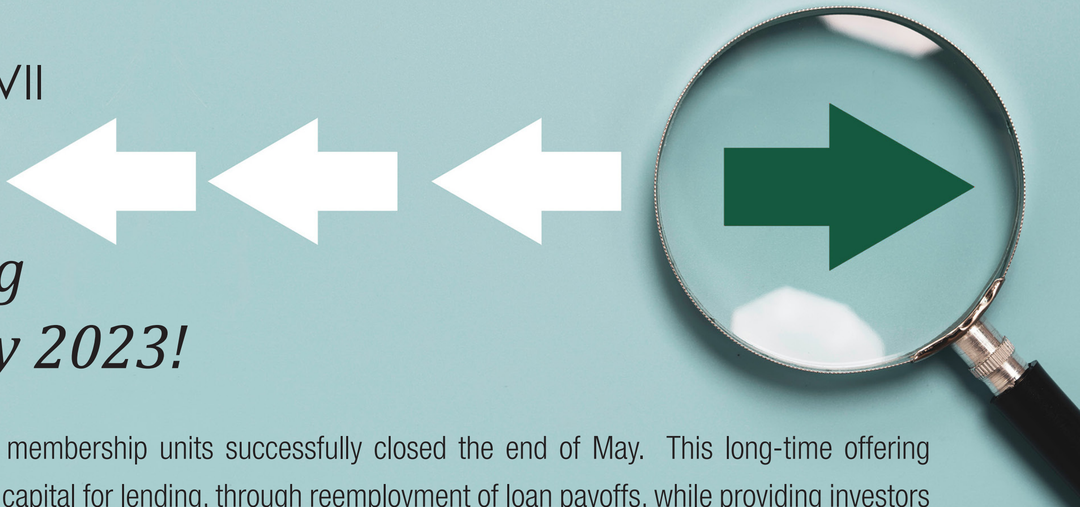
Commercial
$2,400,000
64% LTV
12 Month Term
Phoenix, AZ

Construction
$2,100,000
70% LTV
18 Month Term
Pacific Beach, CA

Commercial
$4,500,000
53% LTV
12 Month Term
Seattle, WA

Residential
$1,040,000
52% LTV
12 Month Term
Honolulu, HI

SFG Income Fund VII offering closes to new investors...



New SFG offering anticipated early 2023!

Our SFG Income Fund VII offering of membership units successfully closed the end of May. This long-time offering continues to provide a stable supply of capital for lending, through reemployment of loan payoffs, while providing investors a consistent yield and reasonable liquidity built on a foundation of safety. Development of a new SFG offering will begin later this year. Expect the same time-tested principles and improvements in managing investor demand and the time between subscription and employment.

The Peace of Mind
of a Stable Investment.

Stability. For decades we have written about this primary value SFG brings to investor portfolios, and we tend to come back to it when stock markets shift or become volatile and uncertain. It is in changing times, like those seen today, that your SFG investment is most revered and its contribution most appreciated. The design and structure of an SFG investment is to provide consistent performance during good times and bad, deliver cash flow through earnings, protect principal above all else, and provide an above market fixed income return. One should not measure their SFG investment against their stock selections but should instead understand that both investment vehicles work synergistically for improved overall portfolio performance. Much of this can be attributed to better investor behavior when stocks drop substantially; having an appropriate portion of one's assets in productive yet stable investment curtails the desire to sell stocks at exactly the wrong time. This is where quality portfolio construct comes into play. SFG's role within such a portfolio falls into the fixed income category, giving investors peace of mind knowing that when the equity markets are stormy, SFG is that comforting cup of hot chocolate, inside by the fire.

SFG: Stable - Consistent - Productive

Year in and year out,
one message remains the same...

SFG Income Funds offers the Peace of Mind of a stable investment.

Favorite Quotes

"Intaxication: Euphoria at getting a tax refund, which lasts until you realize it was your money to start with."
- Anonymous

"The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessing of socialism is the equal sharing of misery"
- Winston Churchill

"In general, the art of government consists in milking as much money as possible from one party of the citizens to give to the other."
- Voltaire (1764)

"I've learned...
That being kind is more important than being right."
- Mark Twain

"I've learned...
That simple walks with my father around the block on summer nights when I was a child did wonders for me as an adult."
- Mark Twain

Hear any good ones lately? Please pass them along to John Odegard. We'd even be happy to mention in our newsletter where they came from. You can also e-mail your favorite quotes to: jodegard@sfgfunds.com

SFG INCOME FUNDS

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