

SFG**INCOME
FUNDS**

NEWS OF INTEREST

SFG FAMILY OF FUNDS

SUMMER 2016

FUND UPDATE

WELL MANAGED SFG CONSTRUCTION LOANS PROVIDE STEADY RESULTS

SFG Income Funds portfolios are healthy and performing at a high level. And it is interesting to delve into specific segments within the portfolio and take a closer look at our underwriting, loan management and ultimate performance over time.

Take for instance our construction loans. While non-performing loans can provide significant ancillary income through late charges and accelerated interest rates, construction loans provide a foundation of stable and consistent base interest earnings. SFG construction loans have historically performed at a much lower non-performing percentage than

traditional bridge loans. Why is that? One good reason is we are in a rising real estate market, but that explains less than one might think. Even during the Great Recession our construction loan portfolio performed marvelously. But it is not “so easy even a caveman could do it.” There are several key factors, beyond market conditions, that make the difference.

So what other factors have contributed to such a high performing segment within our portfolio?

Our borrowers.

Our construction borrowers are skilled and successful business people. They know the market, their buyers and how to build quality projects. If they did not, they wouldn't pass SFG scrutiny. SFG construction loan borrowers must prove to operate at a higher level than short term transitional loan (bridge loan) borrowers who primarily only have monetary obligations to us. This is not to say that our non-construction loan borrowers are of a low grade. It is just they don't have the additional requirement of proving their ability to successfully manage a construction project, which is a higher level screen. And with that additional scrutiny typically comes fiscal responsibility and increased construction loan success.

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

“Even during the worst market conditions, SFG construction loans have been a portfolio cornerstone.”

Jim McBride and SFG’s Construction Review and Loan Management Department

Another key aspect of our construction loan success is SFG’s Construction Review and Loan Management Department, which has been run by SFG Construction Loan Manager Jim McBride for over 15 years. Jim McBride has an extensive background in construction and development. Integral to construction loan set up and approval is Jim McBride’s review of the plans, permits, budget, site conditions and the sub-contractors’ qualifications, as well as the borrower’s organizational skills and track record. A large part of Jim’s role is to give early feedback on the probability of the project’s success by vetting both the project and the skill and leadership of our incoming borrower/builder. Can the project be built efficiently on the proposed site? Is the plan and design functional and appealing? Is the budget sufficient for proper completion? Is our borrower the right builder for the job? With this key information vetted, SFG underwriters and fund managers are able to value the project and its respective market and assess the appropriate loan-to-value ratio specific to those realities. Additionally, once prospective builders meet Jim, comfort that they are with the right lender is quickly established.

Jim knows construction and builders sense it quickly. We have been told several times how refreshing it is to work with a lender who understands the construction process as well as SFG. Our builders/borrowers consider Jim to be an asset and resource of knowledge. He is a sounding board and frequently gives them insights to enhance the value of their plans.



SFG Construction Loan Manager Jim McBride

Jim McBride is a big reason why builders keep coming back to Seattle Funding Group for financing.

After loan closing, Jim and his team of inspectors scrutinize the project’s progress and construction quality prior to recommending a capital draw. The draw request is then reviewed for approval by SFG Fund Managers. Typically there are several construction inspections and draws for each project during the build schedule. As the project progresses the team keeps a keen eye on the budget to confirm that the remaining undisbursed funds can get it to the finish line. By the time the loan is fully funded, our collateral is a brand new, well-built home/commercial building designed to meet the intended market and with abundant equity to protect our investment.

And yes, robust market conditions also help.

With interest rates at historic lows and the markets we lend in being quite healthy, our borrowers typically have plenty of exit options. The demand for well-located real estate remains strong. If priced appropriately,

the collateral that supports our loans will have many willing cash buyers. This reality has a substantial impact on our low non-performing asset percentage, especially in the case of construction loans. New product fetches a premium as buyers hunger for the latest floor plans and design trends. Even during the worst market conditions, however, SFG construction loans have been a portfolio cornerstone.

SFG Construction loans – historically impressive performance.

Improperly managed (i.e., lazy), construction loans can quickly turn ugly during a market downturn for less competent lenders. It is for this reason we brought construction review and management in house in 1995 and stopped relying solely on third party construction loan review and disbursements, as almost all other private lenders do. This was a major capital commitment towards quality control, one most private lenders rationalize they don't need to make. We believe SFG is one of the only private lending firms on the West Coast that has a full service construction loan management department in house. Our construction loan historical performance reflects this commitment to be the very best at what we do. Over the last 25 years, we have had very few construction loan challenges, even during the Great Recession. We know of no other lender on the West Coast who can make that claim. This success is symbolic of our "capital preservation first" corporate culture.

We give a big thank you to Jim McBride and his team for their role in the success of the SFG Income Funds; we are confident our investors are grateful as well.



SFG INCOME FUNDS – JUST WHAT INVESTMENT PORTFOLIOS ORDERED INVESTORS CLAMORING FOR SENSIBLE INCOME AND YIELD FIND SFG IN THE SWEET SPOT.

Fixed income investors, faced with poor prospects for income from bonds, have poured money into stocks, especially those that pay high dividends and appear less likely to lose value in a downturn. This quest for income has helped push stocks to all-time highs while the drop in bond yields has been dramatic. As of this writing, the yield on a 10-year treasury note is 1.6%. Ten years ago it was almost three times that. It is difficult to build a retirement strategy on 1.6%. Other countries are worse when it comes to bond yields. The United Kingdom's ten year note is about 0.8%, France's is 0.2% and those in countries like Germany are negative. Yes negative. That means investors actually pay for the privilege of owning such bonds. SFG has never been strictly a yield-based investment, but over the years there have been plenty of times when SFG has navigated the down cycles and become one of the highest yielding elements in investor portfolios. Such is the case for many today. The demand to be an SFG investor has grown substantially as our long track record through a variety of markets comforts investors while other fixed income yields remain uninspiring.

Although SFG Income Funds have historically produced top-of-the-class yields, we do not define our investment strategy by it. "Don't chase yield" has been a tenet to our underwriting philosophy since SFG's beginning. Our true priorities remain capital preservation, reasonable portfolio liquidity and then yield...in that order.

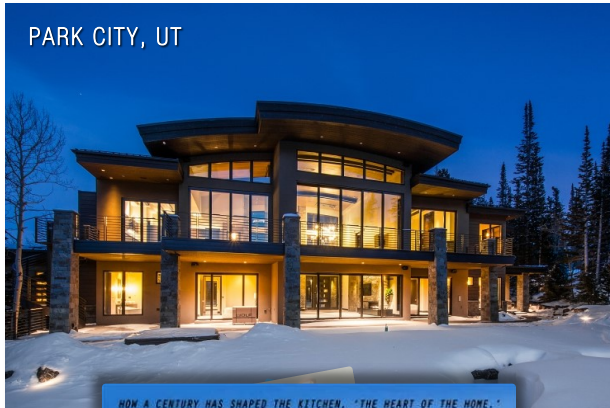
In the meantime, cheers to continued strong SFG yields! Many of you have been with SFG for decades. You deserve healthy returns and all that is good!

Thank you for being an SFG investor.

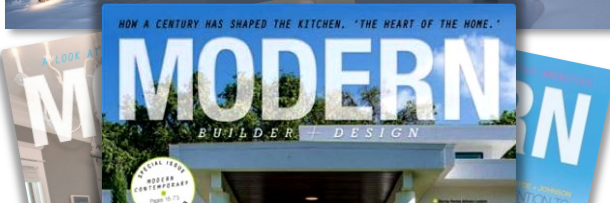
SFG SUCCESS STORIES

Some of the West Coast's finest builders continually turn to Seattle Funding Group because of the responsive service and proven brand recognition.

PARK CITY, UT

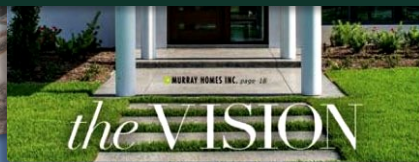


PALM DESERT, CA



SFG

Seattle Funding Group featured in July 2016 issue of MODERN BUILDER + DESIGN magazine: "Building Up the West Coast."



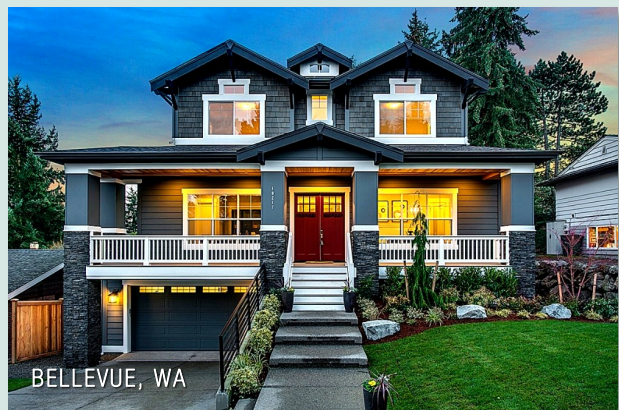
RENTON, WA



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