SFG INCOME FUNDS

# NEWS OF INTEREST

SFG FAMILY OF FUNDS SUMMER 2018

# SFG INCOME FUNDS

## Engineered for Performance in ALL Market Conditions!

When I (John Odegard) was 19 years old, I worked in retail at a popular young men's clothing store and later at Nordstrom. I quickly noticed that while there was a strong emphasis on satisfying the current clients and their immediate needs, upper management also paid a lot of attention to the seasons ahead, mindful of tomorrow's trends. In fact, competitors that missed the next seasons' fashion trends were quickly mired in oversupply of the previous season's merchandise, slow sales, and plenty of mark downs (losses). Those that were well prepared for the coming seasons prospered.

At Seattle Funding Group and SFG Income Funds, today's business is strong, as one might expect in the current robust economy. However, we don't believe fund managers should be measured on how they perform in forgiving, robust markets, but rather on how they perform in tough markets, when their risk mitigation strategies are tested.

"SFG INCOME FUNDS HAVE STOOD THE TEST OF TIME."

***- John Odegard & Greg Elderkin***
*Fund Managers*

# At SFG Income Funds we have stood the test of time because we underwrite today's summer business, mindful of tomorrow's winter economy – as we have for three decades. This discipline permeates our corporate culture. We are not in the business of hitting home runs. We are in the business of protecting capital through all market cycles, while delivering highly productive returns investors can count on.

## *Here are a few key principles we live by:*

### *1.* APPRAISALS ARE ONLY A SMALL PIECE OF THE PUZZLE: TRIANGULATE VALUE.

Appraisals are just one person's opinion based on data culled from computers and site visits. However, if the appraiser is wrong he/she will not come to our rescue. It is for this reason we triangulate value through at least three sources. These include real estate professionals, investors for similar properties in the area, developers, civil engineers where applicable, and of course our own research and experience. The value conclusion we arrive at is always the product of our expertise, given all the data and conversations with a variety of market specific experts. In the end, the values we arrive at for lending purposes are frequently lower than the appraised value.

Incidentally, we recently reviewed a list of loans in a competing company's loan portfolio. This company started about 2012, and they are flying high, funding aggressively. Not only did we see in their portfolio many loans we had turned down, but the values listed for the real estate collateral were from the most optimistic view point one could consider. The portfolio reads like a well-worn book – overzealous lenders riding the wave of an "up" market only to be swept away when the market stalls or retreats.

### *2.* THE BORROWER MATTERS: SKILL, LIQUIDITY, AND CHARACTER SHOULD BE APPROPRIATE FOR LOAN OBLIGATIONS.

At SFG we have always focused our underwriting on the properties collateralizing our loans. This philosophy has stood the test of time. While a secure, conservative position in real estate is paramount, we learned from the Great Recession. The most significant underwriting adjustment we have made is the overall enhancement of our borrower quality.

Today we better align the skills and credibility of our borrower with the securing asset. The overall quality of our borrower base today is many times better than it was pre-2008.

We believe our improved borrower profile will greatly enhance portfolio resiliency during down market cycles.

## 3. KEEP LOAN DURATIONS SHORT (1-3 YEARS): GIVING APPROPRIATE EXTENSIONS WHEN NEEDED TO THOSE WHO ARE DESERVING.

Sometimes the best investment strategies appear to be common sense once revealed. Such is the case with our shorter loan terms, which allow for merit-based extensions. In years past we felt the need to give longer term loans in an attempt to stay competitive, rationalizing that the borrower could, and likely would, always pay off early if he/she wanted.

But upon reflection, we realized longer term loans were not in alignment with the spirit of transitional, entrepreneurial lending. Borrowers should have a measurable objective, and once that objective is achieved, they ought to retire our debt through a property sale or a long-term bank refinance. Additionally, in a rising interest rate market the shorter terms allow us to appropriately adjust the note rate, capturing higher returns when available.

FROM LEFT:
Denise Tallman, Sr. Loan Closer
John Odegard, President
Kent Rowe, V.P. & Sr. Underwriter

## 4. FOCUS ON RELEVANT REAL ESTATE IN PRIMARY LOCATIONS, PROPERLY COMPENSATING WHEN SECONDARY AREAS ARE CONSIDERED.

This governing philosophy has served us very well over the last 30 years. Quite frankly, we have become very good at it. Take one look at our portfolio, and you will recognize the quality of the underlying assets. This emphasis has been proven effective through many market cycles. You should take great comfort in knowing the SFG portfolio is backed by high demand properties that are relevant to the markets they serve and underwritten with conservative valuations.


## 5. BORROWERS SHOULD HAVE A REAL "VESTED" INTEREST IN THE LOANS SUCCESS, NOT JUST POTENTIAL UPSIDE.

IIn a rapidly rising real estate market, it is easy for a borrower to rationalize that sudden price appreciation solidifies their "vesting" in the property, reducing the need for an actual cash investment. While we recognize a recent market increase, we value actual cash investment at a much higher level. A loss of potential profit is much less painful than the loss of actual cash. We have


FROM LEFT: Eric Benzel, Funds Administrator & Ron Lorentsen, Sr. Underwriter espoused, “when one puts money down, one’s vigilance goes up.” This has proven true countless times. Additionally, when borrowers leave an appropriate amount of their own money in a transaction, their resilience to problems improves. They don’t quit as easily. They push through to the other side of a problem, preventing a capital loss for themselves and a management hassle for us. Many lenders, overlook this common sense strategy during euphoric markets for the sake of enhanced loan volume. Loan volume has never been our foremost objective; investment resiliency and performance drive our primary decisions.

### *6.* EVERY LOAN SHOULD BE VALUE DEBATED AND APPROVED BY AT LEAST THREE SENIOR MANAGERS, NOT JUST ONE.

At SFG, we believe investment decisions should be debated and disputed for validity before concluded. In the case of final loan approval, at least three SFG executives must agree, and there must be unanimous Fund Manager approval. Sometimes loan decisions are fairly obvious; other times they are spiritedly debated, declined, or modified for enhanced protection. Nevertheless, in the end all “what ifs” have been challenged, all angles viewed, all assumptions tested. If the loan request passes this post data “stress test,” it is ready to be branded an SFG loan. ■

## SFG:
## THE LOWER RISK REAL ESTATE INVESTMENT ALTERNATIVE

Exposure to real estate investments within a balanced investment portfolio is considered essential by many investment professionals. On the higher risk equity side real estate investments provide diversification, yield enhancement, and an inflation hedge -- all valuable attributes. SFG Income Funds, however, are first priority mortgage funds that do not expose investors to leverage and offer liberal liquidity options and productive returns to investors.

(See diagram on next page for differences)

## SFG INCOME FUNDS ENGINEERED FOR RISING INTEREST RATES

As investors and investment advisors, you know well the perils of rising interest rates.

Rising interest rates have a negative impact on bond valuations and, potentially, on the economy as a whole. But SFG investors can rest assured with the SFG Income Funds.

SFG Income Funds have been painstakingly designed over the last three decades, with input from several top investment advisors, to be the ultimate bond and fixed-income alternative. Here are a few key factors:

1) Capital is well protected by short-term, first priority mortgages with healthy equity cushions (supported by a proven underwriting team);

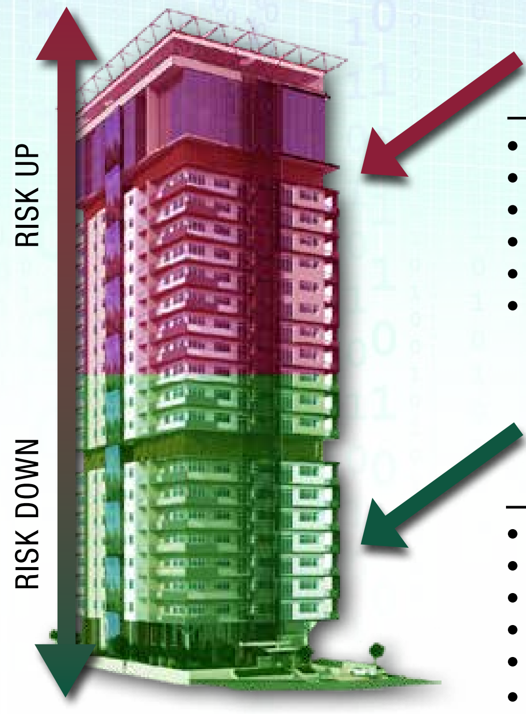
2) Rising rates ultimately improve the SFG Income Funds economic productivity through additional earnings as payoffs are re-employed; and

3) Liquidity provisions are available to investors every quarter after the first year uncorrelated to interest rates.

At SFG Income Funds, we are positioned to move confidently through differing interest rate environments, continually producing highly productive results and low volatility for our investors and their respective investment advisors…just as we have for the past 30 years! ■

# SFG:

## THE PERFECT REAL ESTATE INVESTMENT ALTERNATIVE FOR RISK AVERSE INVESTORS SEEKING A PREDICTABLE, SECURE INCOME STREAM.




### PLACEMENT OF INVESTOR CAPITAL IN A TYPICAL REAL ESTATE PRODUCT

- HIGHER RISK POSITION
- RESTRICTED LIQUIDITY/PENALTIES
- LEVERAGE RISK
- PAID LAST
- HIGHER POTENTIAL RETURN
- FRONT END LOADS - PRINCIPAL REDUCTION

### PLACEMENT OF INVESTOR CAPITAL IN A TYPICAL SFG INVESTMENT

- LOWER RISK POSITION
- LIBERAL LIQUIDITY - FLEXIBLE OPTIONS
- NO LEVERAGE
- FIRST POSITION SECURITY
- STABLE, CONSISTENT RETURNS
- NO FRONT END LOAD - 100% AT WORK

It is important that one understands a real estate equity investment's place on the risk/time/return spectrum as a long-term proposition with an expected return in line with the leverage and risk of the specific asset. With this in mind, real estate can provide exceptional returns.

With SFG Income Funds, the return is much more predictable because the Funds are backed by short term loans secured in first priority, with a conservative loan to value at only a fraction of the underlying real estate's value. SFG Income Funds are designed to best serve the "fixed income" portion of an investor's portfolio, offering highly productive returns while remaining predictable, stable, and reasonably liquid. (See chart below). ■

# SUCCESS STORIES

Commercial Building in The Village
$2,070,000
La Mesa, CA
*LTV 60%*

Custom Construction in the Suburbs
$1,045,000
Redmond, WA
*LTV 63%*

New Construction Near the Beach
$2,690,000
Huntington Beach, CA
*LTV: 67%*

Queen Anne Hill Triplex
$1,325,000
Seattle, WA
*LTV 63%*

Multifamily on Telegraph Hill
$1,200,000
San Francisco, CA
*LTV 41%*

28 Unit Apartment Community
$2,400,000
Phoenix, AZ
*LTV 60%*

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