SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS

SUMMER 2023

YIELDS ON THE RISE

AS SFG'S SHORT TERM LOANS BEGIN TO CAPTURE HIGHER INTEREST RATES.

The first half of the year saw progress; the second half promises even more opportunities.

In our year end 2022 News of Interest, we discussed how the short-term nature of SFG's loans allows us to avoid long-term interest rate risk and the typical challenges of a rising rate environment. We also mentioned that a transition to more robust investor yields would happen not overnight but over time. While that remains the case, progress is already being made and at an accelerating clip. Over 30% of our loans have already transitioned to higher rates, most in the last couple of months, and momentum is building.

> "Our well-constructed investment portfolio, now on track towards higher yields."
>
> JOHN ODEGARD
> Fund Manager

A simple glance at the number of loans maturing in 2023 shows that a large portion of the SFG Income Fund portfolio is scheduled to benefit from adjustments in rates. Rate adjustments avail themselves in a few different categories, and we will make the most of those opportunities. Let's look at the numbers, how interest rate adjustments occur, and why by year end we look forward to a noticeable enhancement.

Rate adjustments take place in three categories:

LOAN PAYOFFS:

This is the largest category of opportunity and includes the payoff of loans both at maturity and early, allowing us to recast the capital into new loans at current rates.

Another 23% of the SFG loan portfolio is scheduled to mature in the second half of 2023, positioning us for higher returns going forward.

It is important to note that early payoffs (loans scheduled to mature in 2024 but pay off in 2023) are not included in our expected year end portfolio refresh, as this component is out of our control. Nevertheless, loans regularly pay off before maturity as borrowers achieve their objectives. Early payoffs will only accelerate our progress toward higher yields.

LOAN EXTENSIONS AND FORBEARANCE AGREEMENTS:

Loans that have matured but the borrower asks for an extension will be reanalyzed to ensure the loan still fits well within our portfolio. If so, a loan extension may be granted and the rate adjusted to today's realities.

From time to time, when a borrower is out of loan compliance in some manner, usually by not paying us off at maturity, SFG management may agree to "forbear" from taking aggressive action for some defined period while the borrower works to pay off the loan. During the forbearance period the interest rate is typically raised two or three percentage points, with additional penalties accrued but waived if the borrower behaves appropriately and pays us off within the additional

time granted. During this forbearance period, the borrower continues to make payments at an elevated rate and to comply with all other loan terms. Although this is a small portion of our portfolio, loan extension and forbearance agreements are a normal part of any lending model and a yield-enhancing component of the portfolio.

STEP RATE LOANS:

This category includes all loans where the original loan terms include a scheduled bump in interest rate on a specific date, typically after the first year. This is the smallest portion of SFG's rate adjustment process as less than 5% of our portfolio is scheduled to step up without any additional action on our part. Yet about half the progress already made during the first half of 2023 falls into this category.

In short, over 30% of SFG's loans have already transitioned to higher rates over the last couple of months, and momentum for increased yields is building.

SECOND HALF OF 2023 INCLUDES ANOTHER 32% PORTFOLIO REFRESH!

The second half of 2023 will see another 32% refresh of lower yielding loans due to 2023 maturities and step rate loans, as discussed above. This means a total of 62% of the SFG portfolio will be renewed by year end. And this does not include any early payoffs of loans not maturing until sometime next year.

SFG management believes the total portfolio refresh by year end 2023 will be closer to 70%, giving us a strong entrance into 2024.

Once again, the adaptability of SFG's investment model is apparent. The Federal Reserve has raised rates ten times in the last 15 months, faster than at any time in the last 40 years, and the SFG Income Funds are evolving in accordance to maintain high levels of productivity.

"Our portfolio remains healthy and resiliant, with elevated yields just around the corner."

QUALITY FIRST....ALWAYS!

Throughout 2022 Seattle Funding Group felt competitive pressure to keep loan pricing down when underwriting the high-quality loan opportunities that make up our portfolio. As competition intensified, others in our industry started chasing higher leverage, lower quality transactions for the sake of perceived yield and volume. *SFG did not waiver from our quality first mindset.* Appreciating the short duration of our loans, we used promotional interest rates to continue to attract the best opportunities, recognizing that upward adjustment to note rates would be made as the market allowed. Hence, we positioned our portfolio to remain competitive with short-term promotional and step rates, ready to adjust to evolving market realities.

This pricing plan, combined with our comprehensive marketing strategies, has worked very well for SFG investors as our portfolio remains healthy, with elevated yields just around the corner.

Many lenders in our industry, on the other hand, are currently dealing with leverage problems and challenging borrowers that are perpetuating losses and unenviable portfolio performance. One cannot build higher portfolio returns on top of poor portfolio construction.

SFG's portfolio performance is built on a solid foundation, and yields will only increase as we move into 2024.

WITH SFG'S STRONG, MULTI-DECADE FOUNDATION OF RISK MITIGATION, INVESTORS ARE NEVER LEFT BEHIND.

For decades The SFG Income Funds have performed well during a variety of market conditions, keeping investor capital protected while delivering best-in-class fixed income returns. And that will continue long into the future.

Prudent investors remain mindful of the broader investment picture despite momentary shifts in the market. Responding to every market swing could be compared to switching lanes every time there is a small gap in traffic, thinking it is possible to reach a destination sooner, but ignoring the risks associated with such maneuvers.

SFG Investors have never been left behind by fixed income yields and typically receive best-in-class returns.

As some fixed income yields have suddenly changed, SFG is doing the same. We are positioned to finish the year strong, with many of our loans having already adjusted and more on track to adjust to take advantage of today's changing reality.

2023 SAMPLING OF LOANS

$2,645,000 | 66% LTV
Palm Springs, CA

$4,500,000 | 64% LTV
Harrison, ID

$4,600,000 | 66% LTV
Bend, OR

$2,000,000 | 67% LTV
Olympia, WA

$790,000 | 72% LTV
Woodinville, WA

$1,625,000 | 65% LTV
Corvallis, OR

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