SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS YEAR END 2019

SURGE IN FOURTH QUARTER LOAN VOLUME PUTS EXCLAMATION ON ANOTHER GREAT YEAR!

AND 2020 IS POISED FOR PROMISING RESULTS.

2019 matched our best year ever (2018) in loan volume, bolstered by the last two months of the year. November and December recorded the largest back to back loan volume months in our history, allowing unemployed capital to go to work and many investors on the waiting list to be brought into the Fund.

Surprisingly, late summer and early fall were quite slow from a loan volume perspective, which elongated the waiting time for investors wanting into SFG Income Fund VII and created a slight drag on yield as a percentage of money sat idle. However, November and December's robust delivery allowed us to fully employ capital and move through the waiting list of new investors. As of year-end, the SFG Income Funds have a high percentage of capital employment that is well protected and positioned for profitability as we begin 2020.

Let's take a look at some of our favorite loans of 2019.

ULTRA LUXURY SPEC HOME

WHAT WE LIKED ABOUT THIS DEAL:

This high-quality project was backed by an extremely capable and solid sponsor. The extraordinary home is located in one of the finest private golf communities in La Quinta with course frontage views. The low LTV coupled with the exceptional workmanship made this loan a great addition to our portfolio.

SMART, EFFICIENT LENDING

WHAT WE LIKED ABOUT THIS DEAL:

Located in the vibrant neighborhood of Capitol Hill, this location is minutes to the new light rail station and downtown Seattle. This loan included three SFR's and a condo the borrower put up to help provide additional equity capital.

ACQUISITION FINANCING

WHAT WE LIKED ABOUT THIS DEAL:

Repeat Southwest developer approached SFG once again for acquisition financing after the bank failed to step up in a timely manner. The borrower is in negotiation with Starbucks for a potential drive through store front on the site.

QUEEN ANNE HILL WITH VIEWS

WHAT WE LIKED ABOUT THIS DEAL:

Repeat borrower wanted cash-out on his apartment complex to fund another business opportunity. The building has larger than average units, 180 degree views of Lake Union and is consistently occupied. The well-qualified borrower and conservative loan request made for an easy yes from SFG.

LUXURY BLUFF CONDOS/ TOWNHOMES

WHAT WE LIKED ABOUT THIS DEAL:

These units boast westerly views looking over the Puget Sound and Whidbey Island. The subject property has easy access into downtown Mukilteo and the ferry terminal, as well as Paine Field Airport. The borrower plans to develop, market and sell the final phase of the project with expected listing prices in the $1.25M – $1.50M range.

OPPORUNITY FOR SUCCESS

WHAT WE LIKED ABOUT THIS DEAL:

The eight newly constructed town homes are just a block to Cathedral Park on the Willamette River, local St John's shops and restaurants. Each home has views of the St John's bridge and the Willamette River. The units sold as fast as the builder could finish them and went for well above the appraised value.

NON-PERFORMING ASSET PERCENTAGE STILL BELOW SFG'S HISTORICAL AVERAGE

Over the last few years our non-performing asset percentage has hovered around zero. While desirable, a negligible non-performing asset percentage is not historically typical and is well below our business model. 2019 brought a modest rise in non-performing assets, between 2%-5% amongst all SFG Funds as of this writing, which is still well below our historical averages and in line with our expectations during healthy market conditions. Remember, non-performing does not correlate to loss. In fact, it more often correlates to additional returns as late fees and default interest are in order. Many of these non-performing assets are transitional and are expected to pay off or be brought current within the next 30 days. As for the others, we will take appropriate action to get them resolved, likely with some additional profits.

BREAKING DOWN 2019

SFG INCOME FUND VI & VII STATS

We remain vigilant and proactive in managing our loans post-closing to ensure optimal fund performance; however, non-performing assets are expected and are part of our 32-year business model. We feel well protected on every loan in our portfolio and specifically on loans that are in payment

JOHN ODEGARD
PRESIDENT | FUND MANAGER

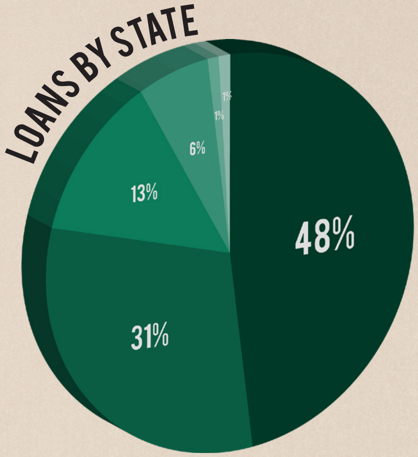
default. Nevertheless, because they can be management intensive, we take swift action to bring them to a conclusion as soon as possible.

As fund managers, we never want to be considered a bully lender taking advantage of borrowers in a difficult plight. Consequently, we typically work with borrowers who are communicating well and diligently moving toward a resolution. Late fees and the threat of default interest are behavior modifiers that help keep borrowers on track towards a common goal. Once a defaulting borrower gets back on track with their loan terms, we generally waive a portion of those fees as incentive. A smaller percentage of borrowers however surprise us by not living up to their obligations or not communicating their plans along the way. In this case, late fees and default interest are in order and are generally collected.

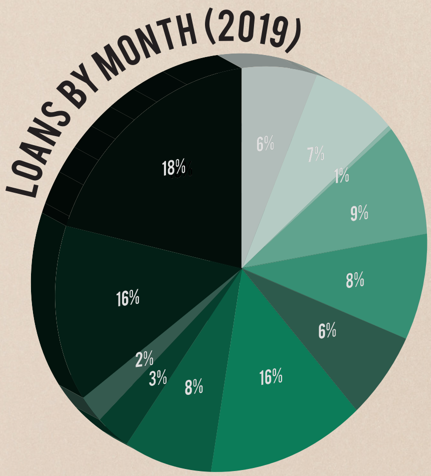
As a whole and through disciplined underwriting, we are very confident in the constantly evolving SFG loan portfolio's

GREG ELDERKIN
FUND MANAGER

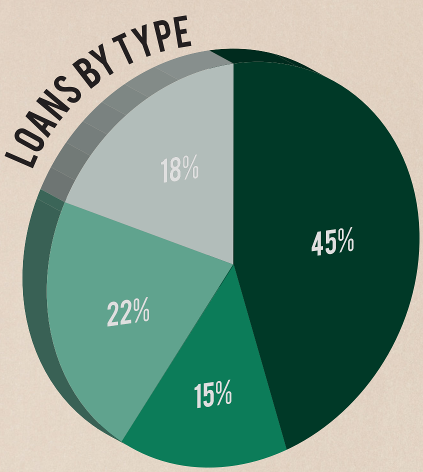
ability to protect capital and provide consistent, solid returns well into the future. A small percentage of non-performing assets, although never intended, are an inherent part of the process.



WA: 48% CA: 31% AZ: 13%
HI: 6% OR: 1% UT: 1%



JAN: 6% FEB: 7% MAR: 1%
APR: 9% MAY: 8% JUN: 6%
JUL: 16% AUG: 8% SEPT: 3%
OCT: 2% NOV: 16% DEC: 18%



SFR: 45% COMM: 15% APT: 22%
LOT/LAND: 18%

SEATTLE FUNDING GROUP AND THE SFG INCOME FUNDS ARE POSITIONED WELL FOR A SOLID 2020!

Strong capital employment, well underwritten loans, and SFG's deeply established brand recognition in the lending markets give us reason to be optimistic as we begin 2020!

As market fixed income returns have remained condensed, we have seen a lot of yield-thirsty institutions enter our space, seeking a more productive allocation of capital. The flood of competition has hindered yields some, but we stay true to our disciplined lending model seeking safety over yield, quality over quantity, and sustainability over volume. After more than three decades in the business we recognize that the disciplines exercised during "up" markets are revered most during "down" markets.

> "WE KNOW A THING OR TWO BECAUSE WE HAVE SEEN A THING OR TWO."

When a down market hits, it is usually unexpected and too late to change portfolio construct or yesterday's overzealous underwriting mistakes. As they say in insurance advertisement, "we know a thing or two because we have seen a thing or two." Most private lenders in our industry today have only witnessed rising, forgiving markets. Experiencing just one side of a market fosters foolish bravery. And we are seeing this blind bravery amongst several green lenders in our industry today.

So, as we enter 2020 with tested disciplines in place, it is our long-standing success and name recognition that attracts new customers and keeps old ones coming back. Once a customer, usually many times a customer, because we design our loans to be successful for all involved, not just for us. Our borrowers then have a positive experience, which breeds more good business, referrals, and sometimes even press. And that is just the way we like it.

WE EXPECT MANY MORE GOOD THINGS TO COME IN 2020 FOR OUR BORROWERS, FOR OUR BROKERS, AND FOR YOU - OUR CHERISHED INVESTORS.

THE MOMENTS THAT MADE 2019


Greg Elderkin | SFG Income Funds Manager


Xia Wu & Jan Guyll | SFG Income Funds


SFG Booth at Seattle Multifamily Conference


Reid Wagner & Denise Tallman | SFG


John Odegard Accepting PSBJ Financier of the Year Award


Steve Ludeman | SFG Income Funds


John Odegard speaking at Seattle Multifamily Conference


Seattle Funding Group & SFG Income Funds Holiday Party

SFG INCOME FUNDS

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