SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS

YEAR END 2022

HIGHER YIELDS ON THE HORIZON
FOR SFG INCOME FUND INVESTORS

One of the key investor benefits of Seattle Funding Group's lending strategy is the short-term nature of our loans – typically one to two years. Rising and falling interest rates can quickly drive bond and other fixed income investment values. But SFG is different. The short-term nature of our loans allows us to adroitly adjust to changing market realities, never remaining long in a bygone economic stage. When rates rise appreciably, SFG is in position to cast new loans and/or extend existing loans at higher rates, allowing our portfolio to evolve with higher yielding opportunities. And since our loans are typically written for only 1-2 years, it is never long before all the SFG Fund's capital is redeployed at prevailing market returns.

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> *"Our funds are both built to last in varying market conditions and nimble and ready to capture higher returns as rates rise."*

As an example, in the month of December 2022 alone, over 11% of our lowest yielding loans were paid off, and we are in the process of redeploying those funds at current higher prevailing interest rates. Over the first half of 2023, the vast majority of the loans in our portfolio with promotional rates attached for the past hyper-competitive lending market conditions will be renewed or recycled at more productive yields. So, higher SFG investor returns are on their way. It won't happen overnight, but we do expect yields to gradually rise throughout 2023.

You can rest assured that an enormous amount of thought was put into the design of the SFG Income Funds. Keeping our loans short term is one foundational feature adopted decades ago at SFG's inception. Perhaps underappreciated during the low and stable interest rate environment of the last decade, this key foundational component for protecting against interest rate risk now takes center stage.

> *"As the markets shift and our portfolios remain healthy, we are positioned to begin capturing a larger market share of quality, higher yielding loans."*

SFG'S UNLEVERAGED PORTFOLIO IS INSULATED FROM RISING CREDIT LINE COSTS, PLAGUING OUR LENDING PEERS

Our foundational investment objectives are always capital preservation first, yield second. With that philosophy in mind, the SFG Income Funds have been designed to weather varying market cycles, not just rising tide of expansions. The case in point is our primarily unleveraged mortgage portfolio (other than our rarely used line of credit for back-up use to efficiently capture an incoming loan or fund a construction draw between loan payoffs).

As a way of capturing higher yields, many of our lending peers leveraged up their investor mortgage portfolios (borrowed meaningfully against them) because the cost of borrowed capital was so cheap. It buoyed their yields, and it accessed more capital for lending. This worked wonderfully while rates were low and markets were strong. In fact, their low cost of capital and high-risk tolerance gave them a tremendous lending advantage during the last few years. However, as many are now learning, leveraging is a double-edged sword and usually not a sustainable long term business strategy. As rates rapidly rise, so do rates on credit lines, and at a much faster pace than our lending peers can recycle their loans. Many have been forced to stop lending while dealing with their leveraged portfolios, primarily due to rates rising historically fast. The SFG Income Funds are not subject to such difficulties or management distractions from our core objectives.

> ***"The SFG Income Funds have been designed to weather varying market stages, not just the rising tide of expansions."***

Seattle Funding Group has been in business for over 34 years, and we have seen a lot of market cycles. Our portfolios are designed and refined to weather both extremes of such cycles, because capital preservation has always been our primary motive, not loan volume or yield chasing. As a result, our loans are short-term so we can adjust, and our loan portfolios are unleveraged. As the markets shift and our portfolios remain healthy, we are positioned to begin capturing a larger market share of quality, higher yielding loans as we recycle our portfolio.

At year-end 2022, the average loan maturity, by number of loans, is 11 months. In fact, for the first quarter of 2023, 21% of our portfolio has loans maturing, allowing us to re-write those loans, or cast new loans, at higher rates. In time, this loan renewal trend should lead to overall higher portfolio returns for our investors through 2023 and 2024.

SFG is here for the long term, making smart decisions with your money for decades to come. Our funds are built to last through varying market conditions, while positioned to be nimble and ready to capture higher returns as rates rise.

We appreciate you as an SFG investor, and we look forward to a productive 2023 and beyond!

2022 SAMPLING OF LOANS

$2,625,000 | CARMEL, CA
65% LTV

$5,000,000 | BURIEN, WA | 62% LTV

$2,000,000 | TUCSON, AZ
64% LTV

> *"The short-term nature of our loans allows us to adroitly adjust to changing market realities."*

$4,200,000 | KAMUELA, HI
52% LTV

$3,100,000 | VANCOUVER, WA | 58% LTV

$1,530,000 | KENT, WA
43% LTV

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