SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS SPRING 2020

THE COVID ISSUE

Despite the health pandemic, economic worries, and social unrest permeating our country today, SFG remains focused on delivering to investors what it was designed to do over 30 years ago – stabilizing investor portfolios while producing consistent, attractive, income-generating returns. Thanks to SFG's disciplined lending strategies and quality borrowers, we have received only a handful of COVID-19 payment relief requests, and we have quickly addressed these needs. The SFG portfolio remains healthy and positioned to achieve.

Resilient mortgage portfolios like SFG's are a reflection of lending disciplines exercised well in advance of an economic challenge, especially when there is little time to react. These lending disciplines include a balance of collateral quality, appropriate leverage levels, and borrower strength - in stark contrast to hastily built portfolios, which are motivated primarily by size and volume and generally become victims of an economic about-face. Unfortunately, many newly formed private lenders are seeing that play out now. SFG focuses daily on loan quality and capital preservation. Our ardent lending disciplines position us to best respond to changing markets and unexpected scenarios, like a pandemic. Today, we have the ability to assist borrowers where appropriate while not affecting yields, jeopardizing our position, or adding any significant risk to our capital. This all adds up to consistent portfolio performance and lasting borrower relationships. We have learned, over the last few decades, how to construct portfolios that last and perform, even during difficult times.

SFG FOCUSES DAILY ON LOAN QUALITY AND CAPITAL PRESERVATION

In the case of the current and unexpected COVID-19 marketplace, a key ingredient to our resilience has been our improved borrower quality over our pre-Great Recession portfolio construct, while maintaining low leverage disciplines. We learned from the Great Recession that quality collateral, conservative loan to value ratios, and an unlevered portfolio allow one to navigate through extreme market down turns. And having borrowers with better credit, skill, and capacity shortens the process and makes it a whole lot easier. Our borrowers today are primarily battle-tested entrepreneurs, not wage earners. Entrepreneurs, in general, are better at staying afloat during rough waters.

Although we have had only a few borrowers with COVID-19 related challenges, here are some examples of how we have structured payment relief where needed:

1 SHORT TERM RELIEF

Tack two payments on to the back end of the loan, due upon payoff.

This strategy is the most simple and common. It is available as an option because we have kept our leverage levels low, allowing room for a modest rise in loan balance. No interest earnings are lost. And because our loans are short term, generally one to two years, reconciliation is not far away.

2 EXTENDED RELIEF

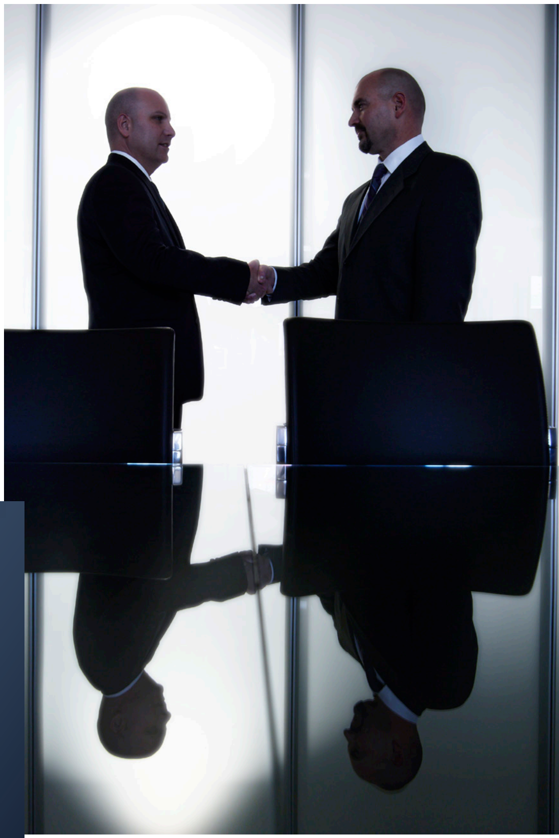
Lower payment amount for a few months while maintaining the contracted interest rate.

For borrowers who just need a little payment relief but for a longer duration to assist with their income properties, maybe six months, this has been a terrific solution. As an example, if the interest rate is 8.99%, we structure their monthly payments based on 5.99%. The 3% difference gets tacked on to the end of the loan. We call this lowering their SFG Pay Rate, a tool we also use sometimes to attract new loans. No interest earnings are lost. Borrowers have been extremely grateful for this extended relief program.

3 LOAN MATURITY RELIEF

Extend loan maturity dates.

This is pretty straightforward, and borrowers have been very grateful. Payment relief strategies mentioned here have sometimes been included with maturity extensions, where appropriate. And of course, no interest earnings are lost.



SFG BUILDS BETTER RELATIONSHIPS FOR BETTER BUSINESS

One of the positive benefits of being a responsible lender that maintains prudent leverage levels is that when borrowers face a difficult situation, such as a rapidly changing economy or just plain bad luck, we can be there to give them some assistance without endangering our position or returns. We have built some of our best relationships by modestly restructuring loan terms to keep our borrowers winning. We don't take advantage of a difficult situation, and this has helped build our status as a lender borrowers can trust. SFG's reputation for ethical and humane dealings leads to better relationships, more business, and ultimately more profits. SFG

ASSET CLASSES MOST VULNERABLE TO COVID-19

We've heard a lot about COVID-19's current and expected effects on real estate markets - and for good reason. It has been over 100 years since humanity has had to endure a world health pandemic anywhere near this magnitude. Without any precedents, economic analysts' imaginations are uncircumscribed by historical data. Using conjecture, they imagine all kinds of negative possibilities…many of which can sound extremely alarming. The SFG team continues to be vigilantly mindful of the extreme possibilities, while remaining focused on what actually is. As of this writing, here is what we have seen so far as to how COVID has affected the real estate markets we serve.

As a whole, the markets we serve across the West Coast have been less active but still functioning surprisingly well. However, not all asset classes and locations have been affected equally.

SINGLE FAMILY HOMES

Perhaps the best performing asset class is single family homes. Numerically there have been fewer homes sold, primarily because there are fewer homes on the market. Most sellers don't want people trampling through their households during a pandemic. And many young adults have temporarily moved back to the larger home they grew up in so families can be together during the quarantine. This is not a recipe for a showtime. Nevertheless, well priced homes have been selling fast, many times with backup offers. Some areas and price points have seen price stagnation and settling, but nothing alarming.

$1,200,000
WELL-LOCATED
BRIDGE LOAN
CORONA DEL MAR, CA
LTV 62%

Since we make a lot of loans on single family rental properties and to some boutique merchant builders for either construction or retiring matured construction debt, our portfolio is generally comprised of a high percentage of new single-family homes.

DISTRIBUTION/WAREHOUSE FLEX SPACE BUILDINGS

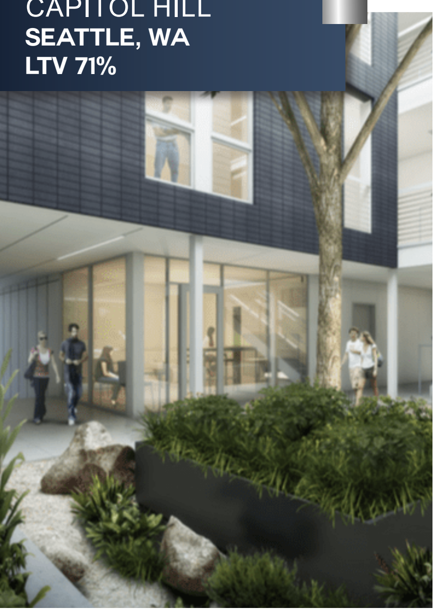
This asset class has been remarkably resilient; in fact, in many areas values have increased. With so much internet commerce, including home delivery (think Amazon and many other online merchants), warehouse space and distribution centers have been in high demand.

This asset class represents a negligible percentage of the SFG portfolio at this time. It has however, been a larger part of our portfolio in years past.

APARTMENTS

From our experience and from conversations we have had with prolific apartment owners, totaling several thousand units, rent collections have been stronger than expected, in the 92%-97% range of pre-pandemic experience. All buildings are different, and collection percentages could change as government stimulus checks begin to fade, but at the same

$8,100,000
MULTIFAMILY IN
CAPITOL HILL
SEATTLE, WA
LTV 71%



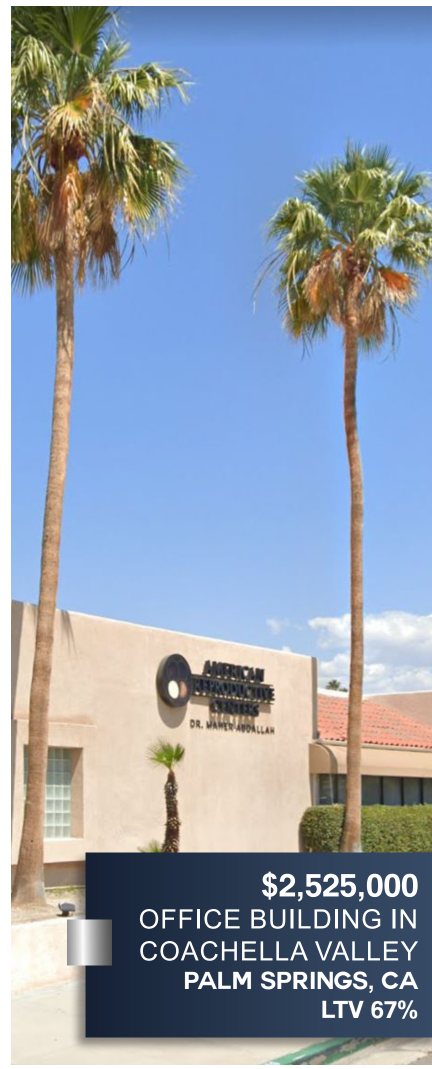
time employment numbers are expected to improve as markets begin to reopen. We remain watchful, but we expect apartment owners will continue to experience a manageable result. To add detail to our assertions, it seems suburban apartments struggled more that urban apartments. An exploration of the cause seems to point to the fact that a higher percentage of urban apartment tenants had technology savvy or technology related jobs, thus more were able to work remotely during the pandemic. A higher percentage of suburban tenants seemed to operate in the hardest hit service sector, such as restaurants and fitness centers. The data for this is still being deciphered.

Apartment buildings and single family homes represent a substantial portion of our portfolio at this time.

OFFICES

With a majority of people working from home over the last few months with reasonable efficiency, the buzz in the office market is whether office space needs will change permanently. Office building owners have a sense of uncertainty. There are arguments for both sides. One argument is significantly less space will be needed because so many are proficient at virtual meetings and telecommunication. The other side argues more space will be needed due to social distancing requirements and because new employees can't be mentored efficiently from home. We believe, overall, slightly less space will be needed, and we have seen lease rates begin to drop. It will take time to see how that plays out.

Office space represents a negligible percentage of SFG's portfolio.



$2,525,000
OFFICE BUILDING IN
COACHELLA VALLEY
PALM SPRINGS, CA
LTV 67%

RETAIL

This is by far the hardest hit sector. Retailers, large and small, have been forced to close and have been hit hard. Many tenants are not paying their rents, and landlords have been looking for mortgage reprieve. Fortunately, retail comprises a small portion of SFG's portfolio -- *in the low single digit percentage.* Surprisingly , SFG's retail borrowers have not made COVID-19-related relief requests.

LAND/LOTS

Land comes in all shapes, sizes, uses, and needs -- as well as risk levels.

At one extreme is speculative, raw, unentitled rural land with no utilities and uncertain relevance. On the other end of the spectrum are fully entitled lots in core areas of desirable metropolitan cities with entitlements to build what is needed, or desired, in the community. This includes in-city lots slated for single family residential or apartments of appropriate scale where people want to live. The land in SFG's portfolio consists primarily of bite-sized pieces on the lower end of the land risk scale. Nevertheless, when making loan decisions on any land, we compensate with adjusted loan to value ratios and borrower appropriateness.

We are quite confident in the land collateralizing our loans. Most parcels are single family residential land/lots or land allocated for new apartments. To date we have had one land loan borrower seek two months payment relief due to COVID-19. This is a large golf course lot in the elite Madison Club community of Palm Desert. In our opinion, the wealthy borrower didn't really need the relief. He asked anyway, knowing we would likely grant him his modest request.

Land generally represents about a fifth of our portfolio.

Our enduring and refined underwriting processes, combined with prudent leverage disciplines, have kept our portfolio performing well during the heat of the current turmoil. We have also been fortunate to have stayed with some of the most resilient asset classes to battle the economic effects of COVID-19. We always underwrite various asset classes of their specific nuances, remaining vigilant and circumspect. Due to SFG's 30-year experience with vigorous lending disciplines, we are moving through this pandemic confidently and into better days ahead.

If you have further questions about COVID-19 and its relation to SFG Income Funds, feel free to give us a call or email us. We are happy to discuss with you why we feel uniquely positioned to withstand the storm. SFG

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