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Fund Manager, SFG Income Funds

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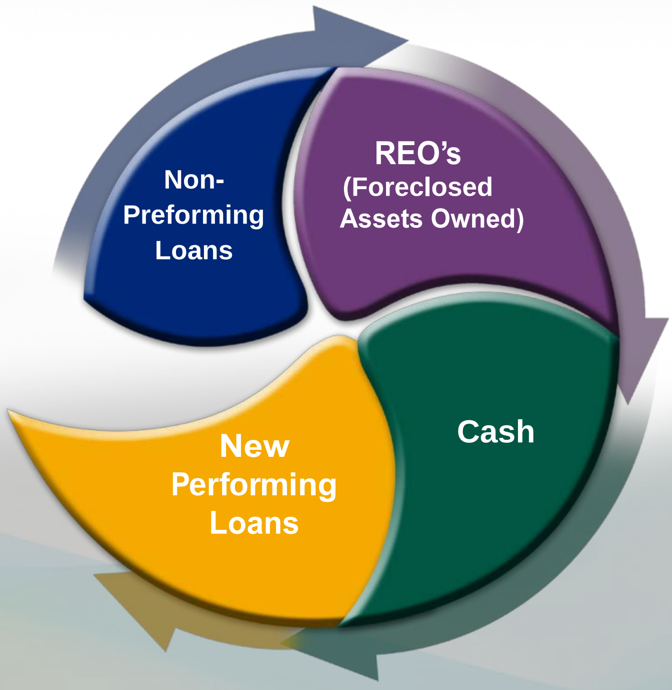
Progress…
The Cycle of Getting back to cash

As we start the New Year, the SFG team does so with vigor, confidence and the determination to make 2012 a quality year. Although the ongoing malaise and continued decline in real estate markets has slowed our progress towards completion of our recapitalization strategy, it has strengthened our resolve. Since the design of the plan, market forces have continued to push real estate values down necessitating additional loss reserves as reflected in our financials. Not detoured, we are steadily progressing towards our ultimate objective: Filling the negative equity gap and re-establishing full original investment value. We have made real advancement over the last eighteen months, yet market forces have pushed the goal line out some and we want to make that clear. Our target remains certain: Achieve the objectives within the recap plan, achieve them as quickly and as prudently possible, and communicate well along the way.

We are steadfast in the achievement of our objectives. It may be taking longer than we hoped, yet not longer than we anticipated was possible, or have prepared for. The plan is designed to flex should markets resist our progress, allowing us to continue marching forward towards the predetermined outcome. In addition, many good things have also been achieved over the last year, in spite of the heavy headwinds we've faced. This should position us well to dispose of several million dollars worth of non-performing assets in 2012 while continuing to capture solid loan opportunities through our long standing market presence, credibility and comprehensive marketing campaign. We ended 2011 with a 15% increase in loan volume over 2010. We expect another 15-20% increase in 2012 and as our statistics show, new loan quality is exceptional.

Loans Cycle



The flow chart to the left, shows the process a non-performing loan must go through to get back to cash, should borrowers not solve

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the challenge themselves. In markets past, few foreclosures went the full cycle, paying off prior to us taking ownership. The same could be said for loans we have originated over the last 3 years. However, most non-performing loans originated in 2006 and 2007 are going full cycle as borrowers' equity has been eroded. This process of taking title to property can be lengthy (six months to two years) and then typically requires us to rehabilitate the property to varying degrees before marketing it for sale. Backlog in the borrower sympathetic courts have only added to the delay. The good news is we have made real progress in this initial, yet important, stage of the cycle as non-performing loans have been reduced by over $20 million dollars from the high point in August 2010. In basic terms, the bubble is moving through the system. As we start the New Year many of these assets are in the later stage of the cycle, title acquired, prepped to sell and on deck to get back to cash. Nevertheless, even with compelling pricing, the market remains sluggish, hindering sales velocity and this stage of the cycle. The last step is to put those dollars back into new performing loans (or meet investor redemptions) yielding positive returns, hence improving the speed at which we meet our recap goals.

We believe 2012 will be another year of steady progress and should result in a drop in our non-performing asset percentage as real estate assets are sold and new loans made. We are seeing a few signs of improvement in various segments of the real estate markets, which should allow for better traction than years past. We appreciate your patience as we move resolutely into the New Year, towards fund health and goal achievement. SFG

John Odegard and Greg Elderkin, Fund Managers

Prepping a foreclosure for sale

Before

After

These pictures are a recent before and after example of a REO that we have prepped for sale after a lengthy foreclosure and eviction process. The property is well located in an established subdivision of Bellevue, Washington. SFG

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