W | FINANCIAL

JANUARY 23, 2017
W FINANCIAL FUND, LP
INVESTOR LETTER
Q4 2017

Re: W Financial Fund, LP — 4th Quarter 2017 Update and Statement

All of us at W Financial would like to wish you and your families a happy, healthy and prosperous New Year. We would also like to send our very best wishes to all our friends and investors in California who have unfortunately been enduring one of the most challenging wildfire seasons on record, (and now, seemingly, the beginning of a difficult rainy season).

2017 was another good year for W Financial, where we delivered an 8.55% fund-level, compounded annual return, net of management and performance fees, and continued our usual practice of lending judiciously and selectively.

Q4 Portfolio Performance

Since our 2003 Inception through December 2017, W Financial has provided an average annual compounded return of 9.55%, net of fees. Thus, $100,000 invested at our 2003 launch had increased to $366,922 as of December 31, 2017, resulting in a Total Return Since Inception of 275.18%, net of fees.

W Financial completed 2017 with all investor capital deployed, and with $20,300,000 of our $50,000,000, LIBOR-based, revolving line of credit being utilized. Our portfolio performed well, and we ended the year with all loans performing as scheduled.

Our loan and investment portfolio totaled $304,262,827 as of the end of the year. Including the positions held by our participants, the loan portfolio size was $308,825,327 as of year-end. Total investor capital in the fund (our closing capital balance for the year) was $280,436,041.

During the course of the year, W originated 31 loans totaling $199,308,000 (an increase of nearly 42%, year-over-year compared to 2016). In some cases, as has long been our practice, in order to enhance risk management and increase portfolio diversification, we brought in loan participants on some deals, thus W Financial's net portion of total loan origination during 2017 was $184,845,000.

New Loan Origination During Q4

During Q4, W Financial funded nine loans totaling $92,500,000. Loan highlights are provided below:

- a $1,000,000 bridge loan utilized to acquire three contiguous buildings located in a Boston suburb. Our collateral consists of twenty residential units and two commercial units. The borrower required a bridge loan in order to facilitate a time-of-the-essence closing and plans to refinance W's bridge loan with conventional bank financing in the near future.

- a $600,000 acquisition loan for the purchase of a condominium unit located in a full-service, luxury condominium building in the Gramercy Park neighborhood of Manhattan. The borrower required a bridge loan in order to facilitate a time-of-the-essence closing.

- a $4,950,000 net position in a first mortgage bridge loan secured by a two-story, approximately 2,200 square foot, two-story commercial building (which includes approximately 11,900 square feet of excess FAR/development rights) located on Lexington Avenue between 79th and 78th Streets on the Upper East Side of Manhattan. The property is envisioned as one component of an assemblage for future development. The borrower is seeking to acquire neighboring parcels and additional development rights in order to enhance the overall development potential of the site/assemblage. The borrower plans to repay the W Financial bridge loan upon the eventual sale of the completed assemblage or upon the closing of a construction loan once his development plans have been completed and approved.



CHURCH ST, CLINTON, MA



FIRST AVE, GRAMERCY PARK, MANHATTAN



LEXINGTON AVE, UPPER EAST SIDE, MAN.

- a $50,250,000 first mortgage bridge loan secured by a recently completed, 109-unit, rental property with a 60-car parking garage located in the Harlem neighborhood of Upper Manhattan. The borrower required a bridge loan to repay a maturing construction loan. W's bridge loan will allow the borrower to transition through the lease-up process. Once the property has been fully leased and stabilized, the borrower plans to refinance the W Financial bridge loan by obtaining conventional, long-term, fixed-rate bank financing.



THIRD AVE, EAST HARLEM, MANHATTAN

- a $9,750,000 first mortgage bridge loan utilized to facilitate the acquisition of a ~200,000 square foot community shopping center located in a suburb outside of Richmond, VA. Our collateral consists of seventeen commercial units. The borrower was the successful bidder in an auction, and he required the W Financial bridge loan in order to close quickly and perform some tenant improvements. The borrower plans to refinance with a conventional loan in the future.



CARMIA WAY, MIDLOTHIAN, VA

- a $14,750,000 first mortgage bridge loan secured by two approximately 5,000 square foot luxury condominium units located on Beach Street in the TriBeCa neighborhood of Manhattan. The borrower owned these properties free and clear and sought to tap into his trapped equity in these properties in order to create the liquidity he needed to fund another real estate investment.



BEACH ST, TRIBECA, MANHATTAN

- a $1,200,000 first mortgage bridge loan collateralized by a three-story, approximately 3,000 square foot single-family house on 47th Street in the Borough Park section of Brooklyn. The property has been held in a family trust for several years and is currently being marketed for sale. The borrower is using the loan proceeds to make another investment and intends to repay the W Financial loan once the property has been sold.



47TH STREET, BOROUGH PARK, BROOKLYN

- a $2,000,000 bridge loan secured by multiple pieces of collateral, which include a second mortgage on a 70% completed, new-construction, ~7,600 square foot, single-family home located on a waterfront parcel facing Manhasset Bay on Waterview Road in Kings Point, Long Island; a second mortgage on a retail/office building located on Steinway Street in the Astoria section of Queens; and a third mortgage on a net-leased Walgreens located on Kissena Boulevard in the Kew Gardens Hills neighborhood of Queens. The borrower required the bridge loan in order to complete the construction of the home. The borrower plans to repay the W Financial loan by refinancing the house conventionally once it has been completed.

- an additional funding of $8,000,000 for an assemblage of properties located close to the United Nations in the Turtle Bay neighborhood of Midtown East in Manhattan. W Financial closed its original loan for this property in October 2013. Since then, the borrower has successfully bought out several tenants as well as engaged in the lengthy process of designing and then obtaining approvals to develop a much larger and more distinctive project. The borrower required the new loan proceeds in order to purchase additional air rights, bringing the total development potential to ~87,000 square feet, as well as to finance various operating costs and pre-development expenses. W's consolidated first mortgage loan for the assembled parcel, which has now been enhanced with additional development rights, is $18,000,000. The borrower intends to generate income from short-term leases subject to a demolition clause during the balance of the pre-development process.

* Note that the deal descriptions that you see in these quarterly letters are intended to be a high-level overview, and, as always, we invite you to contact us to discuss any questions that you may have regarding the transactions described, or to simply hear a more in-depth description than space allows in these letters.



WATERVIEW RD, KINGS POINT, LONG ISLAND



STEINWAY ST, QUEENS



KISSENA BOULEVARD, QUEENS



EAST 44TH STREET, TURTLE BAY, MANHATTAN

The Paradox of Private Mortgage Lending:

At W Financial, we have a great loan underwriting team. When we originate well-underwritten bridge loans to borrowers that are capable of executing their business plans in a timely fashion, (which, of course, is always our goal), then the loans we make will sometimes get repaid ahead of schedule. Clearly, as W's interest rates are higher than bank interest rates, our borrowers have a clear economic incentive to stay focused and keep moving their project forward to the point where they can refinance with a bank and repay their W Financial loan.

While this is generally a very good thing (and, of course, this underpins the logic of why bridge loans exist), from time to time, we can sometimes experience numerous large loan repayments occurring within a short period of time. That's just the nature of the private lending business. So when this does happen, we can temporarily find ourselves with enough incoming cash to both: a) completely pay off the outstanding balance on our $50 million revolving line of credit, and then: b) have a significant amount of cash waiting to be re-invested, causing a phenomenon known as "cash drag", which can temporarily lower our returns (as we saw occur during Q4). So, clearly even with all the loans in our portfolio performing as scheduled, cash drag can sometimes temporarily reduce our returns.

Fortunately this phenomenon tends to occur quite rarely and then resolves as new loans are originated in the normal course of business. By mid-December all investor capital had once again been fully deployed, and we were back to utilizing $9,300,000 of our $50,000,000 revolving credit line.

The Value Proposition for W's Borrowers:

It is well worth noting that while a bridge loan borrower pays a much higher interest rate than he or she would at a bank, the two biggest elements of the "quid pro quo" that the borrower receives in return are that: a) he gets speed and certainty of execution that are unavailable at any bank on the front end, as well as: b) a lot of flexibility as to when he can repay the bridge loan on the back end.

This is why, in many cases, our borrowers tend to come back to us again and again with their next deals, so that we can once again help them acquire and improve a property, to then enable them to refinance our loan with permanent bank financing. We are therefore an important, albeit interim part of the lifecycle of many real estate deals.

Timing of Additional Investments for W Financial and Alt-Opp:

Many of our investors have been asking if they can add to their positions in W Financial. As usual, the answer always depends upon the pace of new loan originations and loan repayments, as well as our revolving credit line usage. Please contact Karen Mannoia or Wendy Ngai if you would like to be notified the next time that W Financial reopens.

Alternative Opportunities, our real estate private equity fund will remain open to new investors and to additional commitments from existing investors until early August 2018.

The Alternative Opportunities Fund – latest update

Our new real estate fund, the Alternative Opportunities Fund, has just completed a full gut renovation of nine of the fourteen apartments at the first property acquired by the fund which is located at 1063 Bedford Avenue in the Bed-Stuy neighborhood in Brooklyn. These completely re-designed and significantly improved apartments will now be rented at market rates. Three other units are also being gut renovated and should be completed and then rented soon. Since a picture is worth a thousand words, please take a moment to visit the following link to get a sense of how 1063 Bedford looked when we bought it a little more than a year ago, and how it looks today, post-renovation. This will go a long way in conveying the mission of the Alternative Opportunities Fund. www.alt-opp.com/bedford

We and our joint venture partner are also working on renovations to units in our other buildings located at 649 Argyle Road, in the Ditmas Park neighborhood of Brooklyn, and 82-84 Wadsworth Avenue, located in the Washington Heights neighborhood of Upper Manhattan. In addition, we are also looking at many other prospective property acquisitions. Call us to discuss all the latest news.

To briefly recap, Alt-Opp's primary strategy is to acquire properties in transitional neighborhoods that we feel have considerable room for improvement and upside potential, and that can be improved/transformed within an approximately 18-24 month time frame, and then operated for a period of time prior to sale.

We welcome any questions that you or your financial adviser may have about whether Alt-Opp should be considered as a component of your overall investment portfolio.

Visit alt-opp.com/update to read the most recent Alt-Opp update.

This letter does not constitute an offer to sell or a solicitation of an offer to purchase interests in the Alternative Opportunities Fund, LP. Such an offering will be made only pursuant to definitive offering materials which will be provided to prospective investors and should be read carefully prior to any investment in Alternative Opportunities Fund, LP for a description of the merits and risks of such an investment.

Our New Office Location:

While, of course, most of our interactions with you and your advisors are by phone and email, please note that we are about to move into our new offices at 60 Cutter Mill Road, Suite #601, in Great Neck, New York 11021. Only our mailing address will be changing. Please make a note of it. All phone numbers and email addresses remain the same. Come visit us!

Contact Us

If you have updated your phone number, email or mailing address, please advise either Karen Mannoia (212) 532-9178 | karen@w-financial.com, or Wendy Ngai (212) 684-2283 x118 | wendy@w-financial.com on our Investor Relations team.

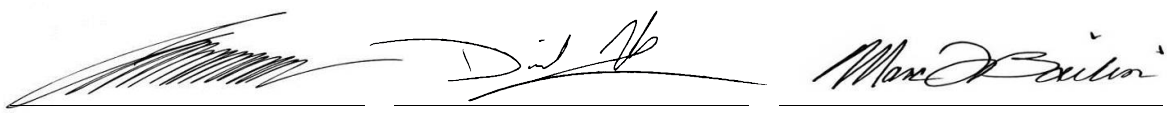
There is often a lot of information to digest in our quarterly letters. As a reminder, always feel free to call or email Gregg Winter at (212) 532-9170 | gregg@w-financial.com or David Heiden at (212) 684-8484 | david@w-financial.com with any questions that you may have, (including any questions about any of the content or real estate in this letter that you would like us to explain in greater detail). You can also contact our Chief Financial Officer, Adam Windwer, with any questions that you may have regarding your account statement or our audited financial statements at (212) 532-9284 | adam@w-financial.com.

Hoping that you and your families are enjoying the winter season.

With warm regards,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member By: David Heiden, Member By: Marc Bailin, Member