W

FINANCIAL

July 16, 2013

"Sample"
Most Recent Quarterly Letter

Mr. John Smith
ABC Company
123 Smith Street
New York, NY 10001

re: W Financial Fund, LP – 2nd Quarter 2013 Update and Statement

Dear John,

This letter has been ten years in the making…this is the thirtieth W Financial quarterly letter and it is the one where we get to mark the completion of a full decade of successful operation and measured, organic growth.

While it doesn't quite seem possible that ten years have already elapsed since Investors #1 and #2 signed on in the spring of 2003, the fact is that the Fund has now grown to include nearly 350 members residing in 26 states.

Our goal was always to grow organically and gradually, and we are pleased to have been able to accomplish that. W Financial now has a loan portfolio that numbers 34 loans totaling approximately $100 million dollars. From the beginning, the idea was always to gradually grow the number of loans in our portfolio to be able to provide ever-greater diversification and continuity of reliable cash flow.

Over the last decade we have crafted, evolved and battle-tested a strategy primarily designed to: a) protect investors' capital, b) provide consistent high-single digit returns, while: c) supplying a non-correlated component to investor's overall investment portfolios.

Non-correlated performance throughout the Real Estate Downturn and Recession:

When we look back over the past ten years, if our team had been looking for the ultimate real-world challenge to test our loan-picking and underwriting abilities, the recent recession and real estate downturns provided the perfect testing ground. As many of you know, we passed that test with flying colors, producing a 10.3% return in what turned out to be the stock market's worst year since 1931: 2008, by providing a sharp contrast to the performance of equities in investors' portfolios, while also demonstrating the value of investing a portion of one's assets in an alternative strategy (in our case asset-based lending), that tends to be non-correlated to the movements of the equity markets. So, in retrospect we can say that 2008 was the perfect year for investors and advisors to see this principle in action: as while our asset-based lending strategy was up 10.3%, the equity markets were (way) down: -33.8% (The Dow), and -40.5% (The Nasdaq). We followed through on our mandate to protect the downside while generating a reliable income stream.

The W Financial Team:

Hard to believe, but it has now been more than six years since I called David Heiden at his old company and asked him to think about joining the Fund as a co-manager and to run our lending operation. The analytical, lending, deal structuring and operational firepower that he has added to the mix has enabled W to keep steadily growing and originating a healthy and robust loan portfolio.

The "toolbox" of experience and expertise that David brings to this highly-specialized lending niche is second to none; therefore Marc and I couldn't be happier that he agreed to make a big career change leaving his nine-year tenure at a public company to become our partner.

Karen Mannoia has been involved in the Fund from the very beginning. She now focuses the majority of her time working closely with all our investors, registered investment advisors and custodians for whom she is the main point of contact.

Jarret Schochet works closely with David on new loan origination, deal analysis and generally interfacing with our borrowers and working with the commercial mortgage brokerage community that sends us dozens of new deal requests every week.

Marisa Rosen works closely with David and Jarret on the loan analysis, origination and servicing side. She also coordinates ordering all the third party reports for each deal including the appraisals, environmental reports, the background checks of borrowers and the insurance reviews that we require on every deal.

Mirsad Redzovic handles IT and he helps to create our public and our private websites, email communications and marketing materials. He keeps our network humming; our private and public websites up to date, and keeps our data secure and backed up.

Our newest team member is Wendy Ngai, who handles office manager and administrative duties and provides assistance to the entire W team.

The following people, while not employees of the Investment Manager, are part of our daily workflow and instrumental to the smooth functioning of the Fund. These include our bookkeeper, Michael Mardo, our accountants, Saul Shimansky and Steve Smith of Stephen Smith & Company and recruiter Barbara Winter (who, over the years found and brought Jarret, Marisa, Mirsad and Wendy into our midst). Many thanks to all of you for your important contributions.

Portfolio Performance - 10 years of Positive Returns:

W Financial has now completed 120 consecutive months of positive returns, with no down months.

During Q2, all loans in our portfolio have paid as scheduled. As of the end of the quarter, our loan portfolio consisted of **34 loans with an average portfolio-wide loan-to-value ratio of 56%** and an average loan size of $2,932,971. **Investor capital continues to be fully deployed**, consistent with our business plan.

Since its inception 10 years ago, W has provided an average annual compound return of 9.83%, **net of fees**. $100,000 invested at our 2003 launch had increased to $252,923 as of June 30, 2013, resulting in a Total Compounded Return since inception of **155.49%.**

New Loan Origination during Q2:



East 70th St., Upper East Side, Manhattan

During the second quarter, W originated **eleven new loans** totaling **$22,975,000.**

On April 5th, W provided a **$900,000 first mortgage** bridge loan secured by an exquisite, free-and-clear mixed-use townhouse located on **East 70th Street on Manhattan's Upper East Side** worth more than twelve times our loan amount. Our borrower is a developer who has borrowed against this asset from the Fund in the past.

This ultra-low loan-to-value bridge loan will help the developer meet a short-term capital requirement and will later be repaid either via a bank refinancing or simply out of his cash flow. Our familiarity with, and previous due diligence of this property enabled the Fund to close within a matter of days. As is often the case, W's speed and certainty of execution resulted in our ability to add this small but exceptionally high-quality loan to our portfolio.


Borough Park, Brooklyn

On April 17th, W provided a **$6,000,000 first mortgage** bridge loan for the acquisition of a development site in the **Borough Park, neighborhood** of **Brooklyn**. Barriers to development are very high in New York City, and in this case the borrower had been in contract to buy the site for approximately 5 years during which time he invested more than $6,000,000 in due diligence fees, zoning attorney fees and many other significant pre-development expenses. As a result of having successfully made it through the grueling Uniform Land Use Review Process (ULURP), considerable value has been added to the highly-desirable 218,000 buildable square foot site, which can now be re-developed as a mixed-use property. The site is located in a specialized sub-market where demand far exceeds supply, and it is expected that W's loan will be repaid either upon the closing of a construction loan, or upon the sale of the now-entitled property to another developer. Note that the total loan size was $12,000,000 and, as it regularly does from time to time, the Fund decided to share half the loan with another lender (a loan participation) in order to optimize our position size.


Cumberland Street, Fort Greene, Brooklyn

On April 19th, the Fund provided a **$1,600,000 first mortgage** bridge loan to restructure existing debt on an eight-unit, four-story mixed-use property on Cumberland Street in **Fort Greene, Brooklyn**. The building is nearly 100% occupied, and it is expected that the borrower will refinance W's loan with a conventional bank loan before the end of the loan term.


Boerum Hill, Brooklyn

On April 25th, W provided a **$1,100,000 first mortgage** bridge loan for the acquisition of a four-story, eight-unit building on Dean Street in **Brooklyn's Boerum Hill neighborhood**. This is **another good off-market purchase for the buyers, who are regular W Fund borrowers.** The business model is a well-worn path for them: with this acquisition they will once again seek to buy out rent stabilized tenants and to renovate some units and some building areas. Once they have been able to "work" the building to add value and to increase the NOI, they expect to refinance with a bank at much higher loan proceeds (as they have successfully done many times before).



Inwood, Upper Manhattan

On April 29th, the Fund closed a **$3,000,000** low-leverage, **first mortgage** bridge loan for the $7,500,000 acquisition of a 6,500 square foot retail building situated on a 24,117 square foot lot on Broadway in the **Inwood neighborhood of Upper Manhattan**. The highly-desirable site will permit development of a 95,286 square foot mixed-use building. The borrower required a bridge loan to be able to close quickly on the acquisition and then plans to refinance W's loan in due course upon the closing of a construction loan.

On May 9th, W provided a **$1,500,000** loan for the $3,000,000 acquisition of a hotel development site on Albee Square in **Downtown Brooklyn, NY**. Our borrower is a successful and experienced hotel developer who brought more than $1,600,000 of cash to the closing table. The borrower plans to vacate the building on one of the two contiguous sites and to then develop a ~52,391 square foot hotel on the site. Directly across the street, construction is well underway for a 700,000+ square foot retail and entertainment development called City Point. Our borrower needed to close on the opportunistic acquisition quickly, thus, as is often the case, W's reputation for speed and reliability resulted in our being selected by the borrower and broker.



Albee Square, Downtown Brooklyn

On May 14th, W provided a **$2,200,000** loan secured by a subordinate mortgage on a commercial property one block away from the new Barclay Center sports arena on **Atlantic Avenue in Brooklyn** with additional collateral in the form of a contract deposit on several valuable mixed-use buildings located on **Orchard Street** in **downtown Manhattan**.



Prospect Place, Crown Heights, Brooklyn

On May 22nd, the Fund provided a **$700,000** loan for the acquisition of a 5,208 square foot, three-story mixed-use building with ground floor retail and two residential units above located on **Prospect Place** in **Crown Heights, Brooklyn**. In a typical value-added play, the borrower plans on renovating the entire building and then leasing the units at market rates and refinancing conventionally.

On May 31st, W provided a **$1,300,000** loan to fund the completion of a 6,008 square foot, eight-unit building on **Jefferson Street** in the **Bushwick** neighborhood of **Brooklyn**. The borrower is an experienced developer who is a regular fund borrower. W's loan will help him to complete the construction and then upon lease-up and stabilization, the borrower expects to refinance the bridge loan with permanent financing from a local bank.



Jefferson St., Bushwick, Brooklyn



Varet St., Bushwick, Brooklyn

On June 18th, W provided a sub-50% loan-to-value **$3,000,000 loan collateralized by two properties** (one on **Grand Street** in **East Williamsburg** and one on **Varet Street** in **Bushwick, Brooklyn**), which had recently been purchased for $5,425,050 all cash by our borrowers. The Varet Street property is currently under construction. On Grand Street the 84' x 100' lot has an existing vacant 8,430 square foot retail building, which the borrowers plan to demolish and then replace with a new 38,032 square foot, eight-story mixed-use building (the existing building will remain during the term of our loan). It is expected that our loan will be repaid upon either: a) the closing of a construction loan to redevelop the Grand Street property, or: b) the refinance of the Varet Street property upon completion and stabilization.

On June 19th, the Fund provided a **$1,675,000** loan for the acquisition of a mixed-use building on **Atlantic Avenue** between Henry and Hicks Streets in **Brooklyn Heights**. The 5,000 square foot building is comprised of ground-floor retail with two residential apartments above.



Atlantic Ave, Brooklyn Heights

The property had been in contract for many months as the seller was obligated to deliver the retail space vacant and, as often happens, it took the seller more time than expected to vacate the commercial tenant. During this delay, the real estate market in Brooklyn just grew hotter, making this an even better deal for our borrower, and an even more secure loan for the Fund. While originally our borrower had been planning to improve, rent, refinance and then hold the building, he is now likely to simply market and then "flip" the property for a significant profit.

During the past quarter our revolving credit line was increased from $18,500,000 to $25,000,000. The credit line facilitates our ability to keep investor capital deployed as efficiently as possible.

New or Add-on Investments:

Please use our **Additional Subscription Form** for any add-on investments that you wish to make www.w-financial.com/add. That form, as well as our other Fund documents are available at this link: www.w-financial.com/documents (username: w, password: financial) or you can call Karen, and she will email or mail you the form. We expect to be able to admit new investments as of August 1. Contact Karen Mannoia (karen@w-financial.com) or (212) 684-2283 x112 with any questions on how to complete the forms.

If you have updated your email or mailing address, please let Karen know. If you have elected to receive interest distributions, your check is also enclosed.

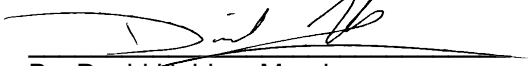
As always, please feel free to call Gregg Winter at (212) 532-1122 x1, David Heiden at (212) 684-8484 or Marc Bailin at (212) 935-0900 with any questions that you may have, (including any questions about any content or terminology used that you would like us to explain in greater detail). Alternatively, you can always email us directly at gregg@w-financial.com, david@w-financial.com and marc@w-financial.com.

Very truly yours,

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