W

FINANCIAL

January 16, 2014

"Sample"
Most Recent Quarterly Letter

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

re: W Financial Fund, LP – 4th Quarter 2013 Update and Statement

Dear John,

We wish all of you and your families a happy and healthy New Year.

2013 was another excellent year for W Financial Fund. **Important milestones were achieved** such as completing **our first 10 years of successful operation**, **surpassing $100,000,000 of assets under management (AUM)**, and **increasing our year-over-year loan originations by 40%** from $83,020,000 in 2012 to $116,460,000. We ended the year with nearly $127,000,000 of AUM, **an increase of 85% over our $69,036,845 of AUM at year-end 2012**. During 2013, approximately 125 new investors joined the Fund pushing us well past the 400 investor mark. Our Fund documents have been updated (as they are from time to time) and the new documents are now in effect. While the size of our loan portfolio always varies (as new loans are originated and old loans are repaid), these days, our nicely diversified loan portfolio often has more than 40 loans at any one time. During the course of 2013, our revolving credit facility was increased from $15 million to $25 million and is now in the process of being increased to $35 million. Thanks to the flexibility that our credit line provides, we were able to successfully keep our investor capital fully deployed during the majority of 2013. The interest rate on our credit line remains very favorable at 325 basis points above LIBOR (LIBOR is currently .16%, thus our cost of this capital is currently less than 3.5%). Per our business plan, our strategic use of the credit line has proven to be a very effective cash management tool for the Fund.

Thanks to the efforts of W's loan origination team, our loan portfolio performed exceptionally well during a year where **39 new loans totaling $116,460,000 were originated** and 25 loans totaling $70,857,500 were repaid, resulting in strong net positive loan generation of $45,602,500. The loan origination team is managed by our partner David, and as per our business plan, we continued to hit a lot of "singles" and to focus on protecting downside risk with resulting high single-digit net returns for our investors.

We ended 2013 with an average loan position size of $3,312,475 and with a healthy loan portfolio performing as scheduled. The Fund closed **14 new loans totaling $67,670,000** during the fourth quarter, **completing its 126th consecutive month of positive returns**, **with no down months.**

Since our 2003 inception through December 31st, 2013, W Financial has provided an average Compounded Annual Return of 9.79%, net of management and performance fees. Thus, $100,000 invested at our 2003 launch had increased to $263,689 as of December 31st, 2013, resulting in a Total Return Since Inception of 166.65%, net of fees.

2014 Outlook:

Going into 2014, we continue to see excellent deal flow, which translates into good prospects for the

origination of new bridge loan opportunities, and despite the departure of Mayor Mike Bloomberg (we will really miss you, Mike) and the arrival of the new mayor, Bill DeBlasio, we believe that **the strong supply-and-demand characteristics of New York City real estate** will continue to make fast, savvy private lenders like W Financial a very precious resource to commercial real estate buyers who value certainty of execution above all else.

Flexibility:

It is difficult to overemphasize how important **flexibility in structuring deals** is for our target borrowers: experienced real estate owners and operators. While there is no question that banks can offer cheap financing for stabilized, "ready for prime time" lending scenarios, banks aren't really known for their ability to understand and effectively lend on "properties in transition", which is exactly the niche that we focus upon.

Real estate professionals who focus on "value-add" transactions spend their time targeting such properties in transition and not the "finished" properties that are ready for permanent bank financing. To describe it a different way, properties that are ideally ***poised to be transformed*** – the properties that are ideal candidates and are ready for their "moment of value creation", are difficult to finance with banks **precisely because** there are moving parts and because many such target properties are not yet stabilized and thus require work to be done: work that W Financial well understands. Banks are much happier coming into the picture later on with low rate, permanent financing once all the "heavy lifting" has already been done; at the point when the NOI (net operating income), and the cash flow have already been stabilized; in short: once the property IS "ready for prime time".

For experienced real estate owners, such flexibility can be important enough to make such borrowers want to choose private lenders like W over banks - despite our higher (for a short time) cost.

New Loan Origination During Q4:



Schermerhorn Street, Downtown Bklyn

On October 1st, W Financial provided a **$3,100,000** loan for the time-sensitive acquisition of an eight-unit multifamily rental building on **Schermerhorn Street** in **Downtown Brooklyn**, adjacent to **Brooklyn Heights**. Six of the units are free market, thus the buyer (our borrower) is confident that there is a great deal of upside to be realized by applying his professional and efficient management style to operating the building. The property is located in one of Brooklyn's most desirable neighborhoods with easy access to the subway and Manhattan. Our borrower is a seasoned owner and operator of this kind of property in Brooklyn and we have made several loans to him on similar properties in the past where he has successfully executed his business plan and W's loans have been repaid.



Butler Street, Park Slope, Brooklyn

On October 3rd, W provided a **$1,150,000** loan for the acquisition of a three-story, three-unit residential building located on **Butler Street** in **Park Slope, Brooklyn.** The buyers are repeat borrowers who are adept at finding off-market properties and then making deals to buy out tenants paying below-market rents. They then often "flip" the properties to other buyers who will renovate and hold them for the long term. Many of our borrowers have developed a specialty in one niche or another within the real estate "food chain"; this being one example.

On October 4th, W provided a **$7,500,000** loan to refinance a prime development site in the **Turtle Bay** neighborhood near the United Nations on **Manhattan's East Side**. The site currently consists of one 3-story and one 5-story building totaling 10,800 square feet, however based on the zoning and additional air rights transferred to the site prior to our closing, the development potential is for approximately 70,000 square feet of residential or mixed-use space. As is typical in an assemblage, our borrower is negotiating tenant buyouts, in this case for the six remaining rent regulated apartments with a goal of being able to package and prepare the site for sale to a developer "ready to go". Depending upon the pace of the buyout process, the borrower will either keep our loan in place or seek to refinance with a conventional lender.



East 44th Street, Turtle Bay, Manhattan



West 36th Street, Manhattan

On October 9th, W Financial closed a **$4,250,000** loan for the time-sensitive $7,200,000 acquisition of an existing building on **Manhattan's West 36th Street** that can be developed into an 84-room, 29,680 square foot hotel. The buyer is a seasoned NYC hotel developer with a long track record of success who contributed more than $3,000,000 of equity. The borrower has substantial net worth, and as is typical for W Financial, in addition to a first mortgage loan and a pledge of the ownership interests, our loan is also personally guaranteed by the Principal.

On October 11th, W provided a **$12,000,000** first mortgage bridge loan for the time-sensitive, $21,750,000 purchase of a well-located, nearly 12,000 square foot commercial condominium located on a prime corner of **Park Avenue** on **Manhattan's Upper East Side**. Although the borrower had already lined up conventional financing, **the bank was not yet prepared to close, and a 1031 tax-free exchange deadline created the urgency** for the borrower to close with a bridge lender **in order to preserve the favorable 1031 tax treatment** for the buyer. The commercial condominium has a long-established medical practice and radiology center as the tenant, with a new 15-year triple-net-lease in place. As anticipated, the bridge loan was repaid within one month upon the closing of the long-term conventional financing.



Park Avenue commercial condominium



Palmetto Street, Bushwick, Brooklyn

On October 21st, W provided a **$900,000** loan for the acquisition of a two-story, four-unit multifamily building on **Palmetto Street** in the **Bushwick** neighborhood of **Brooklyn**. Although currently configured as a four-unit building, the building can legally be converted back to its original eight-unit configuration, and thus additional value can be created.

On October 29th, W Financial provided a **$14,000,000** first mortgage bridge loan for the $21,500,000 acquisition of six contiguous mixed-use buildings totaling 32,871 square feet on **West 28th Street** in the **Flatiron District of Manhattan**. The properties have 126 feet of frontage and 114,000 square feet of as-of-right development potential. All the buildings, which were built circa 1912, are five stories and feature retail on the first and second floors with commercial and residential above. Our three-year loan will allow the



West 28th Street assemblage, Flatiron District, Manhattan

borrower adequate time to maximize the site's potential, while in the meantime he will work to maximize the potential of the retail and commercial space by buying out tenants and making improvements to re-lease at higher rents. $12,000,000 was funded at the October closing. Our loan also provides for an additional $2 million of future funding for pre-agreed expenses, which is expected to further enhance the value of the property.



First Court, Brickell, Miami FL

On November 7th, W provided a **$1,870,000** loan for the acquisition of three combined retail condominium units totaling 6,404 indoor, and 3,000 outdoor square feet located on the Miami River at **1st Court** in the **Brickell** neighborhood of **Miami, Florida.** The borrower plans to re-tenant the property and then refinance conventionally.



West 46th Street, Manhattan

On November 12th, W closed an **$8,000,000** loan participation to recapitalize two loft office properties, one on **West 46th Street** and one on **West 37th Street** in **Manhattan**. This bridge loan is senior loan participation for W collateralized by two strong assets within an $18,000,000 loan (in other words, our participant has a $10,000,000 junior interest subordinate to W's position).



Spencer Street, Williamsburg

On November 14th, W provided an **$8,500,000** loan to a repeat borrower for the time-sensitive $11,500,000 acquisition of a 4-story, ~40,000 square foot loft property/conversion opportunity located on **Spencer Street** in the **Williamsburg** neighborhood of **Brooklyn**.



Madison Street, Bed-Stuy Brooklyn

On November 25th, W provided a **$1,550,000** bridge loan for the purchase of a four-story, eight-unit multifamily building on **Madison Street** in the **Bedford-Stuyvesant** neighborhood of **Brooklyn**. The borrower required a bridge loan in order to facilitate a time-of-the-essence closing, and will now proceed to complete renovations and buy out some tenants. Once he has completed the above he plans to refinance conventionally.



392 Third Street, Park Slope, Brooklyn

On December 9th, W provided a **$750,000** blanket first mortgage collateralized by four unsold condominium units in a very well-located 8-unit condominium on **Third Street** between Fifth and Sixth Avenues in **Park Slope, Brooklyn**. The pre-war limestone townhouse totals 14,300 square feet. The rest of the building had been previously renovated in 2004. The borrower needed a bridge loan in order to buy out a tenant and to renovate the unit and prepare it for sale. Other renovated units in the building have recently sold in the range between $1,170,000 and $1,680,000.

On December 17th, W provided a **$1,800,000** loan for the time-sensitive, off-market acquisition of a four-story, 8-unit multifamily building on **Waverly Avenue** in **Clinton Hill, Brooklyn**. All the apartments are currently rent stabilized. Reprising a familiar theme, the borrower needed the bridge loan to facilitate a time-of-the-essence closing. W Financial provided the first mortgage as well as $300,000 of Preferred Equity. There is significant upside to this property once the below-market tenants have been bought out, and then the units are renovated and brought up to market rents.

On December 23rd, W provided a **$2,300,000** acquisition loan for the time-sensitive acquisition of a 15,792 square foot, four-story, 20-unit apartment building in the **Sunset Park** neighborhood of **Brooklyn.** We have closed many loans with these active, repeat borrowers over the years. In this case, they plan to renovate the units and to improve and upgrade the building. Per their typical value-add playbook, the borrowers plan to buy out many of the rent stabilized tenants and increase the rent roll over time. They needed a bridge loan in order to close quickly.

New or Add-on Investments:

Please use our updated **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 updated 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 February 1st. 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.

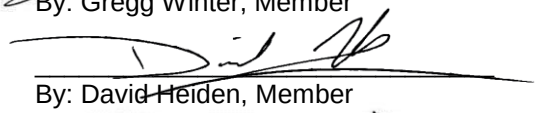
As a reminder, always feel free to call Gregg Winter at (212) 532-1122 x1, David Heiden at (212) 684-8484 or Marc Bailin at (212) 935-0900 with any questions that you may have, (including any questions about any content or terminology in this letter that you would like us to explain in greater detail).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

Very truly yours,

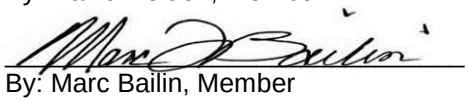
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