W

FINANCIAL

October 22, 2014

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

"Sample"
Most Recent Quarterly Letter

Re: W Financial Fund, LP - 3rd Quarter 2014 Update and Statement

Dear John,

We hope that you have all had a great summer (we New Yorkers experienced probably the best summer weather we've ever had) and are enjoying the transition to autumn.

W Financial Fund has completed the third quarter of 2014 with our investment capital fully deployed, our line of credit partially utilized, and with our loan and investment portfolio performing as scheduled. While some of you have needed to wait for several months to finally be admitted to the fund (or to add capital to existing accounts), we were finally able to admit ~$20 million of new and additional capital to the fund on October 1st.

The Fund originated **13 new loans totaling $46,615,000** during the third quarter, and completed its **135th consecutive month of positive returns, with no down months. (One loan was a participation resulting in net loan originations for the quarter of $38,115,000).**

Since our 2003 Inception through June 2014, W Financial has provided an average Compounded Annual Return of 9.78%, net of management and performance fees. Thus, $100,000 invested at our 2003 launch had increased to $282,021 as of September 30th, 2014, resulting in a Total Return Since Inception of 185.59%, net of fees.

W's growth during the past year and the path forward:

W Financial has grown by roughly $70,000,000 since October 2013, so we now have nearly $180,000,000 of AUM (assets under management) plus our $35,000,000 credit facility giving us ~$215,000,000 of lending capacity. Note that the loans that we make tend to get paid back rapidly and we are always replacing them, and doing so in a highly-selective manner, thus our capital is always getting recycled. So, based upon our always-evolving opportunity landscape, if we find that we need additional capital to deploy, the next logical step will be to increase the size of our credit facility, which is very small compared to our AUM (roughly only 19% of our AUM). Increasing the size of the credit line (relative to our AUM) will also further enhance the efficiency of our cash management, allowing our loan portfolio to expand and contract according to market conditions, and reducing the likelihood of idle cash sitting around, which would, of course, hurt our returns.

So for the foreseeable future we do not plan to admit any new investors or to accept any add-on investments. For the time being we intend to work with the capital that we already have on hand, augmented, of course, by our credit line. We deeply appreciate our investors' and advisors' confidence in us and are always working to fine-tune, improve and optimize our process.

149 Madison Avenue, Suite 701, New York, NY 10016 • (212) 684-2283 • Fax (212) 532-1222 • www.w-fund.com

Our Number One mission is to preserve the quality of our loan portfolio so that we can continue to provide consistent cash flow with a goal of seeking to provide downside protection for our investors' portfolios.

Needless to say, of course, the marketplace is fluid. Thus, if conditions warrant further expanding our AUM at some time in the future, we will of course notify our investors and their advisors at such time.

Pending Sale of 330 West 86th Street:



330 West 86th Street, Upper West Side, Manhattan

In other late-breaking news, re: our property located at 330 West 86th Street (on Manhattan's Upper West Side, between West End Avenue and Riverside Drive), a contract has now been signed and a $675,000 deposit has been wired to our attorney's escrow account for the sale of that 20' wide, ten-unit, walk-up apartment building for $6,750,000 (netting $6,470,00 after the sales brokerage fee). The closing is expected to occur by November 15th (and this, of course, will produce an additional cash infusion further amplifying our rationale for closing the fund for now). We were intending to rent up the 99% completed, gut-renovated building, when a highly motivated, 1031 tax-free exchange buyer was introduced to us. This is a good outcome for the fund and provides further evidence that even when a well-underwritten deal goes "sideways" a rewarding outcome can be achieved for the fund and its investors. Any newer investors who are not familiar with the history of this deal and are interested in hearing the full story should contact either Gregg or David, and we will be pleased to walk you through it. Our Senior Loan Officer Jarret Schochet did a great job of supervising the building's gut-renovation and dealing with the city agencies such as the DOB (Department of Buildings) and LPC (Landmark Preservation Commission), and we are grateful for his excellent work on this project. Here is a link to some interior photos of the final result: http://ny.imagetrack.tv/present/41376.

Updated Valuation of this Asset:

W Financial entered into a binding contract to sell 330 West 86th Street during the month of September. The sales contract is the best indicator of the fair value of the asset, and as such, the value of the asset has been adjusted on our books from our original basis of $4,689,000 to $6,470,000 (our approximate net sales proceeds) resulting in an unrealized gain of $1,781,000. You will see this adjustment noted on your Q3 statement. We also felt that due to the substantial increase in the size of our loan portfolio over the past 24 months that this was an appropriate time to increase our loan reserve from $240,000 to $1,200,000 given the current size ($175,563,872) of our 50+ loan portfolio. The increase in valuation also had a very positive effect upon our return for the month of September. Please call or email our CFO, Adam Windwer, with any questions that you may have on the mechanics of this at (212) 684-2283 x109 or adam@w-financial.com.

New Loan Origination During Q3:

During the month of July, W Financial originated six loans totaling **$13,555,000.** Highlights are provided below:

- a **$700,000** bridge loan collateralized by a four-story, nine-unit, 9,056 square foot multifamily building located on **Findlay Avenue** in the **Bronx, NY** with nine apartments. The borrower refinanced an existing mortgage utilizing surplus cash in order to complete some repairs and capital improvements and to acquire another property. After making some improvements to the building, the borrower then plans to refinance the bridge loan with permanent financing from a local bank.



Findlay Avenue, the Bronx NY

- a **$920,000** second mortgage to fund tenant buyouts and renovations in a four-story, eight-unit, 6,277 square foot multifamily property located on **Third Place** in **Carroll Gardens**, **Brooklyn**. W Financial had originally financed the acquisition of the building back in April 2014. As per their usual strategy, our borrowers had sourced the transaction off-market, intending to buy out the remaining rent-stabilized tenants, renovate those units and increase the rent roll and thus the building's NOI (net operating income). This financing will help to fund tenant buyout agreements that were negotiated after the original W loan closing. Later, the borrowers will seek to refinance with a local bank once they have executed their business plan.



Court Street, Carroll Gardens, Brooklyn

- a **$1,260,000** bridge loan to acquire a vacant 4,500 square foot building and an adjacent lot on **Court Street** in the **Carroll Gardens/Gowanus** neighborhood of **Brooklyn, NY**. The borrower plans to renovate the three-story walkup and to gut renovate the adjacent two-story building. Our bridge loan allowed them to opportunistically acquire the property which required a fast closing and will also afford them the time to design and optimize the best possible way to proceed with development of the site. Once plans are finalized and completed they will seek bank financing.

- a **$1,175,000** bridge loan for the acquisition of an eight-unit, four-story walk-up building located on **Tompkins Avenue** in the **Bedford-Stuyvesant** neighborhood of **Brooklyn, NY.** The units are all subject to rent regulations. Per their typical business plan, our borrowers plan to negotiate buy-outs of several of the rent-stabilized units so they can renovate the apartments and bring them up to market rents. The bridge loan was needed in order to close the purchase quickly.



Tompkins Ave, Bedford-Stuyvesant, Brooklyn

- a **$1,500,000** second mortgage loan for two adjacent five-story loft buildings totaling +/- 15,000 square feet on **Grand Street between Kent** and **Wythe Avenues** in **Williamsburg, Brooklyn**. Since the original W Financial first mortgage loan closing back in March 2013, our borrower has successfully been able to "work the building" negotiating more tenant buyouts over time, thus significantly increasing the property's value. The additional loan proceeds will be utilized to fund additional renovations to this well-located mixed-use property. Once our borrower has fully optimized the property's value, he will either refinance with a local bank or sell the properties.



Third Avenue, Midtown Manhattan

- On the last day of the month, W provided an **$8,000,000** bridge loan to refinance a prime development site located on **Manhattan's Third Avenue** between 44th and 45th Streets. The site is currently improved by an 8,375 square foot, five-story, mixed-use building and is a prime development site. W's borrower is one of NYC's most active hotel developers. He acquired the site two years ago and has recently successfully negotiated the buyout of the last remaining tenant, thus unlocking the high-traffic site's highest and best use which is to be re-developed. The existing building will eventually be demolished (only after our loan has been repaid). W's loan includes both first mortgage and mezzanine loan positions, and our collateral also includes a second property located in **Old Westbury**, **NY**. Our borrower will likely sell, rather than develop, the desirable site.

During the month of August, W Financial originated three first mortgage loans totaling **$10,250,000.** Highlights are provided below:

- a **$4,500,000** loan to finance the acquisition of a three-story, 4,431 square foot mixed-use building located on **Howard Street, between Crosby and Lafayette Streets** in **SoHo**, close to Chinatown. This is another example of an off-market acquisition by one of our regular borrowers who will seek to optimize the property to maximize its income and will then either refinance and hold in their portfolio or "flip" to a more aggressive buyer.



Howard St (bet. Crosby and Lafayette Streets), SoHo



Putnam Avenue, Ridgewood, Queens

- a **$2,200,000** loan to finance the acquisition of three contiguous buildings (one three-story and two, two-story buildings totaling 10,033 square feet) currently configured as eight units, located on **Putnam Avenue** in the **Ridgewood** neighborhood of **Queens**, NY. Our borrowers needed to close quickly on the property and now intend to finalize their development plans and approvals, at which point they intend to obtain a construction loan from a bank to gut-renovate the properties and then lease them at current market rents.

- a **$3,550,000** loan to finance the off-market acquisition of four contiguous three-story mixed-use buildings with a total of eight residential units above four stores located on **Myrtle Avenue**, in the **Bushwick** neighborhood of **Brooklyn**. Our experienced borrower plans to take the usual steps performing renovations and making cosmetic improvements and then re-leasing the apartments and stores at market rents. Once fully cash-flowing and stabilized, the borrower will seek to refinance W's loan with a local bank.



Myrtle Avenue, Bushwick, Brooklyn

During the month of September, W Financial originated four loans totaling **$22,810,000**. In one case we entered into a loan participation on a $17 million loan, resulting in a net position size for the fund of $8,500,000 thus total September net loan origination of $14,310,000. Highlights are provided below:

- a **$17,000,000** loan for the $53,000,000 acquisition of a highly desirable ~138,000 square foot development site (currently improved with a two-story retail property) in the **Flushing** neighborhood of **Queens**, NY – a highly sought-after submarket where large development sites are hard to find. While on the one hand, the developer plans to complete their designs, plans and approvals and to then refinance W Financial's bridge loan with a construction loan provided by a bank, on the other hand they are also actively exploring "flipping" the property to another developer at a much higher price.



39th Avenue, Flushing, Queens



West 4th Street, Greenwich Village, NYC

- a **$3,300,000** loan for the $9,892,500 acquisition of a four-unit 21' wide, 3,700 square foot townhouse on **West Fourth Street** near the corner of **West 11th Street** in what can only be described as one of the most prime areas of the **Greenwich Village** neighborhood of **Manhattan**. The borrower was in hard contract with a time-of-the-essence closing and needed a private loan in order to close quickly. Once the building has been fully rented the borrower will seek to refinance the bridge loan with permanent financing from a local lender.

- an **$825,000** loan for the off-market acquisition of a two-story multifamily property totaling 3,000 square feet located on **Fairview Avenue** in the **Ridgewood** neighborhood of **Queens**, NY. There are a total of four units, two of which were vacant upon closing. The borrower needed the bridge loan in order to close quickly on the property and then plans to make improvements, which will enable him to achieve higher rents and to then refinance the property with a local bank.



Fairview Avenue, Ridgewood, Queens



Troutman Street, Bedford-Stuyvesant, Brooklyn

- a **$1,685,000** loan to refinance three multi-family properties totaling 11,782 square feet with upside potential located on **Troutman Street and Willoughby Avenue** in the **Bedford-Stuyvesant** neighborhood of **Brooklyn,** NY. Our loan is secured by a first mortgage on the two Troutman properties and a second mortgage on the Willoughby property. In total, the three properties contain 15 apartments. The borrower utilized the proceeds of the W Financial loan to provide working capital for another opportunity.

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.

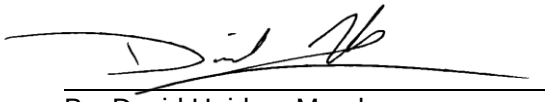
As a reminder, always feel free to call Gregg Winter at (212) 532-1122 x1, David Heiden at (212) 684-8484 or Marc Bailin at (212) 935-0900 with any questions that you may have, (including any questions about any content or real estate terminology in this letter that you would like us to explain in greater 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,
W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member