FINANCIAL

July 16th, 2015

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

"Sample"
Most Recent Quarterly Letter

re: W Financial Fund, LP – 2nd Quarter 2015 Update and Statement

Dear John,

We hope that your summer is off to a great start and that you are enjoying yourselves with friends and family wherever your travels may be taking you.

W Financial has continued to grow, gradually over time, as the number and the quality of available loan opportunities allows us to. As of the end of the second quarter, these incremental increases have brought the fund's Closing Capital Balance as of June 30th to $211,512,750. This brings us to a more efficient size typically with more than 60 loans in our portfolio at any given time and is helpful to achieving our original 2003 goal of creating a cash-flowing, diversified portfolio of loans for our investors.

Fund Performance:

From our 2003 inception through June 30th, 2015, W has provided an average annual compound return of 9.75%, net of fees, thus, $100,000 invested at our 2003 launch had increased to $300,731 as of June 30th, 2015, resulting in a total return of 205.25%. Our net return in June was .84%, with a .74% return in May and .72% in April.

Private lenders continue to be an important resource to savvy borrowers:

We foresee that the role of nimble, niche private lenders like W Financial will continue to be important and may well become an even more valuable component of the "toolkit" of the entrepreneurial real estate owners and developers who are W's core borrowers. In the calculus of professional real estate owners and operators, speed and flexibility can often outweigh a higher interest rate, especially when a loan is only needed for a short period of time (in our case, typically for a year or so).

Registration as an Investment Adviser:

Over the past year, W has grown to a size (i.e., greater than $150,000,000) that requires Sag Harbor Capital Management, LLC, the Investment Manager of W Financial Fund, LP to register

as an Investment Adviser with the S.E.C. (Securities & Exchange Commission). The filing was submitted in late June and became effective on July 2, 2015. Thus, Sag Harbor Capital Management, LLC is now a Registered Investment Adviser. Accordingly, we have created an addendum to our PPM (Private Placement Memorandum) and other required documents reflecting this change and have posted them on the Summary page of our private website at the following link: www.w-financial.com/summary (username: fund, password: 1delta1). The Summary page always has the latest versions of all our fund documents. Note that our Subscription Agreements are also being updated and should be utilized going forward. The new Subscription Agreements will be finalized and posted by the end of the month. Please contact us with any questions that you may have and let us know if you would prefer to have a copy of the addendum (or any of our fund documents) mailed to you.

Admission of new capital into the fund:

While we realize that it can sometimes be frustrating for investors who wish to add capital to their accounts, or for new investors waiting to invest in the fund, to hear that we are not accepting additional capital in a particular month, it is important to emphasize that we endeavor to carefully control the admission of additional capital in order to be able to maintain the most efficient cash management possible (i.e., we do our best to avoid, as much as possible, ever having investor capital sitting on the sidelines waiting to be invested or re-deployed). This discipline helps us to achieve the best possible results for all our investors. Our revolving line of credit (which is currently $35 million and in the process of being increased to $50 million) affords W Financial great flexibility and allows the fund to "expand and contract" in size, optimizing our ability to keep investor capital deployed as close to 100% of the time as possible.

Positively 4th Street:

We originated a **$3,300,000** first mortgage bridge loan late last summer for the **$9,892,500 acquisition** of a 4-unit townhouse located on West Fourth Street, one of the most desirable (and, thanks to Bob Dylan's song, famous) streets in Greenwich Village (more specifically, the West Village, one of Manhattan's most coveted neighborhoods).

The purchaser had recently sold another downtown Manhattan property and was buying another investment property, a townhouse on West Fourth Street (between Perry and West 11th Streets) utilizing what is known as a **1031 exchange**. A 1031 (this refers to Section 1031 of the Internal Revenue Code) is a mechanism by which the seller of investment real estate can defer paying capital gains taxes if the gain from the sale of a qualifying property is rolled into the purchase of another qualifying property within a certain time frame. Thus, our borrower came into this deal **with a great deal of equity** and only required a **$3.3M loan**. We are always

especially interested in very low, loan-to-value loans like this one. The buyer/borrower had recently gone through a divorce that had damaged her credit, thus she was not a candidate for banks and was interested in a private bridge loan from W Financial. The acquisition closed on September 12th, 2014. Despite the borrower's credit problems, the loan was cautiously underwritten and we were fully aware that given the property type, the stellar location and the substantial equity cushion of more than $6,500,000, that all of these positive elements contributed to making the West Fourth Street loan very compelling and would help to protect W Financial even in the event there was ever a default. Some months later, the borrower failed to make the May mortgage payment on time and soon afterwards we sent her a default notice, accelerating our 8.5% interest rate to the 24% default rate of interest, and also triggering other fees.

Given the property's desirable location and the favorable acquisition cost, the borrower was frequently approached with offers to buy the building. Faced with a default and an impending foreclosure action, she quickly decided to sell and entered into a hard (non-contingent) **contract to sell the building for $12,500,000**. While the contract called for a closing date of July 15th, the buyer and the seller worked to close the deal even earlier, targeting June 30, 2015. On that day W Financial was repaid its original $3,300,000 principal along with substantial default interest and exit fees. This resulted in a rate of return for the fund well in excess of our original expected rate of return had the loan simply been paid as scheduled. We mention this transaction simply to report a recent default and then the final, very favorable, result.

We are very happy when our loans are simply paid as scheduled; however we always do our best to be as well-prepared as possible in the event that any trouble should develop with any loan in our portfolio along the way.

<u>New Loan Origination During the Second Quarter:</u>

During Q2 W Financial funded six new loans totaling **$20,037,500**. Highlights are provided below:

- a **$700,000** bridge loan utilized to purchase a two-family house located on **Avenue J** in the **Midwood** section of **Brooklyn**. The borrower purchased the investment property in an off-market transaction and required a bridge loan in order to close expeditiously. The borrower plans to perform a light renovation and to lease the units at market rents and then refinance W Financial's loan with a conventional bank mortgage.



Avenue J, Midwood, Brooklyn

- a **$1,020,000** bridge loan collateralized by two condominium apartments owned as an



Two leased condo units on Charles St,. Greenwich Village

investment and rented to third-party tenants located in a desirable eighteen-story, 121-unitproperty on **Charles Street** in **Greenwich Village**. The borrower specializes in acquiring high-end condominium units, which he furnishes and leases to corporations for employee housing. The borrower is utilizing the loan proceeds as working capital for his business. The borrower plans to refinance W's loan either with conventional bank financing or upon the sale of one of the units.

- a **$1,400,000** bridge loan collateralized by a newly-constructed, single-family luxury residence located on **Northwest Path** in **Sagaponack**, in the **Hamptons** on the **East End of Long Island**. The borrower needed a bridge loan in order to close on the off-market acquisition of two desirable Sagaponack single-family building lots. W Financial's loan includes all three pieces of collateral. The spec house is complete and is currently being marketed for sale. It is expected that the sale of the house will be the source of W's loan repayment.



Completed development in Sagaponack, L.I.



West 158th Street, Washington Heights

- a **$6,500,000** bridge loan used to acquire two cash-flowing, multi-family buildings located on **West 158th Street** and **West 159th Street** in the **Washington Heights** neighborhood of **Manhattan**. The borrower had secured traditional bank financing, but needed the W Financial loan when the bank was unable to close on time. The borrower expects to refinance the W Financial loan in the near future with a traditional bank loan.

- a **$10,000,000** bridge loan collateralized by a multi-family building located on **East 64th Street** on **Manhattan's Upper East Side**. The developer, a repeat borrower, utilized W Financial in order to be able to acquire, complete and bring his project to market in less time than would have been possible if he had financed the project with a conventional lender. The finished product will be a new, high-end, five-unit condominium building. It is expected that W's loan will be repaid as completed units are sold and closed. W's borrower is an experienced developer who brought significant equity to the deal.



East 64st Street, Upper East Side

- a **$417,500** bridge loan used to acquire a 6-acre residential development site located on **Penwood Road** in **Bedford** (Westchester) **New York**. The borrower required the bridge loan to repay individuals who had provided the capital to close on the asset. The borrower plans to repay the W Financial loan with a traditional construction loan.

If you have updated your email or mailing address, please let Karen Mannoia (karen@w-financial.com) or Wendy Ngai (wendy@w-financial.com) 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 (212) 935-0900 with any questions that you may have, (including any questions about any content or real estate or lending terminology 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.

Wishing you a happy and safe summer!

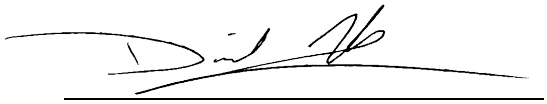
Very truly yours,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member