W

FINANCIAL

April 15, 2016

Mr. John Smith
ABC Company
123 Smith Street
New York, NY 10001
LINE 5 of ADDRESS BLOCK

"Sample"
Most Recent Quarterly Letter

Re: W Financial Fund, LP - 1st Quarter 2016 Update and Statement

Dear John,

It's been 13 years since the Fund was launched with approximately $2 million and 18 investors back in April 2003. Today W Financial has more than 500 investors across the country and approximately $230,500,000 of investor capital under management, which is augmented by our revolving line of credit, and which was recently increased from $35 million to $50 million. This gives us approximately $280,500,000 of total lending capacity. We pride ourselves on the transparency and accessibility that we have always sought to provide to our investors, and we encourage each of you and your advisors to reach out to us with any questions that may arise regarding the real estate or lending terminology used in these letters, with which you may not be familiar, or about any of the investments that you see described herein.

Portfolio performance:

From our 2003 inception through March 31st, 2016, W has provided an average annual compound return of 9.67%, net of fees. Thus, $100,000 invested at our 2003 launch had increased to $318,735 as of March 31, 2016, resulting in a total return of 224.31%.

We are pleased to report that W Financial has completed the first quarter of 2016 with all investor capital fully deployed, and $22,700,000 of our $50 million credit line outstanding as of March 31, 2016.

New loan origination during Q1:

During the first quarter, W Financial funded 14 new investments totaling $35,135,000 consisting of 13 new loans totaling $32,135,000 and one $3,000,000 joint venture equity investment. Highlights are provided on the following pages:

- a $6,050,000 loan used for the acquisition of a two-story, commercial building located on West 14th Street (between Fifth Avenue and the Avenue of the Americas), in the Flatiron neighborhood of Manhattan. The site has approximately 15,500 square feet of development potential and allows for both commercial and residential uses. The existing tenant, who was also the seller, has approximately two years rent free remaining on his lease and then the property will either be developed or sold once the tenant vacates and the development potential can be unlocked.



West 14th Street, Manhattan

- a $1,550,000 loan collateralized by a nearly complete, five-unit, five story, approximately 3,640 square foot, multi-family building located on St John's Place, (between Rogers Avenue and Nostrand Avenue), in the Crown Heights neighborhood of Brooklyn. The developer is a repeat borrower of W Financial, who utilized W's loan to repay a maturing mortgage. The borrower has a commitment from a conventional lender that was unable to close before the existing loan matured. The borrower plans to repay the W Financial loan shortly after closing.



St. Johns Place, Crown Heights, Brooklyn



Freeman Street, Greenpoint, Brooklyn

- a $3,250,000 loan utilized for the acquisition of an approximately 5,000 square foot one-story, commercial property as well as an approximately 7,000 square foot three-story, mixed-use building, located on Freeman Street (between Manhattan Avenue and McGuiness Blvd) in the Greenpoint neighborhood of Brooklyn. Together the properties offer approximately 25,000 square feet of development potential. The borrower plans to develop the properties and will repay the W Financial loan with a construction loan once the plans have been fully approved by the NYC DOB (Department of Buildings).

- a $4,500,000 loan used for the acquisition of a five-story elevator building on East 81st Street (between York and East End Avenues) on Manhattan's Upper East Side, which is currently being utilized as a bed and breakfast. This is the second in a series of two loans; the first loan was secured by the adjacent property. The borrower plans to utilize the combined allowable development rights of the two buildings for the design and construction of one large building. The W Financial loan enabled the borrower to close on the properties, giving him the time to file plans and obtain building permits.



East 81st Street, Upper East Side, Manhattan



West 43rd Street, Clinton, Manhattan

- a $1,225,000 loan utilized to acquire a vacant commercial condominium unit located on West 43rd Street (between Tenth and Eleventh Avenues) in the Clinton neighborhood of Manhattan. The commercial condominium consists of approximately 2,000 gross leasable square feet and includes two garage spaces. The borrower is an architect who will owner-occupy the space. He required the bridge loan in order to close quickly on the property. He plans to refinance with a bank to repay the W Financial loan once he has taken occupancy.

- a $2,800,000 bridge loan utilized for the acquisition of a four-story, mixed-use building located on South 4th Street (between Roebling and Havemeyer Streets) in the Williamsburg neighborhood of Brooklyn. The loan proceeds were utilized to fund a portion of the purchase price and to establish a renovation reserve. The borrower plans to repay the W Financial



South 4th Street, Williamsburg

loan with a conventional bank loan once the construction is completed and the units are leased.



57th Street, Sunset Park, Brooklyn

- a $2,540,000 loan utilized for the acquisition of an approximately 14,400 square foot, multi-family building located on 57th Street and Third Avenue in the Sunset Park neighborhood of Brooklyn. The borrowers are experienced real estate owners and investors who primarily focus on value-add transactions in Brooklyn. The W Financial loan was used to acquire the property and to establish a renovation reserve and a tenant buyout reserve. The borrower plans to repay W's loan by refinancing with a bank once the rent roll has been increased and the property is fully cash-flowing.

- a $1,000,000 loan used for the acquisition of a vacant, two-story, mixed-use building located on Plandome Road in Manhasset, Long Island. The building contains retail space on the ground floor and office on the second floor. The property is very well located facing the Long Island Rail Road's Plandome train station. The borrower needed the bridge loan to close quickly on the purchase and plans to repay the W Financial loan with a conventional loan once the two units have been leased.



Plandome Road, Manhasset, L.I.



St. Johns Place, Brooklyn

- a $600,000 loan utilized for the acquisition and renovation of a vacant, three-story, mixed-use building located on St Johns Place in the Crown Heights neighborhood of Brooklyn. The W Financial loan will allow the borrowers to renovate and lease the vacant units. Once the building is fully cash-flowing, the borrowers plan to refinance the loan with a conventional bank loan.

- a $6,000,000 senior position within a $9,000,000 first mortgage loan utilized to purchase a vacant, approximately 2,500 square foot development site located on the north side of Grand Street, between Wooster and Greene Streets in the SoHo section of Manhattan. The junior lender also provided a subordinate $8,000,000 construction loan at the closing which will enable the borrower to construct the building. The site allows for a total of approximately 12,500 buildable square feet. The borrower plans to construct a six-story, luxury boutique condominium building, which will consist of a ground floor retail unit and four apartments. The borrower plans to repay the W Financial loan either by refinancing W's senior position or with the proceeds from the eventual sale of the completed condominium units.



Grand Street, Manhattan



Charles Street, Greenwich Village

- a $1,020,000 loan collateralized by two, high-end condominium units situated in an 18-story, 122-unit, mixed-use condominium building located on the northwest corner of Waverly Place and Charles Street, in the West

Village neighborhood of Manhattan. The borrower needed the loan to provide working capital for other transactions. W Financial has done business with the borrower in the past and has previously financed the same collateral. The borrower plans to repay the loan either out of pocket or via a conventional bank loan.



Broadway, East Williamsburg, Brooklyn

- a $600,000 first mortgage loan collateralized by a one-story retail building which is owner-occupied and located on the north side of Broadway between Keap and Hooper Streets in the East Williamsburg neighborhood of Brooklyn. The borrower is using the loan to fund a divorce settlement. The borrower later plans to refinance the W Financial loan with a conventional bank loan.



Woodmere Blvd, Woodmere, Long Island

- a $1,000,000 first mortgage loan collateralized by an approximately 6,200 SF single-family residence located on Woodmere Blvd in Woodmere, Long Island. The borrower is using the loan to refinance existing debt and to provide additional capital needed to finish the construction. The borrower plans to repay the W Financial loan with a conventional bank loan once the construction has been completed.

<u>A quick recap of our mission and strategy:</u>

The concept of bridge lending on commercial real estate is particularly well-suited to New York City's high-velocity, hyper-competitive marketplace. Speed and certainty really count in this town given the competition among buyers seeking to purchase desirable properties. If a buyer succeeds in finding a worthwhile property at an attractive price, he typically wants to get the property under contract and then be able to close on the deal quickly. Many properties trade with the seller requiring a non-contingent and time-of-the-essence contract, therefore buyers must perform all their due diligence up front on environmental issues, zoning, landmarks, etc. For these reasons, a New York City buyer usually does not have the luxury of signing a purchase contract with any meaningful contingencies. The buyer needs the real estate lending equivalent of a SWAT team to “parachute in”, assess the deal and then give them a clear “yes” or “no” and, if yes, then a firm, dependable dollar amount and a closing date. Once the borrower closes and owns the asset, he will then have plenty of time to shop the banks and finesse arranging the best possible permanent bank financing.

Commercial mortgage brokers always seek the best execution for their clients (i.e., they try to find the right lender for their client’s particular situation on a deal by deal basis). When they have plenty of time to close a loan for a client (for example, when refinancing a stabilized, cash-flowing property), obviously they will carefully shop the banks and look for the cheapest possible rate and the friendliest terms, however when something unusual, complex or opportunistic is afoot, or when a situation arises that demands speed and a very high level of certainty, then the broker will often call a bridge lender that has dependably come through in the past for their clients again and again over the years. W Financial has increasingly become that “first phone call” for an ever-growing number of NYC’s commercial mortgage brokers.

A decade ago, banks could work faster and be more nimble. Today, banks are burdened with an always-escalating, ever-tougher regulatory environment - a burden which is only continuing to grow and which cannot help but to slow banks down. W Financial is a niche player and a specialist in rapidly and accurately assessing loan requests and then being able to reliably process and close the loans.

W Financial's Revolving Line of Credit:

During the month of March, we finalized an increase in the size of our revolving credit line from $35 million to $50 million. Since our loan portfolio is always expanding and contracting, this increase will help to better insulate us from the cash dilution that can sometimes occur when we experience a large number of loan repayments over a relatively short period of time. The interest rate on our credit line is priced very attractively with our rate floating at 325 basis points above 30-day LIBOR rate (so, as of now, our cost of borrowing is approximately 3.69%).

Joint Venture Equity Acquisition:

As many of you may remember, several years ago, when we updated our PPM (Private Placement Memorandum) and added a provision contemplating that in the future the fund could acquire equity interests in real estate in an amount up to 10% of the total fund size, we had envisioned investment scenarios along the lines of an opportunity that was recently presented to us.

We are pleased to announce that In mid-March, W Financial and its joint venture partners acquired a 100% leased, two-building, approximately 113,000 square foot, Class A office property located on Northcorp Parkway on 6.21 acres in Palm Beach Gardens, Florida. We contributed $3 million of the approximately $10 million of equity to acquire the $30,050,000 asset in partnership with a seasoned operating partner and with a local partner that has "boots on the ground" in that sub-market. We like the deal as we think that the current rents are below market and that upside is likely to be realized over time as leases turn over in the normal course of business and are replaced with new market-rate leases. We feel that this is likely to produce some future capital appreciation as the property's NOI (net operating income) gradually increases over time. Another positive factor is that W Financial will also be entitled to earn a portion of the profits earned by the General Partner. Feel free to call Gregg or David if you would like more information on this joint venture equity acquisition and the manner in which the deal was structured.



Northcorp Parkway, Palm Beach Gardens

W Financial's 2015 Audited Financial Statements are now available:

Our auditor, Marcum LLP (www.marcumllp.com) has completed W Financial's 2015 audited financial statements, and they are now available for your review by visiting the following link: www.w-financial.com/2015audit (please note that this link is case sensitive) - and then entering username: w-fund, password: twofive6. If you would prefer to have a copy mailed to you, then kindly contact Karen Mannoia at karen@w-financial.com or (212) 532-9178 or Wendy Ngai at wendy@w-financial.com | (212) 532-1122 x118, and we will be happy to mail you a hard copy.

Shirokia Tower, Queens:

Many of our long time fund investors know that since our 2003 inception, any instances of litigation with one of our borrowers have been rare, and in the one instance of a protracted litigation, (which was triggered by a Chapter 11 Bankruptcy filed by a borrower in late 2009 in connection with a property

located on Bayard Street in Williamsburg, Brooklyn, and which was favorably resolved in the fall of 2011), it ultimately led to a very positive result for the fund and its investors.

In one other case, involving a 10-unit apartment building on West 86th Street on Manhattan's Upper West Side, a borrower who had faced some financial reversals came to us and offered to "hand us the keys" to his building if we would agree to release him from the personal guarantee on his loan. We shook hands with him and, based upon our assessment of the property, we agreed. This is called a "deed in lieu of foreclosure". Ultimately, we gut-renovated the building and later sold it in the fall of 2014 to a motivated buyer that was seeking to complete a 1031 tax-free exchange.

Obviously, just because any previous instances of litigation or other problems have thus far been few and far between, with positive outcomes for each, does not guarantee that the same positive outcome will always occur in the future. If a foreclosure or other litigation ever does become necessary, then, as we have done in the past, we intend to pursue any such litigation as energetically and effectively as possible.

We closed a first mortgage loan on a completed, 11-story, mixed-use condominium building on 38th Avenue in Flushing, Queens, near the end of 2015, where the borrower has defaulted on their monthly payment, and we have therefore commenced litigation to enforce our rights and remedies as follows:

On February 8, 2016, we sent a default notice to the borrower for failure to make payment and on February 17, 2016, we sent a second letter accelerating the loan. Upon acceleration we then applied the reserves that the fund was holding in connection with the loan to reduce the principal balance on our loan, and thus, the fund's exposure, down to $16,668,792. Shortly thereafter, we commenced a foreclosure action against the borrower. In order to reduce our risk when we structured this loan we brought in another lender (with whom we have done other deals previously) who provided a $2 million mezzanine loan, which is subordinate to our first mortgage loan. In order to protect its position, the mezzanine lender has elected to make the monthly interest payments to W Financial. The fund managers do not expect this action to have a material impact upon the fund's financial condition. We will keep our investors posted on the progress of this action, and we encourage any of our investors or their advisors who would like more information or have any questions to contact either Gregg Winter at (212) 532-9170 | gregg@w-financial.com or David Heiden at (212) 684-8484 | david@w-financial.com and, as always, we will be happy to discuss.

Latest form ADV:

As required each March, W Financial's Investment Manager, Sag Harbor Capital Management, LLC, a Registered Investment Advisor, filed an updated form ADV Part 2A and 2B. These regulatory documents are available on the following link: www.w-financial.com/2016FormADV or on the Summary Page: www.w-financial.com/summary. Username: w-fund, Password: twofive6. As a reminder, the W Financial Summary Page (which is a private, password-protected website for Investors and Advisors), always has the latest version of each of our fund and regulatory documents, our audited financial statements, additional subscription agreements, redemption forms, etc. Alternatively, if you would like this, (or any) of our fund documents mailed to you, just ask Karen Mannoia or Wendy Ngai and they will be happy to send you a copy. Their contact information is listed below.

If you have updated your email or mailing address, please let Karen Mannoia or Wendy Ngai know. Karen can be reached at karen@w-financial.com | (212) 532-9178, and Wendy can be reached at (212) 684-2283 x118 | wendy@w-financial.com.

As a reminder, always feel free to call Gregg Winter at (212) 532-9170, 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 of the content or real estate terminology in this letter that you would like us to explain in greater detail). Contact our CFO Adam Windwer with any questions that you may have regarding our financial statements, or your quarterly statement at (212) 532-9284 | adam@w-financial.com. Alternatively, you can always email us directly at gregg@w-financial.com, david@w-financial.com, and marc@w-financial.com.

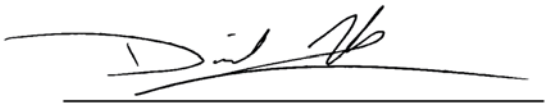
Very truly yours,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member