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FINANCIAL

January 20, 2017

W Financial Fund, LP Investor Letter
Q4 2016

Wishing you and your families a happy, healthy and prosperous New Year from all of us at W Financial. Given the changing of the guard in our nation's capital, this is bound to be a very interesting year ahead!

2016 was another good year for W Financial, where we delivered an 8.94% fund-level, compounded annual return, net of management and performance fees, and we continued our practice of lending judiciously and very selectively.

Fund Performance:

W completed the year with all investor capital deployed and with $10,900,000 of our $50,000,000, LIBOR-based, revolving credit line being utilized. In fact, during 2016, we are pleased to report that we were able to successfully keep all our investor capital deployed 100% of the time.

Our portfolio totaled $263,672,798 as of the end of the year. Including the positions held by our participants, the loan portfolio size was $297,560,375 as of year-end. Total investor capital in the fund (our closing capital balance for the year) was $251,853,016.

During the course of the year, W originated 31 loans totaling $140,260,000. In some cases, as has long been our practice in order to enhance risk management and increase portfolio diversification, we brought in loan participants on some of the larger deals, thus W Financial's net portion of total loan origination during 2016 was $130,760,000.

W Financial provided a compounded fund-level return of .67%, net of management and performance fees, for the month of December, with a .70% return in November and a .72% return in October.

Since our 2003 Inception through December 2016, W Financial has provided an average annual compounded return of 9.62%, net of fees. Thus, $100,000 invested at our 2003 launch had increased to $338,880 as of December 31, 2016, resulting in a Total Return Since Inception of 245.64%, net of fees.

New Loan Origination During Q4:

During Q4, W Financial funded four new loans totaling $37,700,000 with net loan positions totaling $28,200,000. Loan highlights are provided below:

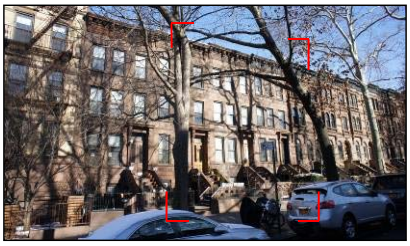
- an $11,500,000 first mortgage loan secured by a two-story, ~30,000 SF, commercial building located on Avenue J, between East 13th, and East 14th, Streets in the Midwood neighborhood of Brooklyn. The sellers had a tenancy-in-common ownership structure and needed to close in two phases.

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Avenue J, Midwood, Brooklyn

W was able to structure a loan which was able to accommodate the different closing dates. The borrowers plan to repay the W Financial loan with a conventional bank loan once they own 100% of the property. This is a good example showing that at times, W's ability to structure a deal in a non-standard manner can be more valuable to a borrower than less expensive, but less flexible, capital.



Third Street, Park Slope, Brooklyn

- a $1,700,000 first mortgage acquisition loan secured by a three-story, ~3,400 SF, multi-family building located on Third Street between Seventh and Eighth Avenues in the Park Slope neighborhood of Brooklyn. The owner plans to renovate and operate the building as a rental property. The borrower required a bridge loan in order to be able to close quickly on the property and to expeditiously complete the renovation. The borrower plans to repay the W Financial loan with a conventional bank loan.



Second Avenue, Kips Bay, Manhattan

- W Financial originated a $19,000,000 first mortgage loan and retained a $9,500,000 loan participation secured by a prime development site located on Second Avenue, between 33rd and 34th streets in the Kips Bay neighborhood of Manhattan. The owner is working on obtaining approved plans to construct a fifteen-story, mixed-use building of nearly 55,000 square feet of FAR. The site has approximately 76 feet of frontage on Second Avenue.

The borrower required a bridge loan because his existing first mortgage loan had matured and needed to be replaced. The borrower plans to seek conventional construction financing once his plans are approved and to repay the W loan when he closes the construction loan.



Grand Street, Williamsburg, Brooklyn

- a $5,500,000 first mortgage loan collateralized by a mixed-use building located on Grand Street between Bedford Avenue and Berry Street in the Williamsburg neighborhood of Brooklyn. The 9,750 square foot property has approximately 50 feet of frontage on Grand Street and six residential apartments located on the floors above. In addition, the borrower provided two additional cash-flowing residential condominium units located on South 1st Street, also in Williamsburg, to W Financial as additional collateral for the loan.

The borrower required the bridge loan to refinance existing debt and to generate liquidity in order to fund an outside business venture. A large portion of the approximately 4,800 square foot retail space is currently being marketed for lease. Once the retail has been leased, the borrower then plans to refinance the W Financial loan with a conventional bank loan.

Impact of Rising Interest Rates:

As you may be aware, the Federal Reserve increased the Prime Rate in December by a quarter of a point, from 3.5% to 3.75%. Since most of the bridge loans in W Financial's portfolio are floating-rate loans, the interest rate that our borrowers pay adjusts whenever the Prime Rate changes. (Note that the initial interest rate on W Financial loans is always set at the "floor" rate, therefore when rates rise, our borrowers' rate will increase, but when rates fall, the borrowers' rate, in most cases, can never drop below their initial rate). While this also means that the interest rate on our revolving credit line increased by roughly the same quarter of a percentage point, since the average outstanding balance on our credit line during the year was $15,937,432, a small amount relative to our ~$252,000,000 of investor capital, the interest rate increase has a clear net-positive effect on our income stream.

Update on the Shirokia Tower Foreclosure:

First, a brief recap, and then an update of the status of our litigation on Shirokia Tower, (an eleven story, mixed-use condominium building located on 38th Avenue, between Union and Bowne Streets in Flushing, Queens):

As we have previously mentioned in our recent quarterly letters, this loan was originally structured with W Financial having a first mortgage position with a mezzanine lender junior and subordinate to W's position. The importance of this structure to the senior lender is that, in the event of a default, the mezzanine lender must continue to make protective advances to the senior lender in order to protect its position. In this case, the Principal of the mezzanine lender is both financially strong, as well as being a very experienced and skilled real estate owner and developer. The mezzanine lender has, in fact, been continuing to make the scheduled monthly interest payments on W's first mortgage loan.

Borrowers typically utilize every possible means available to them to slow down and to delay foreclosure litigation, and this case is no exception, however the latest update is that the borrower is required to submit a plan of reorganization to the Court that is likely to specify that the borrower be required to market and sell the property. The sale should first of all repay W Financial in full, next would pay the mezzanine lender in full (including default interest and legal fees, etc.), and then finally, any remaining net proceeds would go the borrower.

As always, please feel free to call or email Gregg or David (contact info below) if you have any questions or would like more details on the progress of the above-referenced litigation, or on anything else discussed in this letter.

Launch of a New Real Estate Private Equity Fund:

For some time we have been observing market conditions and considering launching a second fund that would focus on the equity portion of the capital stack – a fund that would primarily co-invest with proven Operating Partners who are capable of sourcing under-valued and under-managed multifamily and mixed-use real estate opportunities, and also, in some cases, would invest in such properties directly. The fund will be opportunistic in nature with a broad scope but will primarily target multifamily and mixed-use buildings that we see as having a lot of potential and promise, but have not (yet) been brought up to a professional standard - thus what we see as the "embedded"

potential and promise in these properties has not yet been realized. So the purpose of the Alternative Opportunities Fund will be to buy such properties, which we deem to be ripe for improvement, and then work to solve problems, make improvements and add operational efficiency in order to be able to unlock and fully realize their untapped economic potential over time.

We have always thought that the best way to approach these kinds of value-add real estate opportunities would be to create a separate fund designed to own and improve the same kinds of properties that we have become so familiar with during the past ~14 years of successfully analyzing, valuing and lending on such properties. The new fund will have a real estate private equity fund structure that is fine-tuned and optimized for the acquisition, ownership and eventual sale of value-add real estate.

<u>The Alternative Opportunities Fund:</u>

The Alternative Opportunities Fund will be the Capital Partner within such joint venture relationships, giving us approval and major decision rights over each transaction while allowing our Operating Partners to continue to do what they do best – from sourcing new deals to handling the day-to-day implementation of the value-add strategy: the tenant negotiations, unit renovations, leasing, management and property-level operations.

In our minds, the qualities that define a desirable Operating Partner for a value-add real estate strategy are: a) the ability to source a steady stream of undermanaged and undervalued properties, b) the ability to efficiently and creatively add value by upgrading and transforming these "wallflowers" into one of the more desirable properties on the block, and c) the operational ability to effectively manage such properties on a day-to-day basis.

We have, in fact, identified our first such Operating Partner that has the requisite experience and track record with whom we will engage in acquiring and improving such value-add real estate opportunities. We see this approach as the most effective and efficient way to pursue this value-add investment strategy.

<u>A Simple and Transparent Fee Structure:</u>

The Alternative Opportunities Fund will be managed by Gregg Winter and David Heiden and will have a simple and transparent fee structure, with some significant advantages for investors which we feel will favorably differentiate the fund, as compared to the typical fees often borne by investors in many other real estate private equity funds.

For example, the Alternative Opportunities Fund will not charge investors any: a) Acquisition, b) Financing or c) Disposition fees. Furthermore, while it is quite common for real estate private equity funds to charge management fees on *committed* capital during the investment period, in the Alternative Opportunities Fund, management fees will, at all times, only be charged once investor capital has been successfully *deployed*.

Finally, the management fee will range from 2% scaling down as low as 1%, depending upon investment size (as detailed in the PPM), and, as mentioned above, will only be charged on *deployed* investor capital.

Investors will earn an 8% per annum preferred return with an 80%/20% (Investor/GP) split after the customary GP catch-up. (Many other funds have a less-advantageous, 75%/25% or even lower profit splits with investors.)

Investor Qualifications and Suitability for the Alternative Opportunities Fund, LP:

As with W Financial, investors interested in the Alternative Opportunities Fund will need to qualify as both Accredited Investors and Qualified Clients per www.alt-opp.com/aiq.

Real estate private equity funds acquire, improve and manage properties and therefore, by their nature, are not readily liquid investments. The Alternative Opportunities Fund is only suitable for long-term investors and, as with any real estate private equity fund, will not be an appropriate choice for any investors that may require liquidity during the projected five to six-year term of the fund. The minimum investment will be $250,000 (which is reduced to $100,000 for current W Financial investors), and net investor returns are estimated within the 10% - 13% range.

Different Funds with Different Missions:

It is important to note that nothing will change with regard to W Financial, which will continue along the same path that it has successfully followed since its 2003 inception.

It is expected that the two funds will be dynamic and complementary, and it is our hope that the overall result will be to raise the profiles of both funds – attracting more loan opportunities to the debt fund, and creating more opportunities to acquire investment real estate in the real estate fund.

The mandates of the two funds are separate and distinct: W Financial Fund will continue to focus on originating bridge loans, while the Alternative Opportunities Fund will focus on acquiring and improving value-add real estate acquisitions. W Financial will not provide any bridge loans to any joint venture partner of the Alternative Opportunities Fund, or to the Alternative Opportunities Fund itself.

Let us know if you would like to receive more information on the Alternative Opportunities Fund including the Offering Memorandum, Subscription Documents and other presentation materials.

This letter does not constitute an offer to sell or a solicitation of an offer to purchase interests in the Alternative Opportunities Fund, LP. Such an offering will be made only pursuant to definitive offering materials which will be provided to prospective investors and should be read carefully prior to any investment in Alternative Opportunities Fund, LP for a description of the merits and risks of such an investment.

If you have updated your phone number, email or mailing address, please advise either Karen Mannoia (212) 532-9178 | karen@w-financial.com, or Wendy Ngai (212) 684-2283 x118 | wendy@w-financial.com on our Investor Relations team.

There is often a lot of information to digest in our quarterly letters. As a reminder, always feel free to call or email Gregg Winter at (212) 532-9170 | gregg@w-financial.com or David Heiden at (212) 684-8484 | david@w-financial.com 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). You can also contact our Chief Financial Officer, Adam Windwer, with any questions that you may

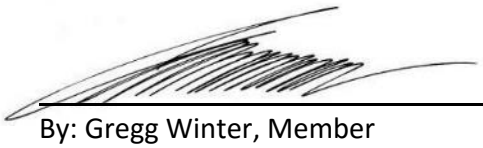
have regarding your statement at (212) 532-9284 | adam@w-financial.com. Marc Bailin can be reached at (212) 935-0900 | marc@w-financial.com.

Hoping that you and your families are enjoying the winter season.

With warm regards,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member