W | FINANCIAL

JULY 20, 2017
W FINANCIAL FUND, LP
INVESTOR LETTER
Q2 2017

Re: W Financial Fund, LP — 2nd Quarter 2017 Update and Statement

We hope that by now you are settling in nicely to the serious business of summer fun! This year, while summer seemed to take much longer than usual to materialize here in the northeast, this year's glorious Fourth of July weekend finally announced summer's full arrival. Our advice is to pack this quarterly letter in your beach bag along with your flip-flops and read it while stretched out comfortably with your toes in the sand. Of course, many of our investors hail from the great state of California where it's basically endless summer (and yes, we are appropriately jealous of that, especially each winter, over here on the east coast). Wherever you are, we hope that you are having a great summer, filled with family, friends and good times.

Q2 Portfolio Performance

W Financial has been continuing to sift through the many prospective loan scenarios that we see each week, and as usual, carefully selecting which loan opportunities to pursue, and which ones to leave on the cutting room floor. Our portfolio continues to perform well. All investor capital was fully deployed during Q2, and we ended the second quarter with $24,400,000 drawn on our $50,000,000 revolving line of credit.

W Financial posted a .70% fund-level return for April, a .73% return for May, and a .67% return for June (which was our 168th consecutive month of positive performance). Our 1, 3 and 5-year trailing net returns through June 30th were: 1-year: 8.81%, 3-year: 8.96%, 5-year: 8.89%.

From our 2003 inception through June 30, 2017, W has provided an average annual compound, fund-level return of 9.59%, net of fees. Thus, $100,000 invested at our 2003 launch had increased to $352,839 as of June 30, 2017, resulting in a total return of 260.34%.

The Initial Investor Closing of the Alternative Opportunities Fund

We are targeting mid-August for the initial Alternative Opportunities Fund investor closing, and we are excited to report that the initial capital call notices will be going out shortly to the first group of Alt-Opp investors. A few days after the initial investor closing, we plan to close on Alt-Opp's second property acquisition (649 Argyle Road, a 19-unit, mixed-use walk-up building in the Ditmas Park neighborhood of Brooklyn).

So within days of the initial investor closing Alt-Opp will already own two properties possessing our target, value-add criteria (i.e., under-managed and under-improved properties that we believe we can significantly improve and transform within an approximately 18 – 24 month timeframe).

In further Alt-Opp news, last week, we and our joint venture partner have signed a contract to buy our third property for the new fund: the property consists of two, five-story walk-up buildings with 47 apartments located in the Washington Heights neighborhood of Upper Manhattan at the corner of Wadsworth Avenue and West 177th Street. The property has very good proximity to shopping (one block from Broadway), and the subway (an express train that is only four stops from Columbus Circle). As vacancies occur over time, (and assuming that we are able to successfully buy out some of the existing rent-stabilized tenants), many of the units will benefit from having their floor plans reconfigured and improved, as well as from being gut-renovated. The basic bones of the buildings are good, and as per our business plan, there is still plenty of room for future improvement. As an added bonus, we and our joint venture partner are able to assume an existing bank mortgage with an interest rate of only 3.375% (i.e., this is a lower interest rate than would be obtainable from a bank today).

We have seen a lot of interest in Alt-Opp's value-add real estate strategy and have already received commitments from more than 70 investors thus far. As outlined in the PPM (Private Placement Memorandum), we will be accepting investors in Alt-Opp (both new investors as well as additional capital commitments from early investors), for a period of one year from the date of the initial closing, so let us know if you would like to arrange a time to discuss any questions that you may have about the new real estate fund and how it differs from our flagship loan fund, W Financial. Visit the following link for more information: www.alt-opp.com (username: Alt-Opp, password: fourseven9). Note that both the username and password are case-sensitive.

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.

New W Financial Loan Origination During Q2

During Q2, W Financial provided eight new loans totaling $39,770,000, with loan origination net of participations of $34,770,000. Loan highlights are provided on the following pages:

- a $500,000 first mortgage bridge loan secured by an approximately 5,800 square foot office building located on Lafayette Avenue between Park Avenue and Suffern Place in Suffern, NY, as well as a vacant, approximately 70,000 square foot development site. The borrower needed the loan to help fund another investment as well as to complete the build-out of the office space. He plans on repaying the W Financial loan with a conventional bank loan once renovations are completed and the units are rented.



LAFAYETTE AVENUE, SUFFERN, NY

- a $1,420,000 first mortgage bridge loan used for the acquisition of an approximately 4,200 square foot, seven-unit, multi-family building located on Descanso Drive in the Silver Lake neighborhood of Los Angeles. The owner is an experienced real estate investor who has borrowed from, and successfully repaid loans provided by W Financial in the past. The loan was used to provide a portion of the purchase price, setup a renovation reserve and a tenant buyout reserve. The borrowers have successfully vacated the property and have listed it on the market for sale.



DESCANSO DRIVE, LOS ANGELES, CA

- a $750,000 first mortgage bridge loan collateralized by an approximately 22,500 square foot commercial building located in Newark, NJ. The site also includes an adjacent vacant parcel of land and both parcels will be sold as a redevelopment site. The borrower needed a bridge loan to help fund another real estate project that he is in the process of completing. The borrower plans to pay off the W loan with the sale of the property.



BROAD STREET, NEWARK, NJ

- a $1,100,000 first mortgage bridge loan collateralized by an approximately 16,000 square foot, partially completed office/community facility building located on 20th Avenue between Bath and Benson Avenues, in the Bath Beach neighborhood of Brooklyn. The borrower purchased the property from a bank that had foreclosed on the property. The borrower plans to use the loan proceeds to complete the construction of the building and then to repay W Financial's loan once the property has been leased to third-party tenants and is fully cash-flowing.



20TH AVENUE, BATH BEACH, BROOKLYN

- a $1,150,000 bridge loan for the acquisition of 2 vacant and approved buildable parcels located on Circle Road in Scarsdale, (Westchester) NY. The borrower plans to develop the lots as single-family homes of approximately 6,400 and 7,000 square feet, respectively. The borrower plans to repay the W Financial loan with a constructions loan.



CIRCLE ROAD, SCARSDALE, WESTCHESTER

- a $15,000,000 senior participation in a +/- $60,000,000 first mortgage secured by a prime development site located on Seventh Avenue in the Times Square district of Manhattan. The lot size totals 9,886 square feet and the M1-6 zoning allows for a variety of commercial uses. The loan matured and was sold by a bank at par to an investor (our junior participant in the loan) who will likely foreclose on the property owner unless they agree to his terms to extend the loan. The property owner has plans to construct a 29-story, mixed-use building featuring a hotel with retail on the ground and seconds floors, and substantial below-grade space for other uses. The development rights total 118,512 square feet (including excess air rights that were purchased by the property owner.



7TH AVENUE, TIMES SQUARE, MANHATTAN

- a $10,100,000 bridge loan collateralized by a 285-unit two-story, garden and townhouse rental community located on Franciscan Terrace in Winston-Salem, North Carolina. The community features a club-house, gym, and swimming pool. The borrower utilized W Financial to refinance a maturing CMBS loan and is actively negotiating the sale of the property with a prospective purchaser. W Financial expects to be repaid once the property is sold.



FRANCISCAN TERRACE, WINSTON-SALEM, NC

- a $4,750,000 loan for the acquisition of a townhouse on the Upper East Side of Manhattan. The acquisition was the final part of an assemblage consisting of three contiguous townhouses which will be redeveloped into one larger condominium building. W Financial had previously funded a $10,000,000 acquisition loan for the two adjacent townhouses, bringing the total loan amount for the three properties to $14,750,000.



EAST 62ND STREET, UPPER EAST SIDE, MANHATTAN

Update on Shirokia Tower, Flushing, Queens

We have been providing quarterly updates on Shirokia Tower since we commenced a foreclosure action on this recently-constructed, 11-story, mixed-use property back in March 2016. In the latest news, the court had set a date of July 12th for a public auction of the property. A well-known, court-approved NYC investment sales broker was hired to market the property. In the last few days we learned that, ahead of the auction, a contract has been signed to sell the property for $25,000,000 and therefore the auction has been postponed. It is expected that the closing date for the new buyer will occur in late August.

W Financial's first mortgage loan amount is $16,808,865. It is worth noting that throughout this entire foreclosure process, W Financial has been receiving its normal monthly first mortgage payments. Because of the way the loan was structured, once the foreclosure process started, W's first mortgage payments have been made by the mezzanine lender (who was required to do so in order to protect its position). It is expected that the above-noted contract price will fully satisfy W Financial's loan, and should also make the mezzanine lender whole.

55 North Moore Street, TriBeCa, Manhattan

On February 7, 2017 we sent a default notice to the borrower for failure to make payment when due on February 1, 2017. Thereafter, on February 13, 2017, we sent a second letter to the borrower accelerating the loan. Payments due under this loan remain outstanding. Since the value of our collateral exceeds the loan amount, and because the borrower is already in the process of both marketing the property for sale and also refinancing the loan with another lender, we do not expect to immediately commence a foreclosure action. We anticipate that the proceeds of such refinancing or sale will be used to fully satisfy W Financial's loan.

Contact Us

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 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 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 audited financial statements, or your account statement at (212) 532-9284 | adam@w-financial.com.

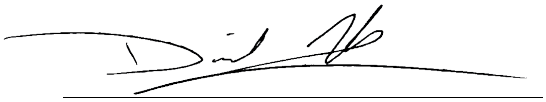
Very truly yours,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member