W | FINANCIAL

JANUARY 21, 2020
W FINANCIAL FUND, LP
INVESTOR LETTER
Q4 2019

Re: W Financial Fund, LP — 4th Quarter 2019 Update and Statement

All of us at W Financial would like to wish you and your families a very happy, healthy and prosperous New Year. As we complete our Q4 2019 wrap-up letter and begin 2020, (which will be W's seventeenth year and our first full year structured as a private REIT), we want to thank our investors and their advisors who continue to rely upon our stewardship. We and our families invest right alongside you, and each day, we make our best efforts to source compelling investment opportunities and do the best job we can on behalf of all our investors.

2019 was another hyper-competitive year for real estate bridge lenders, with a large and seemingly ever-growing field of lenders (including many non-traditional lenders, such as real estate developers and family offices with idle cash on hand) competing for available loan opportunities. Our lending team carefully evaluated dozens of incoming loan opportunities every week, offering loan quotes to some borrowers and brokers, while filtering out and rejecting many others.

During 2019, W Financial experienced robust portfolio turnover. During the second quarter alone, more than $103,000,000 of loans were repaid in the normal course of business, with a total of $226,109,922 of loans being repaid over the course of the entire year.

While this very healthy level of loan portfolio turnover serves to validate our long-standing underwriting approach and lending thesis (meaning we seek to originate loans that our borrowers are able to successfully repay), as we have explained in the past, when, from time to time, we have excess cash on hand due to a higher than typical level of loan repayments, this can be a contributing factor that temporarily reduces our returns, which was the situation we were in during most of 2019.

Nevertheless, we are pleased to have completed the year with good portfolio performance and with no loans in default (other than the one loan on State Road 9 in Miami, which we had purchased

as a defaulted loan, intending to foreclose). By the end of the fourth quarter, all W investor capital had been successfully redeployed, and we were back to utilizing our now larger and better-priced, revolving line of credit. We ended the year with approximately 75% of our loans in the New York Metro area, and the remaining 25% of our loan in other markets nationwide.

W Financial provided a .56% compounded, fund-level return in December 2019, with a compounded, fund-level return of 7.32% for the year, net of management and performance fees. December marked our 198th month of positive performance. Our 1, 3 and 5-year trailing returns through December 31st are as follows: 1-year: 7.3%, 3-year: 8.07% and 5-year: 8.37%.

Notable 2019 Accomplishments:

On November 1st W Financial successfully completed the conversion of its tax structure to a private REIT. Therefore, when our investors receive their 2019 K-1, (as usual, towards the end of Q1 2020), they will note that ten months will be categorized as ordinary income, and the final two months of the year will be recorded as REIT dividend income. Going forward, for 2020 and beyond, all income will be categorized as REIT dividend income. Most of our investors with taxable W accounts will see the tax rate applicable to their W Financial income decrease by approximately 20%.

An ancillary benefit of our REIT conversion is that it is now possible for W Financial to accept investments from outside the U.S. from investors living in countries that have tax treaties in place with the U.S. (such as Canada, Switzerland, France, Germany, the U.K., etc.) While over the years we have had many inquiries from foreign investors interested in our strategy and track record, up until now, there was no tax-efficient way to admit such investors.

Our revolving credit facility runs in three-year cycles thus the terms get adjusted and renegotiated approximately every three years. Last summer our credit line, which is provided by two regional banks, was extended for another three years, and the amount available to us was increased from $50,000,000 to $75,000,000. In addition, the pricing for the line, which is indicated as a spread over the 30-day LIBOR rate, (which is our cost of capital), was reduced by 35 basis points. As we have mentioned previously, this tool enables us to optimize our cash management and helps us to keep investor capital working as efficiently as possible.

Q4 and 2019 Portfolio Performance:

Since our 2003 inception through December 2019, W Financial has provided an average annual compounded return of 9.34%, net of fees. Thus, $100,000 invested at our 2003 launch with distributions reinvested had increased to $424,570 as of December 31, 2019, resulting in a Total Return Since Inception of 336.18%, net of fees.

W Financial completed 2019 with all investor capital deployed across 58 loans and investments, and with $7,300,000 of our $75,000,000 revolving line of credit being utilized. Our portfolio performed well during Q4, and we ended the year with all loans performing as scheduled.

Our loan and investment portfolio totaled $319,532,359 as of the end of the year ($312,110,359 net of loan participations). Total investor capital in the fund (our closing capital balance for the year), was $302,430,820.

W originated 41 loans during the year totaling $201,995,000. In some cases, as has long been our practice, in order to enhance risk management and increase portfolio diversification, we work with loan participants on some deals. W originated $198,995,000 net of loan participations during the year.

New Loan Origination During Q4:

During Q4, W Financial funded thirteen loans totaling $54,050,000. Loan highlights are provided below:

- a $3,700,000 bridge loan collateralized by a garden-style rental community located on Northside Drive in Warner Robbins, Georgia. The borrower had acquisition financing lined up, but the lender backed out of the deal at the last minute. W Financial was able to close the loan very quickly so the borrower did not lose his deposit and was able to successfully acquire the property. W Financial expects to be repaid with an agency (Fannie Mae or Freddie Mac) loan.



NORTHSIDE DRIVE – WARNER ROBBINS, GEORGIA

- a $1,300,000 bridge loan for the acquisition of a cash-flowing multi-family property located on Main Street in Kansas City, Missouri. The borrower plans to renovate apartments as the leases come due and to increase rents thereafter. W Financial expects to be repaid when the borrower obtains a conventional loan once the property is stabilized.



MAIN STREET – KANSAS CITY, MISSOURI

- a $2,200,000 first mortgage loan secured by a development site located on Louisville Road in Savannah, Georgia. The total loan amount was $4,700,000 and there was a $2,500,000 mezzanine loan placed subordinate to our first mortgage. The borrower intends to finish his construction plans and then refinance W's bridge loan with a traditional construction loan.



LOUISVILLE ROAD – SAVANNAH, GEORGIA

- a $3,600,000 bridge loan secured by three walk-up properties located in Brooklyn. Our collateral includes a four-story, mixed-use building on Lafayette Avenue in Fort Greene (1), a three-story multifamily building on Schenectady Avenue in Crown Heights (2), and a four-story mixed-use building located on Pitkin Avenue in Brownsville (3). The borrower is a long-time, repeat client of W Financial and needed to refinance existing loans that were maturing. The borrower plans to refinance W Financial with a conventional loan.



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BROOKLYN, NEW YORK

- a first mortgage bridge loan totaling $4,750,000 secured by three adjacent mixed-use properties located on Lexington Avenue, between 27th and 28th Streets, in the Murray Hill neighborhood of Manhattan. The total loan amount was $7,500,000 with another lender having a $2,750,000 junior position within our mortgage. The junior mortgage holder will be providing the construction financing.



LEXINGTON AVENUE – MANHATTAN

- a $10,300,000 first mortgage bridge loan secured by two multifamily properties totaling 132 apartments located in Clarksville, Tennessee. The recently built properties feature a mix of one and two-bedroom apartments. Our borrower had an expiring 1031 tax-free exchange deadline and needed to close quickly. The buildings are near full occupancy and W Financial will most likely be refinanced with an agency (Fannie Mae or Freddie Mac) loan in the near future.



CLARKSVILLE, TENNESSEE

- a $3,000,000 bridge loan to refinance a three-story, eight-building, 192-unit multifamily property located on West Rich Street in Columbus, Ohio. The property had historically been mismanaged/undermanaged, and the current owner has made improvements and is in the process of turning around the property's performance. He has been renovating apartments and achieving higher rents. We expect that W Financial's bridge loan will be repaid with a conventional loan once the property has been fully stabilized.



WEST RICH STREET – COLUMBUS, OHIO

- a $3,000,000 first mortgage bridge loan secured by a development parcel on Soundview Avenue in the Harding Park neighborhood of the Bronx. The borrower's existing loan was maturing and W Financial refinanced the existing loan to give the borrower time to continue working to get the property up-zoned. The borrower is an active and successful owner and developer that W Financial has done many deals with over the years. The borrower expects to refinance W Financial with a construction loan once the development plans have been finalized.



SOUNDVIEW AVENUE – BRONX

- an $11,200,000 first mortgage construction loan secured by a seven-building, 72-unit, for-sale townhome project located in Glen Cove, NY, on Long Island's North Shore. The total loan amount was $16 million, with another lender having a $4,800,000 junior position (subordinate to W Financial's first mortgage position). W Financial funded an initial draw of $6,098,357 at the closing, as the development



HILL STREET – GLEN COVE, LONG ISLAND NY.

is mid-construction and the junior participant had already closed on the deal and had been funding construction draws before bringing W into the deal. W Financial will fund additional construction draws as progress is made and verified and then expects to be repaid with the sale of the townhouses.



WEST 44TH STREET – MANHATTAN

- a $2,500,000 bridge loan secured by a first mortgage on a mixed-use property with five residential units and a ground-floor retail space, located on West 44th Street between Eighth and Ninth Avenues in the Clinton/Midtown West area of Manhattan. The borrower had no debt on the property and needed to access some of his equity. He plans to market the building for sale in the near future and then plans to repay the W Financial loan when the sale closes.



FIFTH AVENUE – MANHATTAN

- a $1,000,000 bridge loan secured by a first mortgage on a 2 bedroom, 2 bath condominium located on the 41st floor of a 42-story, 250-unit, luxury condominium building with doorman, gym and pool, located on Fifth Avenue, between 32nd and 33rd streets in the Murray Hill/Midtown area of Manhattan. As is often the case, timing was an important factor as the borrower needed the proceeds of the bridge loan by year-end for tax purposes.



NORTH 9TH STREET – WILLIAMSBURG, BROOKLYN

- a $2,500,000 bridge loan secured by a six-unit multifamily property located on North 9th Street, between Bedford Avenue and Berry Street, in the Williamsburg neighborhood of Brooklyn. The borrower wanted to refinance a loan that was maturing and needed to close expeditiously. The borrower is marketing the property for sale and plans to repay W Financial's loan once it is sold.

- a $5,000,000 bridge loan for the acquisition of a flex (office/industrial) building located on Volta Drive in Leander, Texas, just outside of Austin. The total loan amount was $8,000,000 and the seller has provided $3,000,000 of subordinate financing behind our first mortgage. The borrowers are foreign nationals and needed to close within a very tight timeframe by the end of the year. The transaction was facilitated with a sale leaseback structure with the tenant. It is expected that W Financial's bridge loan will be refinanced with a conventional mortgage.



VOLTA DRIVE – LEANDER (AUSTIN) TEXAS

**Note that the deal descriptions that you see in these quarterly letters are intended to be a high-level overview, and, as always, we invite you to contact us to discuss any questions that you may have regarding the transactions described, or to simply hear a more in-depth description than space allows in these letters.*

Update on our 828 Avenue of the Americas, Manhattan loan:

We also wanted to update you on the status of this loan, which had been in default.

You may recall that in our Q1 and Q2 2019 quarterly letters, we had reported that in February 2019, we sent a default letter to the borrower for failure to make payment when due on this loan. The original loan amount was $2,075,000 secured by a property worth approximately $5,500,000 (the loan originally closed on January 23, 2017). Prior to the default, the borrower had paid down the loan by $1,200,000 from $2,075,000 to $875,000.

Upon sending the default letter, we accelerated the loan and began accruing default interest and penalties. We also began making protective advances when necessary to pay real estate taxes. We decided not to commence a foreclosure at that time, because we felt the value of the property far exceeded our loan amount, especially after the paydown of more than half of the original loan balance.

On October 16, 2019, a loan modification and extension agreement was finalized with the borrower wherein the borrower agreed to pay all our default interest and reduced our loan balance by another $500,000. We agreed to same and reinstated the loan, with a balance of only $375,000. W Financial collected the past due default interest, penalties and real estate taxes it had advanced, and the borrower established both an interest reserve and a real estate tax escrow, and also paid to extend the loan term through October 1, 2021. Currently the loan is performing as scheduled

Timing of Additional Investments for W Financial:

Many of our investors have asked us if they can either add to their current positions in W Financial or whether they can add additional accounts. As usual, the answer always depends upon several variables: the pace of new loan originations and repayments of existing loans in our investment portfolio, as well as the pace of our usage of our revolving line of credit. Ideally, we would like to be utilizing our credit line for approximately $40 million (roughly half its $75 million capacity). This helps us to absorb loan repayments, while keeping all investor capital deployed and also increases our returns as the interest rate on the credit facility is substantially less than the rate we earn on our loan portfolio. As we have had the credit facility for more than sixteen years and have both established a long and successful track record with our credit line lender and have negotiated each renewal extensively, our credit line is relatively inexpensive with a floating rate of LIBOR + 2.90% (so currently approximately 4.55%).

Investors who would like to be confident that they will be admitted the next time the fund is open often complete an additional (or new) subscription form in order to be prepared for the next time the fund re-opens. If you would like to complete the paperwork and be notified the next time that W Financial reopens, then please contact your financial advisor, or you may contact Karen Mannoia or Wendy Ngai in Investor Relations per their contact info below.

Timing of the Issuance of K-1s:

Starting every January, we always receive many emails and phone calls from our investors inquiring as to when we expect our K-1s to be issued. As usual, we expect to issue the K-1s for your 2019 tax reporting purposes by the end of March 2020.

Contact Us

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) 684–2204 | wendy@w-financial.com on our Investor Relations team.

There is often a lot of information to digest in our quarterly letters. As always, please 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 questions about any of the content or real estate in this letter 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 account statement or our audited financial statements at (212) 532–9284 | adam@w-financial.com.

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

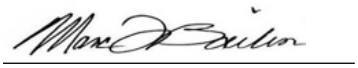
With warm regards,
W FINANCIAL FUND, LP
By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member

**Returns are calculated for the limited partner class taken as a whole and are computed using a time-weighted methodology whereby the returns for individual accounting periods are geometrically linked and proforma incentive allocations are taken into account. An individual limited partner's return may vary based on different management fee arrangements as outlined in the Private Placement Memorandum and the Limited Partnership Agreement, as well as by the timing of capital transactions. The monthly returns and other performance calculations are prepared internally and have not been audited or verified by a third party. The use of a different methodology for preparing, calculating or presenting performance returns may lead to different results and such differences may be material.*