W | FINANCIAL

APRIL 22, 2020
W FINANCIAL FUND, LP
INVESTOR LETTER
Q1 2020

Re: W Financial Fund, LP — 1st Quarter 2020 Update and Statement

It seems like almost everything we thought we knew about the world completely changed, at least for some as-yet-undefined period of time, during the first quarter of 2020. Our daily routines have been upended. Those of us who are fortunate enough to be able to work remotely have been far less impacted, while many other endeavors, ranging from schools to restaurants, retail to construction, hospitality to air travel and countless other pursuits have all screeched to a halt, in many cases with severe economic consequences for both employees as well as for business owners. We have become more fluent in our kitchens, as cooking for ourselves and making family meals has become a central part of every day, with many rediscovering culinary skills they had long overlooked. Almost everyone now knows someone or has a relative who has already had the coronavirus or has already had it themselves. Many of us know a friend or relative who has fared even worse. Our thoughts and prayers go out to all of them.

Ironically, our collective carbon footprints have been dramatically reduced, with much less driving and virtually no flying. Once life eventually begins to return to something approaching normal, some of the changes are likely to stick, giving rise to a "new normal": More Zoom teleconferences and fewer in-person meetings. More local vacations to see a national park and fewer trips involving long flights to farther away locations like Europe and Asia. If flying at all, then we are likely to opt for shorter, rather than longer flights. We are also less likely to have an appetite for spending time in crowded places like stadiums, concert halls, Broadway and movie theatres. When we eventually return to restaurants, we will likely favor the ones with more, rather than less, space between tables.

The present health crisis and the accompanying economic pain are real, palpable, front and center. There is no question that long after this novel coronavirus has moved on, it will have left an indelible mark that will have ripple effects and implications echoing far into the future.

The principals of W Financial have been through several market cycles over the past 30 years. 2008-2009 was the most recent disruption/recession/downturn which was a challenging period that we were able to successfully navigate. While the scope and worldwide scale of the COVID-19 pandemic is even deeper and more dramatic given the intentional shutdown of the economy, over the years we have developed the skills and ability to navigate effectively through economic disruptions.

As we explained in our March Mid-Quarter Update, we naturally expect that some of our borrowers may be adversely affected by the current economic disruption, and we are fully prepared to deal with any defaults that may occur effectively. We also recognize that the current market conditions are likely to create some compelling new loan and investment opportunities. That's what always tends to happen when markets get shaken up. It's a natural consequence of severe market disruptions. We will be alert and extremely attentive in searching for such new opportunities.

(Our quarterly letters and any Mid-Quarter Updates are archived here: www.w-financial.com/updates and our March 2020 PPM Supplement can be accessed here: www.w-financial.com/PPM-supplement)

Q1 Portfolio Performance

We are pleased to report that W Financial completed the first quarter of its seventeenth year with all investor capital fully deployed, and with $54,100,000 of our $75 million, revolving credit line being utilized. W ended the first quarter with $306,423,762 of investor capital under management.

Our revolving credit facility augments our available investment capital, optimizes our readiness to respond to new loan opportunities and enhances our day-to-day cash management capabilities.

W posted a .61% compound, fund-level for January, a .67% return for February, and a .52% return for March, (which was our 201st consecutive month of positive performance). Our 1, 3 and 5-year trailing net returns through March 31st were: 1-year, 7.19%, 3-year 7.97%, 5-year: 8.28%.

From our 2003 inception through the end of the first quarter of 2020, W Financial has provided an average annual compound return of 9.31%, net of fees*. Thus, $100,000 invested at our 2003 launch had increased to $432,055 as of March 31, 2020, resulting in a total return of 344.06%. Our 1, 3 and 5-year trailing net returns through March 31, 2020 were: 1-year: 7.19%, 3-year: 7.97%, 5-year: 8.28%.

New Loan Origination During Q1:

During Q1, W Financial provided nine new loans totaling $94,375,000. Highlights are provided below:

- a $975,000 bridge loan secured by a mixed-use building located on East Evans Avenue in the University Hills area of Denver, Colorado. The borrower needed the loan proceeds for business purposes and is currently marketing the property for sale. The loan originally closed on January 8, 2020 and the borrower repaid our loan very quickly on March 20, 2020.



EAST EVANS AVENUE – DENVER, COLORADO

- a $5,000,000 first mortgage bridge loan (W's senior portion of the total loan), secured by a development site located on Cropsey Avenue in the Gravesend neighborhood of Brooklyn. This short-term loan originally closed on January 14, 2020, and was repaid on March 31, 2020.



CROPSEY AVENUE – BROOKLYN

- a $4,800,000 bridge loan secured by two condominium units located on West 15th Street between Fifth and Sixth Avenues in the Chelsea area of Manhattan. The borrower required a bridge loan to generate liquidity for another real estate investment. The borrower plans to repay the W Financial loan by refinancing the units with a conventional loan.



WEST 15TH STREET – WEST CHELSEA, MANHATTAN

- a $1,800,000 first mortgage bridge loan for the acquisition of a 7-11 located on Highway A1A in Melbourne, Florida. Upon acquisition of the property, the borrower negotiated a new long-term lease with 7-11 simultaneously with the closing of the W Financial loan. W Financial expects to be repaid when the property is sold.



HIGHWAY A1A – MELBOURNE, FLORIDA

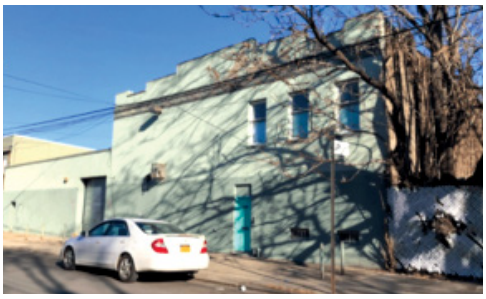
- a $3,500,000 bridge loan secured by an industrial building with frontage on both 62nd and 63rd Streets between 10th and 11th Avenues in the Borough Park neighborhood of Brooklyn. The borrower required

a bridge loan in order to close on the acquisition of the property. It is anticipated that the zoning will allow approximately 18,000 square feet of mixed-use development on the site. Once the borrower finalizes his construction plans and obtains all approvals, he plans to repay W's loan when he closes on a construction loan.

- a first mortgage bridge loan totaling $3,000,000 secured by a development site located on 87th Street, between 4th and 5th Avenues in the Bay Ridge neighborhood of Brooklyn. The total loan amount was $6,200,000 and another lender has a junior position (subordinate to W Financial) of $3,200,000. The junior mortgage holder will be providing the borrower with a construction loan in the near future.

- a $27,000,000 bridge loan for the acquisition of a Flushing, Queens development site. The roughly-one-acre site consists of approximately 205,000 buildable square feet and is currently occupied by a two-story industrial building. The developer is planning to construct a mixed-use project with hotel, residential and retail components on the 37th Avenue site. W Financial's lending team was able to close the time-sensitive loan within 3 days of the borrower executing W's term sheet. The developer expects to repay W Financial after finalizing development plans and obtaining a construction loan.

- a $43,600,000 first mortgage bridge loan secured by a future development site currently occupied by an assemblage of several mixed-use and retail buildings located at the intersection of Lexington Avenue and East 79th Street on Manhattan's Upper East Side. The property encompasses approximately 59,000 buildable square feet of mixed-use development rights. The borrower is a successful developer and owner, and plans to repay W Financial's bridge loan with a construction loan once the development plans are completed and approved.



62ND STREET – BOROUGH PARK, BROOKLYN



87TH STREET – BAY RIDGE, BROOKLYN



37TH AVENUE – FLUSHING, QUEENS



EAST 79TH STREET & LEXINGTON AVENUE, UPPER EAST SIDE, MANHATTAN

- a $4,700,000 first mortgage bridge loan secured by a 5.9 acre beach club located on Long Island's South Shore. The borrower required some working capital and W Financial was able to offer attractive terms to refinance the existing mortgage. The borrower anticipates refinancing the bridge loan with SBA financing.



SOUTH SHORE – LONG ISLAND, NY

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.

Successful Conclusion of a Defaulted Mortgage Acquisition – State Road 9, Miami, Florida:

We first reported to you in our Q3 2017 letter that on September 14th, 2017, we had opportunistically acquired a 50% interest in a defaulted first and second mortgage collateralized by a 60,000 square foot commercial building situated on 4.75 acres on State Road 9 in Miami, Florida. The deal was brought to us by a real estate investor that we had done business with previously. We agreed to become 50/50 partners and to run the litigation. The foreclosure litigation went on for more than two years, and as is common in foreclosures, once it became clear that the borrower was about to lose the property, he filed Chapter 11 bankruptcy to temporarily stall the foreclosure and try to gain negotiating leverage.

In the midst of the litigation, a highly credible buyer for the property materialized and offered a price that both sides agreed to accept. The proceeds of the sale would be held in escrow by the court and then disbursed once the dispute between the parties was either: a) settled, or b) decided when the case came to trial in bankruptcy court.

Finally, in February 2020 a settlement acceptable to W Financial was reached, and in late March the proceeds were disbursed by the court to the parties.

Taking a Prudent Approach to Augmenting W Financial's Loan Loss Reserve:

As a result of the successful resolution of the above-noted opportunistic note acquisition, W Financial realized a gain of ~$1,500,000. As a result of the pandemic and given the unprecedented nature of the current health and economic crises, we feel that it is prudent to add most of this gain to our loan loss reserve. We feel that taking this proactive action is in the best interest of the fund and our investors and is most protective of the fund's long-term interests.

Commentary on our March numbers:

As of March 31, our portfolio was comprised of 58 loans totaling $357,108,390. Fifty of our loans have been paid as agreed and eight loans totaling $90,035,000 have missed their April 1st payments.

All eight of these loans are collateralized by first mortgages. Of these eight loans we have sent formal default letters to four loans totaling $18,725,000. We are in discussions with the remaining four loans totaling $71,310,000 about giving them more time to pay or modifying their loans. Due to the uncertainty of when and if we will actually receive these payments, the income for all eight loans has not been included in our March numbers. While we hope that these borrowers will be able to pay their interest payments and bring their loans up to date, we are prepared should we have to commence foreclosure proceedings.

As always, we encourage any investors or advisors who 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.

W Financial's 2019 Audited Financial Statements are now available:

W Financial completed 2019 with a 7.32% compounded, fund-level return, net of fees*. Our auditor, Marcum LLP, (www.marcumllp.com) has completed our 2019 audited financial statement, which is now available for your review by visiting our secure, private, password-protected Investor Information website at the following link: https://private.w-financial.com—and then entering the username: w-fund and the password: twofive6.

Scroll down to "Audited Financial Statements" and click on the 2019 box. If you would prefer to have a copy mailed to you, please contact Karen Mannoia in Investor Relations (contact info below), and we will be happy to mail you a hard copy.

A note about your 2019 K-1:

You should have received your 2019 Schedule K-1. As you know, W Financial converted to a private REIT structure on November 1, 2019. Therefore, your K-1 reflects 10 months of ordinary income, and two months of REIT dividend income. You will see the ordinary income reflected in Box 1 on your K-1, and the REIT dividend income reported in Box 6a. The REIT dividend portion of your 2019 income qualifies for the Qualified Business Income deduction. Note that this pertains only to investors with taxable accounts and does not affect tax-exempt accounts, such as IRA's. Please consult with your accountant or tax preparer and feel free to contact our CFO Adam Windwer with any questions on this. Adam's contact info is below.

Latest Form ADV:

As required every March, W Financial's Investment Manager, Sag Harbor Capital Management, LLC, a Registered Investment Advisor, files an updated form ADV with the SEC. These regulatory documents (along with the latest versions of our other fund documents) are always available here: https://private.w-financial.com (username: w-fund, password: twofive6).

Contact Us

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

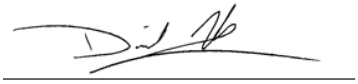
As a reminder, our door is always open to our investors. Always feel free to call Gregg Winter at (212) 532–9170 or David Heiden at (212) 684–8484 with any questions that you may have, (including any questions about any of the content or real estate terminology in this letter that you would like us to explain in greater detail). Contact our CFO Adam Windwer with any questions that you may have regarding our audited financial statements, or your quarterly statement at (212) 532–9284 | adam@w-financial.com. Alternatively, you can always email us directly at gregg@w-financial.com and david@w-financial.com.

Very truly yours,

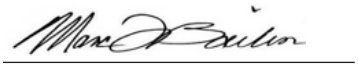
W FINANCIAL FUND, LP
By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member

**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.*