W | FINANCIAL

July 21, 2021
W FINANCIAL FUND, LP
INVESTOR LETTER
Q2 2021

Re: W Financial Fund, LP — 2nd Quarter 2021 Update and Statement

Dear W Financial Investors,

As we arrive at the peak of summer 2021, we are all savoring the extra hours of daylight, as we finally begin to breathe a collective sigh of relief, and society begins to return to pre-pandemic norms. We hope that you are making the most of this very welcome and special summer with all your family and friends.

While we are all enjoying having fewer Zoom calls, more face-to-face meetings, and a lot more hugs and reunions with our family and treasured friends, at the same time, we must continue to remain vigilant, so we can prevent the Delta variant from reversing the significant progress that has been made thus far in fighting the pandemic.

Since our inception in 2003, first mortgage lending has always been at the core of W Financial's lending strategy, because having a senior loan position, at the base of the capital stack, offers a lender the strongest protections (relative to other types of loan structures, such as junior loans or mezzanine loans) if the need to litigate should arise.

As a reminder to our valued investors, one of the benefits of investing in a diversified mortgage fund such as W, is that even when circumstances cause a an individual borrower to go into default, (for example, amid the consequences of an unexpected pandemic, or for any other reason), the other loans in the portfolio (61 other loans as of the end of Q2), continue to provide income and cash flow. Although fund returns have been temporarily reduced while these three loans are in default, this is expected to turn around once the loans are resolved. Some updates will follow regarding recent developments with the loans in default and their status.

Q2 Portfolio Performance

With the exception of the loan defaults discussed below, as of the end of Q2, the other 61 loans in our loan portfolio continued to perform as scheduled—with all investor capital remaining deployed during the second quarter of 2021. We ended Q2 with $55,000,000 drawn on our $75 million revolving line of credit and with 64 loans in our portfolio totaling $361,710,190.

W Financial posted a .49% fund-level return for April, a .48% return for May, and a .49% return for June, (which was our 216th consecutive month of positive performance). Our 1, 3 and 5-year trailing net returns through June 30th were: 1-year: 6.57%, 3-year: 7.29%, 5-year: 7.77%.

From our 2003 inception through June 30, 2021, W has provided an average annual compound, fund-level return of 9.12%, net of fees*. Thus, $100,000 invested at our 2003 launch had increased to $467,529 as of June 30, 2021, resulting in a total return of 381.49%.

Given the currently reduced portfolio income for Q2 due to the loan defaults described below, the managers have elected to reduce their performance fees by 25% for April 2021, 25% for May 2021 and by 50% for June 2021, in order to increase the returns to our investors. By reducing our performance fee, we are emphasizing both our personal and professional commitment to our investors during this challenging period, reflecting our strong belief and long-term perspective on the fund.

Our long-time investors will recall that we have also done this in the past when we were dealing with two defaults triggered by the last recession more than a decade ago, (most notably, when we reduced our performance fees during the period of litigation in connection with 20 Bayard Street in Williamsburg, Brooklyn, and 330 West 86th Street in Manhattan, both of which were favorably resolved by October 2011). So, once we have worked through the current loan defaults, we expect to see our fund returns normalize back to pre-pandemic levels.

During Q2, we closed ten new loans totaling $60,380,000. Details on these transactions appear in the New Loan Origination section to follow. Seven loans secured by properties located in Kentucky, Missouri and New York have repaid their loans in the normal course of business. We also received partial paydowns on four other loans in New York, Illinois, and Louisiana. The total amount of these loan repayments and partial paydowns was $39,773,031.

Loans Currently in Default

On May 3rd we commenced a foreclosure action against the borrower on our $43,600,000 loan which is collateralized by a five-building assemblage located at the corner of East 79th Street

and Lexington Avenue on Manhattan's Upper East Side. We believe this is a very valuable site and are aggressively pursuing litigation to take over the property.

We previously reported that we had entered into a forbearance agreement with the owners of the hotel in Chicago that was in default. Per the agreement, the borrower paid us $952,000 of cash and also agreed to apply their remaining escrow balances to pay down our loan from $29,250,000 to $27,107,968, a reduction of $2,142,031.52. Since our last report, they have re-branded the hotel as the Gale Chicago (as they also own and operate The Gale Hotel in South Beach, Florida). The Gale Chicago has reopened as of July 1st. galechicago.com The owners are working to refinance the hotel and pay off their W Financial loan within the agreed-upon 120-day time frame, and we will report further news as it develops.

Regarding our loan secured by the package of condominium units located in The Marquand, at 11 East 68th Street, between Fifth and Madison Avenues, we continue to make progress with the borrower with regard to taking over ownership of the units and hope to have this completed by the next quarter. We will report further news on this as it develops.

New W Financial Loan Origination During Q2

During Q2 W Financial provided ten new loans located in New York, California, Florida, Georgia, Oregon, and Pennsylvania totaling $60,380,000. Loan highlights are provided below:

- a $500,000 first mortgage bridge loan secured by a one-bedroom, one-bath condominium apartment located in a newly constructed, 57-story, full-service luxury building on Hoyt Street, between Livingston and Fulton Streets in Downtown Brooklyn. The new development has many amenities including a fitness center with a saltwater lap pool, a golf simulator, yoga studio, a co-working lounge, a gated green space and a parking garage. The borrower needed the bridge loan in order to close expeditiously on the acquisition of the unit and plans to pay off W Financial's loan with a conventional loan.
- a $1,500,000 first mortgage bridge loan for the acquisition of a cannabis cultivation facility located on a four-acre site in Salem, Oregon. The borrower is affiliated with the tenant, who was leasing the building



HOYT STREET – DOWNTOWN BROOKLYN



SALEM – OREGON

and required flexible, freely prepayable financing in order to purchase the property. The cannabis tenant will continue to operate in the warehouse building and the borrower plans to subdivide and sell off the excess developable land. W Financial has been closing loans around the country focused on the growing niche of cannabis cultivation, distribution, and warehouse facilities.

- a $9,250,000 first mortgage bridge loan for the acquisition of an office building located in Broomall, PA. The borrower needed flexible financing and plans to refinance with a conventional lender once the property is fully stabilized.

- a $600,000 loan secured by a co-op unit located in a pre-war townhouse cooperative building in Manhattan's West Village neighborhood, on Morton Street between Hudson Street and Seventh Avenue South. The borrower owned the unit free and clear and needed to tap into her equity. The borrower plans to repay the W Financial loan with a conventional loan.

  W Financial provided $1,000,000 in additional financing to our original $4,500,000 first mortgage, secured by a property with a licensed cannabis production facility that is utilized for the cultivation and processing of cannabis products for medical use in the state of Florida.

  W Financial provided these additional funds to complete construction of four new greenhouses comprised of a total of 12,000 square feet. The facility, which is located in Gainesville, Florida, has been expanded to meet the very strong demand in the state of Florida.

  W provided two related loans to the same principal/borrower which closed several weeks apart. The first is a $5,800,000 first mortgage bridge loan collateralized by a ~10,530 square-foot, retail strip center located on Murphy Canyon Road between Aero Drive



BROOMHALL – PENNSYLVANIA



MORTON STREET – MANHATTAN



126TH STREET – GAINESVILLE, FLORIDA





MURPHY CANYON ROAD – SAN DIEGO

and Stonecrest Boulevard in San Diego, California. The borrower needed to refinance an existing loan expeditiously and has the property listed for sale.

Shortly thereafter we originated another $5,800,000 loan which was collateralized by an adjacent 12,830 SF retail strip center located directly across the parking lot which the borrower also has listed for sale.

- a $1,330,000 first mortgage bridge secured by a fully occupied rental apartment community located on East Park Avenue in Valdosta, Georgia. The proceeds were used to refinance an existing loan that was coming due, and the borrower plans to refinance W's loan with conventional financing.
- a $20,500,000 first mortgage bridge loan secured by two properties in Los Gatos, California: one located on North Santa Cruz Avenue and the other on Main Street. The borrower needed the funds to purchase one of the properties and refinance the other property. The borrower plans to refinance W Financial's loan with either a construction loan or a conventional bank loan.
- a $14,100,000 first mortgage bridge loan secured by two recently constructed and fully occupied buildings located in the Mott Haven neighborhood of the Bronx, New York. The first is a 21-unit mixed-use building located on Bruckner Boulevard and the second is a 22-unit multifamily building located on East 135th Street. The loan proceeds were used to refinance an existing construction loan and the borrower plans to refinance the W Financial loan with conventional financing.

(See Bruckner Boulevard image on following page)



EAST PARK AVENUE – VALDOSTA, GEORGIA



NORTH SANTA CRUZ AVENUE – LOS GATOS, CA



EAST MAIN STREET – LOS GATOS, CA



EAST 135TH STREET – BRONX, 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.



BRUCKNER BOULEVARD – BRONX, NY

Timing of Additional Investments for W Financial:

Some of our investors have asked if they can either add to their current W positions or whether they can add additional accounts. We are accepting additions on August 1 and also expect to be open on September 1. In order to facilitate this, please contact your financial advisor, or you may contact Karen Mannoia per her info below.

Contact Us

If you have updated your email or mailing address, please let Karen Mannoia in Investor Relations know. Karen can be reached at karen@w-financial.com | (212) 532-9178 or (631) 750-0937.

As a reminder, we are always available for you. Feel free to call or email us with any questions you may have. For any deal-related questions contact David Heiden (516) 633-1424 david@w-financial.com, and for other fund-related questions call Gregg Winter at (212) 532-9170 gregg@w-financial.com. You can also contact our Chief Financial Officer, Adam Windwer, with questions regarding your account statement or our audited financial statements (212) 532-9284 adam@w-financial.com.

With best regards,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager

By: David Heiden, Member

By: Gregg Winter, 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.*