W | FINANCIAL

APRIL 27, 2023
W FINANCIAL FUND, LP
INVESTOR LETTER
Q1 2023

Re: W Financial Fund, LP — 1st Quarter 2023 Update and Statement

Dear W Financial Investors,

For those of you who have been investors since the 2003 inception of W Financial Fund, **this month marks the twentieth anniversary of the founding of W Financial.** During our first two decades, we have originated more than $2.1 billion of first mortgage bridge loans, posting positive results each month, each quarter, and each year.

We have stayed on course and successfully navigated through challenges including the Great Recession, Covid, and now a period of rising interest rates, volatile markets and bank failures. We take pride in our disciplined approach and in our ability to navigate through difficult times. We always maintain our focus to protect our investors' capital, to the best of our ability, in all market conditions.

The foreclosure of 150 E. 79th St has been completed:

As anticipated, on February 1, 2023, W Financial was the successful bidder at the foreclosure auction. We were then able to take title to the property on February 28th. The sole tenant is First Republic Bank (stock symbol FRC), which currently occupies two of the five buildings that we now own at the corner of East 79th Street and Lexington Avenue on Manhattan's Upper East Side.

This is very good news, as we are now collecting the rent directly from First Republic, which is currently paying just under $1,100,000 per year, plus its share of the real estate taxes. Immediately after closing, we secured the buildings by changing all the locks and removing any debris and old furniture from the apartments and retail stores. Overall, the properties, which occupy a prime corner location on Manhattan's Upper East Side, are in good condition, with no leaks.

Now that we no longer bear any of the risks associated with a foreclosure, we have written up the value of the properties from $43,600,000 to $45,000,000. This value assumes that the bank remains our tenant for the full term of their leases which would end on July 31, 2036, should they decide to exercise both of their two remaining 5-year extension options, when each comes up for renewal. However, the highest and best use of the properties, and the key to unlocking their full value, is if the tenant were to vacate both spaces, because then the entire corner could be redeveloped into a new luxury condominium building. Accordingly, if the bank decides to relinquish their two leases, the properties would be worth substantially more.

As previously mentioned, we had been in discussions with a major NYC developer wishing to buy the property from us after the foreclosure sale, and also in discussions with First Republic Bank, in an effort to relocate them and have the developer buy them out of their lease. (This was in early 2023, prior to the onset of the recent banking crisis). These negotiations stalled, as the bank was waiting for the Judge to rule on their motion. Therefore, we are taking two parallel approaches over the next few months:

We plan to list and market the properties for sale, to see what types of offers we get for the properties 'as is', while simultaneously doing our best to motivate the bank to relinquish its leases. As there are two buildings with separate leases, each will require its own plan of action.

The first of the bank's two leases is on the property located at 1135 Lexington Avenue, at the corner of 79th Street. The bank had completely renovated this building prior to taking occupancy at the start of the lease back in 2006. Once we became the owner, we engaged a series of architects and other real estate professionals to inspect the buildings and perform a comprehensive and granular review of all the construction plans and documents filed by the bank, and their compliance with the various approvals they received from the applicable NYC agencies. During the review, our professionals noted a variety of technical issues, which we believe would make the space less desirable to the Bank and require the bank to invest additional capital in order to correct. We are in the process of reporting these issues to the respective New York City agencies. We anticipate that some of the agencies may find these issues material enough to investigate and take action.

The second space leased by First Republic is adjacent at 150 East 79th Street. The bank occupies the street-level retail and cellar level of this four-story building. As we reported in our Q4 2022 Investor Letter, late in Q4, the bank filed a motion in court seeking to vacate the judgement of

foreclosure and sale by arguing that neither of their leases are subordinate to our mortgage. We opposed the Bank's motion aggressively and were expecting it to be denied. Unfortunately, on April 17, 2023 the court issued a decision which granted the bank's motion to the extent that: (i) the Bank's default in timely appearing in this action was vacated; (ii) any portion of the Judgment of Foreclosure and Sale that could be read as affirmatively declaring that our mortgage had priority over the Bank's leases was vacated; and (iii) the parties were granted leave to file and serve amended pleadings regarding the lease priority issue.

We will now file an amended complaint that specifically argues that our mortgage had priority over the 150 East 79th Street lease and the Bank will then have an opportunity to file a response. Once the Bank's answer has been filed, we will then file a motion for summary judgment, wherein we will present our arguments as to why the mortgage should have priority over this lease. If the Judge ultimately decides in favor of the bank, then it will have the right to remain in the second, smaller space, in addition to the adjacent, corner building, paying rent for the full term of both leases. If the Judge decides in favor of W Financial, then we will have the right to terminate this lease, which would substantially strengthen our negotiating position, giving us leverage and increasing the likelihood that the bank will decide to leave both buildings.

Timing-wise, W Financial took title on February 28th and just a week later, the banking crisis erupted, with both Silicon Valley Bank and Signature Bank closed by the FDIC. First Republic Bank has also been severely and negatively impacted as their deposits plunged and they experienced more than $100 billion in withdrawals. During First Republic's Q1 earnings call on April 24, 2023, the bank's President and CEO stated that due to the challenges the bank is facing, the bank expects to cut 20% – 25% of its workforce, find ways to reduce expenses, and also reduce the amount of office space that it leases. All the stress that First Republic Bank is currently experiencing may increase the likelihood that they will decide to shed some of their branches in order to cut costs. Our issuance of this Q1 letter was delayed, given all the late-breaking news described in the paragraphs above.

We have sold one of the units at The Marquand:

You may recall that in September 2021, we took ownership (via a Deed in Lieu of Foreclosure), to a package of seven condominium apartments located in The Marquand, a luxury condominium building at 11 East 68th Street, between Fifth and Madison Avenues, on the Upper East Side. We are pleased to report that during Q1, we closed on the sale of one of the units for $1,500,000. The fair value of these units was $6,630,217 as of December 31, 2022, and the current fair value after the sale is $5,130,217. The sale of this unit will also reduce our common charges, insurance costs, real estate taxes and other expenses associated with this investment.

Baton Rouge:

Our litigation has been moving quickly on our $6,200,000 loan first mortgage on a multifamily property located in Baton Rouge, Louisiana. On February 3, 2023, the court granted us a judgment against the borrower and issued an order for the property to be sold at the sheriff's sale. On April 17, 2023, the sheriff posted notice on all the units, and we were placed in control of the property. We engaged a managing agent who took over management of the Property on the same date. We expect to take ownership of this property within the next ninety days.

The speed of the foreclosure process in states like Louisiana is extremely fast when compared to a state like New York. This is one of the reasons we decided to expand nationally. We undertook a review of the litigation process in all 50 states and take this into consideration when making strategic lending decisions in other markets across the country, many of which have much more favorable foreclosure timeframes than New York.

Q1 Portfolio Performance:

W Financial ended the first quarter of its twentieth year with $334.19 million of investor capital under management and a portfolio totaling $341.80 million.

The fund posted a .68% compounded, fund-level return for January, a .65% return for February, and a .99% return for March, (which was our 237th consecutive month of positive performance). Our 1, 3 and 5-year trailing net returns through March 31st were: 1-year, 8.41%, 3-year 7.19%, 5-year: 7.43%.

From our 2003 inception through the end of the first quarter of 2023, W Financial has provided an average annual compound return of 8.98%, net of fees*. Thus, $100,000 invested at our 2003 launch had increased to $529,508 as of March 31, 2023, resulting in a total return of 446.95%.

New Loan Origination During Q1:

During Q1, W Financial provided eight new loans for properties located in Miami, Florida; Brooklyn, Manhattan, and Queens, New York; Austin, Texas; Rancho Cordova, Rancho Sante Fe and Cathedral City, California; and Capitol Heights, Maryland totaling $42,800,000. Highlights are provided below:

- a $3,300,000 first mortgage bridge loan secured by one retail condominium and one mixed-use building in Miami, Florida. The borrower needed to refinance one of the properties and required the excess proceeds for another business transaction with time constraints. The borrower expects to refinance the W Financial loan with a conventional loan.
- a $4,950,000 bridge loan secured by a 58-unit multi-family building in Austin, Texas. The borrower utilized the loan proceeds to acquire the property and will renovate the vacant units to stabilize the property. Upon stabilization, the borrower plans to refinance the W Financial loan with a conventional loan.
- a first mortgage totaling $11,500,000 collateralized by several adjacent development parcels in Upper Manhattan. W Financial has a senior position within a $25,500,000 loan. Another lender has a junior position for the difference. The borrower will get the necessary plans and approvals in order and the Junior mortgage holder will be providing the construction loan in the near future once plans have been approved.
- a $4,500,000 first mortgage bridge loan secured by an approximately 109,000 square foot retail and industrial building located on East Palm Canyon Drive in Cathedral City, California. The borrower utilized the loan proceeds to buy out a partner and needed the money expeditiously. The borrower plans to either lease up the vacant space and refinance with a conventional loan, or to sell the property.



NORTH MIAMI AVENUE, MIAMI, FLORIDA


CLEARFIELD DRIVE, AUSTIN, TEXAS


LEXINGTON AVENUE, UPPER MANHATTAN


EAST PALM CANYON DRIVE – CATHEDRAL CITY - CALIFORNIA

- a $4,500,000 first mortgage bridge loan on a mixed-use property in Woodside, Queens. The total loan is $6,500,000, however W Financial brought in another lender who took a $2,000,000 junior participation in the loan. Our borrower's loan was utilized to refinance existing debt on the property, which they needed to do in a timely manner. The borrower expects to refinance our loan with a conventional loan.
- a $7,050,000 first mortgage bridge loan on a mixed-use property consisting of both retail and office in Rancho Santa Fe, California. The borrower needed acquisition financing and had to close in a short time frame. The borrower already occupies one of the spaces for their restaurant. They plan to refinance with a conventional loan.
- a $5,500,000 first mortgage bridge loan on a 174 key La Quinta Inn & Suites located in Capitol Heights, Maryland. The borrower is purchasing the property through an auction platform and needed to close on the site expeditiously. W Financial closed the loan in under five business days.
- a $1,500,000 first mortgage bridge loan secured by a penthouse condominium unit in the Tribeca neighborhood of New York, NY. The borrower utilized the cash-out loan for the purchase of a new home that they will be moving into. The borrower plans to sell the unit and repay W Financial's loan with the sales proceeds.

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.



55TH STREET – WOODSIDE – QUEENS



RANCHO SANTA FE, CA



HAMPTON PARK BOULEVARD – CAPITOL-HEIGHTS – MARYLAND



WARREN STREET – TRIBECA

During Q1, seven loans repaid on properties located in East Hampton, New York; Atlanta, Georgia; St Petersburg, Sebring, Jacksonville and Boca Raton, Florida; and St. Louis, Missouri totaling $47,725,000. In addition, there were partial paydowns in the amount of $12,156,945. During most of Q1, all investor capital was fully deployed, and we were utilizing our revolving line of credit.

W Financial's 2022 Audited Financial Statements are now available:

W Financial completed 2022 with a 7.68% compounded, fund-level return, net of fees*. Our auditor, Marcum LLP, (marcumllp.com) has completed our 2022 audited financial statement, which is now available for your review by visiting our secure, private, password-protected Investor Information website at the following link: private.w-financial.com—and then entering the username: **W-Private** and the password: **delta14six**.

Scroll down to "Audited Financial Statements" and click on the 2022 box. If you would prefer to have a copy mailed to you, please contact Karen Mannoia in Investor Relations (per contact info below), and we will be happy to mail you a hard copy.

A note about your 2022 K-1 tax reporting:

You should have received your 2022 Schedule K-1 at the end of March. Your K-1 reflects REIT Dividend Income. The REIT dividend income qualifies for the Qualified Business Income tax deduction. If you or your accountant or tax preparer have any questions, please feel free to contact our CFO Adam Windwer with any questions you may have 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: private.w-financial.com (username: **W-Private**, password: **delta14six**).

Contact Us

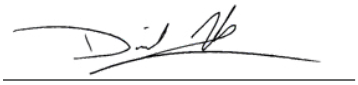
If you have updated your email or mailing address, please let Karen Mannoia know. Karen can be reached at karen@w-financial.com | (631) 750-0937 | (212) 532-9178.

As a reminder, our door is always open to our investors. Always feel free to call David Heiden at (516) 633-1424 or Gregg Winter at (212) 532-9170 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 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.

Along with Gregg and Karen, Ryan DeLissio (212) 684-2259 | ryan@w-financial.com is also available to assist our investors with any questions that may arise, or materials they may need.

Note that we have posted a guide for our investors called: "How to Read Your Statement", which is available on our private investor website: private.w-financial.com username: **W-Private,** password: **delta14six**

Very truly yours,
W FINANCIAL FUND, LP



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.*