NEWS OF INTEREST

SFG FAMILY OF FUNDS SUMMER 2024

The Process of Optimizing Portfolio Performance

The SFG Income Funds are healthy and performing well – a reflection of our long-standing disciplined lending practices. With our solid foundation in place, we continue to shift our attention to optimizing income and yield. Simply put, safety first...then yield optimization. Our process, explained here, is simple, but it's not always easy. Yet, over the last 12+ months, a lot of heavy lifting, converting lower yielding loans to employment at today's higher rates, has been achieved.

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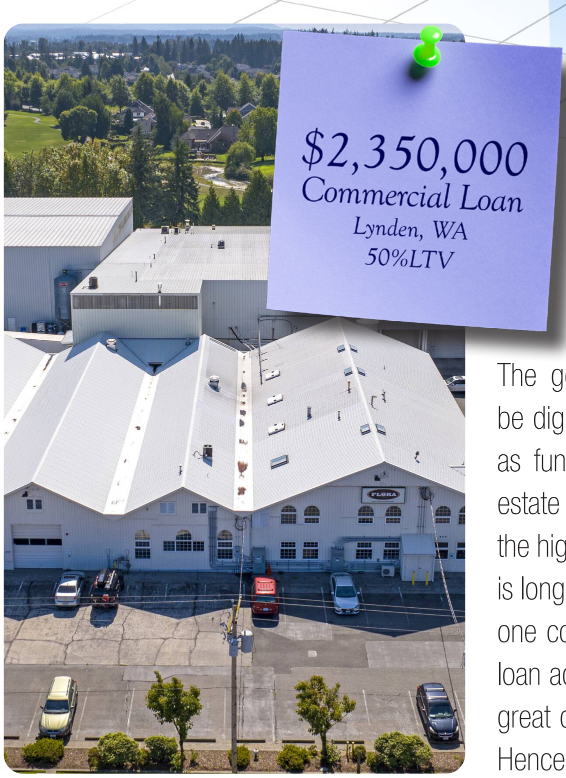
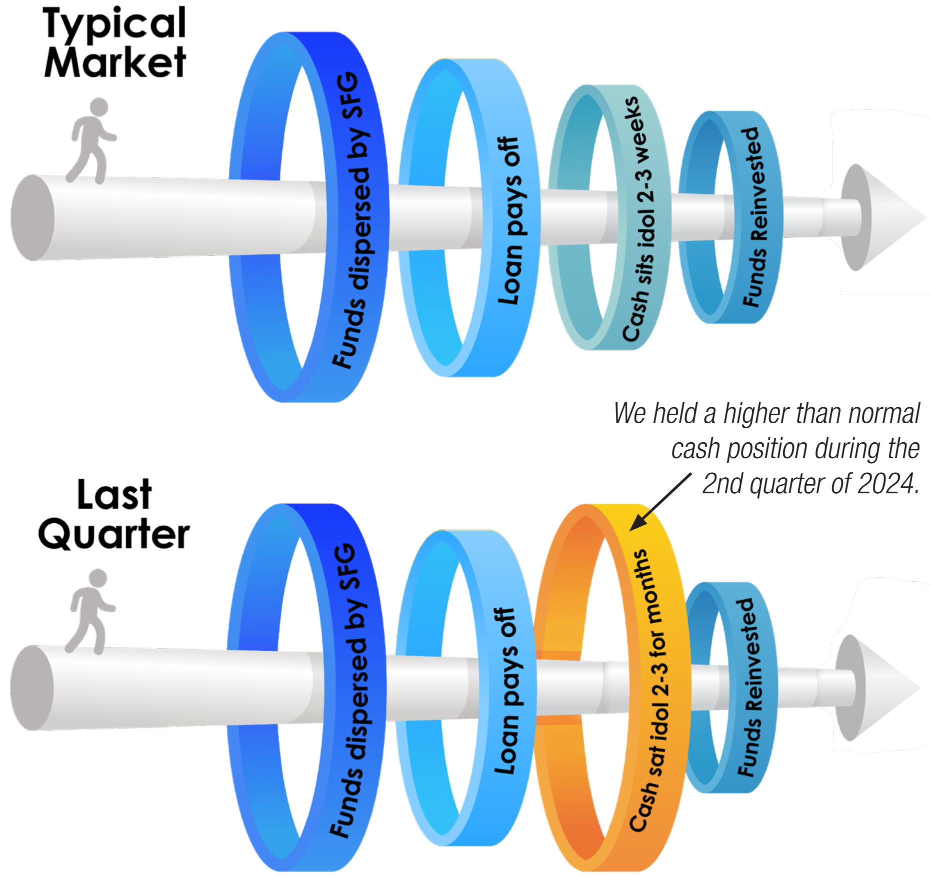
SFG management has made significant progress in converting lower yield loans to new higher yield loans in two ways: by bumping rates on loan extensions and by getting back to cash through payoffs and then reemploying the money at elevated returns. We have rid the portfolio of the extra low "promotional rates" utilized to capture "SFG quality" loans during the low interest rate market exuberance that pressured our performance in 2023 and early 2024. This allowed our portfolio yields to begin to rise during the first half of 2024. What temporarily slowed our progress in early 2024 was carrying large cash balances from paid off loans while the funds were waiting to be re-employed. Over the last six months, real estate investors (our borrowers) took very little action. They sat substantially frozen on the sidelines, not engaging in business activity, waiting for interest rates to drop back to the euphoric levels recently seen. SFG held to its foundational principles and did not chase the few lending opportunities during this time.



The good news is the markets seem to be digesting the new reality of higher rates as fundamental, and the commercial real estate community has capitulated to the fact the higher rates are here to stay. "Two years is long enough to be sitting around waiting," one could almost hear them thinking. New loan activity is now picking up and creating great opportunities for capital employment. Hence, May, June, and July were our largest loan volume months of the first half of 2024, allowing us to better boost capital employment, which is a vital component to portfolio optimization.

> *New loan activity is now picking up and creating great opportunities for capital employment.*

As the chart shows, during typical market conditions cash from loan payoffs generally sits for about two to three weeks until reinvested into new loan opportunities. Yet, over the last year, post payoff cash typically sat for two to three months, reflecting the real estate freeze we just discussed and weighing on earnings. But as we write this newsletter, loan volume has grown, and the drag of unemployed capital is subsiding. We believe the second half of 2024 will receive the positive effects of portfolio optimization as our idle cash converts to productive employment. SFG's completely refreshed portfolio is just around the corner, underpinning the value of our short-term lending strategy. SFG



*We averaged approximately **85%** capital employment in the 2nd quarter (lower than normal) but as of this writing (late July), we are at **98%** employment, positioning us well for a strong second half of the year.*

Featured Article

Stages of a Prudent Investor

For over three decades, SFG Income Funds have produced a stable, secure investment for investors, regardless of market circumstance. Today, as we head into a contentious election year, many investors are concerned about what the next several months may bring for equity investments and for the economy as a whole. As Fund managers, our primary focus, as always, remains on providing continued investment stability and productivity in the face of this and any uncertain election or market cycle. In fact, we expect the second half of 2024 to be a very productive one for us as our portfolio hovers in the low single digit non-performing asset percentage and our yields are on the rise. We have found that investment in SFG has a calming effect on investor emotions, which in turn promotes healthier decision making with other investments in our investors' portfolios. For example, when a portion of one's portfolio is stable and productive, one is usually less likely to make hasty decisions with a fluctuating stock portfolio. Of course, the phase of life an investor is in has a large impact on how they perceive investment value. Below are the likely stages of a long standing, happy SFG Income Fund Investor.

Stage 1: The Wealth Creation Years

During the years of one's working life, an investor's focus is commonly on establishing a career, growing a business, raising a family, and striving to build wealth. These years have been called the "Learning and Earning years." During this investment stage, investors typically have the luxury of long-term time horizons and can comfortably

weather the ups and downs of the equity markets while seeking the highest possible returns. Capital protection takes a back seat to the strong desire for growth. One's personal earning capacity and long-term investing are the tools for future prosperity. Investments can be left to grow, untouched for decades. "Stable," "secure," and "income producing" don't mean as much at this stage of life. A SFG investment has a valuable place in investment portfolios during this stage, but often to a lesser extent, depending on one's risk tolerance.

Stage 2: The Wealth Management Years

Wealth that has been created over decades needs to be protected. One has more to lose and less time to make it up at this stage, so risk is viewed differently. Investors at this stage still desire to grow their portfolios, but their investment portfolios have more to consider and generally have slightly more complex structures that contemplate the need for income, loss protection, and liquidity. The fixed income component enters the picture more prominently, which is the exact placement of the SFG Income Funds.

Key SFG features include:

Well Secured: The SFG portfolio comprises first position mortgages on "in demand" real estate with strong equity cushions behind us at the time each loan is made. We believe "realistic" asset valuation, as part of loan underwriting, is the primary skill set of SFG Fund Managers and the major component to portfolio durability in varying market conditions.

Non Leveraged: Unlike many leveraged mortgage portfolios that focus primarily on yield, the SFG loan portfolio, is unleveraged. We maintain a modest credit line, which is accessed infrequently and used only for funding efficiencies. This means SFG has a first charge on the securing properties within the portfolio. Should a SFG loan ever foreclose, the Fund would own the asset free and clear of debts.

Income Producing: After decades of diligent effort and essential risk taking, many investors seek to convert a portion of their equities into passive, predictable cash flow. And for this Stage Two investor, SFG once again fits the bill. Steady, predictable, passive cash flow that doesn't require management, leverage, or excessive risk taking and that does not dilute principal is what a large majority of SFG investors revere about SFG Income Funds.

Steady Growth: More than 60% of SFG Income Fund investors reinvest their distributions, allowing their investment returns to compound. Yet at any time they can switch their accounts to receive distributions in the form of cash flow or receive half distributions and leave the other half to compound and grow. This allows investors to customize their SFG investments in the ways that serve them best.

Value Stability: Unlike most bonds, which fluctuate in value as interest rates rise and fall, an investment in SFG generally remains stable due to the short-term nature on the underlying portfolio of real estate loans not heavily correlated to the bond markets.

Accessibility: In lockstep with stable value, your SFG investment is accessible, typically at par, and without penalty, after the first year. Accessibility without penalty is a relevant component to value stability.

Productive: SFG has been delivering investors a steady and productive return for more than three decades - most revered during turbulent markets but productive in all. For years, Financial Planners and Investment Advisors have debated what the appropriate withdraw rate is for retirement savings when wanting to convert equity to income. In 1994, financial advisor William P. Bengen postured 4% annually is the appropriate rate an investor could withdraw and be unlikely to ever run out of money. This is now known as the 4% rule, or the SAFEMAX rate, and there are varying opinions as to whether that is too much or not. Nevertheless, an SFG investment has delivered considerably more than the debated 4% withdraw benchmark while keeping one's principal intact - a welcome attribute for investors seeking income.

The SFG Income Funds were painstakingly designed, engineered if you will, to be an exacting fit for established, accredited investors seeking a stable and productive investment with customized cash flow options providing an optimal investor experience.

Sr. Accounting Administrator

The SFG Team

John Odegard
CEO & Fund Manager

Greg Elderkin
Fund Manager

Kent Rowe
Senior Vice President

Chuck Salas
CA Senior Underwriter

Rodd Wagner
AZ Senior Underwriter

Jim McBride
Construction Manager

Denise Tallman
Senior Loan Closer

Eric Benzel
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Steve Ludeman
VP of Capital Markets

Karin Case
Controller

Charlene Salas
CA Loan Processor

Chris Stafford
Business Dev. Officer

Rebecca Hogan
Marketing Director

Xiameng Wu
Administrative Assistant

Lisa Larsen
Loan Accounting

Lucas Arnold
Loan Accounting Mgr.

Spotlight: Jan Guyll

Accurate, Dependable, Organized

Jan has been a key member of our team since the SFG Funds inception back in 1993. Responsible for managing the Funds financial records, tax reporting, investor reporting, and ensuring that financial transactions are reported accurately, she has built a strong structure and foundation within the organization. Jan's ability to manage multiple tasks and projects simultaneously is without equal. Every year, when working with our outside accounting firm to prepare audited/reviewed financial statements, we hear the raves of her preparedness and accuracy. It has been said that behind all great companies are exceptional individuals. Jan Guyll exemplifies that reality. We are extremely proud to have Jan as a key member of our team!

Sample of SFG Fundings

Commercial Refinance
$3,100,000 | 59% LTV
VANCOUVER, WA

Four Cottage Construction
$2,025,000 | 66% LTV
KIRKLAND, WA

Two Luxury Homes
$4,200,000 | 70% LTV
KETCHUM, ID

High-End Condo Purchase
$1,641,250 | 65% LTV
HONOLULU, HI

Student Housing Project
$7,200,000 | 65% LTV
TUCSON, AZ

Construction of Luxury Build
$1,325,000 | 60% LTV
CLE ELUM, WA

Note:
Loans pictured are a sample of SFG closed loans. All loans may not be active in the Fund at the time of this writing.

SFG INCOME FUNDS

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