SFG INCOME FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS

WINTER 2025

Strong Fourth Quarter Positions SFG Income Funds well for 2025

There are many components that go into a well-secured, diversified mortgage portfolio designed to produce consistent, productive returns every year. One of those variables is capital employment. In successful portfolio management, keeping capital secure and substantially employed, while maintaining strict underwriting criteria, is integral to maximizing yield. Successful portfolio management requires underwriting discipline balanced with capital raising prudence, key foundational principles at SFG.

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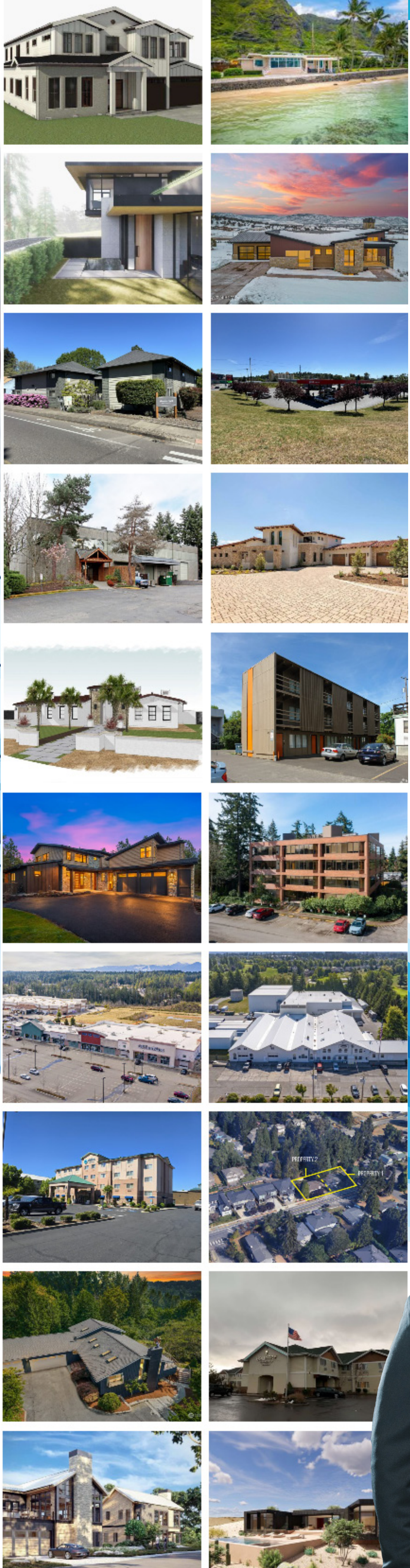
During 2024 the SFG Income Funds sustained a few months holding high cash positions due to some larger loan payoffs within a short window. And as one might expect, loan volume has been less robust during the last few years due to the rapid spike in interest rates curtailing market activity. However, the fourth quarter was our best loan volume quarter of 2024, likely due to those in the real estate market adjusting to the higher interest rate environment as the new norm. SFG ended 2024 with a highly employed portfolio along with some of SFG Income Funds best investor yields in years.

SFG Income Funds begin 2025 in a very advantageous position. With our portfolio highly employed, renewed to today's higher yielding environment, and a non-performing asset percentage hovering near zero (low single digits), we believe the pieces are in play for another solid and productive year of performance for SFG investors. Should loan demand continue to strengthen into 2025, we will likely once again open SFG Income Fund VII to new investor capital, as many have requested.

Seattle Funding Group – Condensing its Loan Territory

Over the last several years, Seattle Funding Group began to curtail its lending activities in California as we perceived increased risk for lending and business there. By late 2024 our California portfolio only had seven remaining loans. At the beginning of 2025 we closed our California office and decided to refrain from lending activity in the state to concentrate our focus on the Pacific Northwest and a few surrounding states and Hawaii.

Our reasons for leaving California are manifold. With evolving state regulations, costs of operation, curtailed title and property insurance coverage, high business



taxes, propensity for natural disasters, and the real estate industry's constant demand for higher leverage, California no longer fit our profile for a healthy lending environment.

SFG also decided to stop lending activity in Arizona beginning 2025, but for a different reason. Over the last several years, Arizona seemed to experience an influx of lenders willing to push leverage well beyond our definition of prudence, even to unproven borrowers. The Seattle Funding Group underwriting team had several meetings about the Arizona lending environment and the loan requests we had received over the last few years. Almost all the requests required leverage and risk taking beyond our comfort zone and profile. In time, we may decide to return to doing business in Arizona if we see an improving lending environment.

Our decision to step back from California and Arizona has not affected our loan volume as we continue to obtain terrific loan opportunities in the Pacific Northwest and other states we serve, such as Utah and Hawaii. Our circumscribed lending territory has allowed us a greater concentration of marketing efforts locally and has enabled swifter, more efficient underwriting, which has proven to be fruitful.

In the end, successful portfolio management is about deal quality, and we continue to find terrific opportunities in the markets we currently serve.

SFG Corporate Office
Bellevue, WA

> In the end, it is all about deal quality and we continue to find terrific opportunities in the markets we currently serve.

Greg Elderkin (L)
& John Odegard (R)
Fund Managers

Retail Shopping Center Captures New Anchor Tenant with an SFG Loan

A strong and sophisticated borrower built this shopping center in 2006 and had a pending maturity on their commercial CMBS loan. CMBS loans can be tricky as they are typically 5–10-year loans with a small window (90 days) as to when the loan can be paid off without penalty. Pay it off early, and there is a penalty. Pay it off late, penalty. So, the timing can be like threading a needle. Add to that a pending change in the primary tenant, and this borrower needed a hands-on flexible lending solution that could custom design a short-term loan for this exacting situation.

Seattle Funding Group created a custom loan designed to pay off the existing lender, within the appropriate timeline, and provided a loan proceeds "hold back" to complete agreed upon space improvements for the incoming new tenant. Once the space is complete and the new tenant moves in, this terrific asset in Poulsbo, Washington is ready for sale or long-term refinance. This transaction was a value add for the borrower, for the incoming tenant, and for SFG Income Funds. Win-win-win.

A major component of our lending model is to design loans where everyone is positioned to come out ahead, not just us. Loan structures such as the one described here build not only a strong loan portfolio for SFG, but also lasting relationships that foster future high-quality business for years to come.

$3,650,000

Quality Sponsorship with a Transitioning Tenant & Maturing Debt

POULSBO, WA

61% LTV

The Value of a Stable Investment with Consistent Returns

Stable investments within investor portfolios are those lower-risk investments that aim to provide consistent returns and protect investors from capital loss. The value of including a stable and productive investment within an overall portfolio cannot be overstated. Stability provides a foundation of consistency, helping to offset the volatility often associated with higher-risk assets. A stable investment, such as SFG Income Funds, acts as an anchor, ensuring the portfolio retains value even during market downturns. Stable investments allow investors to weather economic uncertainties with greater confidence, reducing the likelihood of making rash decisions driven by fear.

SFG Income Funds are not only a stable investment but are also a productive investment, one that contributes to the long-term growth of the portfolio by generating consistent returns. Productive investments not only create wealth over time but, as in the case of SFG, also provide the opportunity for reinvestment, further compounding returns and accelerating financial goals.

The combination of stability and productivity enables diversification, a critical strategy for mitigating risk. A balanced portfolio, blending both stable and growth-oriented investments, ensures that investors can pursue financial gains without being overly exposed to potential losses. Furthermore, a well-constructed portfolio aligned with these principles fosters financial resilience, emotional discipline, and confidence in achieving long-term objectives. In sum, stable and productive investments like SFG Income Funds are the cornerstone of a successful investment strategy, ensuring growth and security over time.

Sample of SFG Fundings

Commercial Refinance
$6,900,000 | 57% LTV
REDMOND, WA

Vacation Rental Purchase
$925,000 | 62% LTV
HONOLULU, HI

Construction Refinance
$1,875,000 | 65% LTV
HEBER CITY, UT

Cash Out Refinance
$2,350,000 | 47% LTV
LYNDEN, WA

Repeat Builder in Suncadia
$1,450,000 | 66% LTV
CLE ELUM, WA

Hotel Purchase
$4,600,000 | 61% LTV
BEND, OR

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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