

# TRANSITIONAL FUNDING PARTNERS LP

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April 17, 2013

Dear Investor:

Transitional Funding Partners L.P. (the “Fund”), managed by its general partner TF Managers LLC, recorded a gain, including accrued interest, of 3.09% for the period from inception on Dec 12, 2012 to Mar 31, 2013. The Net Asset Value of the Fund was approximately \$5.136 million as of Mar 31, 2013. The Fund had invested most of its cash at quarter end. Consequently, future quarters should see somewhat higher returns as a result of not having a cash drag on performance.

Enclosed please find your Limited Partner Statement for first quarter 2013 issued by TF Managers LLC (“TFM”) in its capacity as administrator of the Fund. Partners who have so requested should have received an electronic version of the enclosed statement via email dated April 16, 2013. Any investor who did not receive his/her statement electronically should contact ASA immediately to correct this problem.

## **General Loan Market Review**

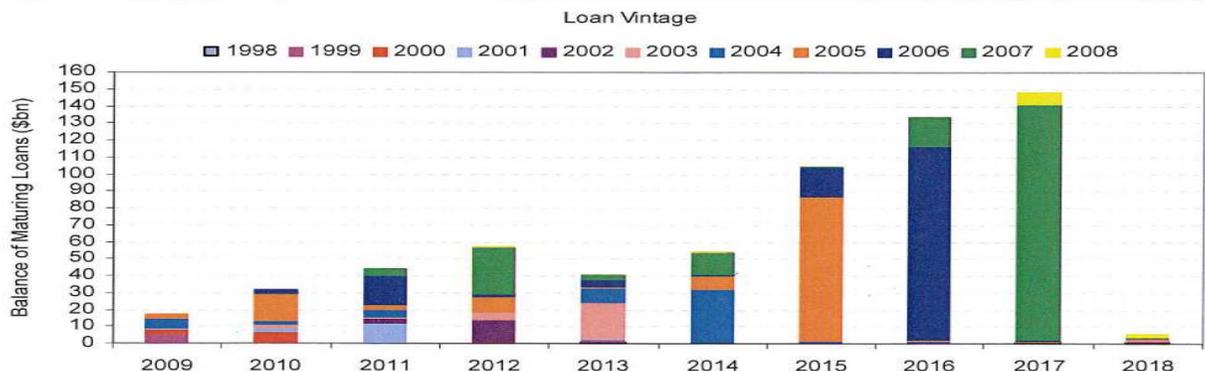
Broadly, the lending market has been shrinking since 2008 in both real estate and C&I.





Still, there are some very interesting trends within this bigger picture. Specifically, though real estate loans were shrinking in 08-10 and have leveled off since then, due largely to aggressive Central Bank easing/lending, it is clear that as capital requirements grow and banks are forced to delever in future years, the amount of lending still needs to fall substantially to return to a more stable – perhaps early 2000s - level. While Basel III almost doubles the amount of capital banks are required to hold vs. previous Basel II requirements, it is still considered inadequate and too easily manipulated by many in Congress. Consequently, efforts are underway in the Senate to increase capital ratios and make manipulation through financial engineering much more difficult. This will restrict lending further. For borrowers who can't meet conventional lending standards, i.e. get a government loan, but still have sound collateral, their options may very well be restricted to unconventional sources such as private lending, which is a small market relative to overall capital needs. Further, as can be seen from the following CMBS sector graph, we know the pipeline of loans that are in need of refinancing is daunting over the next five years. This could crowd out otherwise qualified borrowers.

Figure 1: Maturity profile of fixed rate commercial mortgages in CMBS transactions



Source: Deutsche Bank, Intex, Trepp

Lastly, it is worth noting that, although C&I lending has increased since the trough in early 2011, much of this has gone to larger companies or is in the form of Small Business Administration (SBA) government loans. Hence, there is definitely a 'haves' and 'have nots' bifurcation making small business financing still in short supply.

### **Portfolio Composition**

The Fund owns three loans currently as follows:

- I) First lien on land and second lien on an estate home in Jackson Wyoming. The loan was purchased in a loan auction in December 2012.
  - Loan Balance: \$1,878,759
  - Annual mortgage rate: 5.75%
  - Maturity: 11/16/2014
  - Payment: Monthly
  - Purchase price: \$1,511,000
  - Status: Performing
  - Default rate: 18%
- II) First lien on a commercial building in Washington DC – U Street Corridor. The loan was originated by TFP in February 2013.
  - Notional face: \$775,000
  - Annual mortgage rate: 14%
  - Maturity: 02/15/2014
  - Payment: Monthly
  - Purchase price: \$775,000
  - Funds in escrow: \$43,403
  - Status: Performing
  - Default rate: 16%
- III) First lien on 14,000 acres in Geyser Pass, Utah along with UCC filing on 1,700 head of cattle. Originated by TFP in March 2013.
  - Notional face: \$2,200,000
  - Annual mortgage rate: 14%
  - Maturity: 03/15/2014
  - Extension option: 1 six month extension upon payment of two points
  - Payment: Monthly
  - Purchase price: \$2,200,000
  - Funds in escrow: \$10,832
  - Status: Performing
  - Default rate: 20%

### **Individual Credit Review**

- I) The loan is a second lien on a \$9MM estate home and a first lien on a \$1MM adjacent lot in Jackson Wyoming. The entire property is currently offered at \$15.9MM. The \$10MM total valuation is the tax assessor's valuation of the

- collateral property. The first lien on the home has a face amount of \$1.5MM. As mentioned, the home is currently for sale. While the loan is due 11/14/2014, we fully anticipate a sale and loan payoff much sooner than that. This will obviously enhance the rate of return on the loan, which is currently being straight-line amortized to maturity. All loans on the collateral are performing. The loan was purchased in a DebtX auction in December, 2012 and we were able to collect an extra \$36,000 in back interest in addition to what was due on the loan.
- II) The loan is secured by a bar in the popular U Street corridor, near Howard University, Howard University Hospital, and the Howard Theater. The property is assessed by the tax assessor at \$1,028,000 and is currently leased to 2016 at a \$144,000 per year triple net. All leases and rents have been assigned to the Fund in the event of default. We were able to originate the loan in February, 2013 because the borrower needed to refinance an existing private loan that was maturing. That lender did not wish to roll the loan as a result of some health issues, which provided the opportunity for us. We have it well-escrowed to pay any unpaid taxes, utilities, damages, etc. It is performing and we believe this is a borrowing relationship we can expand in the future. At an 18.5% cap rate, we would clearly be happy to own the property if anything unexpected were to happen to the borrower.
- III) This is a somewhat 'unorthodox' loan, but one we feel very good about nonetheless. The loan is secured by a very large parcel of upper altitude grazing and timber land in Southeastern Utah. The land is largely surrounded by national forest. At \$157/acre loan value, we are very comfortable our collateral is worth substantially more than the loan. Additionally, as on all our originated loans, we have the personal guarantees of the borrowers, who own several thousand additional acres and lease approximately 200,000 acres from the Bureau of Land Management. Interestingly, we also have filed a UCC lien on most of their cattle herd (1,700 head) and there is a well-defined process for securing this collateral. While this is somewhat unorthodox collateral, we like it because it is relatively (3-6 months) liquid. The borrower is a substantial cattle ranching family that has been in the area for a hundred years. Finally, we have escrowed one year of taxes in the event of a default.

### **Supply Pipeline and Outlook**

Opportunities remain plentiful in the private lending space with still tight lending standards where many 'situations' still need to be worked out. This normally requires a bank to take a write down, at which point we are able to step in because most banks dislike restructurings.

The largest current deal on our radar is a restructured municipal bond which we will buy at a large discount that yields approximately 13%. It has a 5.25% tax free coupon and an average life of 11 years, though we expect to get it re-rated and sell it well before then to produce 20% plus annualized returns. The bonds are secured by special assessment property taxes on 63 finished lots with finished or in-process homes on them, an

additional 294 lots on approximately 250 acres, and \$425,000 in the debt service reserve. We are partnering with KB Homes who will buy and develop the lots. They are paying approximately two times our purchase price for just the undeveloped lots. We feel very good about this loan and it is an example of the type of transaction we can orchestrate.

### **TFP and Affiliates Outlook**

Of course, the fund's relationship with Alternative Strategy Advisers gives it the administrative, legal, technology, accounting and compliance support it needs to serve our clients well. It also provides access to deal flow and capital. We think opportunities will be plentiful in this space for several years and are excited about the opportunity and its return prospects.

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers. Please feel free to call any of us here if you have questions about the Fund or would like to discuss our investment management services.

Sincerely,

/s/ Rob Albright  
Managing Member  
TF Managers LLC

## Privacy Policy Notice

Under rules of the Securities and Exchange Commission or other regulatory bodies, financial institutions like Alternative Strategy Advisers LLC (ASA) and its affiliated entities\* are required to provide privacy policy notices to their clients. We believe that protecting the privacy of your nonpublic personal information is of the utmost importance, and we are committed to maintaining the privacy of your nonpublic personal information in our possession. As required by the rules, we are providing you with the following information.

We collect nonpublic personal information about you from the following sources:

- Information we receive from you on managed account agreements or fund subscription documents and related forms (for example, name, address, Social Security number, birth date, assets, income, and investment experience); and
- Information about your transactions with us (for example, account activity and balances).

We do not disclose any nonpublic personal information about our customers or former customers to anyone other than in connection with the administration, processing and servicing of customer accounts or to our accountants, attorneys and auditors or as otherwise permitted or required by law.

We restrict access to nonpublic personal information about you to our personnel who need to know that information in order to provide products or services to you. We maintain physical, electronic and procedural controls in keeping with federal standards to safeguard your nonpublic personal information.

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\*Affiliated entities include ASA Tax Advantaged Relative Value Fund L.P., ASA Tax Advantaged Advisors LLC, ASA Taxable Relative Value Onshore Fund L.P., ASA Taxable Relative Value Offshore Fund Ltd., ASA Taxable Relative Value Fund Ltd., ASA Taxable Advisors LLC, ASA California Tax Advantaged Fund L.P., ASA California Managers I LLC, ASA Opportunity Fund L.P., ASA OF Advisors LLC, ASA New York Tax Advantaged Fund L.P., ASA New York Managers LLC, ASA Municipal Convergence Fund L.P., ASA Convergence Partners LLC, Enhanced Municipal Managers LLC, ASA Managed Account Managers LLC, Transitional Funding Partners LP and TF Managers LLC.