

TRANSITIONAL FUNDING PARTNERS LP

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July 22, 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 2.87% for the second quarter: April 1 – June 30, 2013. The Net Asset Value of the Fund was approximately \$7.3 million as of July 1, 2013. The Fund had invested most of its cash at quarter end but received new investment as of July 1 and is actively reviewing new loans. We anticipate getting the money to work as soon as possible to eliminate cash drag on returns.

Enclosed please find your Limited Partner Statement for second 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 July 22, 2013. Any investor who did not receive his/her statement electronically should contact ASA immediately to correct this problem.

General Loan Market Review

There is no question lending markets are on the mend, particularly for those that can borrow through credit/securities markets. CMBS and CLO issuance for 2013 is getting close to the levels of 2006-07, i.e. over \$100Bn/year for each. Recent Loan Officer Surveys conducted by the Federal Reserve also indicate some easing of standards, particularly for C&I loans and some ‘increase in loan demand’, both for C&I and, to a lesser extent, Prime residential mortgages. I would translate this as loan officers saying they are seeing somewhat more people who want to borrow who have gotten solvent again after five years of Fed-induced asset inflation. Broader real estate lending still seems to be soft and bank appetite for it is mixed. In summary, we continue to believe banks are looking to shrink balance sheets and have been using recent run ups in real estate markets as a chance to increase foreclosures, sell the collateral, and thereby shed assets. Given higher capital requirements from regulators as the agenda for the foreseeable future, we continue to believe there will be a need for transitional loans to manage the longer-term deleveraging that needs to occur over the coming years.

Portfolio Composition

The Fund did not add any new loans for the quarter as its capital was largely invested. As a recap, 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

We continue to see a healthy supply of loans, though competition for product is certainly increasing. We have been outbid for two loans already this month, but will continue to look for opportunities that represent value for investors. There is no question the best loans are those we originate. They are less competitive and we get full transparency into the collateral and borrower before we own the loan. In addition, originating the loan allows us to use our documents for the loan, and our counsel in securing the loan, which makes us more confident no due diligence/legal protections have been missed.

We have four potential loans on our radar right now, each in the \$2MM range. Historically, a 25-30% hit rate of loans closed to loans reviewed is about right. Given that, we should be able to get current capital to work over the next thirty days and then move on to raising additional capital to draw against future loans that arise. Our expectation is our stable of relationships with borrowers, brokers, debt auctioneers, etc. will provide ample pipeline over the coming months to allow the Fund to grow at a \$2-5MM/month pace.

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.

*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.