

# TRANSITIONAL FUNDING PARTNERS LP

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February 7, 2014

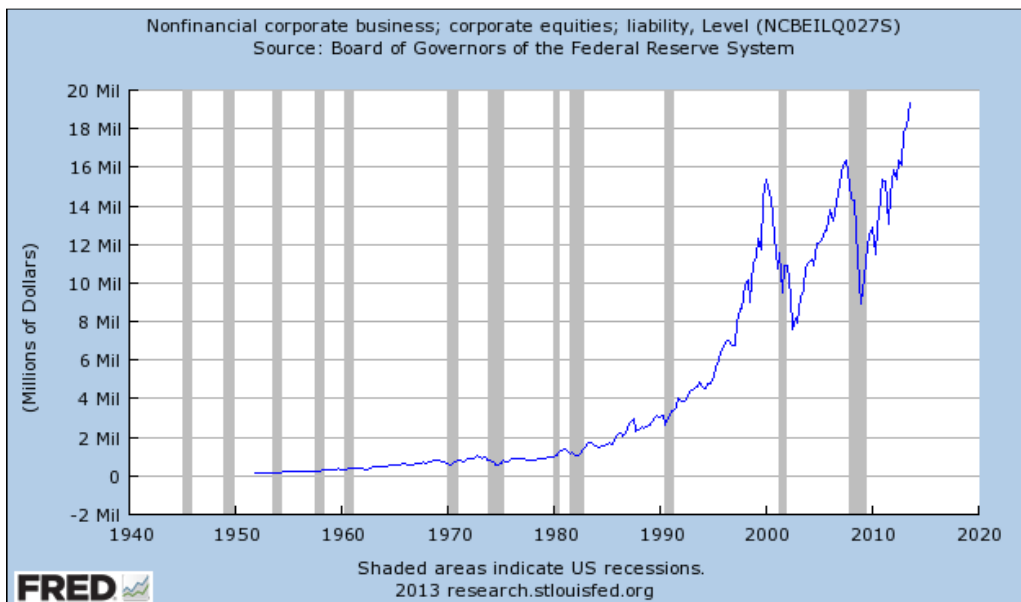
Dear Investor:

Transitional Funding Partners L.P. (the “Fund”), managed by its general partner TF Managers LLC, recorded a gain, including accrued interest, of 2.43% for the fourth quarter: Oct 1 – Dec 31, 2013. The Net Asset Value of the Fund was approximately \$7.7 million as of January 1, 2014. At year end, the Fund is largely invested. We have about \$600,000 on hand and another \$1.0 million of new investments waiting on the sidelines until we are ready to close our next loan. We will generally keep a few hundred thousand in cash just for any ‘rainy day’ situations that arise with our investments.

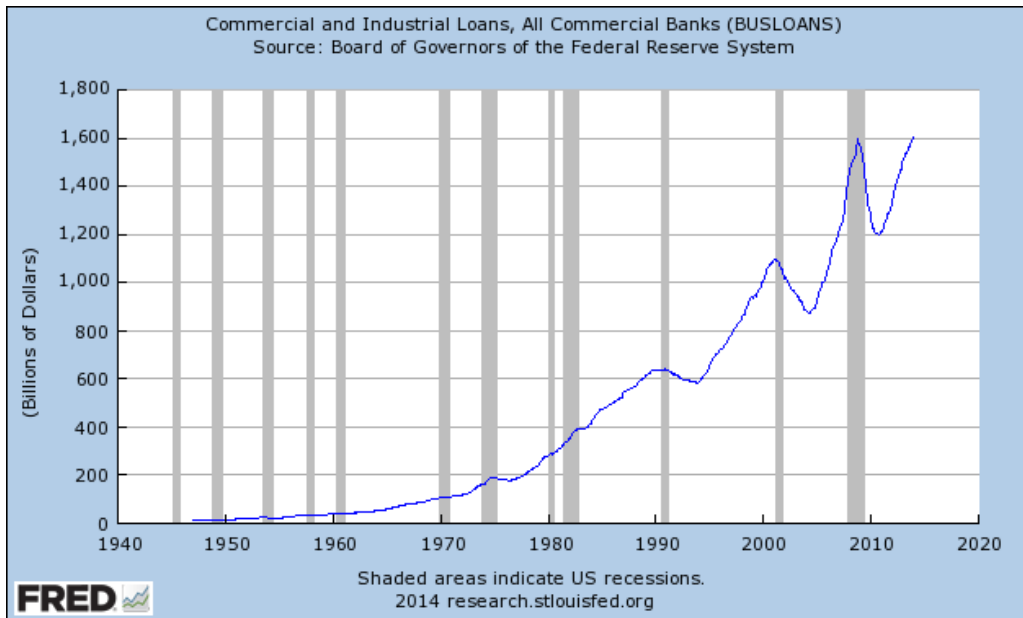
Enclosed please find your Limited Partner Statement for fourth quarter 2013 issued by TF Managers LLC (“TFM”) in its capacity as administrator of the Fund. Limited Partners who have so requested should have received an electronic version of the enclosed statement via email dated February 7, 2014. Any investor who did not receive his/her statement electronically should contact ASA immediately to correct this problem.

## **General Loan Market Review**

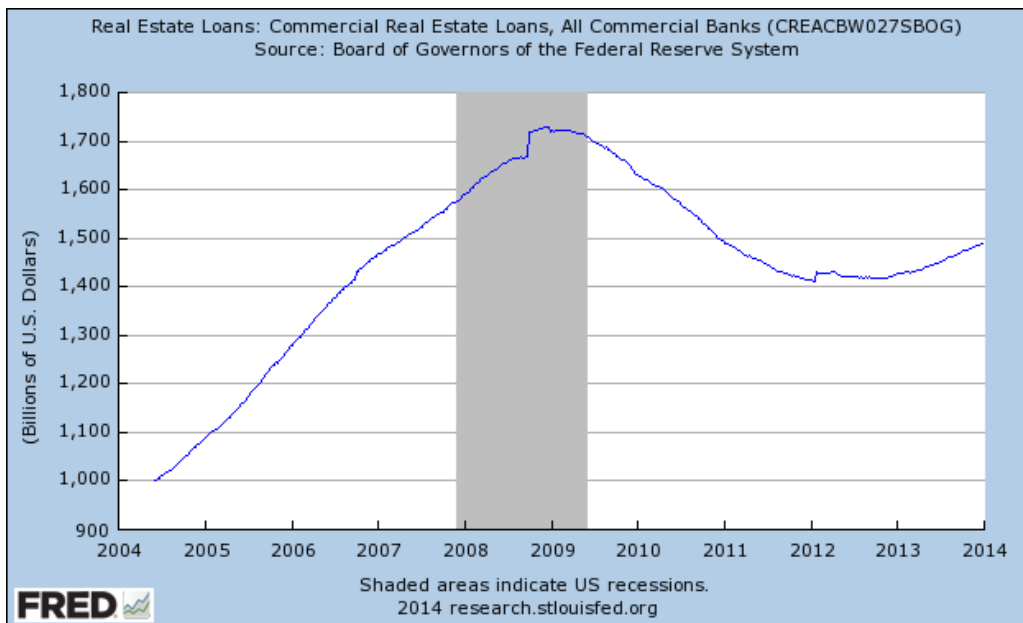
Prices for both impaired performing and non-performing loans were mostly stable in the final quarter of 2013 with liquidity measures improving somewhat. In short, instability caused by central bank liquidity contraction has not really been felt...yet. Businesses generally seem to feel good about their prospects and are borrowing to expand.



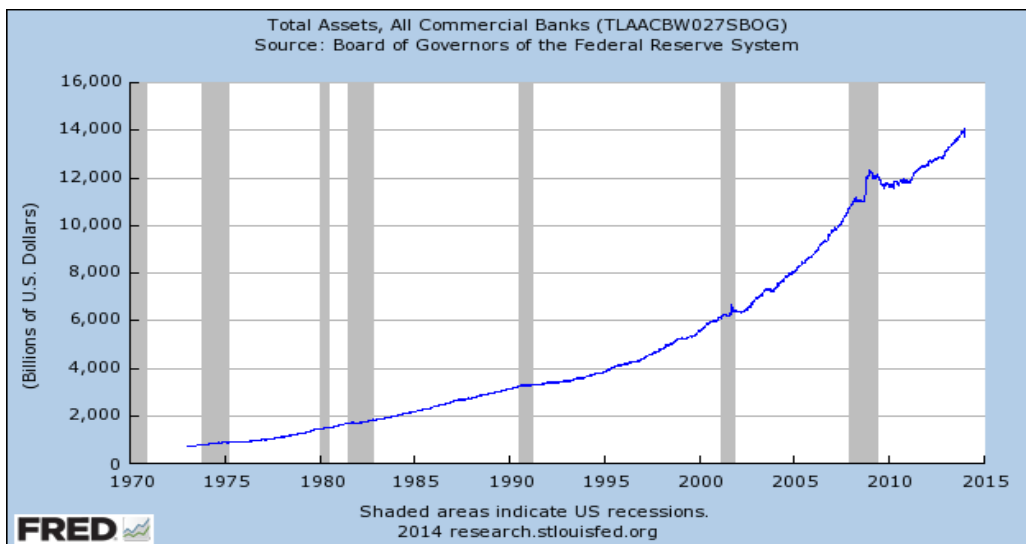
To the extent easy conditions in financial markets are not sufficient, commercial banks seem to be happy to lend them the money – certainly if they are a medium or large organization.



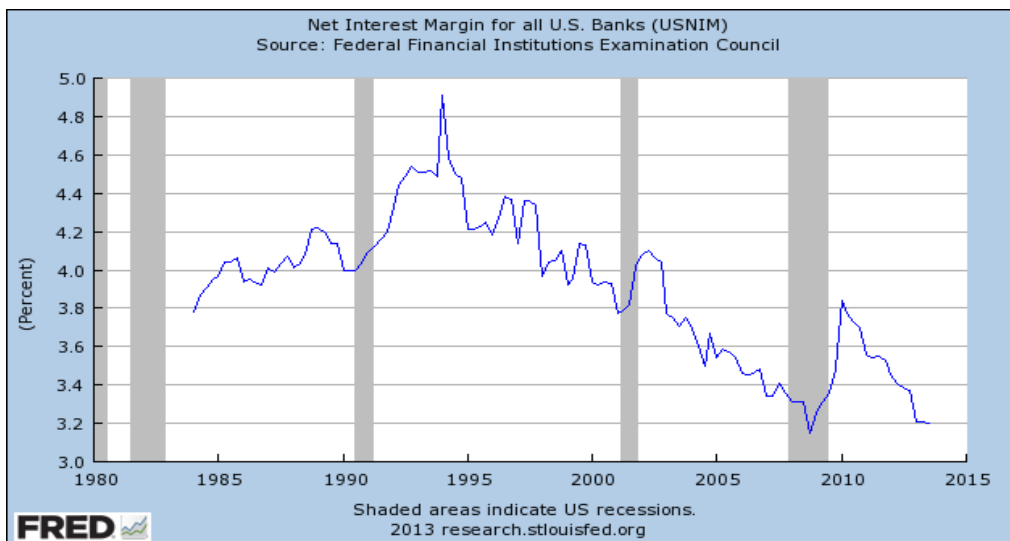
Even commercial real estate loans have begun to increase again as banks feel a bit more confident in asset values, cash flows/rents are improving, and the Commercial Mortgage-Backed Securities (CMBS) market is again functioning to the tune of almost \$100 Billion in 2013.



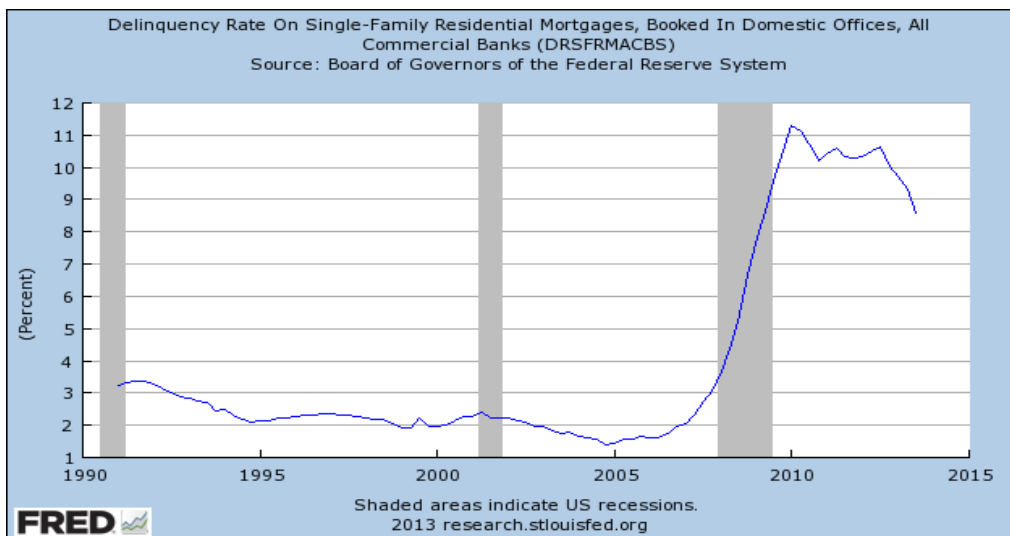
Overall bank lending is reaching new highs....



Even when net interest margins are at all-time lows...



...and residential delinquencies are still near all-time highs.



In short, 2013 felt very much like 2005. We are now wading into very treacherous territory circa 2006-07 in terms of asset price levels, levels of debt (all of 2008-2013 debt explosion plus the excesses of 2005-2007 to be refinanced), and ease of credit (actually easier than 2005). Unfortunately, few of the underlying causes of the last crisis have really been remedied. Zero interest rates mask many of these problems and allow them to be put off for another day. Still, we shouldn't be deluded into thinking the problems are solved. In fact, the 'remedies' of the last five years may have only served to exacerbate the problems that led to 2008. The first real test will be to see how financial and lending markets handle the gradual ending of QE3 over the course of 2014. We will continue to seek niche opportunities with smaller or somewhat 'distressed' borrowers, but we will be increasingly cautious as the year progresses.

### **Portfolio Composition**

In addition to having our largest loan pay off in November, the Fund added two new loans in the fourth quarter and began to do some small government factoring transactions. This put all but about \$600,000 of capital to work. While we may invest these funds if we see an attractive deal, we don't mind having a little dry powder on hand. The Fund currently owns five loans 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 (17% yield)
  - 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 commercial building and parking lot in Southeast DC. Originated by TFP in August 2013.
  - Notional face: \$975,000
  - Annual mortgage rate: 14%
  - Maturity: 09/01/2014
  - Guarantees: Deceased owner's estate and the operating business entity
  - Payment: Monthly
  - Purchase price: \$975,000

- Funds in escrow: \$36,605  
 Status: Performing  
 Default rate: 19%
- IV) First lien on a 90 room hotel in Wichita Falls, TX. The loan was purchased in a loan auction in December 2013.  
 Notional face: \$4,374,015  
 Annual mortgage rate: 6.25% (Prime + 3%)  
 Maturity: 12/31/2014 with a performance-based extension option  
 Guarantees: personal guarantees (though not particularly valuable)  
 Payment: Monthly  
 Purchase price: \$2,600,000  
 Funds in escrow: \$86,662.03  
 Status: Performing thru December 31, 2013. Became non-performing/REO in January 2014.  
 Default rate: NA
- V) First lien on a luxury home in Amagansett, NY (Long Island). The loan was originated by TFP in December 2013 as a line of credit.  
 Notional face: \$980,000  
 Annual mortgage rate: 1 point + 14% running  
 Maturity: 12//2014 but will pay off sooner  
 Guarantees: personal guarantee of borrower  
 Payment: Quarterly  
 Purchase price: \$980,000  
 Status: Performing  
 Default rate: 18%
- VI) US Government contract factoring – We have put about \$100,000 to work with one client and are working out the administrative issues in this activity currently. Maturity is generally < 30 days with rate of return expected to be 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. All loans on the collateral are performing. The loan was purchased at a loan auction in December, 2012 and we were able to collect an extra \$36,000 in back interest thereafter. The borrowers have again lowered the price at which they are trying to sell their home to \$13,900,000. We think somewhere in the \$10MM range is where they will start to see interest and expect them to get more aggressive come spring-summer, as they know they must sell it this year.
- 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. The borrower has indicated his plans to repay the note in full in January. While this has not materialized at time of writing, we consider this a fairly likely scenario.

- III) This loan was originated on August 31, 2013. It is collateralized by a funeral home in Southeast DC. While the collateral is not in a great neighborhood, this loan was attractive for a number of reasons: i) Our \$975,000 loan is secured by property assessed by the tax assessor at over \$1.8MM. ii) The operating business in the building throws off about \$200,000 of net cash each year that can clearly support our debt. The business is a guarantor of the debt. iii) The estate of the former owner has other assets and it has also guaranteed our debt. iv) The Federal government is aggressively expanding its presence all around the subject collateral and the area's gentrification is starting to look like that of other parts of the city that have been completely transformed in recent years. v) The borrower's trustee is actively seeking to finance and buy the property so we have a built in exit for our loan, i.e. refinance by the current manager/trustee. The trustee anticipates a loan closing and sale to him in late February or March. Assuming this transpires, we will be paid in full at that time. If not, the building will be sold to the public market and our payoff date will likely be closer to loan maturity.
- IV) TFP purchased this loan at a year-end DebtX auction. This falls into the bucket of, 'Not beautiful, but really cheap'. We are working through the situation with the borrower currently, but we anticipate we will foreclose on the property, which is a 90 room hotel and approximately 65,000 feet in Texas, quickly. The plan from there is to rebrand the hotel as a Choice/Mainstay Suites franchise, increase revenue modestly, and sell at approximately three times revenue, or around \$3.5MM sometime in 2014. We might consider holding longer if performance is significantly better than our base case scenario. Again, this is a workout, which is a likely scenario for perhaps 10-20% of the loans we make or buy. Consequently, rates of return are not as predictable, but we expect higher than our benchmark of 14% for a generic, performing loan.
- V) This loan came about through a relationship we encountered when investigating fine art lending. The borrower is active in that market – fine art dealing – and needs capital to facilitate his transactions. While we have not yet gotten comfortable lending with art as collateral, we are happy to lend him up to \$1.5MM as a line of credit with a first lien on his beach home in Amagansett. Conservatively, we believe the home can be sold around \$3MM in fairly short order. There is also a vibrant rental market for this type of property if this were ever relevant, though the owner has no intention of renting it currently. The fund is not obligated to lend him money if it does not have ready funds available. If it does, he pays one percent upfront and then has up to one year to repay the loan without any prepayment penalty. We anticipate he will repay the current loan sometime in the first quarter.
- VI) "Factoring" means making a short-term, discount loan to a business which has a confirmed contract payable directly to us from the US Government. As the contract is assigned to us before any disbursement of funds, the risk here is entirely administrative. We anticipate expanding this business in 2014 to perhaps 10-15% of the portfolio as good opportunities arise.

### **Supply Pipeline and Outlook**

As the Fund has now been active for over one year, we are now starting to see some repayments of earlier loans and recycling of this capital into new opportunities. As stated, much of the Fund's capital is now invested, though we have another \$1.0 million waiting to

come into the Fund if/as the next opportunity comes along. We continue to be selective and are turning a little more cautious on the lending environment given what we see happening at the macro economy level. This presents us again with our constant chicken and egg challenge of trying to manage the increase in funds raised to correspond with timely opportunities. Our intent is slow, steady asset growth, which is driven by supply of exceptional risk-adjusted return loans available to us.

Though we remain vigilant in terms of credit quality, we continue to believe good opportunities will persist for many years. Along these lines, we leave you with a few quotes from a recent Bloomberg piece titled “Bank Customers up for Grabs”.

“One of the greatest returns available in the market today has been created by the regulatory environment surrounding the banks and their new capital requirements. They have essentially stepped back from providing capital to non-investment grade companies.” – Glenn Dubin

“Banks today can’t lend. The biggest opportunity you’ve got is lending money at a senior secured level. Whereas in the past you used to charge Libor plus two or Libor plus three, you’re able to do it for Libor plus 10. To make a 10 percent return on a senior secured piece of paper when normally you would have only made a 1 or 2 percent return, you’re getting massively overpaid for that risk. The reason is because banks are out of that.” - Marc Lasrey

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers LLC. 2013 was a solid year for the Fund and we look forward to continuing to build on our successes in 2014. Please feel free to call any of us here if you have questions about the Fund or would like to discuss our investment services.

Sincerely,

/s/ Rob Albright  
Managing Member  
TF Managers LLC

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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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