

# TRANSITIONAL FUNDING PARTNERS LP

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Dear Investor:

Transitional Funding Partners L.P. (the “Fund”), managed by its general partner TF Managers LLC, recorded a gain, including accrued interest, of 1.10% for the fourth quarter of 2014. The Net Asset Value of the Fund was approximately \$9.9 million as of January 1, 2015. The Fund held \$2.4 million of cash at quarter end. Interestingly, we had closed loans committing all the Fund’s capital as of mid-December and then received full repayment of a roughly \$2 million loan the day after Christmas. While we would have preferred that payoff happen a month later, we anticipated it in the near future and will be putting the money to work in February-March in loans to which we are already committed.

Enclosed please find your Limited Partner Statement for fourth quarter 2014 issued by Alternative Strategy Advisers LLC (“ASA”) 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. Any investor who did not receive his/her statement electronically should contact ASA immediately to correct this problem.

## **The Lending Environment**

It appears there is still plenty of liquidity out there for lending, distressed debt, and real estate funds as is evidenced by significant fund raises over the past couple of quarters by recognized names, including some former colleagues. In fact, risk assets in general have done better than we would have expected of late, though not without a significant uptick in volatility. Liquidity/free money, or the promise of more of it from various Central Bankers, is certainly contributing to this effect. Still, it is confusing (and a little scary) to see this bubbly risk asset pricing while yields in the US have one-handles across most of the curve and zero-handles in the rest of the developed world. Throw \$45 oil into the mix and it is hard to ignore the possibility of a global Japan starting to take shape.

While we hope for all our sakes this is not the case, particularly when there are now really limited policy tools left for Central Bankers to deploy in fighting this eventuality, we must be very mindful of this scenario because it will have a significantly negative impact on the value of our collateral in the event of an increase in defaults. [Conversely, an inflationary

scenario is less harmful to the Fund's positions because the underlying assets are likely appreciating and most of our loans have fairly short maturities, so we can reset rates higher regularly.] Heretofore, we have felt that a default was generally a good thing, because it allowed us to increase returns above our standard lending rates in the workout and disposition process. Our small data set of defaulted loans has proven this to be the case, i.e. maturity default usually means at least a rate reset to high penalty rates accruing before the borrowers pay off or, still better, an asset disposition at a higher IRR with better tax treatment. Nonetheless, we are mindful of the fact that we have been operating mostly in a QE world since 2009 and what has been 'working' in the past may not in the future in a global disinflationary or deflationary environment. Caution continues to be warranted in our opinion.

### **Portfolio Composition**

Two new loans were added in Q4 2014. Specifically, we made a loan to a private school in Fairfax County, VA after only a two-three week introduction and diligence period. Conversely, the second loan we made in the Park City, UT area was several months in the making. As noted earlier, the loan in Jackson, WY, which we bought two years ago, paid off slightly late but with full principal plus some penalty interest. The following is a more detailed review of loans currently on the Fund's balance sheet.

- I) First lien on a commercial building in Washington DC – U Street Corridor. The loan was originated by TFP in February 2013.
  - Loan Balance: \$775,000
  - Annual mortgage rate: 16% default rate starting Aug 15, 2014
  - Maturity: 08/15/14 and extended month-month until default on November 1
  - Guarantees: personal guarantee of Borrower
  - Payment: Monthly (in default)
  - Funds in escrow: \$43,403
  - Status: Maturity default and in foreclosure process
  - Default rate: 16% + \$516/month penalty accruing
- II) 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.
  - Loan Balance: \$1,480,000
  - Annual mortgage rate: 1 point + 14% running
  - Maturity: 12/15/2014 extended to 3/31/15
  - Guarantees: personal guarantee of Borrower
  - Payment: Quarterly
  - Status: Performing
  - Default rate: 18%
- III) First lien on a 157 acre ranch with home in Peoa, UT. The loan was originated by TFP in December 2014.
  - Loan Balance: Up to \$1,000,000 (\$800,000 disbursed with \$200,000 to be drawn for property improvements)
  - Annual mortgage rate: 14%
  - Maturity: 6/22/2016
  - Guarantees: personal guarantee of Borrower and his wife
  - Payment: Monthly
  - Funds in escrow: \$8,240

Status: Performing  
Default rate: 24%

- IV) First lien on a 2.39 acre commercial property containing a 28,277 sq. ft. school plus a residence in Fairfax County, VA. The loan was originated by TFP in December 2014.
- Loan Balance: \$1,400,000
  - Annual mortgage rate: 14%
  - Maturity: 12/15/15
  - Payment: all interest for 18 months plus one point prepaid/escrowed
  - Prepayment penalty: 7 months of interest minimum
  - Funds in escrow: \$0 (Borrower is a tax free entity)
  - Status: Performing
  - Default rate: 19%
- V) US Government contract factoring – Discount factoring of US government contracts. We like this exposure and have worked out issues with the process. Returns are high (20%) and it serves as a good short term place to put capital until longer term opportunities present themselves.

Real Estate Owned (foreclosure completed March 4, 2014):

- VI) 90 room, 65,000 sq. ft. hotel in Wichita Falls, TX rebranded to Choice/Mainstay in June. We also maintain the right to pursue a judgment against the former borrowers for between \$860,000 and \$1.8MM. The loan was purchased for \$2.6MM in a loan auction in December 2013.

### **Individual Credit Review**

- I) As expected, this loan is now in maturity default and is accruing at 16% plus penalties. While we would be very happy to own the collateral at our loan value, we anticipate final payoff before the sale date. However, the odds of getting possession appear to be rising.
- II) Nothing has changed here. The loan is performing as anticipated and the collateral is very sound. We gave the Borrower a modest extension, though he will be paying extension fees if he is unable to pay off in full by March 31, 2015.
- III) This loan took the form of a payoff of existing liens, a small cash takeout, and the rest earmarked for property improvements to prepare it for a sale. The Fund also holds the water shares for the property as collateral. (This is quite important for property in Utah and other mountain states.) The property is located 15 minutes from Main Street Park City and is worth \$3-4MM though fairly illiquid.
- IV) This loan came up quickly at year end. We were able to provide working capital and funds to settle outstanding tax bills for a school in Suburban Washington DC. Our loan will be used to allow the school to operate through school year end. At that time, the building will be sold. It is now under contract with a buyer for \$3.1MM, excluding the residence, which makes us feel quite comfortable with the loan at \$1.4MM.
- V) Factoring has been steady though, honestly, it has not grown in volume at the rate we would have hoped. We will continue working to grow and diversify the client base in this business in conjunction with our partner.

- VI) This asset is under contract currently at a price we are happy with. There are still moving parts related to our franchise and possibly that of the new buyer. However, we are moving steadily toward a sale which would likely close in April-May. In the meantime, we continue to operate the hotel in an effort to maximum profits.

### **Supply Pipeline and Outlook**

The fourth quarter was a little slow until the month of December when we closed two loans and put another one on track to close February 1. In addition, we expect the Park City project loan we put on the books last spring to begin drawing on the larger Phase 2 commitment in February or March. The loans in our pipeline currently will require some additional investor capital, which we plan to draw February 1. Additionally, we have two or three other loans in review and underwriting that would necessitate an additional \$5MM in capital which we will seek to close during the first quarter. It remains our intent to grow the Fund in a measured way by adding to capital as attractive opportunities arise. We continue to believe this is the most prudent approach and is most likely to produce the best returns for our investors in the long run.

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers LLC. 2014 was a solid second year for the Fund. We will remain conservative in our underwriting as we remain skeptical of how the great monetary expansion actually works out (and what this might mean for asset prices). Still, we broadly expect 2015-17 to be a great period for the Fund. There will be ongoing needs for alternative sources of capital from projects and businesses that are i) credit worthy but not in a position to access the capital markets or ii) not 'blue chip' borrowers to which banks are willing to lend. Our ability to continue to attract a steady stream of capital (\$2-10MM/quarter) will dictate the extent to which we can capture the opportunities before us. Your continued support and trust is very much appreciated.

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.