

# TRANSITIONAL FUNDING PARTNERS LP

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October 30, 2015

Dear Investor:

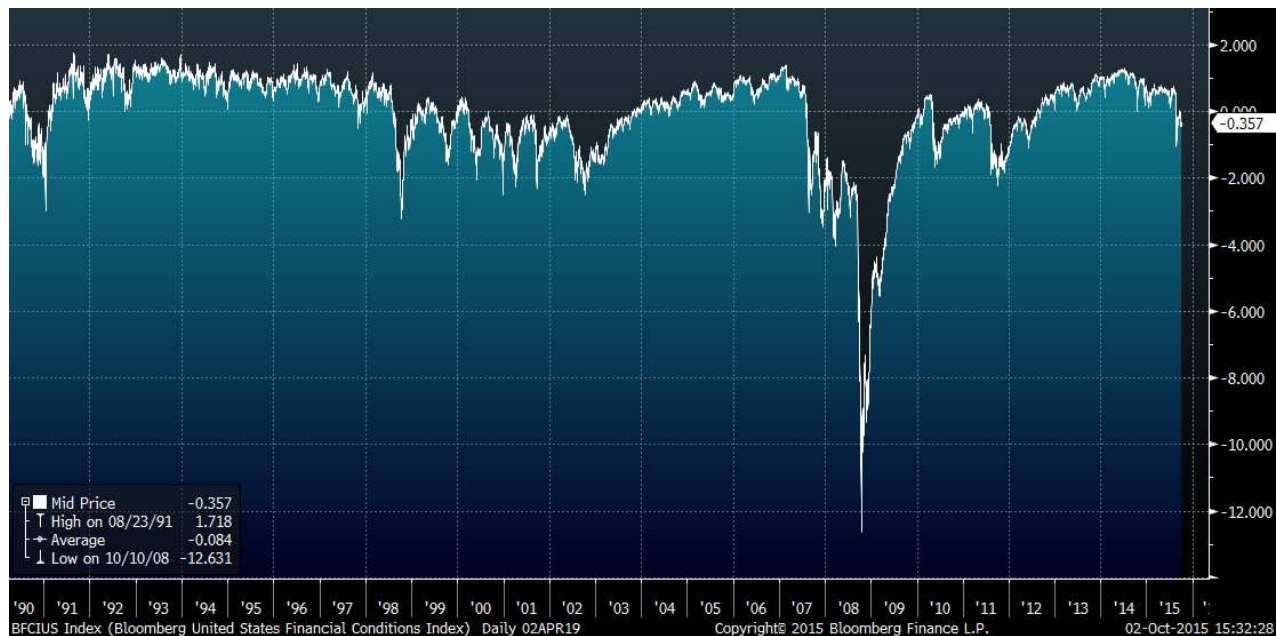
Transitional Funding Partners L.P. (the “Fund”), managed by its general partner TF Managers LLC, recorded a net of fees gain, including accrued interest, of 2.03% for the third quarter of 2015. YTD the total return net of fees is 10.00%. The Net Asset Value of the Fund was approximately \$14.4 million as of October 1, 2015. While returns YTD have been strong, the Fund is, at present, predominantly holding cash. We anticipate Q4 should provide some good opportunities for us to restock the shelves and, perhaps, even increase our capital base somewhat depending on the number and size of opportunities we believe we can get to closing.

Enclosed please find your Limited Partner Statement for third quarter 2015 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 either his/her statement electronically should contact ASA immediately to correct this problem.

## **The Lending Environment**

Still frothy. Though volatility is increasing and high yield, emerging market, and structured product spreads are widening, there seems to be little real concern among market participants about excessive risk taking or asset overvaluation. The financial conditions index has moved modestly negative from the extremely easy conditions of 2013-H1 2015, which rivaled the ‘easiness’ of the early nineties and 2005-07. Based on this barometer, one could argue we are about ‘neutral’ at current rate and equity valuations, though that is hard to get one’s arms around given rates are still zero virtually everywhere in the world. In other words, financial conditions have actually been tightening even with the ECB and BOJ still printing money aggressively and the Fed stuck at zero and unable to do anything but pay lip service to a rate hike. A 20-25% equity market drop to what would be a longer term ‘fair value’ level would presumably move the index to something akin to 2000-02 or 2011, and nothing close still to 2008. This is unsettling given policy makers lack of weapons to combat any downside scenario.

## Bloomberg US Financial Conditions Index



Source: Bloomberg

Discussions with financial services colleagues at a recent meeting held by the Federal Reserve Bank of Minneapolis confirmed this general sense of complacency among bankers. Specifically, there were no real concerns expressed about excess risk taking by commercial borrowers. Collateral/assets were judged to be plenty supportive of loans being made as were cash flows being generated by borrowers. Further, consumers were judged to be in great shape – best in decades – and most of the discussion revolved around how banks were going to grow in what was such a competitive environment where loan limits kept climbing, rates were dropping, and covenants were getting easier. Most interestingly, the suggestion was even made that the reason for the housing crisis following 05-07 was that ‘teaser’ rates were artificially low and that when those reset 200 or more basis points higher, the bottom fell out. Participants concluded that isn’t an issue today. I listened quietly and wondered if anyone had noticed that, in fact, now it isn’t only ‘teaser’ rates on ‘liar loans’ that are too low but ALL rates on ALL loans are too low, because the Fed has artificially engineered them to well below the teaser levels of 05-07! In short, there is little concern among lenders and almost universal desire for higher rates. If this sampling is representative of the national banking climate, this would suggest rates are likely to stay depressed and that asset deflation is a real risk going forward if one subscribes to the theory that markets will do what hurts the most people.

Speaking just from our firm perspective, there is no question competition for deals is the most intense we have seen since we started lending six years ago. In fact, this applies both to lending – with rates dropping/loan sale prices increasing, loan sizes increasing, and somewhat more marginal collateral being funded – as well as to asset purchases. Many of the commercial loans made in 05-07 are starting to default at maturity with special servicers taking the properties and liquidating them. While we anticipate this may present lending or buying opportunity over the full cycle, the few of these deals on which we have bid to date have gotten absurdly low cap rates in our opinion, i.e. six handle cap rates and/or five handle lending rates. Interestingly, a similar situation exists in Europe though arguably larger. The degree to which the Fed and other central

banks are able to continue to medicate the patient through the hangover will determine how exciting our opportunity set becomes.

### **Portfolio Composition**

Q3 was a one way street for the Fund as we did nothing but collect payoffs and liquidate assets. As mentioned in last quarter's update, we received full payment on the loan we had out in Virginia on July 2. Thereafter, the fund was paid in full on the multi-family project in UT at the end of July; closed on the sale of the hotel in TX at the end of August with about a \$55k MTM gain; and then received full and final payment on the Long Island residential home line of credit in mid-September. While we bid on a number of individual loans and issued a half dozen term sheets during the quarter, we weren't able to convert any of them to assets on the books which is indicative of the environment I described above. The remaining asset portfolio is reviewed below.

- I) 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 (\$840,000 now disbursed)
  - 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%
- II) First lien on a .65 acre residential property containing an 8,095 sq. ft. home in Ponte Vedra, FL. The loan was originated by TFP in February 2015.
  - Loan Balance: \$1,700,000
  - Annual mortgage rate: 15%
  - Maturity: 2/2/16
  - Payment: Monthly
  - Prepayment penalty: 7 months of interest minimum
  - Funds in escrow: \$27,000
  - Status: Performing
  - Default rate: 20%
- III) US Government contract factoring – Discount factoring of US government contracts. Returns are 20% plus. Current exposure: \$220,000 monthly/running.

Real Estate Owned: None

### **Individual Credit Review**

- I) 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. The borrower has drawn approximately

- \$50,000 of additional funds to improve the property and pay for plans and approvals. We expect a sale, which may take the form of an auction, in the next 3-6 months.
- II) The borrower is an LLC. One of the members in the LLC had a pre-arranged right to buy the property at an attractive price as part of a rent-to-own lease. TFP funded the LLC's acquisition of the property for the commercial purpose of reselling the property. It is currently on the market for \$2.8MM. While we would be very happy to own the property at our loan value, we continue to think that is unlikely.
- III) Our target remains to have at least \$500,000 monthly on the books by year end.

### **Supply Pipeline and Outlook**

We have a handful of opportunities on our plate currently. Still, number of opportunities has not been an issue for the past few months. The problem is conversion rate. We really need to get 20-25% of the deals we look at to closing to keep current capital at work and continue to grow at a measured pace. That has not happened for the past three months. We have told investors from the outset that we don't see the 'risk' in this fund being significant losses of capital, but rather prolonged periods where we simply can't deploy capital at or above our yield boogies in loans/structures that meet our risk criteria. Unlike many asset managers, we would rather return the capital to our investors than 'invest' it in something with a poor risk-return profile. Q4 is generally the best time of the year to reinvest. We normally get over 50% of our capital invested in the last three months of the year and we are primed for what comes our way in 2015.

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers LLC. We look forward to some better opportunities and higher conversion ratios in Q4. Nonetheless, we remain somewhat concerned with the zero-rates-forever scenario that compresses returns and allows levered carry strategies to continue to work longer at the expense of relative value/value-oriented strategies that are more sustainable in the long run. Of course, we will continue to take prudent risks with preservation of capital as the first priority. Please feel free to call any of us here at ASA if you or others you know have questions about the Fund or would like to discuss current opportunities and 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 Municipal Convergence Fund L.P., ASA Convergence Partners LLC, Enhanced Municipal Managers LLC, ASA Managed Account Managers LLC, Transitional Funding Partners LP, TF Managers LLC and Occum Partners LLC.