TRANSITIONAL FUNDING PARTNERS LP
601 Carlson Parkway
Suite 1125
Minnetonka, MN 55305
(952-847-2450)

July 19, 2016

Dear Investor:

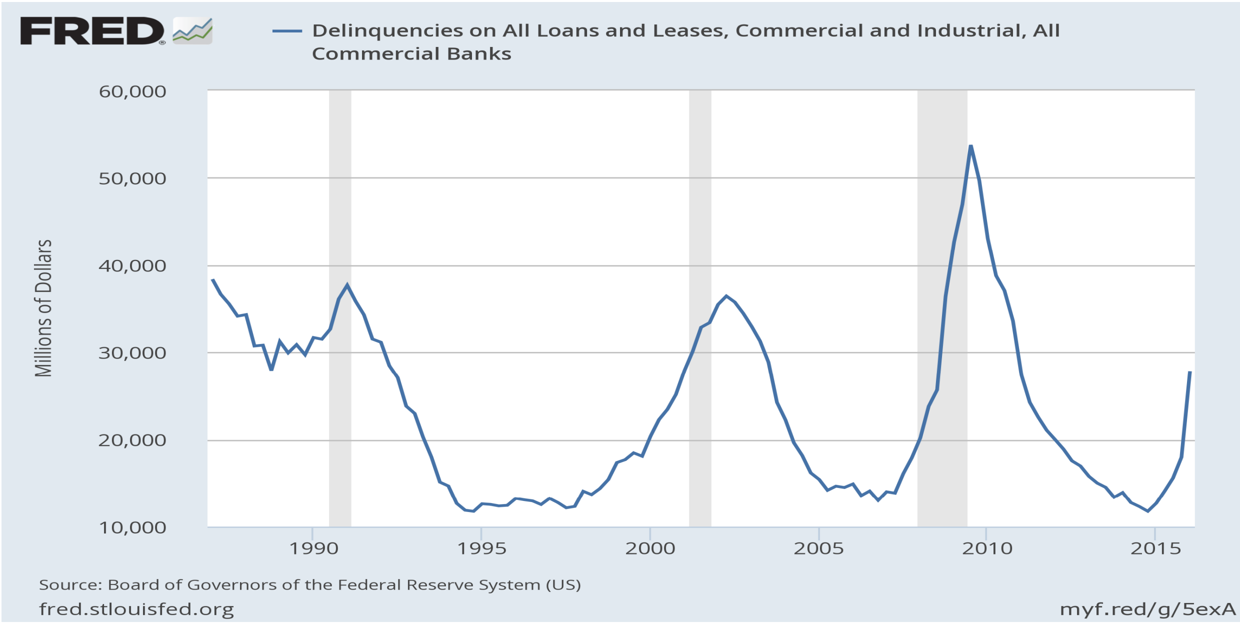
Transitional Funding Partners L.P. (the “Fund”), managed by its general partner TF Managers LLC, recorded a net of fees gain, including accrued interest, of 3.11% for the second quarter of 2016. The Net Asset Value of the Fund was approximately $15.3 million as of July 1, 2016. We have gotten most cash to work in attractive opportunities that should drive performance for the rest of the year. We are still on the lookout for one more solid $2-3MM loan over the summer. If we can get those funds placed, we expect to then have cash from maturing loans and interest payments coming in through the fall to position us with ample bullets to fire at year end. Depending upon the opportunity set, it may well make sense to start circling another $5-10MM in new capital in Q3 in anticipation of exceptional year end financings.

Enclosed please find your Limited Partner Statement for the second quarter of 2016 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.

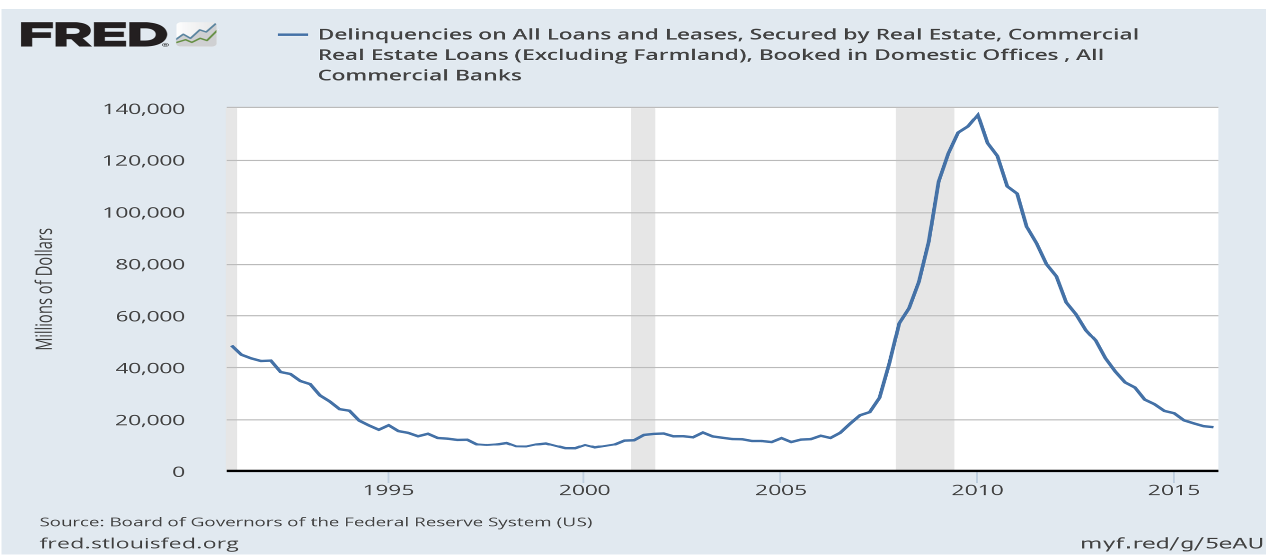
The Lending Environment

Perpetually lower rates and easier monetary policy continue to be the ‘cure’ for all the world’s ills. Even periodic shocks, like Brexit, continue to be salved by sub-zero rates in an ever-larger swath of the global economy. Even in the high-yielding USA, five year UST are around 90 basis points at time of writing, which implies a minimal chance of any tightening this decade. We are plumbing deeper into uncharted territory and the (unintended) consequences are becoming harder to assess. In short, we are trying to be as cautious as possible while still delivering acceptable returns for investors. Our hope is that diversification by geography, collateral type, amount of development involved, and, most importantly, low LTVs will shield us from the almost inevitable nasty scenarios on the horizon.

The chart below demonstrates a worrying trend that we have seen immediately prior to previous downturns, namely, a rapid spike up in C&I loan delinquencies. While we haven’t quite reached the death zone of over $35Bn in delinquent loans, the pace of the increase is historically fast. If it were to continue at this pace for the next several months, we would be back into 2008 territory, which would likely be very unpleasant.



The only reason for modest optimism is that much of the delinquent debt is likely in the energy sector and is thus 'isolated' to some extent…or at least we can console ourselves with this assumption. As you can see, a similar view of real estate only delinquencies shows a much more benign picture.



Commercial and high end residential real estate is primarily the collateral for our loans and there don't appear to be warning signals flashing in these sectors quite yet. We will be watching closely to see if commercial real estate delinquencies start mirroring C&I delinquencies, which seems likely given the large volume of commercial real estate debt that has to be rolled over from the 2005-07 vintage debt explosion. However, the Fed is well aware of this debt overhang and so will likely keep pressing rates lower despite the blathering we may hear from some governors/presidents over the coming weeks. We'll see how long the great levitation can continue!

Portfolio Composition

We had two loans pay off and added two significant loans in the second quarter with the second addition coming technically on July 1. The following is a review of the portfolio as of June 2016 quarter end with new additions first.

I) First lien on a 67 unit apartment building and six residential row houses in Baltimore, MD. Second lien on a five unit multi-family building and a commercial office building also in Baltimore, MD. TFP also holds a UCC-1 on all LLC personal property, the pledge of the member interest and a pledge of cash held in a 1031 Exchange account. The loan was originated by TFP in June 2016.
   Loan Balance: $2,088,000
   Annual mortgage rate: 14% of gross loan balance
   Maturity: 7/1/2017
   Payment: Monthly after initial ten month period
   Prepayment penalty: 10 months of interest minimum
   Funds in escrow: $288,000
   Status: Performing
   Default rate: 19%

II) First lien on a 27.52 acre commercial property zoned for multi-family development in American Fork, UT. The loan was originated by TFP in May 2016.
   Loan Balance: $5,000,000 (initially $3,500,000 at closing with $1,500,000 remaining to disburse)
   Mortgage rate: 15% flat ($750,000)
   Maturity: 12/1/2016 with 3% monthly interest on any remaining balances until 6/1/17
   Payment: Upon closing of townhome sales
   Prepayment penalty: NA
   Funds in escrow: $25,000
   Status: Performing – All units presold
   Default rate: 36%

III) First lien on a 14.67 acre commercial property containing two 27 unit apartment buildings (54 units total) in Williston, ND. The loan was purchased by TFP in March 2016.
   Loan Balance: $4,452,381
   Annual mortgage rate: 8.75% (plus 3.25% accruing if loan not paid timely)
   Maturity/term of forbearance: 12/31/2016
   Payment: Monthly
   Prepayment penalty: NA
   Funds in escrow: NA
   Status: Performing
   Default rate: 12%

IV) First lien on a 5.61 acre residential property containing a 2,935 sq. ft. home being remodeled in Greenwich, CT. The loan was originated by TFP in December 2015.

Loan Balance: $1,800,000 (initially $1,050,000 at closing, $525,000 disbursed and $225,000 remaining to disburse)
Annual mortgage rate: 14%
Maturity: 12/18/16
Payment: Quarterly
Prepayment penalty: 9 months of interest minimum
Funds in escrow: NA
Status: Performing
Default rate: 20%

V) First lien on a 7,484 sq. ft. home in NW, Washington DC. The loan was originated by TFP in December 2015.

Loan Balance: $2,000,000
Annual mortgage rate: 14%
Maturity: 12/23/16
Payment: Monthly after initial six month period (now ended)
Prepayment penalty: 10 months of interest minimum
Funds in escrow: $25,000
Status: Performing
Default rate: 20%

VI) US Government contract factoring – Discount factoring of US government contracts. Returns are 20% plus. Current exposure: $350,000 monthly/running.

Real Estate Owned: NA

<u>Individual Credit Review</u>

I) This loan was originated right at the end of the quarter after about a month and a half of negotiations. While there are many pieces of collateral involved, to simplify, the borrower is all-in with all his assets and a lot of equity behind us. He is developing a number of Section 8 housing projects with the exit strategy for TFP being a refinance into a long term loan from HUD. We think this outcome is very likely. The only question is how long does it take. This is to be determined, but a six month extension for a fee would not be the worst thing that could happen!

II) This is a rather large development loan to a solid, well-known borrower. This will be our fourth project with this developer. All previous ones have paid in full and on-time or early. We continue to like the model these capable people have developed, because it starts with presales of most of the units (with deposits) before really any development takes place. We expect to start closing on units in August and, we anticipate, should be mostly repaid by the time we write to recap Q3.

III) The Fund purchased this loan at a substantial discount and closed at the end of March. We have had a number of discussions with the borrower since purchase and payments have been punctual. While there is some energy sector risk for sure, we believe we acquired this asset near 'bottom', though prospects for the outcome are surely dependent on the need for decent housing in Williston and environs. While only time will tell, we believe that with oil above $40/barrel, this situation pays in full and is a big winner for the Fund. The Fund will make good money with oil in the $30-40/barrel range, but it will be a longer, harder slog, which may require taking ownership. Less than $30/barrel for an extended period of time will certainly diminish the returns ultimately realized.

IV) We extended roughly another $105,000 of construction draws to this borrower at time of writing and estimate the balance of $225,000 will be extended by late summer. Construction is about six weeks behind schedule, so we anticipate an October completion date, which likely means a payoff somewhere around year end. While there are always issues that come up with construction, we know the borrower well and feel good about both the property and his ability to execute.

V) This loan is the classic 'transitional' loan, which came to us from a new source. The collateral is very high quality – great property and location – with no moving parts, i.e. completed in 2004 with no construction involved. The complexity is the borrower's situation. Things seem to be on track with the borrower's cash flow situation, though we will only know for sure on August 1 when her fist monthly interest payment is due after the interest reserve has been exhausted. We also expect this loan to pay off sometime in Q4.

VI) Our target remains to increase this activity to over $1MM monthly on the books by year end 2016. Unfortunately, we took a little step back toward this goal in Q2 and the new relationship we were looking at did not pan out. We will continue to explore ways to grow this business, but only if they make sense for the Fund.

Supply Pipeline and Outlook

Q2 deal flow was decent. We hope this trend will continue. As we are mostly invested, new deals now would allow us to expand the portfolio somewhat before we get into Q4. We probably do sixty percent of our annual investing at year end and expect we will again be able to reinvest the loans which are rolling off on attractive terms. While it is hard to determine exactly how macro trends like the huge maturity rollover of 05-07 debt will play out for what is a very micro and idiosyncratic fund, we do think that big picture trend will provide an expanding set of good lending opportunities over the next year or two. The headwind will almost certainly be the global economy, about which we are less than sanguine. Obviously, there is one scenario in which the large rollover of debt collides with a recession (or worse) such that i) rates of return on risky/illiquid loans rise substantially and ii) there are a far greater number of quasi-distressed borrowers. While that would not be Janet Yellen's preferred outcome, it would likely be ideal for us. We are obviously watching this very closely and will be more aggressive in fundraising if this sort of scenario appears to be unfolding.

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers LLC. The Fund is largely invested in a strong and diverse portfolio of loans that should drive returns for the rest of 2016. We will continue to try and align credit-worthy, albeit blemished, borrowers with investors seeking high risk-adjusted returns/income. 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 or 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.