

# TRANSITIONAL FUNDING PARTNERS LP

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July 17, 2017

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 1.71% for the second quarter of 2017. The Net Asset Value of the Fund was approximately \$21.15 million as of July 1, 2017. The Fund is holding excess cash currently even after making two new loans this quarter. We do have some good prospects on the radar for Q3 but can be sure not all of them will materialize.

Enclosed please find your Limited Partner Statement for the second quarter of 2017 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**

We first note that capital raising, particularly by the largest private debt funds, is hitting new record highs of late. Still, notes Private Debt Investor in a recent article, “many market observers predict that the benign cycle for debt investment since the financial crisis cannot last much longer....’ The abundance of liquidity has driven performance very much down. It’s not just pricing but structure terms. It might be worth taking a pause and asking how much more aggressive is this going to go,’ said Agens Mazurek, a managing director at MIDIS/Macquarie Group.” We surmise this wall of money will continue to drive market returns lower, at least in the near term, which will ultimately sow the seeds of the next distressed cycle.

It is also noteworthy that despite the Fed’s recent ‘tightening’ efforts, the financial conditions index (graph below) indicates monetary conditions are actually much easier than they were last fall and approaching all-time highs again. As with previous cyclical peaks, much of this easiness can be attributed to lofty and apparently stable (non-volatile) equity prices. Most credit-related spreads are somewhat tight but not ridiculously so. As noted in our last letter, equities are certainly the asset class creating the froth to the extent it exists. We will continue to monitor equity prices closely as they are perhaps the most transparent indicator of potential troubles on the economic horizon.

## US Financial Conditions Index



Source: Bloomberg

Until such time as problems arise, we will have to be content combing through the opportunities we see to try and find the limited number of idiosyncratic situations that offer compelling risk-adjusted returns. This largely means a laser focus on how we get our money back on any deal we do under any scenario and then finding ways to add to return on loans we like through equity kickers, prepayment penalties, prepaid interest and other value-adding strategies. Though we may regret this statement, we are hoping for a little more volatility and some distress this fall. [Be careful what you wish for!]

### Portfolio Composition

We made two loans in Q2 and received one slightly unexpected payoff of the multi-family loan in Baltimore. As this project is in a less-than-desirable location and needs considerably more capital to get it to stability, we were frankly happy to be refinanced out of the deal at the end of the quarter. The following are the loans in portfolio at quarter end:

- I) First lien on a residential property on Lake Minnetonka, MN. The loan was originated by TFP in June 2017.
  - Loan Balance: \$2,560,000
  - Annual mortgage rate: 14% plus one point
  - Maturity: 06/22/2018
  - Payment: None. A twelve month interest reserve is in escrow
  - Prepayment penalty: One year interest required
  - Funds in escrow: \$443,947
  - Status: Performing
  - Default rate: 24%
  - Additional credit support: PG of third party
- II) First lien on 101 +/- acres and water rights in Peoa, UT. The loan was originated by TFP in May 2017.
  - Loan Balance: \$950,000 (\$650,000 disbursed, remainder as construction draw)
  - Annual mortgage rate: 14% plus one point
  - Maturity: 05/31/2018
  - Payment: Monthly
  - Prepayment penalty: One year interest required

- Funds in escrow: \$306,112  
 Status: Performing  
 Default rate: 24%
- III) First lien on four condominium units in NW Washington, DC. The loan was originated by TFP in February 2017.  
 Loan Balance: \$2,000,000  
 Annual mortgage rate: 14%  
 Maturity: 02/03/2017  
 Payment: Monthly after initial six month period  
 Prepayment penalty: Seven months of interest minimum  
 Funds in escrow: \$70,785  
 Status: Performing  
 Default rate: 20%
- IV) First lien on three parcels of land, one in Hudson, WI and two in Grand Forks, ND. The parcel in Hudson is being developed into a Holiday Inn Express with an (existing) convention facility next door. The two lots in Grand Forks are desirable locations suitable for medical building development. The loan was originated by TFP in November 2016.  
 Loan Balance: \$1,550,000  
 Annual mortgage rate: 12% of gross loan balance + 4 points upfront  
 Maturity: 11/15/2017  
 Payment: Monthly  
 Prepayment penalty: NA – Full 12 months interest due at payoff  
 Funds in escrow: \$26,354  
 Status: Performing  
 Default rate: 20%
- V) First lien on a 5.61 acre residential property containing a 2,935 sq. ft. home, nanny's quarters and a guest house being remodeled in Greenwich, CT. We have restructured this loan to provide some needed follow-on construction financing at an increased default rate. The loan was originated by TFP in December 2015 with additional financing provided in May-July 2017.  
 Loan Balance: \$2,100,000 (initially \$1,050,000 at closing with the remaining \$1,050,000 to be fully disbursed by August 1, 2017)  
 Annual mortgage rate: 14%  
 Maturity: extended  
 Payment: At maturity  
 Prepayment penalty: NA  
 Funds in escrow: NA  
 Status: Restructured performing  
 Default rate: 25% (current)
- VI) 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 extended  
 Payment: On demand  
 Prepayment penalty: NA  
 Funds in escrow: \$10,454  
 Status: Default – Forbearance with SW Deed held in escrow if default is not cured timely  
 Default rate: 20% in effect since Feb 1, 2017
- VII) US Government contract factoring – Discount factoring of US government contracts. Returns have averaged over 20% annually. Current exposure: \$350,000 monthly/running.

Real Estate Owned: NA

## **Individual Credit Review**

- I) The current owner of the property needed to refinance loans which had come due and which were in default. He was able to negotiate an attractive payoff with the previous lenders but needed cash relatively quickly to get the deal done. In addition to the collateral, we also have an unconditional guarantee from a second party who has considerable net worth. The property is now listed for sale and it would be reasonable to think it will be sold in the next few months. May-Sep is the best time to sell property on the Lake.
- II) This is a repeat borrower who paid off a loan on portions of this same property in 2016. The loan paid off one remaining lien on the property and provided the borrower with some needed operating cash. His intent is to develop the land and repay the loan via the sale of new homes. We are holding a portion of the loan in escrow to be drawn by the borrower for construction of the homes.
- III) We have no concerns about this collateral. This will likely just be a timing question, i.e. when do we get paid. The planning and zoning staff at Washington DC DCRA has delayed the final Certificate of Occupancy by 3-4 months. The permit has now been issued and the final punch list items completed. Sales of these units should be ongoing. While there is a seven month interest guarantee on this loan, it is likely much of it will be prepaid before then.
- IV) We are waiting for the developer to secure his construction financing, which will be used to pay us off and then break ground on the hotel project. We are told this will happen well in advance of maturity. We will see. Separately, we believe a sale of the North Dakota properties, and thus a partial payoff, is imminent.
- V) The borrower is finishing development of the home. A six month extension was granted for additional compensation to the Fund. We then restructured in May to provide the borrower needed construction financing to complete and sell the project in exchange for enhanced returns to the Fund. Alternatively, we estimate there is a somewhat higher chance of taking possession if a ready buyer doesn't emerge.
- VI) The loan is now in default and accruing at the 20% default rate. We are very comfortable with the collateral, which is one of the best locations in Washington DC. We have agreed to forebear for a period of time, at which point we will simply take possession of the property via Special Warranty Deed held in escrow with the full amount of the loan being the 'good and valuable consideration'.
- VII) This activity is disappointing. The returns are fine, but it is not big enough to move the needle. The silver lining is that it is a fairly low maintenance activity for us, so we continue to engage with our partner here with the hope that volume will grow. We will reassess at year end if we are not able to increase scale.

## **Supply Pipeline and Outlook**

We have two relatively large deals on our radar that could get much of our remaining cash to work in Q3. However, we never count our chickens until the loans actually close. Ideally, we will get most current cash to work by September and then use payoffs, cash flows, and potential new investments as dry powder for opportunities that almost inevitably arise at year end.

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers LLC. 2017 has been a good year thus far, though it does appear to us there are less really attractive lending opportunities, more speculative requests, and increasing strain in some borrowers' ability to pay. All of those are often indicative of a top in the credit cycle. A focus on return OF capital remains paramount. 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.