TRANSITIONAL FUNDING PARTNERS LP
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October 26, 2018

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 0.65% for the third quarter of 2018. The Net Asset Value of the Fund was approximately $22.5 million as of October 1, 2018.

Enclosed please find your Limited Partner Statement for the third quarter of 2018 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

The Fed has continued on course with what they have been saying for at least the last year. So far, so good! I, at least, am surprised they have been able to unwind the loose policy of the past decade so gracefully and, as of yet, without any major hiccups. Their track record for tapping the brakes just hard enough without causing the economy or financial markets to break is dismal because doing so is very difficult. They are certainly now entering the danger zone. As short rates approach 3% and the unwind of QE increases to $50Bn/month, the mountains of outstanding debt that was used to "resolve" the last crisis will begin to weigh heavier and heavier. At the very least, it will require a repricing of most assets as a simple mathematical exercise. How that repricing transpires is the question mark. Again, historically, this does not happen in a nice linear fashion. It is normally an abrupt drop to a point where unlevered capital finds the expected rates of return attractive, often aided and abetted by accommodative central bank policy. Unfortunately, in the next cycle, this stimulus will be largely unavailable. In our view, the macro table is definitely set for significant dislocation and distress. Nonetheless, timing is everything in life, and one does not get the luxury in this business of being 'right but early' indefinitely.

While the 'opportunities' we are seeing to originate loans remain nearly non-existent, we are seeing a lot more special servicer and/or REO coming to market through auction or distressed platforms. Most of this appears to be the remains of 2006-07 CMBS mistakes. After maturity defaulting one to two years ago, these properties are now making their way through the special servicer's pipeline and, they hope, off their balance sheets. Unfortunately, the mostly REO auctions that occur are not completely transparent, so one cannot tell for sure what is ultimately happening to these properties, i.e. are they actually selling or simply being pumped up in hopes of catching a prospective buyer leaning or, more likely, being put back on the shelf to be dealt with another day. Our sense is that liquidity for most real property is not great currently and likely getting worse rather than better. Retail, of course, has myriad problems. Hospitality is a mixed bag as is office, i.e. there are diamonds in the rough but there are also plenty of problematic properties. Multifamily and industrial seem to remain strong, though multi-family has garnered the most capital/leverage in this cycle and, consequently, seems likely to have a rough ride in the next downturn. We continue to increase the Fund's liquidity in anticipation of capturing some truly exciting returns in the relatively near future.

Portfolio Composition

We have one or two issues to clean up in the next few weeks and then the deck will be cleared for juicier opportunities at year end and into 2019. In the meantime, we are trying to keep invested in things that are liquid and reasonably definable as well as secure/secured as described below. The following were the loans and other non-money market assets in portfolio at the end of Q3 2018:

I) First lien on a 2.33-acre commercial property currently containing a bar and liquor store in Williston, ND. The parcel can be entitled for broader commercial development and lies directly across Highway 2 from the airport. The loan was originated by TFP in March 2018.
   - Loan Balance: $600,000
   - Mortgage rate: 15% flat + 2points prepaid interest
   - Maturity: 03/26/2019
   - Payment: Monthly
   - Prepayment penalty: NA – One-year interest due if prepaid
   - Funds in escrow: $23,559
   - Status: Performing
   - Default rate: 20%

II) US Government contract factoring – Current exposure: $170,000 plus interest. In default. Collection process ongoing.

III) Real Estate Owned:
5.61-acre residential property containing a roughly 7,200 sq. ft. newly constructed main residence plus a guest house in Greenwich, CT. This loan was restructured twice before we took possession of the property in February 2018. We are actively marketing the property currently after some delays in completion. There is a friendly second lien behind our first, which complicates matters slightly.
   - Loan Balance: $2,800,000 including interest (increased to complete project, carry and market)
   - Status: REO

IV) Puerto Rico Cofina SUT-backed Jr. lien municipal bonds – Current exposure: $1,560,000. Plan of Adjustment expected to be court approved this month. Relatively liquid, tax-lien secured debt which is a sort of risk arb 'transitional' position for the next few months until the new investment grade security is issued.

Individual Credit Review

I) This loan is to a repeat borrower who found himself in a short-term cash crunch. The Borrower has a lot of moving parts in his financial world. His level of financial distress is significantly impacted by other lenders on other projects, so we will have to wait and see how those negotiations play out. Thus far, he has made all payments without issue.

II) This activity has been disappointing. We are exploring other ways of building this business internally, though they have not been fruitful. We are now in the process of collection on the final balances still outstanding with the partner we had been working with. Legal action has been taken and is slow but ongoing. Judgment in our favor is anticipated in November. This will expedite collections with the USG.

III) After repeated restructurings and extensions, this borrower finally gave up the property via a deed-in-lieu type arrangement in February. We took over the site in late December and have been working to complete the interior and site work ever since. Poor New England weather and some negligence on the part of the borrower hampered completion of the project. It is now done and being actively marketed for the Fall season.

IV) The Puerto Rico Cofina story is one we have followed for years. Fortunately, the long-running dispute between GO holders and Cofina holders over who has rights to the Sales and Use Tax income has now been resolved via negotiated settlement. The issue has never been lack of money in the trust to secure debt repayment. The issue has been who gets it and/or how much? The Plan of Amendment expected to be approved by Judge Swain this month calls for Sr. Cofina creditors to receive 92 cents and Jr. creditors to receive 56 cents. As soon as the Court approves this plan, it will then likely be some weeks before the new "superbond" security is issued according to the terms of the Plan to replace existing securities. We believe the new bond will be investment grade, much more liquid than all the existing securities, and will trade around par as it will be highly sought after by specialty state muni funds, in particular, which now own no Puerto Rico paper. In short, we have a tradeable security, backed by cash in a trust plus the future dedicated sales and use taxes in Puerto Rico, which will be converted to a much more liquid security at a 20-25% premium relatively soon. This is a 'transitional' deal arbitrage which should be concluded in the next six months.

<u>Supply Pipeline and Outlook</u>

The supply pipeline is quite weak currently. Most of the prospective loans we are seeing are either very speculative or are being funded at lower rates. We anticipated doing a $4MM financing with a repeat developer next month, even at a slightly more aggressive level than previous deals, but ended up losing out to someone who would fund at a higher LTV and lower rate. Several of the loan requests we see now are subsequently being funded at single digit rates, which does not come close to meeting our return objective and does not even make sense given the increased yields available in the liquid securities markets. It is hard to tell whether this means the economy is very healthy or the end is near! As we have previously noted, in the current environment, we believe low to mid double-digit return expectations, given the risk we are willing to take, are optimistic. Mid-single digits are more realistic, and, it should be noted, our fee structure is designed to make sure investors keep most of the return in a lean environment like the current one. We are optimistic that if the Fed continues its current course, our patience and excess liquidity will be rewarded at year end and into 2019.

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers LLC. 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 across the fixed income universe.

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, Enhanced Municipal Managers LLC, ASA Managed Account Managers LLC, Transitional Funding Partners LP, TF Managers LLC, Occum Partners LLC, and Occom Opportunity Partners LLC.