

TRANSITIONAL FUNDING PARTNERS LP

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January 16, 2019

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 0.35% for the fourth quarter of 2018. The Net Asset Value of the Fund was approximately \$22.3 million as of January 1, 2019.

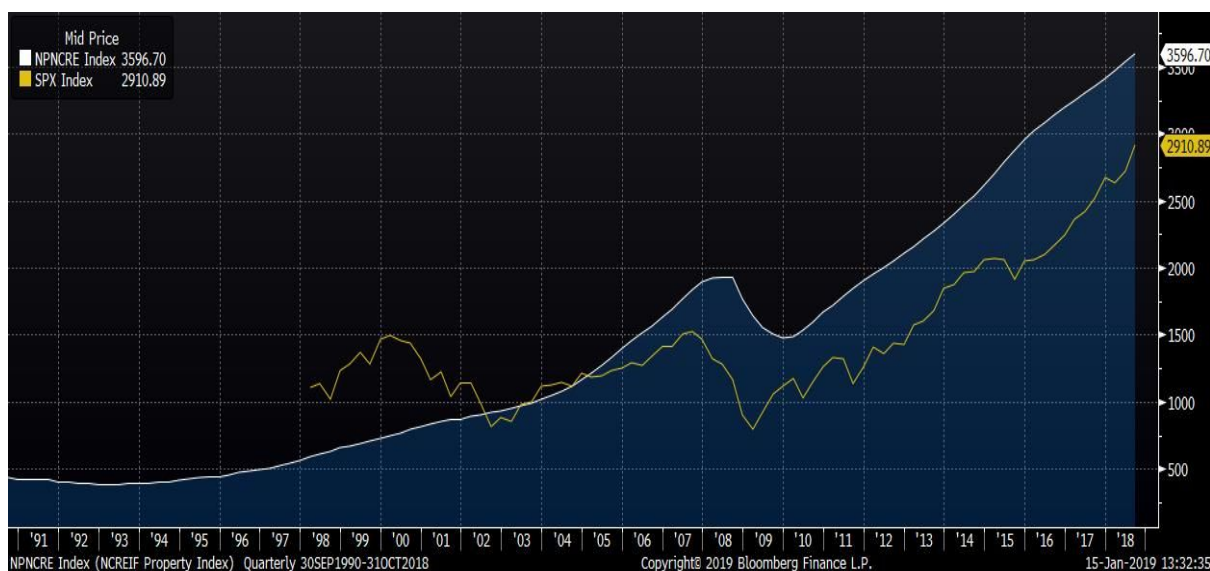
Enclosed please find your Limited Partner Statement for the fourth quarter of 2018 issued by Alternative Strategy Advisers LLC (“ASA”) in its capacity as administrator of the Fund. Limited Partners who have so requested should have received an electronic version of the enclosed statement via email. Any investor who did not receive either his/her statement electronically should contact ASA immediately to correct this problem.

The Lending Environment

Q4 provided an inkling of what the transition to a modestly tighter monetary policy environment might look like. Aside from the President’s daily tweets, the more substantive effect was that stocks revalued by about 20% at the lows on Christmas Eve. This looked to us to be about 60% of the way to ‘fair value’ in a normal (positive real interest rate) environment. However, we would not have expected, nor would it be particularly healthy, for the full revaluation to happen in a month! Over the next two years, a decline to the 1900s for the S&P 500 seems likely in our view, and, though they will never admit it, that is probably fine with the Fed as long as it happens gradually. Interestingly, it is clearly not OK with the President, because he measures the success or failure of his administration largely on the level of the stock market. It would be supremely ironic if, after all the machinations, bluster, and credit-taking, equity prices were unchanged during the four years of his administration.

It is hard to predict to what extent equities falling 20-25% from today’s levels will impact the value of real estate (collateral). As we can see from the graph of the Commercial Real Estate Index (NCREIF) and the S&P 500 below, asset inflation has been in full force since 2009 with the bubble in real estate arguably bigger than in equities. The commercial real estate index falling to around 2,500, or down by about 1/3, seems very believable as that would still be 30% above pre-crisis highs.

Commercial Real Estate and S&P 500 Performance



Source: Bloomberg

Inflated commercial valuations and rapid credit growth make the current environment very challenging for the Fund. Essentially, the only way to achieve our return bogey is to lend too much money vs. the collateral pledged. As long as the music keeps playing, we might get by with it, but if we think there is a decent chance collateral drops by 30-40% and we are forced to lend 70% or more of current value to win the loan, we could be looking at a 10-30% loss on current deals after collection costs, etc. In short, the risk-reward proposition is marginal at best. Consequently, we are focusing on maximizing secure returns until the transition to more sustainable valuations occurs, i.e. until it is safe to get back in the pool!

Portfolio Composition

The liquidation of both the Greenwich property and outstanding government receivables has been painfully slow and year end was not fruitful. As a result, a significant portion of the portfolio is now in higher yielding money market instruments. The following were the loans and other non-money market assets in portfolio at the end of Q4 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:	03/31/2019
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 after some delays in completion. There is a friendly second lien behind our first, which complicates matters slightly.
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|---------------|--|
| 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 cost-basis exposure: \$1,710,000. Plan of Adjustment expected to be court approved this month. Relatively liquid, tax-lien secured debt which is a risk arb ‘transitional’ position that should be liquidated when the new investment grade security is issued in the next 30 days.

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 received our judgment against the borrower here and are pursuing our rights thereunder. Unfortunately, this could drag on for several more months.
- III) The project is now completed and actively marketed. We are pressing for a spring sale at latest.
- 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 a 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 days before the new securities will be issued to replace existing securities. We anticipate returns from this transaction will carry the Fund’s performance for the Jan-Feb period.

Supply Pipeline and Outlook

The supply pipeline is quite weak currently and when we do find a loan that begins to look interesting, we are losing out to lenders willing to lend more money at lower rates. It feels like the bubble may be bursting, though the Fed is clearly going to do its very best to make sure it is a slow leak rather than a POP...as they should. Your patience is appreciated while we await the return of a double-digit environment.

Thank you for your support of Transitional Funding Partners L.P. and Alternative Strategy Advisers LLC. We hope you had a nice holiday season and that 2019 is off to a great start. 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.

*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 Occum Opportunity Partners LLC.