TRUELINE CAPITAL

TRUELINE CAPITAL FUND II, LLC

INVESTOR UPDATE l October 2018

Welcome to the Trueline Capital Fund II investor update for Q3 2018. We saw a number of material developments in the real estate markets and our portfolio over the summer. We have obtained more clarity around our distressed (special) assets which include defaulted and foreclosed loans that we have been working through, as well as their impact to investor returns for 2018 and into the first quarter of 2019. We also have some observations we would like to share around the state of the capital markets.

The Fund generated a 7.25% return to equity during the most recent third-quarter (Q3). The Manager has decided to waive $22,500 in management fees to ensure investors earn the 8% preferred return for Q3. The preferred return has already been distributed through the monthly distributions and there will not be an additional EDC (Excess Distributable Cash or "profit") distribution above the preferred return this quarter. The reason for the lower return was due to the previously described defaulted and foreclosed assets in the portfolio that are tying up a significant amount of capital without generating monthly interest revenue that we can recognize. (Please note that we should acknowledge that we had previously expressed optimism for the coming quarter(s) as recently as June and July of this year. This favorable outlook was rooted in several expected 'net positive' events that were underway inside the business.) We've outlined these events below:

1) Expected liquidation of five (5) of the remaining Luca Avenue townhomes over the summer selling season.
2) The Sale of four (4) residential properties that had loans that included 'Shared Appreciation Mortgages' (SAM) by year-end that would provide additional revenue to the Fund. A SAM is a loan that includes a profit participation to the lender when the project liquidates.
3) To have finalized the foreclosure and liquidated the two assets that went into default in January 2018
4) To see an increase in origination volume over the summer construction season.

In fact, none of these elements came to fruition, and the markets didn't support expected liquidation timing or pricing. The remaining townhomes have been slow to sell and have sold at lower price points than we had planned. Construction slowed on the projects with SAM loans and, combined with some slowing in the sales market, pushed off our realization of this revenue. One of our defaulted borrowers under foreclosure declared bankruptcy the day before our foreclosure was finalized which pushed back the foreclosures by 60 days on one (we now own this property which is under contract for sale) and have experienced 120 days on the other (we will take title in the next 30 days). Lastly, origination volume slowed some over the summer as cities were slow to issue building permits and builders were slow to complete and sell projects.

Additionally, in pursuit of the 'more' conservative balance sheet strategy, the Manager continued to reduce the Fund's leverage over the quarter. On October 1st, 2018 the Fund carried 12% of its capital as bank debt in the form of lines of credit down from 24% in Q1 and 16% in Q2. This conservative approach is expected to protect investor capital through various market cycles.

Defaults and foreclosures

As we have described in previous investor letters and calls starting in 2017, the Fund had two borrowers default in late 2017 and early 2018, both for personal financial reasons. These two borrowers represented five loans across the greater Portland area, with aggregate loan amounts across the projects totaling $ 4.215 million. When a loan goes into default the Manager chooses to remain conservative in the recognition of revenue; which means we most often cease to recognize any revenue even though interest continues to be calculated as part of our basis in the loan. And as the quarter advanced through the summer, we saw the impact of having this 'captive and non-performing' capital tied up in foreclosure assets that are not generating yield. Thus, Fund revenue was lower in Q3 and returns were impacted negatively.

KEY POINT: As a result of the above-described elements, the Fund carried an average of 3.6 million in non-performing assets in the portfolio throughout the third quarter. We conducted an analysis of what the Fund returns would have been if we adjusted for the impact of these assets and estimate the Fund would have generated a 10.4% return to investors.

Return expectations for Q4 & 2019

Of the five loans that defaulted, the largest and most material was a loan on a 6-unit townhome development in a Portland, Oregon. The Fund secured the project via a negotiated deed-in-lieu of the foreclosure process, completed construction in May 2018, and began working on liquidating the units – either as rentals or through sales. As of the end of Q3, we have sold one unit for $424,000, another unit for $450,000, a third is under contract for $450,000. The remaining three townhome units have been rented out under 12- and 24-month lease agreements. The manager believes the Fund will need to recognize a write-down on the value of the real estate at year-end that is likely to reduce Q4 fund returns as well. We expect this to be a one-time event after which the Fund will return to its long-term return projections in 2019 as the balance of the portfolio, containing a high number of performing loans, are expected to generate typical Fund returns in 2019.

KEY POINT: If the Fund does not generate enough net income to achieve the 8% preferred return to investors, the balance of the preferred return will roll-over to the following quarter and the manager will not receive any performance fees until equity investors have caught up to their 8% preferred return. In the Fund's offering documents, this is described as a "cumulative" preferred return.

Slowing sales in the residential market

The Manager has noted a material slowing of the real estate markets across our primary lending regions. Inventories have ticked up along with days-on-market. Additionally, our data suggests that a substantial number of 'existing home' inventory (units) have entered the market over the summer as many home owners have decided the market has topped off and begun to list their long-term primary residence. Anecdotally, it suggests that buyers are in a little bit of a wait-and-see mentality just in case prices adjust over the winter. The effect of these psychological phenomena can become a self-fulfilling prophecy where inventory sits, and buyers feel less urgency to make offers. We believe this could be a short-term aberration in the Pacific Northwest market that will regain its footing in the spring due to the simple supply-demand economics we continually refer to – that there is not enough housing in this region compared to the job creation and population growth needs. Real estate analytics firm, Veros, forecasts 9.3% appreciation in the housing market in 2019 across Seattle-Tacoma-Bellevue markets further complementing our strategy in Puget Sound.
(http://www.veros.com/news/2018/10/veroforecast-q3-2018-us-housing-marketing-forecast-report/)

Interest rates and capital flows in the capital markets

Lastly, as interest rates continue to march upward, buyers of homes are under affordability pressure – especially considering that home prices are really a function of the monthly mortgage payment, not the actual dollar value of the sale. Interest rates on the Fund's commercial debt lines have also increased over the last few years making the Fund's average cost of capital higher.

On the capital markets side, we have seen small portfolio lenders (like Fund II) dominate the construction market for the last decade as 'institutional' capital was unable to find its way into this real estate niche. That trend has reversed in the last 12 months as a number of larger 'institutional' investors are deploying significant amounts of capital into our industry creating a more competitive lending landscape. The effect of the increase in capital is that more money is chasing fewer good borrowers, forcing lenders to compete for deals at lower price points.

We see this trend providing two options as investment managers: 1) chase high yield loans with lower-quality borrowers and lower quality projects, or 2) lower our interest rates to compete for higher-quality borrowers. As a management team, we have chosen to price our capital more competitively and engage with higher-quality borrowers to lower our risk of default.

The impact to our investors is a reduced return expectation to 8%-10% yields over the course of 2019 instead of the 10%-13% returns we have been delivering for the last two years. We believe this is a safer portfolio that is less likely to result in losses of principal from defaults as we move through what could be a more tumultuous market over the next few years.

ADAPTING OUR INVESTMENT STRATEGY

Over the last year, we have identified a new opportunity we are implementing to achieve the Fund's strategic goals. As we mentioned, 'institutional' investors have moved into our niche of the real estate market. Due to this movement, these institutional investors – hedge funds, life insurance companies, and technology platforms that raise capital online – have all positioned themselves primarily as 'indirect lenders' or note buyers. They are seeking originators, like Trueline Capital, to source debt deals and are looking to purchase senior-secured notes from originators.

This opens a unique opportunity for the Fund whereby Trueline Capital may increasingly originate a new loan with its own balance sheet (Fund) and then a few weeks later sell some of the originated loan volume to one of these capital partners. The Fund's compensation on these transactions is to retain a point (1% of the loan amount) as an origination fee for using its capital to originate the loan, plus (of course) interest income for the duration period of holding the note on its own balance sheet. The economic impact of earning a 1% origination fee on loans that are only held in the portfolio for a short time could turn out to be very attractive to the Fund.

As an example, in September, we originated a bridge loan to one of our long-time borrowers on a property that the borrower owned free-and-clear and was looking to complete a refinance to pull cash out of the property while waiting for permits. In this case, we originated and sold a $1,440,000 loan in mid-September and the Fund received a 1% fee for $14,400 that could be recognized fully as revenue. This single transaction brought the Fund's Q3 return up by an annualized 0.5%.

As we have detailed in several investor letters, we have been engaged in selling notes out of the portfolio to capital partners for the last year, but only after construction was completed (the Fund typically held loans for 6-10 months during construction). The difference in the new model is that some of these capital partners are wishing to purchase the notes earlier in their lifecycle. Over the long term, this may mean that the Fund reduces the size of its 'owned' loan portfolio in order to free up capital to originate and sell new loans in a high-velocity model more akin to traditional mortgage banking in addition to its more typical practice of portfolio lending.

INVESTOR REFERRAL PROGRAM

We officially ended our investor referral program at the end of Q3. Thank you to the many investors that referred family and friends into the Fund – the program was a huge success as we grew our investor base over the last several months to over 170 investors.

FUND & PORTFOLIO OVERVIEW

FUND STATISTICS I as of September 30, 2018

	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018
Total portfolio	$21,133,885	$20,826,861	$18,724,700	$21,309,566	$20,064,762
Number of projects:	40	34	29	36	37
Average Deal Size	$541,642	$612,555	$645,679	$591,932	$542,000
Total underlying real estate value	$41,963,000	$38,852,000	$32,454,000	$35,747,000	$38,709,500
Loan-to-value ratio on debt holdings	59.9%	62.2%	59.0%	59.6%	59.3%

REALIZED FUND RETURNS

Fund II provided an annualized 8.00% return for the third quarter, bringing our annualized 2018 year-to-date return to 9.23%. Although we expect a write-down on the value of the Luca Avenue townhome development that we have discussed at length over the last year, there is a possibility that the fund will benefit from the liquidation of some Shared Appreciation Mortgages on the Juneau Street Partners loans. If these loans do payoff it will cushion the impact of the Luca Avenue write-down. If they do not pay off until 2019, the Fund's returns may be muted in Q4 and then recover in 2019 as the benefit is realized in the Fund. Once the Fund has worked through the write-down and the foreclosure assets, we expect long-run returns to stabilize between 8%-10%.

The Q3 return brings the Fund's annualized inception-to-date return to 10.4%.

The Manager will host an investor call in the coming weeks to answer investor questions or share more details on the portfolio, the market, and our expectations. Please watch for your invitation.

THANK YOU FOR BEING PART OF THIS BUSINESS!

TRUELINE CAPITAL FUND II, LLC

AS OF: September 30, 2018

REAL ESTATE LOAN PORTFOLIO

Loan Number	Borrower Name	Origination Date	Maturity Date	Loan Amount	Current Interest Rate	Completed Value	Loan to Value	Address
1474	Sterling View LLC	7/29/16	1/29/18	$ 498,000	18.99%	$765,000	65%	1609 Juneau Court, Camus, WA 98607
1493	Lewis River Properties	4/19/17	9/30/18	$ 468,450	13.99%	$665,000	70%	3701 NW 378th Street, La Center, WA, 98629
1511	Cirrus Development	2/26/18	3/5/19	$ 1,150,000	5.75%	$2,802,000	41%	Lots 1-8, Peaks at Pine Meadows, Sisters, OR, 97759
1522	Denali Homes	4/5/17	9/30/18	$ 1,000,000	12.99%	$1,400,000	71%	1090 218th Ave NE, Sammamish, WA, 98074
1525	Key Homes	6/29/18	3/29/19	$ 305,000	5.99%	$630,000	48%	818 Briarwood Cr, Bend, OR, 97702
1527	American Prestige	3/29/17	9/27/18	$ 320,000	9.99%	$462,000	69%	12040 1st Ave S, Buien, WA, 98168
1528	Springer Construction LLC	5/18/17	9/30/18	$ 741,000	11.99%	$1,140,000	65%	21331 SW Nicholas View Dr, Sherwood, OR, 97140
1536	Lev Vel Seward Park LLC	5/18/17	12/31/18	$ 800,000	10.00%	$1,350,000	59%	5120 S Pearl Street, Seattle, WA, 98118
1537	Lev Vel Seward Park LLC	5/18/17	12/31/18	$ 800,000	10.00%	$1,350,000	59%	5118 S Pearl Street, Seattle, WA, 98118
1542	American Prestige	7/31/17	10/31/18	$ 350,000	10.99%	$525,000	67%	4062 S 128th St, Tukwila, WA, 98168
1543	Litchfield Homes	7/7/17	10/5/18	$ 2,015,000	8.49%	$2,900,000	69%	20617 NE 16th St, Sammamish, WA, 98074
1545	Denali Homes	7/28/17	10/28/18	$ 761,000	8.99%	$1,250,000	61%	2387 NE15th St, Sammamish, WA, 98008
1549	Denali Homes	7/28/17	10/28/18	$ 121,000	12.00%	$975,000		2387 NE15th St, Sammamish, WA, 98008
1550	Juneau Street Partners	7/31/17	12/31/18	$ 140,933	10.00%	$1,200,000		3200 SW Juneau, Seattle, WA, 98126
1551	Juneau Street Partners	7/31/17	12/31/18	$ 158,895	10.00%	$1,200,000		5656 32nd Ave, Seattle, WA, 98126
1555	West Coast Builders	9/20/17	10/13/18	$ 2,560,000	8.99%	$4,920,000	52%	1540 NE 175th St, Shoreline, WA, 98155
1563	Evolve Building and Development	10/3/17	4/3/18	$ 150,000	12.00%	$225,000	67%	xxx NW Eastes, Bend, OR, 97701
1566	Evolve Building and Development	1/5/18	10/5/18	$ 604,500	8.99%	$930,000	65%	2047 NW Eastes, Bend, OR, 97701
1567	Evolve Building and Development	2/1/18	11/1/18	$ 604,500	8.99%	$930,000	65%	2043 NW Eastes, Bend, OR, 97701
1571	Benjamin Harney LLC	3/2/18	3/9/19	$ 199,120	8.00%	$600,000	33%	433 NE Dekalb Avenue, Bend, OR, 97701
1576	Evolve Building and Development	9/26/18	6/26/19	$ 675,000	6.99%	$1,040,000	65%	780 Trenton Ave, Bend, OR, 97701
1578	92ND Street Partners, LLC	5/9/18	5/9/19	$ 142,866	12.00%	$1,350,000		742 N 92nd Street, Seattle, WA, 98103
1580	Chalet Homes	6/22/18	3/22/19	$ 403,000	6.99%	$630,000	64%	7405 SE Ogden St, Portland, OR, 97206
1583	Sinclair Construction	6/15/18	12/15/18	$ 367,500	10.00%	$490,000	75%	13766 SE Swordfish Court, Clackamas, OR, 97015
1584	Denali Homes	6/1/18	11/30/18	$ 400,000	12.00%	$740,000	54%	216 S Davies Rd, Lake Stevens, OR, 98258
1586	Cirrus Development	6/8/18	12/5/18	$ 13,000	10.00%	$388,500		370 S Pine Meadow St, Sisters, OR, 97759
1587	Cirrus Development	6/8/18	12/5/18	$ 13,000	10.00%	$388,500		350 S Pine Meadow St, Sisters, OR, 97759
1588	Cirrus Development	6/8/18	12/5/18	$ 13,000	10.00%	$388,500		355 S Pine Meadow St, Sisters, OR, 97759
1592	West Coast Builders	6/15/18	6/15/19	$ 780,000	6.99%	$1,200,000	65%	16118 179th Ave SE, Monroe, WA, 98272
1595	Artisan Homes	8/29/18	8/29/18	$ 1,650,000	7.50%	$2,200,000	75%	67975 Cloverdale Rd, Sisters, OR, 97759
1603	West Coast Builders	8/31/18	8/29/19	$ 265,714	5.99%	$525,000	51%	14914 Manor Way Lot #1, Seattle, WA, 98087
1604	West Coast Builders	8/31/18	8/29/19	$ 265,714	5.99%	$525,000	51%	14914 Manor Way Lot #2, Seattle, WA, 98087
1605	West Coast Builders	8/31/18	8/29/19	$ 265,714	5.99%	$525,000	51%	14914 Manor Way Lot #3, Seattle, WA, 98087
1606	West Coast Builders	8/31/18	8/29/19	$ 265,714	5.99%	$525,000	51%	14914 Manor Way Lot #4, Seattle, WA, 98087
1607	West Coast Builders	8/31/18	8/29/19	$ 265,714	5.99%	$525,000	51%	14914 Manor Way Lot #6, Seattle, WA, 98087
1608	West Coast Builders	8/31/18	8/29/19	$ 265,714	5.99%	$525,000	51%	14914 Manor Way Lot #7, Seattle, WA, 98087
1609	West Coast Builders	8/31/18	8/29/19	$ 265,714	5.99%	$525,000	51%	14914 Manor Way Lot #8, Seattle, WA, 98087
		Average:		**$542,291**	**9.23%**	**$1,046,203**	**59.3%**	
		Total:		**$20,064,762**		**$38,709,500**		

SHORT-TERM REAL ESTATE HOLDINGS

		Purchase Date	Fund II Capital Investment	Market Value	Basis to MV			Address
	2220 Lafayette Ave	9/6/18	$ 850,000	$ 1,000,000				2220 NE Lafayette Avenue, McMinnville OR 97128
	Union Street Partners LLC	6/8/17	$ 50,000	$ 1,600,000				1419 E Union Street Seattle WA
	92nd Street Partners LLC	8/31/17	$ 50,000	$ 975,000				742 N 92nd Street Seattle WA 98103
	13752 SE Luca Ave	11/2/17	$ 2,666,970					13752 SE Luca Ave, Clackamas OR 9705
		Total:	**$3,616,970**	**$3,575,000**				