Sortis
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SORTIS INCOME FUND

Investor Due Diligence Overview
First Quarter 2023

Contents:

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I. Summary

The Sortis Income Fund, LLC (SIF) is a private lending fund that owns business purpose first lien bridge loans and began in February 2017. Initially, we primarily lent against residential real estate, but as that market became overly competitive, we pivoted to commercial real estate (CRE) lending in mid-2019. This asset class is more in line with our commercial RE lending roots, previously as an FDIC chartered Bank. Our current total SIF assets are around $175 million comprised of 34 loans and real estate (RE), plus liquidity, and the projected capacity is $500 million. The annual net return to investors has been 9.66% over the life of the fund, 9.5% in 2022, and 8.3% in the most recent quarter.

The parent company is Sortis, LLC (Sortis), whose subsidiaries include Sortis Operations, LLC, its wholly owned subsidiary, and Sortis Fund Manager, LLC (SFM), the manager and fund administrator of the SIF. SFM is a licensed Registered Investment Advisor with the SEC. SORFI, LLC (SORFI) is an affiliated entity with Sortis and is a licensed lender in Oregon and California. Licensing is not required in numerous other states for commercial loans. Sortis' executive employees have extensive experience in lending, managing distressed assets, development, M&A, and fund management.

SFM also manages private real estate funds including a REIT launched in 2022, and directly owned hotel, and three Opportunity Zone (OZ) Funds that began in 2019 ($25.3mm in total investor equity across Real Estate), and Private Equity Funds ($13.6mm in investor equity). The REIT acquires stabilized, income producing, core/core+ high quality CRE assets with limited repositioning or lease-up. The OZ Funds have a RE focus and can hold OZ qualified businesses and the Private Equity Funds have opportunistically acquired or invested in operating companies.

Sortis also owns an advisory business which generates fee revenue by raising institutional debt and equity for third-party organizations.

II. Investment Strategy

Principal Protection

The SIF began lending in 2017 with a primary focus in first lien residential RE backed mortgage loans. As that market became more competitive and as the fund size grew to accommodate larger loans, the SIF pivoted in 2019 to our current focus on first lien CRE backed loans. This resulted in a change in one of our partners, from our prior head of lending to Sam Ross (see bios in section V).

Our primary goal is principal protection. We start with fundamentally good RE collateral and aim to lend at a low Loan-to-Value (LTV) where we would be comfortable owning and operating the asset, if needed. Our experience has been that defaulted assets yield higher returns than performing assets due to our low LTV and expertise in working through defaulted assets. The SIF focuses on opportunistic lending situations (where banks and other lenders cannot perform) and moves quickly to structure deals and capture opportunities. Our management has deep backgrounds in distressed assets and workout strategies that help us target opportunities and mitigate risks in our portfolio. While we rarely would make a loan with the intention or desire to own the RE, we are comfortable managing defaulted assets, navigating bankruptcies, and even developing unfinished projects as needed.

Returns

We seek to deliver an 8% to 10% annualized net yield to investors. Our goal is to lend at 2% origination fees (which go into the fund) and a 12% interest only rate for 12 months. This is designed to generate a gross yield of around 14%. Our management fee is 1.75% of AUM and 15% of net income (combined, this is approximately 3.5% AUM equivalent). Considering fund costs (tax and audit, technology/investment platform, servicing, REIT costs, marketing, etc.) that generally do not exceed 50bp of equivalent AUM, undeployed capital/cash drag, and varying levels of origination

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volumes each period, that results in roughly our net yield target range. This net return can vary in any given period if we have atypical amounts of uninvested funds or new originations.

We continue to be able to obtain our origination fee and interest rate and believe we will be able to continue to deliver similar yields for the foreseeable future.

Investments

The SIF can invest in first mortgages nationwide, not overseas, and we have generally targeted opportunities on the west coast. Our fund is technically allowed to invest in second mortgages and acquire RE directly, but we have generally not engaged in these activities. We have also acquired one opportunistic note with a pending foreclosure.

Risks

We believe there are six main risk categories to similar funds and asset classes:

LEVERAGE - none

- No leverage is critical in markets where RE values may decrease
- Throughout recent market disruptions, leveraged competitors have had to freeze lending and dividends to investors to focus on loan portfolios
- Sortis' portfolio performance has remained strong, and we have been able to take advantage of increased loan demand, adding high quality real-estate loans at better yields for investors

DEFAULT RISK

- Minimize single default impact by holding many smaller assets
- Sortis management has significant experience in handling distressed loans and RE assets
- Most of our loans are full recourse and while we have rarely gone after borrowers personally, it provides a disincentive for borrowers to default or file bankruptcy

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LIQUIDITY RISK

- Short-duration loans and high monthly cash flow is expected to minimize the need for secondary market liquidity
- Participation structures allow us to quickly increase liquidity as needed
- Foreclosed RE poses greater liquidity risk, however, Sortis management has a long history of working with distressed assets

PROPERTY VALUE DECLINE

- We seek to lend 60-65% LTV, and lower LTVs on land
- Short-term loans with a view on the future of values at origination limits to risk of significant value decline during the life of the loan
- In stress testing, we feel we would avoid losses in the event we experienced another recession equivalent to the Great Recession, given the conservative LTVs and the short-term nature of our lending

CONCENTRATION

- We diversify through carrying many loans (vs a RE Fund with a single project), through geography of lending, and through diversification of RE asset type

UNFINISHED PROJECTS

- With a third-generation developer as our founder, we can step in and finish projects that are unfinished at any point in the life cycle to maximize value to the fund.

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III. Current Portfolio

Highlights

- 27 performing loans, totaling $136.5mm in outstanding balance
- 5 non-performing loans, $16.2mm basis outstanding, $6.4mm of which was acquired as a distressed note
- 1 REO assets totaling $540k
- Average asset size of $4.8mm
- 64.4% LTV ratio ($96mm+ of borrower equity plus additional personal guarantees supporting loan value)
- 11.4-month average loan life at origination

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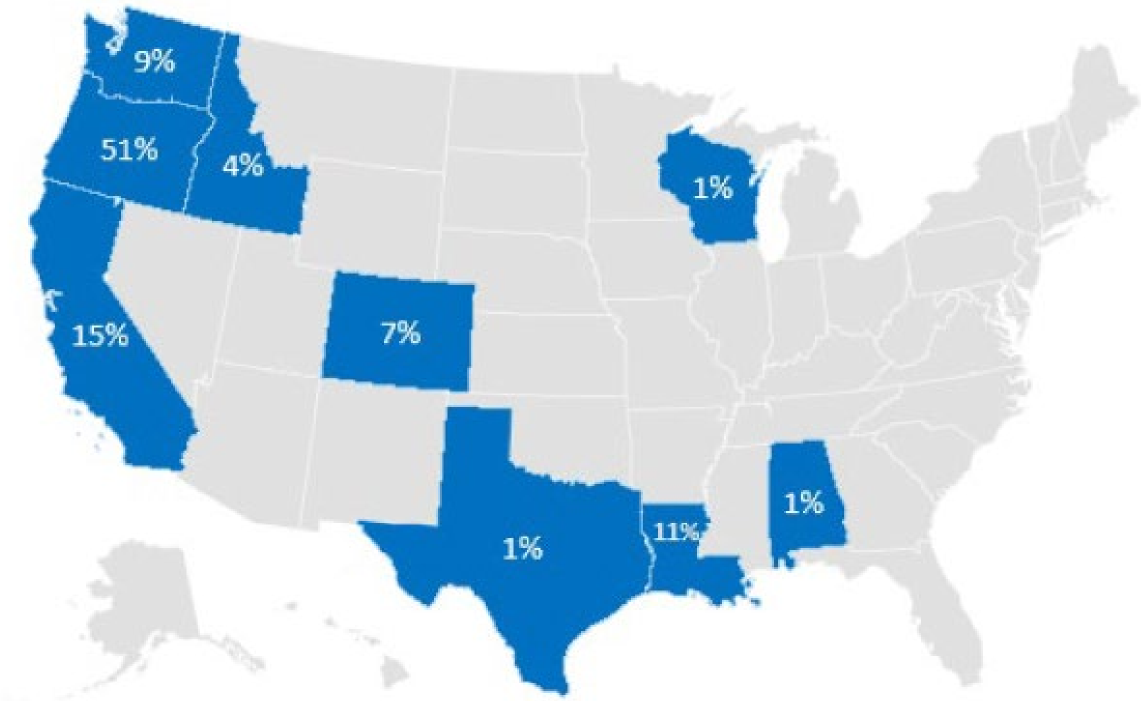
Geographic diversification[1,2]



Note: All data as of March 31, 2023
1. Geography determined by address of loan collateral
2. Percent share based on loan commitment at origination.

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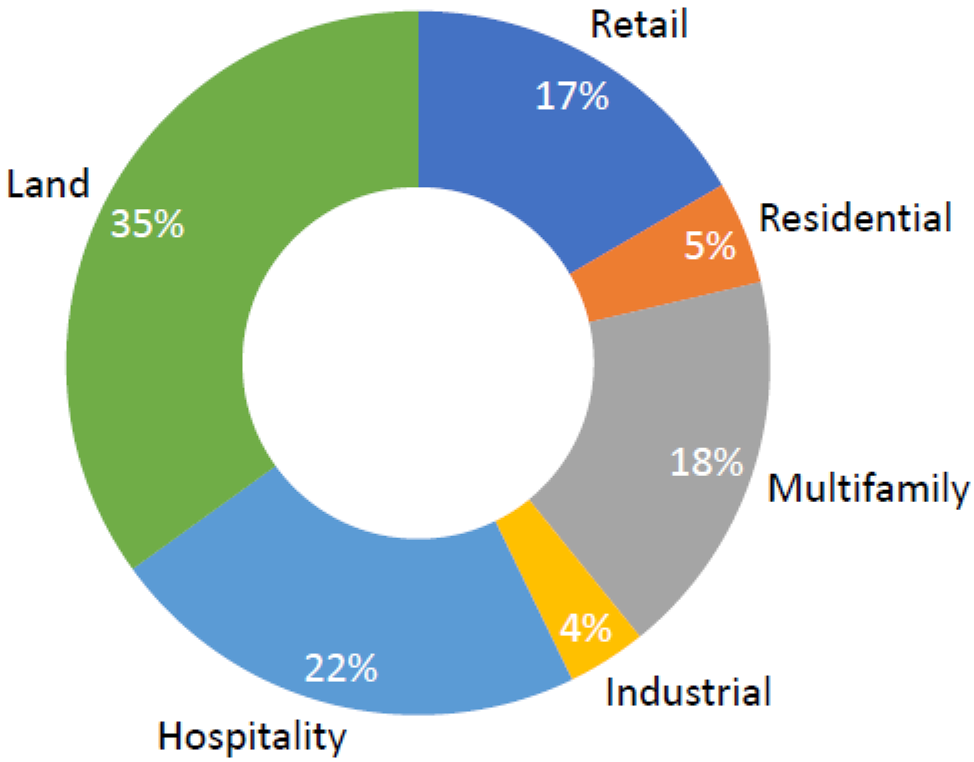
Collateral diversification[2]



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IV. Structure & Fees

Structure

The Sortis Income Fund is an evergreen Reg D, Rule 506(c) private placement LLC that owns a subsidiary REIT. Income is earned in the REIT and a 1099 is issued to the parent (the LLC). Investors are members of the LLC and receive a K1 with income in box 5. Income behaves like 1099 income. Income is eligible for the QBI deduction (20% of income is not taxable for federal purposes) with no phaseout and investors only file state taxes in their home state. We utilize Charles Schwab/TD Ameritrade and multiple IRA platforms as custodians. The minimum investment amount is $50k. Our investors are all accredited and primarily individual clients, with several family offices, RIA's, and other investment groups. We have approximately 650 unique investors currently. Our top five investors make up 13.3% of SIF's total investor equity.

We have partnered with individual investors and institutions from time to time to participate on specific loans, but in all cases, SFM remains the manager of the asset.

We do not utilize offshore/onshore tax models.

The SIF has audited financials going back to 2017.

Fees

The SIF charges a 1.75 AUM fee, and 15% of net income. Standard fund expenses include audit, tax, technology/investment portal, legal, marketing, and a 25bp servicing fee. The fund pays the manager to service the portfolio.

No expenses are paid directly by investors.

Redemptions

We have a 6 month lock up period for investors, and quarterly redemptions thereafter. We informally honor immediate redemption requests (as opposed to

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quarter-end) after the initial 6 month lock up period, subject to available liquidity, and in exchange for the investor forfeiting that quarter's interest.

There is no leverage within the SIF. We are considering a small cash management facility to meet redemption requests, among other purposes, which are currently managed through ongoing liquidity. To date we have had a low level of redemption requests and can often accommodate requests within a month if not sooner. For larger future requests, communication will be needed to set aside liquidity. Redemptions are honored in the order they were received.

On average, the amount of funds held in cash ranges from 0% to 10% of AUM depending on timing of new investment, loan maturity and prepayments, and new loans funding.

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V. Sourcing, Underwriting, & Compliance

Sourcing

We have a broad network (attorneys, mortgage companies, banks, developers, other struggling lenders, etc.) to generate loan opportunities. We have lengthy experience in distress and private financing. We are savvy underwriters and will take on tough loans as long as there is fundamentally solid RE collateral.

Bank lending takes too long (3-4 months) and banks do not like short term loans. They usually require cash flow from underlying collateral. Banks manage CRE concentration to regulatory guidelines. There is a strong demand for commercial bridge financing that the Banking industry cannot or will not meet. We also take on loans that would be non-bankable due to some circumstance with the property or borrower, but there is always strong RE collateral.

Other private CRE bridge lenders tend to focus on straight forward CRE deals. Specifically, they can only lend on core assets classes that are highly competitive (multi-family, mixed use, box retail, light industrial), or they can only handle clean loans with limited rehab or CRE vertical construction. We also differentiate ourselves from other private CRE lenders by being willing to work to understand complicated properties and unique borrower situations and we dive deeper during underwriting to provide financing that solves problems on strong RE collateral for experienced borrowers.

Underwriting

Sortis underwrites, originates, and services every loan in its portfolio. We underwrite the opportunities by reviewing loan packages, reviewing collateral, interviewing the borrower, and researching and visiting the RE. We generate customized loan docs prepared by attorneys specifically for the circumstances of each loan. We do a deep dive on loans and many of the loans we do exceed the capability of other traditional underwriters to understand and secure themselves properly in underlying collateral. We are RE developers, owners/operators, and tenants, and have access to many resources that give us the capability to handle any sort of RE asset, should we take it back.

Our standard underwriting process consists of:

- Targeting a 65% or lower LTV and ensure the sponsors have significant cash in each deal
- Requiring borrowers to guarantee loans
- Receiving personal financials from guarantors, typically including two years' tax returns and a personal financial statement
- Running a UCC search, a BK search, and a judgment search for the borrowing entity, individual guarantors, and the management team of the borrowing entity
- Gathering property financials, which includes rent rolls and historical operating finances, P&L's, and balance sheets for cash flowing assets, and construction budgets, scope of work, and pro forma projections for rehab and construction loans
- Requiring that the borrowing entity only owns our collateral
- Typically, we do not pull credit on guarantors
- Internal valuations are often based off broker opinions, income approach, and relevant comps

Compliance

Sortis has never had an issue with an audit nor been subject to any independent investigations, regulatory audits, violations or notices, federal or state security violations, material litigation, complaints, arbitration, nor disputes.

The partners are not affiliated with any third-party servicing providers, are related to each other, nor have any convictions or indictments.

Our compliance process includes:

- Using a 3rd party for testing for KYC on investors (OFAC, etc.)
- Requiring accreditation paperwork and providing an accreditation service to investors through a third-party – North Capital
- Having an outsource compliance function, Foreside, with an ongoing compliance calendar (policy reviews, etc.)
- Sortis completes an independent cyber security audit annually
- Sortis has registered with the SEC as an Investment Advisor

Jef Baker also operates as the Chief Compliance Officer.

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VI. Management

SFM is a wholly owned subsidiary of Sortis. Sortis has 4 partner employees and one non-partner senior executive, all with 10+ years' experience in lending or RE. Paul, Michael, and Jef are the founders.

Jef Baker
Partner/CEO, Sortis, LLC
Managing Director, Sortis Income Fund, LLC
Jef manages the administration of the Sortis Income Fund as part of his role as Partner at Sortis, LLC (designated fund officer). Within this role he oversees compliance associated with this offering, management of our online investment platform, financial review of the fund and its performance as well as assists with fund raising activities. Previously, Jef was President & CEO of MBank, a $300 million asset bank focused on commercial lending, based in Portland, Oregon, and its publicly held parent, Merchants Bancorp. Responsibilities included, compliance, lending, investor relations, human resources, IT, and operations. He chaired the bank's lending committee, reviewing, and approving commercial loans. Jef was formerly the bank's Chief Financial Officer and also managed the bank's investment portfolio. Prior to that, Jef worked in public accounting at a local Portland firm as well as KPMG as a Certified Public Accountant as a Senior Manager with a focus on financial institutions.

Sam Ross
Partner/Managing Director, Sortis, LLC
President, SORFI, LLC
Managing Director, Sortis Income Fund, LLC
Sam is involved in various capacities in all of Sortis' family of funds and spends his time sourcing, underwriting, analyzing, executing, and asset managing Sortis' various portfolios and assets. Sam started his career in 2010 as an analyst and asset manager at JDI Realty in Chicago underwriting and executing high-yield commercial loans, the acquisition and management of both whole loans and loan portfolios, as well as structuring and overseeing joint venture partnerships. Sam's experience includes underwriting and analyzing debt and equity investments on a wide variety of product types including mixed-use commercial/residential buildings, hospitality, senior housing, condominiums, apartments, parking structures, offices, warehouses, manufactured housing communities, and residential subdivisions. He graduated from Tufts University with a degree in Economics and a minor in Entrepreneurial Leadership.

Paul Brenneke
Partner/Executive Chairman, Sortis, LLC
Paul is the primary resource for loan opportunities for the Sortis Income Fund. He is responsible for overseeing all investment activity and strategy for Sortis and does some RE

project development outside of the funds. With over 30 years of experience in the commercial real estate industry, Paul has been involved in acquisition and development of over $1 billion of properties of all types in the Western US. As a consummate entrepreneur, Paul started a loan acquisition/disposition platform in 2008 as a counter cyclical complement to his development activities. That platform along with a related lending and servicing business were acquired in 2017 to become the foundation for Sortis, LLC and the successful Sortis Income Fund.
Outside of real estate and finance, he is also an active board member at medZERO and Arrive and remains an active investor in the technology community. Paul graduated summa cum laude and Phi Beta Kappa from the University of Portland with a degree in Business Administration and a minor in Computer Science.

Michael Sander
Partner/Managing Director, Sortis, LLC
Michael serves as Head of Investor Relations and Strategic Planning for Sortis, LLC. Michael oversees all aspects of the organization's investor relations objectives, initiatives, and execution. Leveraging 30 years of strategic leadership experience across the financial, real estate and technology industries, Michael is charged with supporting the strategic direction of the firm’s debt and equity placement, capital, and strategic investment divisions. At Sortis, he brings his expertise, creativity, and insight to the management of its real estate, finance, and investment banking teams.
Michael leads operations as the firm works to provide real estate capital and advisory services solutions to all sizes of clients – from small community banks to large-cap institutions. As a real estate investment banking operations specialist, he ensures strategy implementation, budget planning and organizational controls at Sortis. Michael has also managed several multi-national projects and coordinates national entities and staff.

Mark Jury
Managing Director, Sortis, LLC
Managing Director, Sortis Capital Advisory
Mark raises institutional capital for the Sortis family of funds. Mark is also a Partner in the Sortis advisory business and focuses on facilitating institutional debt relationships for third-party private lending clients. Previously, Mark lead and traded the distressed residential whole loan book at Merrill Lynch (subsequently Bank of America), where he managed a portfolio of approximately $1.3 billion and helped design strategies at Merrill’s wholly owned subsidiary servicer to maximize value on a portfolio of more than $40 billion worth of loans and real estate owned (REO) properties. After leaving Merrill Lynch/Bank of America, Mark managed residential loan and RE portfolios and oversaw trading, servicing, and portfolio management for two private investment firms. His tenure has provided critical exposure to risk assessment and management, which Influences his approach at Sortis. Mark graduated from the Massachusetts Institute of Technology with a degree in Mathematics and a minor in Economics.

All partners share the burden of all aspects of the Fund and in the event one or more partners became incapacitated, would be able to operate the fund on a short-term basis until additional resources are hired.

Altogether, Sortis has 13 employees including origination, accounting, compliance, and investor relations. We carry Professional Liability insurance and a Financial Bond for our employees.

Employees are compensated through salaries and discretionary bonuses.

Primary contact for Sortis, SFM, and SIF:

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jb@sortis.com

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VII. Default History

The current SIF portfolio is around 93.0% performing (which excludes the opportunistic note purchase that we acquired at a discount at the end of Q1 2022). There has been no net principal loss on loans/REO life-to-date. We have originated approximately $251mm (around 81 loans) since our shift towards CRE lending back in mid-2019, and none of those loans have gone through the foreclosure process.

For loans originated under the prior strategy and still active after mid-2019, the total balance of defaulted loans was $16mm, resulting in a default ratio of 6.4%. $5.85mm of that balance has been liquidated for roughly $7.25mm, and for the remaining $10.15mm, we expect the liquidation value to be around $10.35mm.

We purchased a non-performing loan for $5.7mm at the end of Q1 2022, which had a principal balance of $6.4mm. We are operating the underlying real estate as the owner, and will have full control after some title clean up in early Q2 2023. We expect to see other default note purchase opportunities in the near term given the current secondary market disruption and increasing interest rates, so distressed acquisitions may become a larger part of SIF's core strategy.

This speaks to the success of both our default management and our low LTV lending, even when facing a very difficult environment for liquidating defaults that recent market disruptions presented with declining values and dramatically extended timelines. Our defaulted assets have generally yielded higher returns than if they would have performed per the terms of the note.

We rarely recognize revenue on non-performing loans unless the LTV is very low (below 50%) and we are confident we will recover that revenue. This applies only for contractual interest to avoid a large, realized gain upon liquidation. We never recognize default interest until liquidation of an asset.

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VIII. Service Providers

Below is a list of our current third-party service providers. Contact information for each is available upon request.

Audit – Moss Adams, a Portland, OR based PCAOB audit firm, who was also the audit firm for the predecessor Bank and Bank Holding Co related to Sortis.

Legal – Michael B Gottlieb, PC

Servicing – Sortis Fund Manager (when investing in residential backed collateral until 2019, we used BSI Financial Services)

Fund Manager/Fund Administrator – Sortis Fund Manager

Cash Custodians/Banks – First Citizens Bank and First Republic Bank

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IX. Disclosures

Performance Information

Past performance is not necessarily indicative of future results and there can be no assurance that any Sortis fund or strategy will achieve comparable results, or that any investments made by Sortis in the future will be profitable. Projected returns are forward-looking based on future events that may not occur and should not be construed as guarantees of performance.

General

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