

**F2**

**First Annual Letter  
to Our Investors  
and Clients**

December 2022



## **Dear Investors, Clients, and Friends,**

For years, we've seen some of our personal mentors, industry veterans, and business titans release annual letters to their partners, shareholders and general audience. I've been influenced to share my perspective.

Generally, these letters are a state of the union. They walk readers through the economy, and what their firm has done [and plans to do] to generate alpha. I might elect to follow suit in the future, however, for iteration number one, I think it's important to get personal. F2 is not Blackstone. F2 is not Morgan Stanley. Hell, we're nobody.

This is a letter about the state of *our* union. F2's launch, our struggles, our successes, and our plans for the future. It's raw and honest and you don't need to know a thing about finance or real estate to read it. It's meant to provide transparency to those looking in, but to also motivate the guy or gal looking to start a business.



# The Hardships

## The Hardships

For those of you who don't know the details of F2's inception, and my corresponding journey, allow me to share some context.



A little over one year ago, I resigned from Lightstone, a prominent middle-market real estate private equity firm headquartered in Manhattan, NY. I had been with the firm for the greater part of a decade but felt that it was time to set the bird free. The first 72 hours of independence were filled with enthusiasm and congratulations from family and friends. What followed, no teacher, parent, or peer can prepare you for.

Rain or shine, deal or no deal, direct deposits would hit my checking account every second Friday. But, as an aside to the compensation cushion that comes with being an employee, for years, I had grown accustomed to being told what to do and how to think. When the dust settled in hour-73, for the first time in my life, I had to think for myself.

Transitioning from being an employee to an owner was a challenging process, as it involved taking on a lot of new responsibilities and risks.

As an entrepreneur, you are responsible for driving the success of your business and often don't have anyone to report to. This can be both a challenge and an opportunity. Some common struggles that entrepreneurs like myself face in this regard include:

- Lack of structure: Without a boss or manager to provide directions and set expectations, it can be difficult to know how to prioritize tasks and allocate your time. This can lead to a lack of structure and discipline in your work routine.
- Motivation: It can be hard to stay motivated and focused when you don't have someone to hold you accountable for your work. You may find it harder to push through difficult times or setbacks.

To overcome these challenges, it was extremely helpful personally to establish a clear set of goals and priorities for my business, and to create a structure and routine for myself that continued to help me stay focused and motivated. It was also effective to seek out support and guidance from other entrepreneurs.

One small thing that helped me was a daily task list. It seems trivial, but the organization really did help me optimize each day.

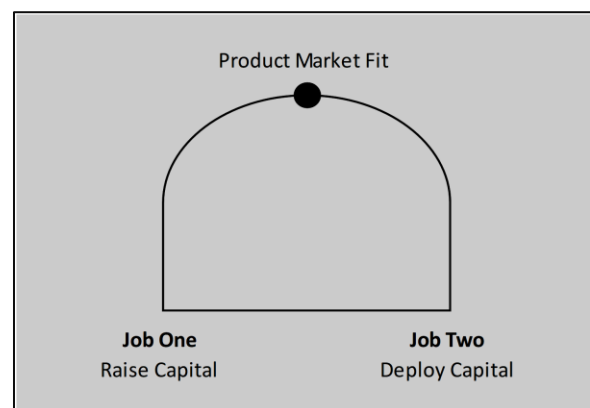
**Now, let's talk about our core business issue to date.** Before I dive into some of the financial and technical issues, allow me to provide some context on what F2 is or does: F2 is a private debt firm that provides senior bridge loans, mezzanine loans, preferred equity investments, and general creative financial instruments, all collateralized by real estate. In short, we're a private bank that lends to individuals or institutions purchasing or refinancing commercial real estate.

I will always remember a conversation that I had with one of my brilliant best friends, who is the CEO and founder of an ultra-successful startup in Manhattan. He stressed how, irrespective of the industry you're in, the lowest common denominator of all successful ventures, and the key to business, is simply the creation and pinpointing of product-market-fit.

Technically, product market fit refers to the extent to which a product meets the needs and wants of a specific target market. A perfect harmony between the seller of a product [supply], and the buyer of said product [demand] is the creation of product market fit.

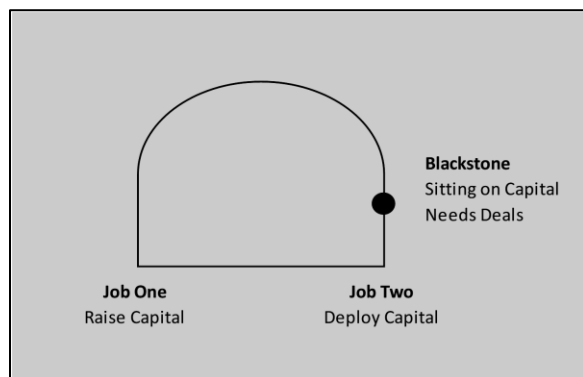
In the world of finance and general investments, the marriage is between the sources of funds [supply], and the uses of funds [demand]. Job number one is to raise capital, the supply. Job number two is to deploy said capital, servicing the demand. That's it.

If I have a \$100 Million pipeline of deal-flow [clients that want to borrow from F2] and \$100 Million of capital raised and ready for deployment, that's perfection. I have the money in my bank to do all the deals I want.

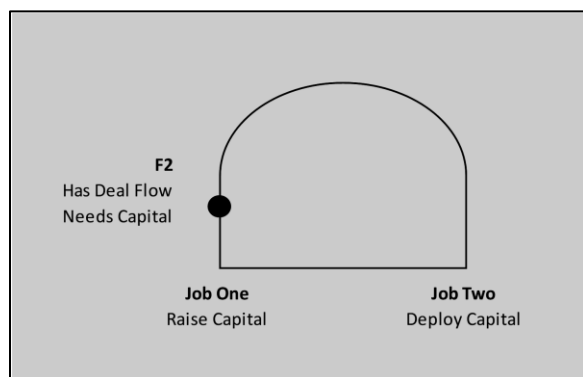


Take Blackstone, one of the largest asset managers in the world, for example. Their chart will resemble the following, with a pain point sitting on the capital deployment side of the spectrum. They've raised an exorbitant amount of capital from

investors, pensions, endowments, and institutions - they now need to find the deal flow.



Looking back on F2's first full year in business, our pain point is precisely the opposite considering we're a far younger business. We have the deal-flow, personal relationships and borrowers constantly seeking our services and funds; we simply do not have the capital to service that demand.



## The biggest challenge we've faced since launch is raising capital.

I learned the hard way that raising capital [for a new firm] can be a challenging and a time consuming

process. It requires a lot of effort to identify and approach potential investors, and to persuade them to invest in not only my firm and its corresponding strategy, but *me* personally. Some challenges I've faced when raising capital include:

- Competition: There are many fund managers competing for the same pool of capital, so it can be difficult to stand out and attract investors.
- Lack of track record: As a new institution, I don't have a track record of performance to show potential investors. This can make it harder to gain their trust and convince them to invest
- Market conditions: If the market is experiencing a downturn or there is a lack of investor confidence, it can be more difficult to raise capital. Yes, even if you're Blackstone.

The fact that our deals close super quickly has probably made capital-raising such a challenge as well. This is because investors need to have a high level of trust in us as fund managers to make swift and informed decisions. In a traditional investment scenario, investors have more time to conduct due diligence and evaluate the potential risks and rewards of an investment. However, in the case of a firm that invests in deals that close quickly, like F2, investors may feel pressure to make decisions without

having all of the necessary information. The fast pace of these deals can be intimidating for some investors, who may prefer a more measured and methodical approach to investment.

**Since launch, F2 has closed 16 deals. The average closing period has been 15 days.**

Very few institutions can move that quickly and our agility does indeed give us a competitive edge.

Similarly, this is one of the primary reasons F2 has done very little, to no marketing. There have been a few pieces released in the press, and they immediately resulted in an inundation of broker and client phone calls looking for loans. We've decided to fly pretty low until we secure a war chest.



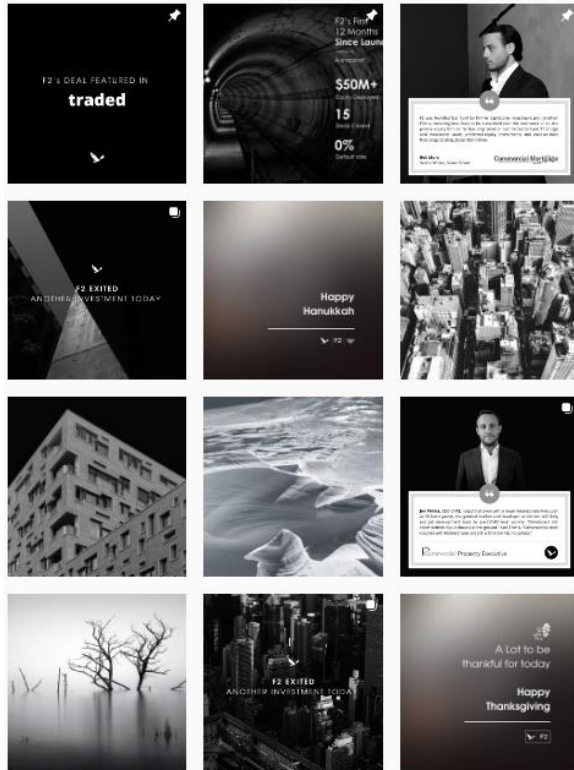


# The Brand



## The Brand

Building a strong brand is often seen as important for consumer-facing companies, but it can also be valuable for financial institutions.



I used to say - those who aren't in the fashion industry can tell me what the Nike logo looks like. In fact, everybody can. But can anyone who isn't in the finance industry tell me what the Citadel logo looks like? Some of the largest global financial institutions that manage over \$100 billion dollars don't have social media presences.

While it may be unconventional for a financial institution to focus on branding, there are several reasons why I felt it was a good idea to prioritize this aspect of F2's business.

First, a strong brand will help you differentiate your business from competitors and stand out in a crowded marketplace. By building a clear and consistent brand identity, you can communicate the unique value proposition of your financial institution and set yourself apart from other firms.

Second, a strong brand will help you build trust and credibility with your clients. In the financial industry, trust is especially important, as clients are often entrusting their money and financial well-being to your institution. By building a strong brand, you will establish yourself as a reliable and trustworthy partner. In my first ever Instagram post for F2, I wrote a brief letter to my audience:

"It's unconventional for a private equity firm, or any financial institution of that matter, to make an attempt at constructing a social media presence. Take Industry pioneers for example: Blackstone, TPG, Apollo, Square Mile, and so on and so forth. Their social media presence and online brand is essentially non-existent. Fintech companies are the only financial institutions that possess the slightest social media brand identity with a pulse. F2 will change that. The goal is to build a brand that is not only positively recognized among financial cliques and institutions, but among the everyday folk on the internet. The goal is to establish a brand highly

correlated to the personalities within the organization, yet it resonates with everyone.”

Not only is it a playground for design and creativity, but our Instagram also drives business. One of F2’s key differentiators is our appeal to millennials, younger audiences and the digitally native. Our social media content is an integral part to that strategy.

It's not uncommon for Direct-to-Consumer brands to transact from an Instagram page. It’s almost unheard of for a financial institution to do the same. Yet, in February of 2022, F2 closed a deal from a follower direct messaging us. Today, F2 has over 7,500 followers, and is the central hub for our brand, highlighting all deals, industry mentors, educational financial terms, merchandise drops, and way more. At our firm, we occasionally like to release unique consumer products that leave a lasting impression. One example of this is the black concrete rose-scented candle that we designed for our company launch. This candle was carefully crafted with attention to every detail, from the sleek black concrete exterior to the delicate rose scent that fills the room when it is lit.



Our team took great care in the design process to ensure that the candle not only looked beautiful, but also provided a high-quality sensory experience for the user. The response to the candle was overwhelmingly positive, and it has inspired us to continue exploring new and innovative product ideas that complement the brand.





# The Wins

### **Part III: The Wins**

In March of 2022, F2 formed a very quiet partnership with Concord Companies, aimed at immediately scaling our operation by leveraging Concord's executive leadership, balance sheet, human capital, relationships, and recourses.

Concord is a Real Estate Private Equity firm founded in 2003. Since Inception, Concord has acquired over \$1.25 Billion of real estate including over 500,000 square feet of commercial space and over 6,000 residential units throughout the United States. Concord currently houses an employee base in excess of 115 people, vertically integrated across acquisitions, development, capital markets, construction, property management and leasing.

Within the first 120 days of this joint venture, F2 closed seven deals in two different states via four different structures.

To bring it all full circle, my advice to solo entrepreneurs out there is to find one or two strategic partners. This has been the largest mitigant to the hardships aforementioned at the beginning of this letter.

The right partner(s) will be extremely valuable in a business venture, as they

can bring complementary skills, resources, and networks to the table. Working with partners can also help to share the risks and responsibilities involved in starting and growing a business. In addition, having partners can provide a sense of accountability and teamwork and will keep the forward-moving motion of the business. I've learned that it can be more beneficial to own a portion of a company that has strong partners and the potential to be successful, rather than owning 100% of a company that may struggle to get off the ground without the support and contributions of partners.

Howard Schultz famously said: "You can't build any type of organization if you're not going to surround yourself with people who have experience and skill base beyond your own."

I'm super grateful for:

Partners:

*Reuben Robin, President and Managing Principal*

*Joe Goldstein, Chief Operations Officer and Principal*

Leadership Team:

*Cayla Kondo, Chief Marketing Officer*

*Uriel Luna, Chief Financial Officer*

*Samuel Landman, Chief Investment Officer*

*Yentl Benhamou, Chief of Staff*

*Leslie Mena, Director of Asset Management*

*Juana Ramos, Director of Asset Management*

Their dedication and continuous hard work are why F2 survives, day in and day out.

Unrelated, but another thing worth noting is the patience required in building a business. It's easy to get caught up in the desire to achieve success quickly and to constantly be looking for the next big opportunity. However, it's important to remember that the road to success is often a marathon, not a sprint. This means that it takes time, hard work, and persistence to achieve lasting success.

I have to remind myself of this by occasionally taking a step back and reflecting on the progress that F2 has already made.

**It's impressive that in less than 18 months, we've closed 16 deals and deployed close to \$100 million dollars. Our transaction volume far exceeds that number as we've had multiple exits and repayments as well. Our portfolio has had zero late payments or defaults, and our returns have outperformed expectations.**

Mind you, we launched in the middle of a pandemic, and interest rates have risen 400 basis points in the last twelve months. These are significant

achievements that should be celebrated and recognized.

How have I transitioned from an employee to an entrepreneur? I've learned to be self-motivated and to focus on long-term growth by setting realistic and achievable goals along the path. It's important to have a clear vision of what success looks like, but it's also important to be realistic about the amount of time and resources it will take to get there.

It's important to celebrate and recognize the successes that F2 has already achieved. It's easy to get caught up in the hustle and bustle of running a business and to focus solely on what's next, but especially at year end, it's important to reflect and appreciate the progress that has already been made. Maybe that's more of a note for me for than you, but you've all been on this journey with me and for that, I thank you.





# F2's Metrics Since Launch

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**\$110M**

Transaction Volume

**\$85M**

Deployed

**16**

Deals Closed

**10.6%**

Net investors return per annum

**Zero**

Defaults

## **Conclusion**

As a company, we are grateful for the progress that we have made thus far and are excited about what the future holds. While nothing is certain in the world of business, we are confident in our ability to adapt and pivot as needed in order to continue growing and moving forward. This last year has been one of tremendous growth and learning and I am confident that the firm is poised and ready to take on 2023. We are excited to see what the future holds and are committed to working hard to achieve even greater success in the days ahead.

### **Jonathan Fhima**

CEO and Managing Principal

Jonathan@f-two.com

A handwritten signature in black ink, appearing to read 'Jonathan Fhima', with a stylized, flowing script.