Starwood European Real Estate Finance Limited

Quarterly Investment Update

December 2013

Share Price / NAV at 31 December 2013

Share price (p)	100.75
NAV (p)	99.11
Premium/ (discount)	1.65%
Issued shares	238,100,000
Market cap	£239.9m

Fund Information

Fund Type	Closed-ended investment company
Domicile	Guernsey
Inception Date	17 December 2012
Listing	LSE (Main Market)
LSE Identifier	SWEF
ISIN Code	GG00B79WC100
NAV Frequency	Monthly
Dividend Frequency	Quarterly
Origination Fee	0.75%
Management Fee	0.75%
Website	www.starwoodeuropeanfinance.com

Investment Restrictions & Guidelines

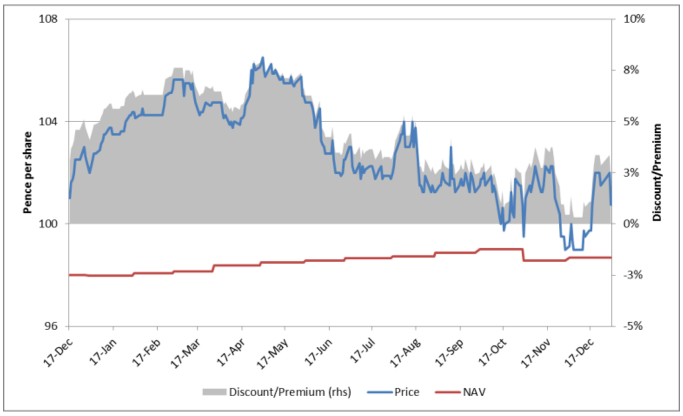
Location	UK & Continental Europe
Loan Term	Between 3 and 7 years
Loan Type	Senior, subordinated and mezzanine loans, bridge loans, selected loan on loan financing and other debt instruments
LTV	Absolute maximum of 85% with a blended portfolio LTV of no more than 75%
Real Estate Sector & Property Type	Commercial real estate sectors including office, retail, logistics, light industrial, hospitality, student accommodation, residential for sale and multi-family rented residential. Not more than 20% of NAV in residential for sale.
Counterparty & Property Diversification	Not more than 20% of NAV exposed to one Borrower legal entity and no single investment exceeding 20% of NAV at time of investment.

Summary

The investment objective of Starwood European Real Estate Finance Limited (the "Company") is to provide Shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments (including debt instruments) in the UK and Continental European markets.

The Company has targeted a net total return on invested capital of 8-9 per cent. per annum and a dividend of 7.0 pence per Ordinary Share once fully invested. See further commentary below on the amount and timing of dividend payments.

Company Performance



Investment Adviser's Commentary

Investment portfolio

As at 31 December 2013 the Company was 66.3% committed through the following investments:

	Committed	Drawn as at 31 December 2013
Maybourne Hotel Group	£19.0 m	£19.0 m
West End Development	£10.0 m	£10.0 m
Lifecare Residences	£12.8 m	£11.0 m
Retail Portfolio – Finland(3)	£38.0 m	£38.0 m
Heron Tower, London	£18.0 m	£18.0 m
Industrial Portfolio, Netherlands (3)	£18.6 m	£18.6 m
Centre Point, London	£40.0 m	£40.0 m
Total	**£156.4m**	**£154.6m**

(2)Euro loans – converted at the actual GBP rate at which the loan funded - not the exchange rate investments are valued at as at 31 December 2013.

Between the publication of the September factsheet released on 24 October 2013 and 31 December 2013, the following transaction was closed:

December 2013

Key Portfolio Statistics at 31 December 2013

Number of borrowers	7
Number of investments	7
Number of industries	7
Percentage of committed portfolio in floating rate loans	48.8%
Committed Loan Portfolio annualised total return (1)	9.2%
Weighted average portfolio LTV – to Company first £ (2)	14%
Weighted average portfolio LTV – to Company last £ (2)	57%
Average loan term	4 years
Percentage of net assets in uncommitted cash	33.7%
Percentage of net assets committed to senior and whole loans	47.0%
Percentage of net assets committed to second lien and mezzanine loans	11.7%
Percentage of net assets committed to other debt instruments	7.6%
Percentage invested in GBP	63.8%
Percentage invested in Euro	36.2%

(1) Calculated assuming all loans are outstanding for the full term. Four of the loans are floating rate and returns are based on an assumed profile for future LIBOR or EURIBOR but the actual rate received may be higher or lower.

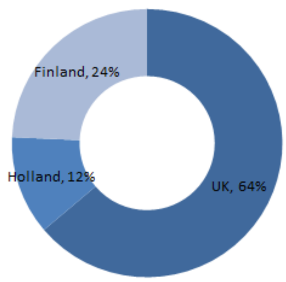
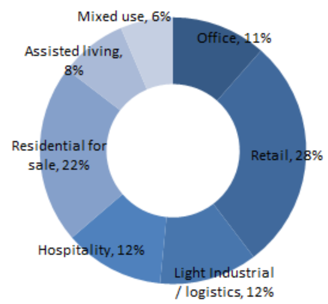
(2) LTV to Company last £ means the percentage which the total loan advanced by the Company (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last valuation. LTV to first Company £ means the starting point of the loan to value range of the loan advanced by the Company (when aggregated with any other indebtedness ranking senior to it). For ground up development (Lifecare) the calculation includes the total facility available and the market value on completion of the project. Where the loan relates to a redevelopment project with facilities currently undrawn (CentrePoint) the calculation includes current debt drawn against the lower of current use market value and vacant possession value. Upon commencement of development, the loan to value will be tested by reference to loans drawn plus available loans against a value assuming completion of the development. This calculation will therefore change as the other facilities are drawn. LTVs are calculated for each loan and weighted by SEREF's investment in each loan

Centre Point, London: the Company, together with Starwood Property Trust, Inc. participated in a £220 million facility secured on Centre Point, one of London's most iconic towers. The facility refinanced the existing loan at Centre Point and will finance the comprehensive refurbishment of the Property. The Borrower has secured planning consent to transform Centre Point into a world class mixed use scheme. The Company participated in £40 million of the facility and expects to earn a solid single digit return in line with its investment criteria.

The Company is now capable of delivering a net portfolio yield of approximately 5.2 per cent (prior to any amortisation or prepayments).

Implementation of IPO Messages

It has now been a year since the Company's IPO and it is appropriate to review how the Company and Investment Adviser have met their objectives to date. At IPO the Investment Adviser emphasised its desire for diversification and the transactions that have closed to date provide geographical, sector and loan type diversification as shown in the graphs below.

Target	To Date
Geographical diversification: target 50-60% UK, 20% Germany and remainder Northern Europe.	 Germany is unlikely to offer the opportunities originally envisaged. Holland, Ireland and Scandinavia offer better risk / return.
Sector diversification: achieve broad range of sector exposure.	

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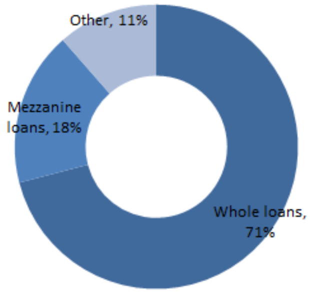
Loan type diversification:
- Whole loans 45%
- Mezzanine 40%
- Other 15%



The Company is finding whole loan origination to be more fruitful than pure mezzanine and delivering substantially greater senior exposure.

The Investment Adviser believes that, across the portfolio of loans assembled to date, the Company has delivered on its diversification targets.

In addition the Company targeted a risk return strategy delivering a maximum portfolio LTV of 75 per cent. The Company currently has weighted average portfolio LTV[2] attachment points of 14 - 57%, comfortably below this threshold and significantly lower attachment points than targeted at IPO. Notwithstanding this, gross returns [1] at 9.2% remain within the targeted 9-10%.

The focus at launch was on direct origination and the utilisation of Starwood Capital Group's wider banking relationships. Delivery against this target has been demonstrated by the fact that only one deal for £10 million has been sourced through the secondary market and this was undertaken for strategic "next steps" reasons.

The loan portfolio includes the financing of high profile real estate in London (e.g. Heron Tower, CentrePoint and Maybourne) and alongside this, "fit for purpose" assets such as the Finnish grocery stores, Dutch light industrial and prime located central London assisted living. Furthermore the Company's clients are representative of institutions, sovereign wealth funds, prominent businessmen, global investment managers and best in class operators.

At IPO it was envisaged that, whilst the Company had priority allocations within its Investment Guidelines, Starwood Property Trust Inc. would be able to assist the Company in financing large transactions that would otherwise be beyond its capabilities. The Company has to date been involved in approaching £0.7 billion of lending, and many transactions would have been beyond its remit or strength without the support of Starwood Property Trust Inc.

The key frustration has been the time taken to consummate transactions and invest the capital. The IPO occurred at a pivotal moment in time when the European markets started to change fundamentally from that of a defensive and negative position to that of more cautious optimism which has fed through into both the equity and debt capital markets. As we have described previously, this change has offered opportunity and frustration.

Pipeline

The Company in previous factsheets identified six specific loans with at least £130 million of investment potential. Five of these were closed in 2013 for an aggregate value of £127.4 million (the value of some loans closed to date has increased from the value included in the original £130 million pipeline communicated).

The remaining loan, for €14.3 million, has been in execution for an extremely long time but has been delayed due to particular issues relating to the property's seller. We are cautiously optimistic that this will now close and fund in the coming weeks. This loan would account for a further 5 per cent. investment, taking the Company to 71 per cent. invested or committed (prior to the scheduled amortisation of some of the existing loans due to take place during January).

The Company continues to benefit from a good pipeline of opportunities, almost all of which are whole loans.

Approximately £1 billion of opportunities in which SEREF can participate are being actively pursued and, in addition, we have been involved in discussions about follow-on transactions for loans that the Company has already made or committed to. Some of these opportunities immediately meet the Company's target return requirements, and some will require subsequent syndication to achieve these levels.

The pipeline is geographically spread and we expect Ireland, the Netherlands and Scandinavia to remain strong areas of focus in addition to the UK. Indeed, the origination orientation is moving slightly away from the UK as the Continent starts to see increased activity. Whilst the Company's pipeline includes some larger transactions, there remains a continued focus on delivering smaller bilateral positions.

The Company is aiming to be substantially fully invested on the basis of completing two to three additional transactions as soon as practicable within the second quarter of 2014.

Upon substantially full investment, the Company is likely to be focussed on a growth strategy that envisages minimal cash drag by utilising short term borrowing facilities that can be repaid from further equity raisings and by the creation of a pipeline in advance of such raisings.

Dividends

At launch, the Company had targeted a dividend of 3.5 pence per Ordinary Share in respect of the period from Admission (17 December 2012) to the first financial year end (31 December 2013) and 7.0 pence per Ordinary Share in subsequent financial periods. This was predicated on the assumption that 50% of the Company's available cash would be invested within six months from Admission and the remainder within 12 months.

For the financial year ending 31 December 2013, the Company will pay a total dividend of 1.9 pence.

The Company paid an interim dividend of 0.8 pence per share for the period ending 30 September 2013 and is accordingly today declaring a dividend of 1.1 pence per ordinary share for the period ending 31 December 2013.

Based on detailed projections, the Company remains comfortable that when fully invested it will be able to meet its dividend target of 7.0 pence per annum.

Market Commentary

In recent months, market interest in lending has substantially increased. Well documented macroeconomic reasons underpin this, principally excess liquidity hunting for yield. The broader economy welcomes such increased lending as a necessity for growth. That said, a reasonable proportion of new lending is being undertaken by broader generalists as opposed to specialist and experienced parties. That does, in itself, contain some warning signals. The banking community has also returned but the impending Asset Quality Reviews, Basel 2.5 compliance in 2015 and strict credit control means the return of the "old guard" banking universe is not remotely dominating, leading to a genuinely more diverse lending universe. In generic terms, almost any sensible project is financeable at a price.

Regulatory oversight is not wavering and indeed representatives from the Bank of England have recently observed that further thinking is required for example in the use of longer term "sustainable" valuations as opposed to spot "market values", the aim being to calm down the creation of bubbles.

The demand for debt is also still increasing, especially on the Continent as economies start to grow. The UK and London in particular remain a huge market and a continued haven. In Western Europe, there has been an acceleration in finally addressing problem loans which adds to the need for debt alongside new asset deals.

This is the market the Company is participating in. Generally, the Company will increasingly look to generate attractive returns through underwriting whole loans and selling senior strips to generate mezzanine positions. This will rebalance the overall book back towards the loan mix set out at IPO whilst maintaining high single digit gross returns.

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