December 2015

Share Price / NAV at 31 December 2015

Share price (p)	107.63
NAV (p)	100.43
Premium/ (discount)	7.2%
Issued shares	304,180,000
Market cap	£327.4m

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 & wider European Union's internal market. No more than 50% in any country except the UK where it is unlimited (subject to sector limits below).
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. No more than 30% of NAV in residential for sale. No more than 50% of NAV in any single sector in the UK except office which is limited to 75%.
Counterparty & Property Diversification	No more than 20% of NAV exposed to one Borrower legal entity and no single investment exceeding 20% of NAV at time of investment.

STARWOOD
EUROPEAN FINANCE

Starwood European Real Estate Finance Limited

Quarterly Investment Update

Summary

The investment objective of Starwood European Real Estate Finance Limited (the "Company") together with its subsidiaries Starfin Lux S.à.r.l, Starfin Public LP and Starfin Public GP (collectively the "Group"), 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 Europe.

Investment Portfolio at 31 December 2015

As at 31 December 2015, the Group had 15 investments and commitments of £309.1m as follows:

Transaction	Sterling equivalent balance [(1)]	Sterling equivalent unfunded commitment [(1)]
Lifecare Residences, London	£14.0m	£0.4m
Salesforce Tower, London	£11.6m	–
Centre Point, London	£45.0m	–
5 Star Hotel, London	£13.0m	–
Aldgate Tower, London	£40.6m	£4.4m
Center Parcs Bonds, UK	£9.5m	–
Industrial Portfolio, UK	£31.8m	–
Hospitals, UK	£25.0m	–
Total Sterling Loans	**£190.5m**	**£4.8m**
Retail Portfolio, Finland	£23.7m	–
Industrial Portfolio, Netherlands	£20.3m	–
Office, Netherlands	£10.3m	–
W Hotel, Netherlands	£15.6m	£2.7m
Retail & Residential Portfolio, Ireland	£4.5m	–
Residential Portfolio, Cork, Ireland	£4.6m	-
Total Euro Loans	**£79.0m**	**£2.7m**
Industrial Portfolio, Denmark,	£32.1m	-
Total Danish Krona Loans	**£32.1m**	**-**
Total Portfolio	**£301.6m**	**£7.5m**

(1) Euro and Danish Krona balances translated to sterling at 31 December 2015 exchange rates.

Portfolio Activity

The following significant activity occurred since the publication of the last factsheet on 23 October 2015.

Industrial Portfolio, Netherlands: On 10 December 2015 the Group entered into an agreement with an existing borrower to refinance and enlarge upon the previous facility. The Group initially increased its commitment by €20.4 million to €40.3 million and subsequently syndicated €12.7 million of this increased commitment, resulting in a net investment of €27.6 million. The decision to increase the commitment reflects the positive asset management being achieved in an improving occupational and investment market and by amending this agreement the Group mitigated one of the larger and more imminent repayment risks as well as deploying further funds into an attractive loan position.

Residential Portfolio, Ireland: On 30 November 2015 the Group funded a €6.2 million 4 year floating whole loan relating to the acquisition of 47

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Key Portfolio Statistics at 31 December 2015

Number of investments	15
Percentage of currently invested portfolio in floating rate loans (1)	48.4%
Invested Loan Portfolio annualised total return (2)	8.7%
Weighted average portfolio LTV – to Group first £ (3)	16.0%
Weighted average portfolio LTV – to Group last £ (3)	65.3%
Average loan term (stated maturity at inception)	4.1 years
Net Asset Value	£305.5m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	£8.2m
Portfolio value (including accrued income)	£307.7m
Cash	£0.5m
Other net assets (including hedges)	£5.5m

(1) Calculated on loans currently drawn using the exchange rates applicable when the loans were funded.
(2) Calculated on amounts currently outstanding, excluding undrawn commitments, and assuming all currently drawn loans are outstanding for the full contractual term. Nine of the loans are floating rate (partially or in whole and some with floors) and returns are based on an assumed profile for future interbank rates but the actual rate received may be higher or lower. Calculated only on amounts funded to date and excluding committed amounts and cash un-invested. The calculation excludes the origination fee payable to the Investment Manager and commitment fees on undrawn funds.
(3) LTV to Group last £ means the percentage which the total loan commitment less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the date of publication of this factsheet. LTV to first Group £ means the starting point of the loan to value range of the loan commitments (when aggregated with any other indebtedness ranking senior to it). For Lifecare, W Hotel and Centre Point the calculation includes the total facility available and is calculated against the market value on completion of the project. For Aldgate, the calculation includes the total facility available against the stabilised value of the property.

apartments in Cork to a strong and highly regarded local sponsor.

Hospitals, UK: On 22 December 2015 the Group advanced a £25 million mezzanine loan in relation to a portfolio of UK hospitals subject to long term leases to a strong underlying tenant. The UK healthcare sector is demonstrating solid growth potential and the Group has sought to take advantage of a very interesting investment opportunity which also gives greater diversity to the portfolio.

Repayments: During the quarter the Maybourne Hotel Group loan of £11.2 million and the West End Development loan of £10.0 million were both repaid. This cash has been reinvested and at the end of the quarter the revolving credit facility was £8.2 million drawn.

Investment Philosophy

The Group adopts a relative risk return strategy. Whilst the Group seeks to achieve an absolute portfolio return that is interesting for investors, the relative risk return approach focuses on the blended risk that is entered into to achieve that return. The scale of the issues that impacted the real estate sector in the financial crisis, and the resulting structural changes, have arguably created a longer term ability to extract good returns through financing outside the somewhat narrower confines that the traditional bank lenders now inhabit. The Group leverages Starwood's wider relationships and skills to underwrite real estate business plans that fundamentally should create value. Whilst any loan underwritten should not be dependent on achieving such a business plan, understanding the business plan does generally allow for such a loan to attract a day one premium pricing and naturally de-risks the position. Further benefits come from a sector and geographical nimbleness that has allowed the Group to continue to source deals that fit the investment criteria and deliver proper diversification. For an equity focused investor, the Group is attractive because it offers a very high relative dividend whilst having substantial protection of its NAV against underlying property value decline. For a credit focused investor, the Group is attractive because the portfolio, having such a high proportion of whole loans and relatively modest LTV, offers meaningful exposure to investment grade risk and a coupon substantially higher than comparable fixed income style products.

Capital Market Activities

In September 2015 the Company issued 42.3 million New Ordinary Shares for Gross Issue Proceeds (before expenses) of £43.5 million. In the subsequent period to 31 December 2015 not only were these proceeds invested without material cash drag, but also the proceeds from the two loan repayments were deployed, with the liquidity line drawn £8.2 million at the year end. The liquidity line has also now been upsized from £50 million to £60 million overall capacity.

The Company remains focussed on managing repayment risk. It is however intended that the Company will seek to raise further equity under the Placing Programme, as required by net investment needs.

Dividend

On 26 January 2016 the Directors declared a dividend of 1.75 pence per Ordinary Share (annualised 7.0 pence per Ordinary Share) in relation to the fourth quarter of 2015.

December 2015

Key Portfolio Statistics at 31 December 2015

Country	% of invested assets
UK	61.6
Netherlands	16.2
Finland	9.2
Denmark	10.1
Republic of Ireland	2.9

Sector	% of invested assets
Office	20.6
Retail	12.2
Light Industrial / logistics	27.6
Hospitality	12.5
Residential for sale	16.2
Residential for rent	2.8
Healthcare	8.1

Loan type	% of invested assets
Whole loans	65.6
Mezzanine	30.6
Other	3.8

Loan type	% of invested assets
Sterling	61.6
Euro	28.3
Danish Krona	10.1

Market Commentary

In the last few factsheets we have written about global macroeconomic volatility modestly filtering through to the real estate credit market which leads to optimism that the investment opportunities for the Group could further widen.

Clearly the events in equity, fixed income and commodity markets of recent weeks may have more far reaching consequences for the European economy, real estate markets and the specifics of the Group's own strategy.

We are coming out of a commodity supercycle and the current Chinese economic situation and the impact of demand / supply imbalances for oil are well documented by others. A slowdown in China might well impact European economies and real estate markets but it remains unclear by how much. Many resources groups have been recently downgraded on the back of liquidity and solvency concerns. Should bankruptcies start to occur it would clearly be negative to the wider economy. Banks and credit funds have been largescale lenders to the commodities sector and the effects of the turbulence are already visible in the high yield market. At the very least, higher medium term funding costs look to be the likely consequence of this market uncertainty, and higher funding costs could spill into the real estate sector.

Whilst equities have seen price declines, credit markets have widened and hedge funds face withdrawals, it does indeed remain unclear what the direct impact on real estate could be. For example whilst Chinese investors have been prolific real estate investors in recent times, some state related entities may now look to re-orientate capital back domestically whilst others may look to deploy further capital in perceived safe havens such as London, New York, Munich and Paris.

However, the largest aspect is the rebalancing of risk and yield. In the 2008 crash, investors moved money into cash that, at that time, had at least had some positive yield. In a world of low or negative interest rates this is a different decision and an attraction of real estate is the potential for income flows, certainly on longer term or diversified tenant bases, such that it may be seen as a positive investment alternative to the larger, more traditional asset classes and cash.

The banking sector is in modest retrenchment with continued moves towards Basel III compliance by 2019, an increased likelihood of Basel IV that would ultimately lead to further capital requirements, the new bank bail-in laws implemented in the Eurozone in January of this year and the continued presence of significant NPL and sub performing debt weighing down many banks. Even if healthy, many banks have hit general real estate lending limits, have no access to CMBS, see syndication as harder and all coupled with a general overall "risk off" mentality. We do observe a tightening of loan provision.

Overall the world presents new challenges but it should not be forgotten the Group was borne out of the substantially more challenged 2012 global market. Now as then it is important to adopt an appropriately cautious investment approach but very much balanced with taking advantage of the opportunities such a market throws up. The Group has a counter cyclical strategy at heart and utilizing solid real estate and credit skills, it should be able to benefit from such a time.

At this stage the Group would not look to reduce its broad geographic focus but, for example, it may be that these recent weeks will strengthen the ability to source good risk adjusted London deals in addition to that wider

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geography. Germany and France remain broadly offside due to their relatively aggressive domestic lenders.

It is expected that some more of the loans originated early in the life of the Group may repay over the coming year and the Group is continually focussed on the need to promptly re-invest any repayment proceeds to avoid material cash drag. The Group has a strong pipeline and currently has further transactions in execution that it expects to close in the coming weeks. The loan profiles being closed cover numerous geographical jurisdictions and sectors. The Group expects to see additional drawing of the working capital facility and, potentially, additional equity raising in due course.

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