Quarterly Investment Update

STARWOOD
EUROPEAN FINANCE

The investment objective of 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.

SHARE PRICE / NAV at 31 December 2016

Share Price (p)	NAV (p)	Premium / Discount	Dividend Yield	Market Cap
109.00	101.58	7.3%	6%	£408.8m

FUND INFORMATION

FUND TYPE Closed-ended investment company	
DOMICILE	Guernsey
INCEPTION DATE	17 Dec 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 PORTFOLIO AT 31 DECEMBER 2016

As at 31 December 2016, the Group had 16 investments and commitments of £363.4 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Centre Point, London	£45.0m	–
5 Star Hotel, London	£13.0m	–
Center Parcs Bonds, UK	£9.5m	–
Industrial Portfolio, UK	£31.8m	–
Hospitals, UK	£25.0m	–
Hotel, Channel Islands	£26.9m	–
Varde Partners mixed portfolio, UK	£24.6m	–
Mixed use development, South East UK	£8.1m	£6.9m
Regional Budget Hotel Portfolio, UK	£75.0m	-
Total Sterling Loans	**£258.9m**	**£6.9m**
Industrial Portfolio, Netherlands	£22.3m	–
Office, Netherlands	£11.9m	–
Retail & Residential Portfolio, Ireland	£3.4m	–
Residential Portfolio, Cork, Ireland	£5.2m	–
Residential Portfolio, Dublin, Ireland	£6.7m	–
Logistics, Dublin, Ireland	£12.8m	–
Total Euro Loans	**£62.3m**	**£0.0m**
Industrial Portfolio, Denmark	£35.3m	–
Total Danish Krona Loans	**£35.3m**	–
Total Portfolio	**£356.5m**	**£6.9m**

[1] Euro and Danish Krona balances translated to sterling at 31 December 2016 exchange rates.

INVESTMENT RESTRICTIONS AND 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.

KEY PORTFOLIO STATISTICS as at 31 December 2016

Number of investments	**16**
Percentage of currently invested portfolio in floating rate loans [(1)]	**67.3%**
Invested Loan Portfolio annualised total return [(2)]	**8.5%**
Weighted average portfolio LTV – to Group first £ [(3)]	**26.7%**
Weighted average portfolio LTV – to Group last £ [(3)]	**66%**
Average loan term (stated maturity at inception)	**4.7 years**
Average remaining loan term	**3.3 years**
Net Asset Value	**£381m**
Amount drawn under revolving credit facility (excluding accrued interest)	**£0.0m**
Portfolio value (including accrued income)	**£359.9m**
Cash	**£31.0m**
Other net assets/ (liabilities) (including hedges)	**-£9.9m**

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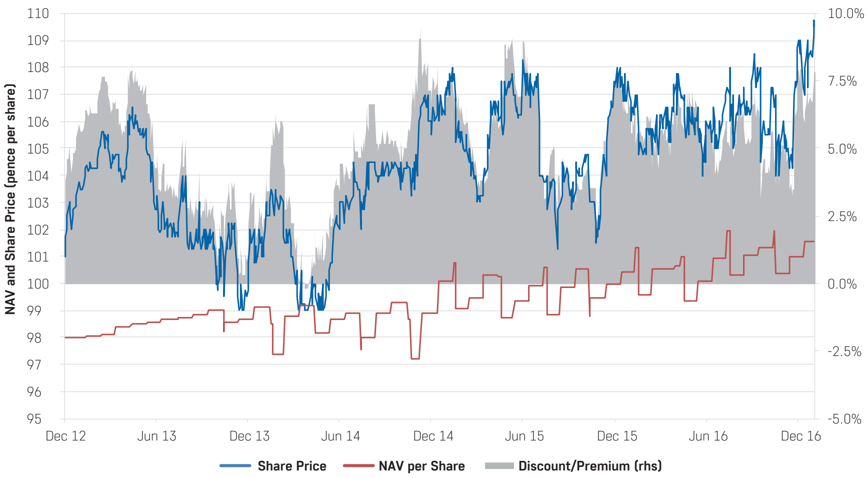
REVOLVING CREDIT FACILITY

During the quarter the Group extended the £60 million revolving credit facility from the existing maturity of 4 December 2016 to 31 March 2017. The Group is looking to restructure and extend this facility during the first quarter of 2017 to reflect the increased NAV of the Group.

DIVIDEND

On 23 January 2017 the Directors declared a dividend of 1.625 pence per Ordinary Share (annualised 6.5 pence per Ordinary Share) in relation to the fourth quarter of 2016.

SHARE PRICE, NAV AND DISCOUNT



(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. Twelve 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.

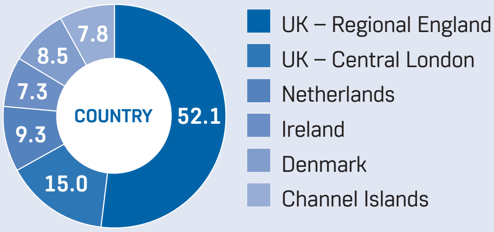
(3) LTV to Group last £ means the percentage which the total loan commitment less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the date of publication 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 Centre Point and the mixed use development, south east UK, the calculation includes the total facility available and is calculated against the market value on completion of the project.

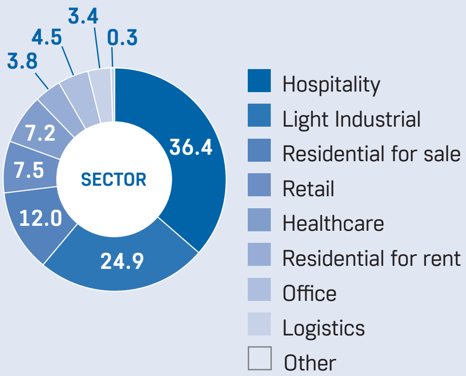
KEY PORTFOLIO STATISTICS
as at 31 December 2016

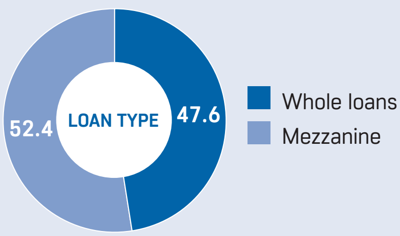
Remaining years to contractual maturity*	Value of loans	% of invested portfolio
0 to 1 years	£51.0m	14.3%
1 to 2 years	£61.0m	17.1%
2 to 3 years	£88.6m	24.9%
3 to 5 years	£130.9m	36.7%
5 to 10 years	£25.0m	7.0%

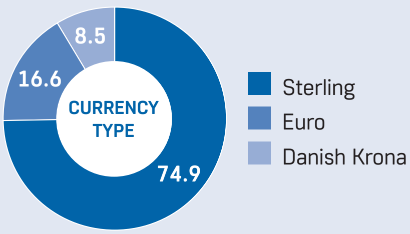
* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

% of invested assets









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PORTFOLIO COMMENTARY

2016 was the most successful origination year in the Group's history, with £170.8m of new lending extended to borrowers. As was to be expected, 2016 was also a big year for repayments by the Group's borrowers, and so the net position showed relatively modest growth in the overall loan book. The table below shows the Group's loan origination and repayment profile over the last four years.

	2013	2014	2015	2016
Loans drawn	£135.5m	£117.3m	£146.9m	£170.8m
Repayments and amortisation	-	-£48.8m	-£63.5m	-£129.3m
Net Investment	**£135.5m**	**£68.4m**	**£83.4m**	**£41.5m**

As at 31 December, the average maturity of the Group's £356.5 million loan book was 3.3 years with £31.0 million of cash and substantial liquidity lines of £60.0 million available to use for new investments. The gross annualised total return of the invested loan portfolio is an attractive 8.5 per cent.

£170.8 million
of new loans extended in 2016

Since the launch of the Group at the end of 2012, origination activity has always been more challenging during the first few months of any given year. Having said this, the transaction pipeline continues to evolve and we are seeing a variety of opportunities which will allow the Group to achieve good risk adjusted returns from whole and mezzanine loans.

8.5%
Gross annualised total return

The Investment Adviser is in advanced discussions on a number of opportunities with heads of terms expected to be signed shortly and moving into execution in the coming weeks. The transactions cover both the UK and Continental Europe with a number of diverse sectors being explored from office and retail to datacentres and education and would, if they proceed, allow the Group to deploy the available cash and draw down on the revolving credit facility as required.

All opportunities remain, however, subject to final due diligence, documentation and Investment Manager Board approval.

The strategy to grow the overall size of the Company by equity issuance and to grow the loan book accordingly will continue to be approached with a view to minimising cash drag from any potential repayments and utilising the revolving credit facility where appropriate. This was successfully managed during 2016 when notwithstanding that £129.3 million of the Group's loan book was repaid, these repayments were substantially reinvested alongside the £71.5 million of net proceeds raised in the same period.

We anticipate that during 2017 we will build on the successes of 2016 and enter the year optimistic about the prospects and opportunities available to the Group.

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MARKET COMMENTARY

In our September factsheet commentary we highlighted some expected consequences for the UK market in light of the uncertainties created by the Brexit vote. In particular we noted a tendency for decreased transaction volumes and an increased caution in the mainstream commercial real estate lending market in the UK. We can now see these themes coming through in the market data.

UK total commercial real estate transaction volumes are down by 27.7 per cent from £71 billion to £51.3 billion for 2016 versus 2015 according to Property Data. Lending volumes are typically made up approximately equally between refinancing and acquisition financing so, as a consequence of lower transaction volumes, lending activity volumes are also down.

According to the latest information available from the De Montfort commercial real estate lending survey, UK commercial real estate lending volumes were down by 13.7 per cent from £24.8 billion to £21.4 billion between the first half of 2015 and the first half of 2016. The latest survey by Laxfield Capital shows this trend continuing with financing request volumes for the half comprising quarters two and three of 2016 down by 27.2 per cent compared to previous period.

Despite the decreased market activity in the UK as a whole in 2016, the Group was able to continue to achieve a strong level of new lending as the Group benefitted from a combination of its flexible mandate and improved lending market terms, while applying a consistent approach to underwriting risk on a case by case basis,.

In addition to a reduction in lending volumes, the data is also showing changes in general lending terms. The Laxfield survey highlights that average pricing expectations are up by 24bps for investment financing and 62bps for development financing compared to the previous period while the De Montfort report indicates that the average maximum senior debt LTV provided by respondents reduced from 65 per cent to 59 percent between year-end 2015 and end of the first half of 2016.

Post the Brexit referendum, economic news has generally been more positive than experts had predicted and some sectors are receiving a boost from the weaker pound. According to Credit Suisse's hospitality research, the UK hotel market is likely to benefit from an increase in demand both from international visitors and "staycationers" in 2017 as a result of the depreciation in the pound against most currencies. Historically, there is a correlation between net outbound travel from the UK to Europe and the GBP/EUR exchange rate with the highest correlation when the exchange rate data is lagged by 9 months. This means that this impact should be most clearly felt in the middle of 2017. However, the longer term effects of Brexit remain unclear and the Group will continue to be vigilant on the many risks which may result.

With the combination of these uncertainties and a more conservative mainstream lending environment, we do expect the Group to continue to benefit from the opportunities such an environment presents and achieve good risk adjusted returns.

Outside of the UK we continue to place a particular focus on Ireland and Spain as two of the markets with the best potential opportunities for the Group. In addition, we are also seeing an increasing number of potentially interesting lending opportunities in the central and eastern European markets.

In terms of asset classes, we are seeing an increased interest from investors in alternative asset classes outside of the traditional mainstream real estate sectors of office, retail and logistics, with purchasers looking for opportunities in hospitality, education, healthcare and datacentres. The Group is well positioned to capitalise on these lending opportunities given the Investment Advisor's wide experience across the real estate spectrum.

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