Starwood European Real Estate Finance Limited

Quarterly Investment Update

June 2015

Share Price / NAV at 30 June 2015

Share price (p)	107.25
NAV (p)	99.94
Premium/ (discount)	7.3%
Issued shares	238,100,000
Market cap	£255.4m

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

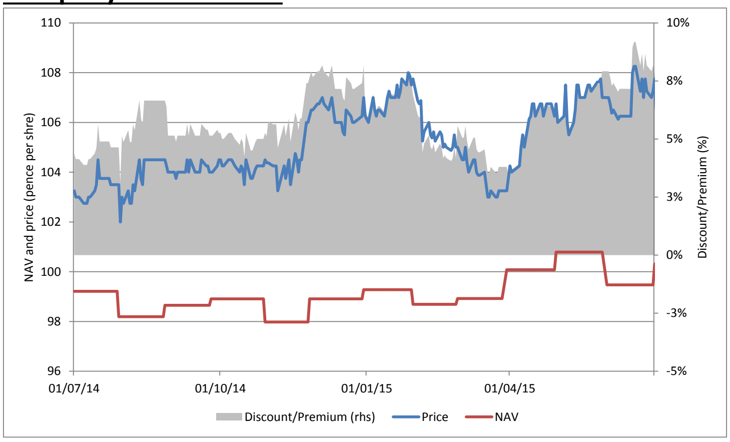
Investment Restrictions & Guidelines

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.

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.

Company Performance



Commentary

Investment portfolio

As at 30 June 2015 the Group had investments and commitments of £247.3 million (sterling equivalent at quarter end exchange rates) as follows:

	Balance as at 30 June 2015	Unfunded Commitments
Maybourne Hotel Group, London	£11.2 m	-
West End Development, London	£10.0 m	-
Lifecare Residences, London	£13.7 m	£0.8 m
Heron Tower, London	£13.3 m	-
Centre Point, London	£45.0 m	-
5 Star Hotel, London	£6.9 m	-
Aldgate Tower, London	£38.9 m	£6.1 m
Total Sterling Loans	**£139.0 m**	**£6.9m**
Retail Portfolio, Finland	€37.1 m	-
Industrial Portfolio, Netherlands	€20.0 m	-
Office, Netherlands	€14.1 m	-
W Hotel, Netherlands	€16.8 m	€8.2 m
Total Euro Loans	**€88.0 m**	**€8.2 m**
Industrial Portfolio, Denmark	Kr 295.0 m	Kr 55.3 m
Total Danish Krona Loan	**Kr 295.0 m**	**Kr 55.3 m**

June 2015

Key Portfolio Statistics at 30 June 2015

Number of investments	12
Percentage of currently invested portfolio in floating rate loans (1)	50.3%
Invested Loan Portfolio annualised total return (2)	8.8%
Weighted average portfolio LTV – to Group first £ (3)	14.2%
Weighted average portfolio LTV – to Group last £ (3)	63.2%
Average loan term	3.6 years
Percentage of NAV in cash	1.1%
Percentage of NAV drawn on revolving credit facility	-3.4%
Percentage of NAV invested in senior and whole loans (1)	70.5%
Percentage of NAV invested in second lien and mezzanine loans (1)	24.9%
Percentage of NAV invested in other debt instruments (1)	5.6%
Percentage of loans in GBP (1)	57.9%
Percentage of loans in Euro (1)	30.4%
Percentage of loans in Danish Krona	11.7%

(1) Calculated on loans currently drawn (as shown on page 1) 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. Eight of the loans are floating rate (partially or in whole and some with floors) and returns are based on an assumed profile for future LIBOR, EURIBOR or CIBOR but the actual rate received may be higher or lower. Calculated only on amounts funded to date and excluding committed amounts and cash uninvested. 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 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.

Portfolio Activity

The following significant activity occurred in the second quarter of 2015.

FC200 Repayment: On 11 June 2015 the FC200 loan of £10.1 million was repaid following a sale of the property.

Danish Industrial Portfolio: On 26 June 2015, the Company committed to provide two facilities for a total of DKK 350.3 million (c. £33.5 million) for a portfolio of light industrial assets throughout Denmark. The first facility is a mezzanine facility to refinance a portfolio already owned by the sponsor. The second facility is a whole loan to support the acquisition of a new portfolio. The facilities were partially drawn on 26 June 2015, with a further drawdown made on 15 July 2015 and the loan is expected to be fully drawn during August.

The Company had £2.6 million of cash at 30 June 2015 with £8 million drawn on the revolving credit facility.

The following activity occurred after 30 June 2015 and up to the date of publication of this fact sheet on 28 July 2015.

Irish Portfolio: On 21 July 2015, the Company committed to provide a €6.1 million loan on a portfolio of retail and residential rental properties in the Republic of Ireland. The loan is expected to be drawn before the end of July 2015.

5 Star Hotel, London: On 24 July 2015, the Company committed to increase its existing loan to the 5 Star London Hotel by £6.2 million. The loan is expected to be drawn before the end of July 2015.

All of the loans closed over the last month reflect the Company's typical risk/return approach and meet its stated investment strategy. The drawn amount on the credit facility also provides a good level of investment cover for repayment risks.

In order to raise funds to meet this pipeline, on 20 July 2015 the Company announced it would be making a tap issue for an amount up to £15 million. The tap was subsequently extended and the Company issued 23,780,000 Ordinary Shares at a price of 103 pence, raising gross proceeds of £24.49 million. The issue was oversubscribed at this level and represented the entire amount that the Company could issue without first publishing a prospectus.

Pipeline

It is expected that some of the loans originated early in the life of the Company may repay over the coming year and the Company is continuously focussed on the need to promptly re-invest any repayment proceeds to avoid material cash drag.

The Company has a strong pipeline and currently has £44.8 million of loans in execution which it expects to close in the coming weeks.

Going into the second half of the year the Company's investment pipeline remains robust. We continue to see a variety of opportunities which will allow the Company to achieve good risk adjusted returns from whole loans as well as mezzanine loans.

Contacts

Investment Manager
Starwood European Real Estate Finance Partners Ltd
1 Royal Plaza, Royal Avenue, St Peters Port
GY1 2HL, Guernsey
starwood@ipes.com

Investment Adviser
Starwood Capital Europe Advisers LLP
2nd Floor, One Eagle Place, St James'
London, SW1Y 6AF

Peter Denton
Senior Vice President
pdenton@starwood.com

Duncan MacPherson
Senior Vice President
dmacpherson@starwood.com

Sarah Broughton
Chief Financial Officer, Europe
sbroughton@starwood.com

Thomas Tolley
European General Counsel
ttolley@starwood.com

In the past quarter we have closed loans in Denmark and Ireland which are two new jurisdictions for the Company. There has been a significant investment of origination effort in Ireland in particular, which, as a result, features strongly in the current pipeline.

There has also continued to be a significant investment of time in Spain and Italy and we would expect to close our first loan in the region in the second half of the year.

Another growing theme for the Company has been assisting borrowers whose loans are with lenders that have exited the lending market or lenders who have sold loan portfolios to private equity or hedge funds. Examples include a number of borrowers in Scandinavia with performing loans from international lenders who are unable to roll those loans due to these lenders pulling out of the region to their home markets. There are also many opportunities arising from non-performing loan (NPL) books that banks have sold. The owners of these NPLs have often bought the NPL at a price that allows them to offer a significant discount to the borrower that allows the borrower to refinance at an appropriate new level with a new lender. These situations are often complex and therefore can create opportunities for the Company to achieve good risk adjusted returns. Initially many of the NPL opportunities have been in the UK and Ireland, however we would expect that to widen if banks continue to divest loan portfolios in other jurisdictions.

Placing Program

The Company's policy is only to raise equity capital for immediate or imminent deployment, in order to minimise cash drag.

As outlined above, the Company's pipeline of investments under review is of a size that the Board is also considering publishing a prospectus in order to implement a 12 month placing programme. This would allow the Company to raise additional equity capital as needed for making further investments.

Dividend and Future Policy

On 24 July 2015 the Directors declared a dividend of 1.75 pence per Ordinary Share (annualised 7.0 pence per Ordinary Share) in relation to the second quarter of 2015.

The Company is encouraged to note that market activity is growing, but is alert to the increased competition amongst lenders that improving conditions has stimulated. In the medium term the increased competition amongst lenders will lead to a choice of assuming greater risk or accepting slightly lower returns; the Company would always weight more to lower return than higher risk, with a resulting impact on dividends. In the short term, and on the basis of the current portfolio, the Company continues to target a dividend at an annualised rate of 7.0 pence per Ordinary Share. Whilst it is difficult to predict the timing of any changes in the returns from new investments, the Company considers that the previous targeted dividend rate may not be sustainable in the longer term without increasing the risk profile of the portfolio and, accordingly, the Company believes the 2016 onwards dividend target should be set 0.5 pence lower at 6.5 pence per Ordinary Share.

The above target dividend payments should not be taken as a forecast of the Company's future performance, profits or results. The target dividend payments are targets only and there is no guarantee whatsoever that they can or will be achieved and they should not be seen as an indication of the Company's actual return. Target dividend payments are dependent on a number of factors, including in particular: interest rate movements, the pace of unscheduled amortisation or prepayment, the pace of drawdowns by borrowers of unfunded commitments, and the pace of reinvestment of cash receipts and the level of return on such reinvestment together with general economic and market conditions and exchange rate movements. Accordingly, investors should not place any reliance on the target dividend payments in deciding whether to subscribe for Placing Shares or invest in the Ordinary Shares. Cash receipts may be applied to the payment of dividends before they are fully recognised in the Company's income statement.

Market Commentary

There is relatively little market research published on commercial real estate finance, however, since the last factsheet three of the most prominent regular annual research reports on the UK market have been released. The first is the De Montfort University survey into the UK commercial property lending market for the year to December 2014 which summarises the university's detailed survey of 83 commercial real estate lenders who have responded to questions on their lending books and originations for the year. The second is the 27th edition of Savills' "Financing Property 2015" presentation which is the product of Savills' ongoing research and, in particular, 37 interviews with different lenders in the weeks before the report. The third is the Cushman & Wakefield report entitled "European Real Estate Lending Market" published earlier this year.

There are a number of key themes highlighted in these reports that we have observed and which are relevant to the Company.

In the UK at year-end 2014, there was an estimated approximate total of £206.8 billion of outstanding debt secured by commercial property. This compares with £232.5 billion recorded at year-end 2013. Generally the reports point towards a healthy stabilised lending market and most of Europe is now entering a different stage of the CRE lending market where availability of finance has become generally better than it has been since the credit crisis. This increased interest in lending across Europe is highlighted in the Cushman report that indicates a 123 per cent year on year increase in tracked new investment and development lending in 2014, and a 55 per cent increase in overall loan origination. In the UK during 2014, £45.2 billion of loan originations and acquisition finance, including refinancing on commercial terms, was recorded as having been undertaken. This compares with £29.9 billion similarly reported at year-end 2013. Other countries such as Spain, Italy, Holland see similar improvements but from a lower base. All surveys highlight the continued diversification of lenders in the market. At the end of 2014 the top 12 lenders accounted for 66 per cent of total outstanding UK CRE lending versus 82 per cent in 2009. For example, in the UK over 25 per cent of all loans in 2014 were provided by insurance companies and other non-bank lenders. Cushman tracks and monitors active lenders across Europe, with non-bank lenders accounting for 47 per cent.

The post-crisis loan market reflects a widespread retreat by lenders into mainly prime markets, sectors and projects. The secondary asset market is still subdued, with low LTVs. De Montfort reports that senior debt loan-to-value ratios for loans secured by all commercial property sectors increased slightly during 2014. Those for loans secured by prime office investment projects increased from 65.9 per cent at year-end 2013 to 66.3 per cent at year-end 2014. Those for loans secured by Secondary Office investment projects increased from 58.9 per cent at year-end 2013 to 61.4 per cent at year-end 2014. Previously challenged markets such as Spain, Italy and the Netherlands have emerged from the post-crisis conservatism of 50 per cent LTV levels and are now prepared to push loans up, but still only to 60 per cent LTV for the right sponsor and asset. Savills notes that LTVs are still lower than the historical averages, and margins are still significantly higher: so while the market is healthy, it is not getting too hot in general. We are seeing some pockets where the market is exceptionally competitive. Prime office financing for large lot sizes continues to see tightening spreads across Europe with London now in the low 100s basis point margins for 65 per cent LTV interest only senior debt. Widely marketed large ticket mezzanine loans are also subject to a high level of competition on pricing.

While there are areas of the market that have become very competitive, this sense of renewed vigour does remain predominately focussed on core sponsors, transactions and markets. We are still seeing value for the Company in the same strategies that have always been identified and there is a lot of overlap between Savills' presentation on the opportunities they see and the Company's investment theses. Any lending opportunity that involves moderately higher leverage, assets in "transition" that require more active management, certain sectors or geographical locations, cross-border and smaller tickets may find debt harder to obtain. This is irrespective of how attractive the underlying risk/return metrics might be. The Company has always sought to exploit these particular niches to earn outsize returns for the risks taken. We continue to see good value.

Cushman has recorded, in its Q4 2014 European Real Estate Loan Sales Market report, €80.6 billion of closed European commercial real estate and "real estate owned"[1] transactions in 2014, over double the volume recorded for 2013. In terms of geography, the UK and Ireland led the way, together accounting for almost two thirds of the total closed volume in 2014 (€29.8 billion and €22.4 billion respectively). A notable trend was the emergence of loan sales in Spain, with volumes almost quadrupling over the year. Deals in Denmark, Austria and Romania, in addition to the established markets, demonstrate the breadth of deleveraging taking place across Europe. We are seeing particular opportunities coming from the wall of financings and refinancings required as a result of NPL buyers actively managing their portfolios. This is resulting in increased agreements between NPL lenders and borrowers to repay their old bad loans at discounts (known as a discounted pay-off or DPO). The DPO is an opportunity for a quick and consensual agreement between the borrower and lender and

[1] "Real estate owned" refers to real estate that has been repossessed by the lender and not yet sold

the ability for the borrower to reset their basis and implement an appropriately sized capital structure. There is often some complexity in these situations that requires some flexibility that not all lenders can provide and loans required are often of a smaller size where there is a lower amount of lending competition.

The De Montfort and Savills reports highlight that there is an acute lack of lenders with the required resources to deal with both commercial and residential development financing. At the same time the Company is seeing an increasing number of larger requests for development financing in the UK in the past few weeks. Given this supply and demand imbalance there should continue to be good opportunities to lend selectively in development finance with good risk adjusted returns.

The uncertainty over Greece's position in the Euro has caused volatility and caution in the capital markets. The most immediate impact for commercial real estate finance is the impact on lenders who intend issuing CMBS. There were 13 deals each year in 2013 and 2014 and over €13 billion of issuance; since the beginning of 2015 there have been 6 issuances with a total of €2.27 billion.

The theme has shifted from large multifamily CMBS in 2013 to now providing some liquidity for less liquid markets such as Italy, Netherlands and hotels. Banks have left CMBS issuance on hold while Grexit concerns continued and this will naturally restrict their new loan origination as appetite to warehouse for CMBS issuance is limited. The market has somewhat stabilised in the last couple of weeks; as a result, according to CoStar, Deutsche Bank is preparing its next pan-European multi-borrower CMBS, the €316 million DECO 2015 Charlemagne transaction, which is the securitisation of three loans secured by an aggregate 37 asset, predominantly office and light industrial commercial, property portfolio.

We will need to balance the risks in new loan origination for the Company, but decreased competition may actually make opportunities more attractive. The recent volatility has also allowed traditional Spanish political parties to emphasise the uncertainty that a Podemos vote in the December elections could bring and this could lead to greater political stability in a market that the Company sees as an attractive target lending market.

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