



## March 2014

### Share Price / NAV at 31 March 2014

Share price (p)	99.25
NAV (p)	99.21
Premium/ (discount)	0%
Issued shares	238,100,000
Market cap	£236.3m

### 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	<a href="http://www.starwoodeuropeanfinance.com">www.starwoodeuropeanfinance.com</a>

### 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.

## Starwood European Real Estate Finance Limited

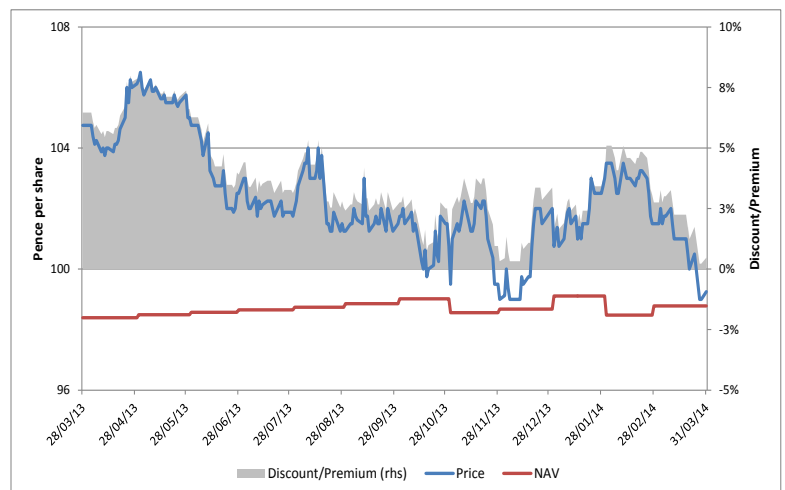
### Quarterly Investment Update

#### 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



#### Commentary

##### Investment portfolio

As at 31 March 2014 the Group had invested 72% of net IPO proceeds through the following investments:

	Original Commitment	Balance as at 31 March 2014
Maybourne Hotel Group	£19.0 m	£19.0 m
West End Development	£10.0 m	£10.0 m
Lifecare Residences	£12.8 m	£11.8 m
Heron Tower, London	£18.0 m	£17.2 m
Centre Point, London	£40.0 m	£40.0 m
<b>Sterling Loans</b>	<b>£99.8 m</b>	<b>£98.0 m</b>
Retail Portfolio – Finland	€45.0 m	€42.9 m
Industrial Portfolio, Netherlands	€21.8 m	€21.8 m
Office, Netherlands	€14.3 m	€ 0 m
<b>Euro Loans</b>	<b>€81.1 m</b>	<b>€64.7 m</b>



## March 2014

### Key Portfolio Statistics at 31 March 2014

Number of borrowers	8
Number of investments	8
Percentage of committed portfolio in floating rate loans	45%
Committed Loan Portfolio annualised total return <sup>(1)</sup>	9.1%
Weighted average portfolio LTV – to Group first £ <sup>(2)</sup>	13%
Weighted average portfolio LTV – to Group last £ <sup>(2)</sup>	58%
Average loan term	4.1 years
Percentage of net assets in uncommitted cash	29.8%
Percentage of net assets committed to senior and whole loans	51.2%
Percentage of net assets committed to second lien and mezzanine loans	11.7%
Percentage of net assets committed to other debt instruments	7.3%
Percentage invested in GBP	59.8%
Percentage invested in Euro	40.2%

(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. Calculated only on loans closed to date and excluding cash uninvested.

(2) LTV to Group last £ means the percentage which the total loan advanced by the Group (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 Group £ means the starting point of the loan to value range of the loan advanced by the Group (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 (Centre Point) 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

The following transaction was closed since the publication of the factsheet for 31 December 2013:

**Office, Amsterdam:** The Group provided a €14.3 million financing facility for the acquisition of an office building in Amsterdam fully occupied by UPC Nederlands, BV. The Group expects to earn a solid single digit return in line with its investment criteria. The loan was fully drawn in the middle of April 2014. This investment was the transaction referred to in the December factsheet released on 29 January 2014 as expected to close for a further 5% investment.

Since 31 December 2013 (to the end of April 2014) the Group also received a €2.9m prepayment on the Retail Portfolio, Finland and scheduled amortisation on the Heron loan of £1.5m.

The Company is now capable of delivering a net portfolio yield of approximately 5.3 per cent on deals funded to date (after scheduled amortisation but prior to any other prepayments).

In addition, the Group has committed to the following transaction:

**Industrial Portfolio, Netherlands:** The Group has committed to increase the existing €21.8 million whole loan facility provided in October 2013 by an additional €13.5 million of proceeds. This will facilitate the acquisition of 7 light-industrial and office properties in the Netherlands taking the overall portfolio to 19 assets. The loan is expected to be fully drawn before the middle of May and is expected to earn a single digit return in line with the Company's investment criteria.

Following the closure of this loan, the Group will have made or committed to investments representing approximately 77% of net IPO Proceeds.

### Pipeline

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

The pipeline remains robust and is geographically spread. We expect Ireland and the Netherlands to remain strong areas of focus in addition to the UK to aid diversity in investing the final cash resources of the Company. Origination orientation has moved somewhat away from the UK as the Continent starts to see increased activity. That said the Company still receives a healthy level of UK finance requirements and leads. Whilst the Company's pipeline includes some larger transactions, there remains a continued focus on delivering smaller bilateral positions.

The Company is involved in discussions about follow-on transactions for loans that the Company has already made or committed to. Overall some of these new opportunities immediately meet the Company's target return requirements, and some will require subsequent syndication to achieve these levels.

A number of whole loan opportunities are currently in execution with several others at advance term sheet stage and based on these facts the Company remains confident of being substantially fully invested on the basis of completing two to three additional transactions within the second quarter of 2014.



## Contacts

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Upon substantially full investment, the Company will focus on limiting cash drag by utilising short term borrowing facilities, that may be repaid from further equity raisings, and by the creation of a pipeline in advance of such raisings.

The Company will concentrate on generating attractive risk adjusted returns through underwriting whole loans and in selective cases selling senior strips to generate mezzanine positions. This will rebalance the overall book back towards the loan mix set out at IPO whilst maintaining attractive single digit gross returns.

### ***Investment Policy***

On 2<sup>nd</sup> May 2014 the Company held its first Annual General Meeting and an Extraordinary General Meeting to approve a change to the investment policy of the Group to extend the geographic scope of the investment policy to allow investment in Spain and Italy and to increase the maximum allocation that can be made to the residential for sale sector.

The occupational real estate markets in Spain and Italy have shown tentative signs of recovery and investment demand has also significantly increased as both opportunistic and core investors have sought exposure. Whilst any investment in Spain or Italy would be approached with caution, the Board believes that the Company should have the ability on a limited and selective basis to identify balanced risk return opportunities in these countries if and when they arise. The Company's focus in these countries is expected to be the commercial property sector as opposed to the residential market.

The Company has gained attractive exposure to residential for sale within London through its investments in Centre Point and Battersea. The extended limits will potentially allow the Company to take advantage of further residential opportunities.

The Company confirms that it does not intend to use these extended investment powers until the net proceeds of the IPO are substantially fully invested. As such, the changes contain an element of "future proofing" for investing the proceeds of possible additional capital raises or loan repayments. With these adjustments, the Board believes the Company would be better placed to raise and deploy additional capital.

Alongside these changes, the Board believed it was necessary to clarify the scope and intent of the restrictions on the Company's corporate borrowings to exclude foreign exchange hedging facilities from the scope of "corporate borrowings".

The Company is pleased to confirm that these changes to the investment policy have been approved by the Company's shareholders.



### ***Dividends***

At launch, the Company had targeted a dividend of 7.0 pence per Ordinary Share upon full investment.

On 23 April 2014 the Company declared a dividend for the period from 1 January 2014 to 31 March 2014 of 1.25 pence per share.

As noted above, the Company is now capable of delivering a net portfolio yield of approximately 5.3 per cent on deals funded to date (after scheduled amortisation but prior to any other prepayments).

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**

We had previously commented that market interest in lending had 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. Demand for debt has also visibly risen as confidence returns and for most opportunities competition exists but not to a level that leads to crowding out. The banking community has 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 also not wavering and indeed representatives from the Bank of England have recently commented and positively encourage recent industry initiatives addressing "bubble" risk through education, diversification and longer term approaches to values. That is not to say one does not see the start of questionable lending activity but for the moment the amounts and crucially the parties are not systematically important.

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 not a comment simplistically applied to the southern countries rather a general observation of the entire Eurozone as the banking sector prepares to come under the regulation of the ECB in September 2014 and experience the Asset Quality Review in advance of this.



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