Starwood European Real Estate Finance Limited

Quarterly Investment Update

March 2015

Share Price / NAV at 31 March 2015

Share price (p)	103.75
NAV (p)	100.31
Premium/ (discount)	3.4%
Issued shares	238,100,000
Market cap	£247.0m

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

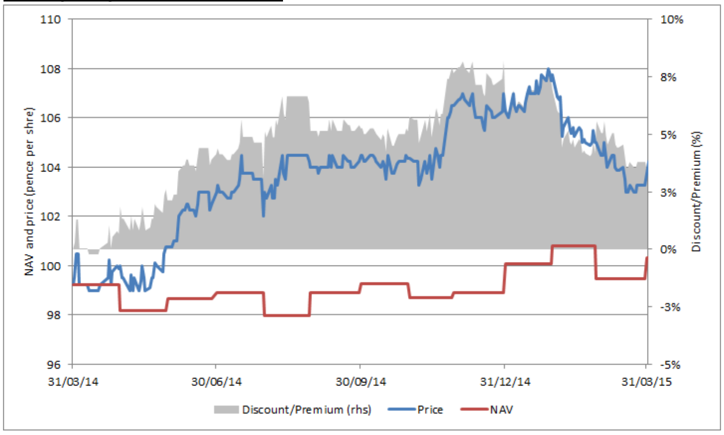
Investment Restrictions & Guidelines

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 Continental European markets.

Company Performance



Commentary

Investment portfolio

As at 31 March 2015 the Group had investments and commitments of £231.2 million (sterling equivalent at quarter end exchange rates) as follows:

	Balance as at 31 March 2015	Unfunded Commitments
Maybourne Hotel Group, London	£11.2 m	-
West End Development, London	£10.0 m	-
Lifecare Residences, London	£13.5 m	£1.0 m
Heron Tower, London	£14.1 m	-
Centre Point, London	£42.0 m	£3.0 m
FC200, London	£9.6 m	£3.9 m
5 Star Hotel, London	£6.9 m	-
Aldgate Tower, London	£38.0 m	£7.0 m
Total Sterling Loans	**£145.3 m**	**£14.9 m**
Retail Portfolio, Finland	€38.0 m	-
Industrial Portfolio, Netherlands	€20.0 m	-
Office, Netherlands	€14.2 m	-
W Hotel, Netherlands	€13.9 m	€11.1 m
Total Euro Loans	**€86.1 m**	**€11.1 m**

March 2015

Key Portfolio Statistics at 31 March 2015

Number of borrowers	12
Number of investments	12
Percentage of currently invested portfolio in floating rate loans (1)	40.6%
Invested Loan Portfolio annualised total return (2)	9.3%
Weighted average portfolio LTV – to Group first £ (3)	13.8%
Weighted average portfolio LTV – to Group last £ (3)	63.2%
Average loan term	3.6 years
Percentage of NAV in cash	7.6%
Percentage of NAV invested in senior and whole loans (1)	62.5%
Percentage of NAV invested in second lien and mezzanine loans (1)	22.6%
Percentage of NAV invested in other debt instruments (1)	5.9%
Percentage of loans in GBP (1)	66.8%
Percentage of loans in Euro (1)	33.2%

(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. Seven 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 or EURIBOR 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 activity occurred in the first quarter of 2015.

Maybourne: On 23 January 2015, the Maybourne facilities were amended and restated with the effect of increasing the senior financing by £40 million and the mezzanine facilities being reduced by a corresponding amount. This restructure was an alternative to a complete refinancing of the debt and enabled the Group to retain an investment (albeit lower) notwithstanding the improvement in the debt markets since the time of the original transaction. Following the amendments, the Group's participation has been reduced to £11.2 million and a lower interest rate is now being received. The returns are, however, commensurate with a transaction of this nature.

Other activity: In the first quarter an additional €2.2 million was drawn under the W Hotel facility, £2 million under the Centre Point facility, £0.1 million under the Aldgate Tower facility and £0.4 million under the FC200 facility.

Scheduled amortisation of £0.8 million was received on Heron Tower and repayments of €2.4 million were received on the Retail Portfolio, Finland facility.

The Company has £18.2 million of cash at 31 March 2015 of which approximately £16.4 million is available for the unfunded loan commitments. The remaining loan commitments can be funded from the currently undrawn liquidity facility.

Investment Policy and Pipeline

The Company held an Extraordinary General Meeting ("EGM") on 9 March 2015. We are pleased to confirm that at this EGM the shareholders approved our proposal to amend the investment policy in order to include the wider European Union's internal market and to remove the limitation of 75 per cent on the United Kingdom. Shareholders also approved an equity placement programme which will allow the Group to match equity raises to its pipeline, in a manner that will seek to minimise the risk of cash drag from loan repayments.

The Company continues to diligently pursue its regular pipeline of opportunities. An overriding aspect is always to maintain a consistent and appropriate balance of risk/reward and certainly not to chase higher returns at the expense of excessive risk.

Perhaps one area of growing interest and opportunity is that the banking sector is now not just deleveraging through the sale of problem loans but also performing positions. Such institutions seek either a sector exit or capital/leverage relief. The Group is now examining a number of such positions and portfolios.

Dividend and Future Policy

The Company declared total dividends of 5.8 pence per Ordinary Share in relation to 2014. The dividend declared on 27 January 2015 in relation to the final quarter of 2014 was 1.7 pence per Ordinary Share (annualised 6.8 pence).

On 27 April 2015 the directors declared a dividend of 1.75 pence per Ordinary Share (annualised 7.0 pence per Ordinary Share) in relation to the first quarter of 2015.

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On the basis of the current portfolio, we would expect to be able to continue to pay dividends at broadly this level (depending on LIBOR movements and pace of unscheduled amortisation and the pace of drawdown of unfunded commitments). However, it is important to recognise that some of the loans originated early in the life of the Company may repay over the coming year and as such the level of future dividend will depend upon the level of returns achieved on re-investment of the proceeds and the pace of such re-investment.

The investment environment for the Company has changed somewhat over the last two years and the Company has to date sourced attractive business consistent with risk/return metrics set out at IPO. Going forward, should any material repayments be received, the Company has already stated that it will look to take account of shareholders' current views on the relative balance between risk, returns and scalability and this may lead to a reduction in the target returns on new investments.

The directors place primary importance now on ensuring, as much as possible, that cash drag from any repayments does not materially impact the consistency of future dividends and it is intended that the liquidity facility will assist with this.

Market Commentary

This factsheet often makes observations about market dichotomies. Over recent months we have seen the emergence of yet other interesting, if sometimes irrational, aspects of the market. The first instance is that one observes continued strong competition to provide real state finance within the core markets of such places as London, Munich and Paris. However we also observe the continued expansion of the type and nature of credits being sold by financial institutions. The wave of purely non-performing loans has now morphed into a more generic "bankbook" deleveraging. This means that in portfolios being sold one also observes a number of partial as well as fully performing positions. This is creating a new set of opportunities for investors who have the ability to either team up or indeed have variable capital themselves to be able to efficiently purchase the differing levels of risk (and consequently required return) within any given bankbook.

In addition to this the purchasers of the initial waves of non-performing loans are now looking to exit from such positions often by way of either refinancing, enforcement, or agreed discounted sale back to the borrowers. This is creating a secondary wave of financing requirements for smaller to mid-sized property deals where the relevant principal finds it less easy given the circumstances to obtain finance.

Finally we are observing that a number of previously non-performing loans have moved into performing territory as a result of not only value improvement but often rental improvement. This again leads to the opportunity for refinancing, albeit cautiously. We have previously written about the impacts of impending regulatory change not least the Leverage Ratio and the ultimate requirement to meet Basel III. Nothing has changed here save to note that at least some of these activities are being driven by such regulatory change. In addition many banks have created sufficient provisions and breathing space to allow themselves to become more creative in the deleveraging of their balance sheets. The Group has certainly observed a pick up in its pipeline in this area of the market.

Another interesting change is the exit of GE Capital from real estate finance. The Investment Adviser had already detected a slight softening to the current lending market, hopefully enlarging the opportunity set. There are suggestions that the syndication market is smaller than perhaps anticipated and GE was a very substantial and important primary and secondary market player. This may dampen underwriting appetite, which is added to general caution with regards to the impact of the Greek and forthcoming Spanish elections. The Investment Adviser will balance the continued avenue for new business with the macro concerns in the market, not least Greece.

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