

## Starwood European Real Estate Finance Limited Quarterly Investment Update

### Summary

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.

### Investment Portfolio at 31 March 2016

As at 31 March 2016, the Group had 17 investments and commitments of £348.1m as follows:

| Transaction                             | Sterling equivalent balance <sup>(1)</sup> | Sterling equivalent unfunded commitment <sup>(1)</sup> |
|---|--|--|
| Lifecare Residences, London             | £14.2m                                     | £0.3m  |
| Salesforce Tower, London                | £10.8m                                     | –  |
| Centre Point, London                    | £45.0m                                     | –  |
| 5 Star Hotel, London                    | £13.0m                                     | –  |
| Aldgate Tower, London                   | £41.5m                                     | £3.5m  |
| Center Parcs Bonds, UK                  | £9.5m                                      | –  |
| Industrial Portfolio, UK                | £31.8m                                     | –  |
| Hospitals, UK                           | £25.0m                                     | –  |
| Hotel, Channel Islands                  | £27.0m                                     | –  |
| <b>Total Sterling Loans</b>             | <b>£217.8m</b>                             | <b>£3.8m</b>   |
| Retail Portfolio, Finland               | £25.0m                                     | –  |
| Industrial Portfolio, Netherlands       | £21.7m                                     | –  |
| Office, Netherlands                     | £11.0m                                     | –  |
| W Hotel, Netherlands                    | £17.8m                                     | £1.9m  |
| Retail & Residential Portfolio, Ireland | £4.7m                                      | –  |
| Residential Portfolio, Cork, Ireland    | £4.9m                                      | –  |
| Residential Portfolio, Dublin, Ireland  | £6.2m                                      | –  |
| <b>Total Euro Loans</b>                 | <b>£91.3m</b>                              | <b>£1.9m</b>   |
| Industrial Portfolio, Denmark,          | £33.3m                                     | –  |
| <b>Total Danish Krona Loans</b>         | <b>£33.3m</b>                              | <b>–</b>   |
| <b>Total Portfolio</b>                  | <b>£342.4m</b>                             | <b>£5.7m</b>   |

(1) Euro and Danish Krona balances translated to sterling at 31 March 2016 exchange rates.

### Portfolio Activity

The following significant activity occurred since the publication of the last factsheet on 28 January 2016 up to 31 March 2016.

**Hotel, Channel Islands:** The Group advanced a £26.95 million whole loan in relation to a hotel in the Channel Islands. This specific hospitality submarket is demonstrating solid performance and the asset being financed is the market leader. Such an investment is not only attractive on its own merits but also further delivers geographical and sector diversity to the overall portfolio. The fixed rate facility has a term of 5 years and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

**Residential Portfolio, Dublin:** The Group advanced a €7.9 million whole loan relating to the acquisition of 44 apartments in South Dublin. The sponsor is a highly regarded local investor and an existing borrower of the Group. The transaction represented the Group's third loan secured by rented residential units in Ireland, an attractive asset class due to its consistent demand, stable

### March 2016

#### Share Price / NAV at 31 March 2016

|                     |             |
|---------------------|-------------|
| Share price (p)     | 106.00      |
| NAV (p)             | 100.68      |
| Premium/ (discount) | 5.3%        |
| Issued shares       | 304,180,000 |
| Market cap          | £322.4m     |

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

#### 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.                                      |

## March 2016

### Key Portfolio Statistics at 31 March 2016

|  |           |
|--|-----------|
| Number of investments  | 17        |
| Percentage of currently invested portfolio in floating rate loans <sup>(1)</sup> | 52.0%     |
| Invested Loan Portfolio annualised total return <sup>(2)</sup>                   | 8.5%      |
| Weighted average portfolio LTV – to Group first £ <sup>(3)</sup>                 | 14.2%     |
| Weighted average portfolio LTV – to Group last £ <sup>(3)</sup>                  | 65.9%     |
| Average loan term (stated maturity at inception)                                 | 4.1 years |
| Net Asset Value  | £306.2m   |
| Amount drawn under Revolving Credit Facility (excluding accrued interest)        | £42.0m    |
| Portfolio value (including accrued income)                                       | £349.0m   |
| Cash   | £1.6m     |
| Other net assets/ (liabilities) (including hedges)                               | (£2.4m)   |

(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. Eleven 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.

income profile, and Ireland's growing economy. The floating rate facility has a term of 4 years and the Group expects to earn an attractive risk adjusted return in line with its stated investment strategy.

The following significant activity occurred since 31 March 2016 up to the publication of this factsheet.

**Aldgate Tower, London:** On 22 April 2016 the Group received full repayment of the Aldgate Tower, London loan as a result of the sale of the property. A number of loans in the portfolio benefit from prepayment protection in their early years providing a level of income protection should the loan repay whilst in that protected period. The Aldgate Tower loan was originated in December 2014 and the Group benefitted from such a provision.

**Salesforce Tower, London:** On 7 April 2016 the Group received full repayment of the Salesforce Tower, London loan as a result of the refinancing of the property following its successful lease up. The Group had always anticipated that this loan would be repaid once the Sponsor had achieved its business plan.

**Retail Portfolio, Finland:** On 26 April 2016 the Group received full repayment of the Retail Portfolio, Finland loan as a result of the sale of the portfolio. This loan was one of the first loans originated by the Group and it was due to mature this year.

The Group has developed a strong reputation in being willing and able to support borrowers with clear proactive asset management business plans. This was the case with all three of the loans repaid, especially the first two. During the course of the business plan implementation the Group tends to earn an attractive return for underwriting and taking risk exposure on that strategy. The quid pro quo tends to be that once that strategy is successful and the asset stabilised the Group is usually then repaid by way of asset sale or refinancing. There is thus a natural order to things and a number of the Group's "first generation" loans have been repaid over the last six months being generally replenished by new investments and, so far, with minimal cash drag. This has required the Group to manage repayment events by tactically using the £60 million revolving credit facility and being cautious on when to raise additional equity. The proceeds of these most recent repayments were initially used to repay drawings on the revolving credit facility. Following these repayments, the Group has approximately £40 million of cash available for reinvestment with cash drag currently mitigated by the remaining Aldgate Tower prepayment protection. The Group will endeavour to further mitigate any future cash drag risk through new investments prior to such prepayment protection expiring.

### Capital Market Activities

For the last 6 months the Group has been extremely focussed on managing the repayment risk which it had correctly anticipated. Whilst further loan repayments could occur in the near future, the Group now expects an investment period whereby, following the reinvestment of the current approximately £40 million of liquidity, subsequent new loans will be funded by the revolving credit facility with a view to raising further equity under the Placing Programme in due course.

At the AGM this year a resolution will be put forward to adjust the investment policy of the Group to permit the use of longer-term leverage alongside the current ability to utilise the short term working capital facility. This year's Chairman's statement in the 2015 annual accounts and the AGM notice to shareholders (both available on the website) described in detail the rationale for this proposal.

## March 2016

### Key Portfolio Statistics at 31 March 2016

| Country         | % of invested assets |
|-----------------|----------------------|
| UK              | 55.7                 |
| Netherlands     | 14.9                 |
| Finland         | 8.2                  |
| Denmark         | 8.8                  |
| Ireland         | 4.6                  |
| Channel Islands | 7.8                  |

| Sector                       | % of invested assets |
|------------------------------|----------------------|
| Office                       | 18.6                 |
| Retail                       | 10.9                 |
| Light Industrial / logistics | 24.6                 |
| Hospitality                  | 19.5                 |
| Residential for sale         | 14.6                 |
| Residential for rent         | 4.5                  |
| Healthcare                   | 7.3                  |

| Loan type   | % of invested assets |
|-------------|----------------------|
| Whole loans | 69.5                 |
| Mezzanine   | 27.4                 |
| Other       | 3.1                  |

| Loan type    | % of invested assets |
|--------------|----------------------|
| Sterling     | 63.5                 |
| Euro         | 27.7                 |
| Danish Krona | 8.8                  |

## Contacts

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### Dividend

On 25 April 2016 the Directors declared a dividend of 1.625 pence per Ordinary Share (annualised 6.5 pence per Ordinary Share) in relation to the first quarter of 2016. This is in line with the target dividend communicated in the second half of 2015. The Group had a strong first quarter of 2016 and earnings could support a 1.75 pence (7.0 pence annualised) dividend. However, the board decided that the payment of a 6.5 pence annualised dividend would enable a small contingency to be retained from those solid quarterly earnings in the context of the current underlying loan repayments. The board has decided it would prefer to ensure, so far as is possible, that it has sufficient reserves to pay a consistent 6.5 pence dividend across the year and will continue to monitor this provisioning policy.

### Business and Market Commentary

We have recently conveyed optimism that ongoing global macroeconomic volatility is filtering through to the real estate credit market to the benefit of the Group. The underlying reasons for the volatility remain, such as the global economies coming out of a commodity supercycle, the current Chinese economic situation, political flux and, most relevantly, the banking sector being in modest retrenchment. We are seeing a tightening in the provision of real estate loans with enhanced banking regulation and capital ratio requirements, the splitting of investment and commercial banking in the UK, the continued presence of significant NPL and sub performing debt and the lack of any real securitisation market all have an impact.

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 whilst being able to take advantage of the opportunities such a market provides. 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.

We do also need to address the impact of the forthcoming "Brexit" vote. Irrespective of the political arguments for or against the UK leaving the EU, the very prospect of the June 23<sup>rd</sup> vote is unquestionably impacting UK real estate investment activity. A two speed Europe currently seems to exist with, ironically, the rest of Europe being far more dynamic than the UK itself. The outcome of the vote will be likely to have an impact on short to medium term business and property outlook for the UK with a vote to leave probably having a negative impact. Given that the Company is denominated in Sterling with a predominantly UK shareholder base, it will continue to seek and consider British investments and, indeed at this moment, opportunities exist to provide lower leverage positions that should be reasonably insulated from Brexit risk. There will, however, be a continued focus on continental Europe which should provide an appropriate balance.

Property lending is strangely a seasonal activity with most lending done between Easter and early Summer and then early Autumn through to Christmas. That said, the pipeline is showing the impact of the world today and is stronger than we have seen historically at this time of the year. Closing our investments always seems to take longer than we would ideally wish but this is representative of the diligence required and the nature of negotiating and providing loans.

We are optimistic that the strength and depth of then pipeline will necessitate further equity raises during the course of this year.

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