

## September 2015

### Share Price / NAV at 30 September 2015

Share price (p)	103.25
NAV (p)	100.52
Premium/ (discount)	2.7%
Issued shares	304,180,000
Market cap	£314.1m

### 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.

## Starwood European Real Estate Finance Limited Quarterly Investment Update

### 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.

### Investment Portfolio at 30 September 2015

As at 30 September 2015, the Group had investments and commitments of £299.0m as follows:

Transaction	Sterling equivalent balance <sup>(1)</sup>	Sterling equivalent unfunded commitment <sup>(1)</sup>
Maybourne Hotel Group, London	£11.2m	–
West End Development, London	£10.0m	–
Lifecare Residences, London	£13.9m	–
Salesforce Tower, London	£12.5m	–
Centre Point, London	£45.0m	–
5 Star Hotel, London	£13.0m	–
Aldgate Tower, London	£39.8m	£5.2m
Center Parcs Bonds, UK	£8.0m	–
Industrial Portfolio, UK	£32.5m	–
<b>Total Sterling Loans</b>	<b>£185.9m</b>	<b>£5.8m</b>
Retail Portfolio, Finland	£24.3m	–
Industrial Portfolio, Netherlands	£14.8m	–
Office, Netherlands	£10.5m	–
W Hotel, Netherlands	£14.3m	£4.2m
Retail & Residential Portfolio, Ireland	£4.5m	–
<b>Total Euro Loans</b>	<b>£68.3m</b>	<b>£4.2m</b>
Industrial Portfolio, Denmark,	£32.4m	£2.3m
<b>Total Danish Krona Loans</b>	<b>£32.4m</b>	<b>£2.3m</b>
<b>Total Portfolio</b>	<b>£286.6m</b>	<b>£12.3m</b>

(1) Euro and Danish Krona balances translated to sterling at 30 September 2015 exchange rates.

### Portfolio Activity

The following significant activity occurred since the publication of the last factsheet on 28 July 2015.

**Industrial Portfolio, UK:** on 5 August 2015 the Group provided a £32.5 million whole loan to refinance a portfolio of industrial properties in the UK. The facility has a term of 4 years, and the interest rate is floating over 3 month LIBOR. The Group expects to earn an attractive risk-adjusted return commensurate with its stated investment policy.

**Center Parcs, UK:** On 30 July 2015, the Group purchased £8.0 million of the £560 million Class B2 Fixed Rate Secured Notes issued by CPUK Finance Limited following the acquisition of the Center Parcs group by a Brookfield managed fund.

**Center Parcs, UK:** On 1 October 2015, the Group purchased an additional £1.5 million of the Center Parcs Class B2 Fixed Rate Secured Notes.

## September 2015

### Key Portfolio Statistics at 30 September 2015

Number of investments	15
Percentage of currently invested portfolio in floating rate loans <sup>(1)</sup>	56.5%
Invested Loan Portfolio annualised total return <sup>(2)</sup>	8.8%
Weighted average portfolio LTV – to Group first £ <sup>(3)</sup>	11.5%
Weighted average portfolio LTV – to Group last £ <sup>(3)</sup>	62.7%
Average loan term (stated maturity at inception)	3.6 years
Net Asset Value	£305.8m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	£0.4m
Portfolio value (including accrued income)	£291.4m
Cash	£8.2m
Other net assets (including hedges)	£6.6m

(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. Ten 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.

### Investment Philosophy

It is worth reiterating that the Group adopts a relative risk return strategy. Whilst the Group seeks to achieve an absolute portfolio return that is interesting for investors, the relative risk return approach focuses on the blended risk that is entered into to achieve that return. The scale of the issues that impacted the real estate sector in the crisis, and the resulting structural changes, have arguably created a longer term ability to extract good returns through financing outside the somewhat narrower confines that the traditional bank lenders now inhabit. The Group leverages Starwood's wider relationships and skills to underwrite real estate business plans that fundamentally should create value. Whilst any loan underwritten should not be dependent on achieving such a business plan, understanding the business plan does generally allow for such a loan to attract a day one premium pricing and naturally de-risks the position. Further benefits come from a sector and geographical nimbleness that has allowed the Group to continue to source deals that fit the investment criteria and deliver proper diversification. For an equity focussed investor, the Group is attractive because it offers a very high relative dividend whilst having substantial protection of its NAV against underlying property value decline. For a credit focussed investor, the Group is attractive because the portfolio, having such a high proportion of whole loans and relatively modest LTV, offers meaningful exposure to investment grade risk and a coupon substantially higher than comparable fixed income style products.

### Placing Programme

On 7 September 2015 the Company published a prospectus for the issue of New Ordinary Shares and/ or C Shares. On 24 September 2015 the Company announced that it had issued 42,300,000 New Ordinary Shares for Gross Issue Proceeds (before expenses) of £43.5 million.

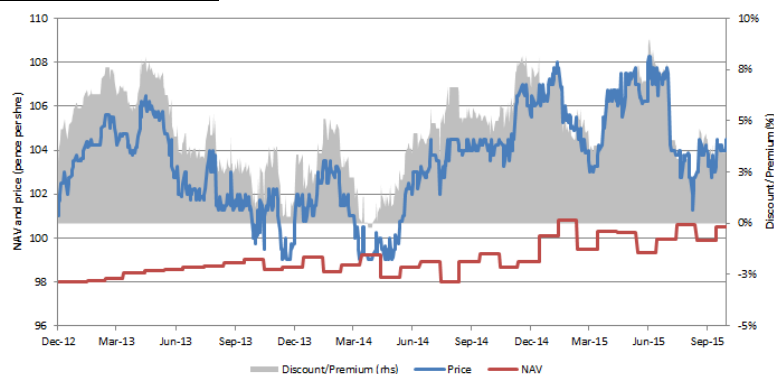
The size of this Initial Placing was principally looking to match the amount raised to the near term pipeline of investment opportunities expected to have a high probability of execution. Pending the finalisation of these opportunities, the Company has used £35.25 million of the proceeds of the Initial Placing to repay the outstanding loans on the working capital facility.

It is intended that the Company will seek to raise further equity under the Placing Programme, as required by investment needs.

### Dividend

On 22 October 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.

### Company Performance



## September 2015

### Key Portfolio Statistics at 30 September 2015

Country	% of invested assets
UK	63.4
Netherlands	14.7
Finland	9.8
Denmark	10.6
Republic of Ireland	1.5

Sector	% of invested assets
Office	21.8
Retail	13.0
Light Industrial / logistics	27.4
Hospitality	16.1
Residential for sale	17.0
Residential for rent	1.3
Mixed use	3.4

Loan type	% of invested assets
Whole loans	70.6
Mezzanine	25.1
Other	4.3

Loan type	% of invested assets
Sterling	63.4
Euro	25.9
Danish Krona	10.7

### Market Commentary

In our last factsheet we described key conclusions arising from recent research on property credit. For performing debt we indicated that the credit markets were indeed showing improving robustness in availability of loans. This was, however, manifesting itself far more in the mainly prime markets, sectors and projects with any competition generally coming from pricing tension and little visible appetite for increased risk. Some pockets of the market were very competitive not least large prime London office financings. Widely marketed pure mezzanine had also seen a pricing squeeze as there is a deep pool of funds that can buy mezzanine loans but who rely on investment banks to originate, structure and sell them.

The Group predominately focuses on primary originated whole loan business that the banks have less capacity to address and where alternative structures meet the borrower's needs beyond just the cost of the loan. We are still seeing value for the Group in the same strategies that have always been identified. 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 in the general market. This is irrespective of how attractive the underlying risk/return metrics might be. The Group has always sought to exploit these particular niches to earn outsize returns for the risks taken. As a consequence, it has managed to steer clear of a lot of the return compression many have seen in the primary flow market and foresees it will be able to maintain the same consistency of risk/return in the future as observed till now.

Over the last two months the global macroeconomic volatility has unquestionably filtered through to the real estate credit market. This has manifested itself in a modest improvement in achievable returns and a more noticeable retrenchment of a number of lenders. The securitisation market has again become a challenging and unpredictable exit method for underwritten investment loans, and increased syndication caution has also been visible. The Group typically benefits from such a market change provided it balances enhanced opportunity with appropriate caution. We watch unfolding dynamics with interest and optimism as it further strengthens the Group's investment philosophy.

### Pipeline

The Group is an opportunistic lender looking to source the right risk/return mix. It is already sectorally diversified and will look to maintain this with a desire to see some new sectors added such as Student Accommodation or Healthcare.

At over 70% of the portfolio, the Group is attractively exposed to whole loans. The split between whole loan and mezzanine seems to be broadly sustainable at present given the continued pipeline of whole loans the Group is seeing.

In terms of geography, whilst having their own specific aspects, in our experience many markets share the same general characteristics of the UK but they also offer an added advantage in that they may well be earlier in their recovery period. Markets such as Ireland, Holland, Belgium, Spain and Italy fall into this camp. Other markets, through their own specifics, continue to offer value, e.g. in Scandinavia where non-domestic real estate investors, especially undertaking anything but the most vanilla business plans, may have limited access to the domestic banking market. Finally there are two markets which we generally feel offer limited scope due to relatively aggressive domestic banking - being Germany and, to a lesser extent, France. Certainly in Germany the LTVs are higher and margins are lower than elsewhere and the Group has not focused on these markets as a result. It is



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therefore likely that the Group will continue to diversify away from London i.e. not just on the Continent but also in the rest of the UK.

An area of growth is likely to be discounted pay off financing, where a borrower of a distressed loan (still with a bank or its new private equity owner) offers to purchase it at a discount. Given the continued scale of the European real estate non-performing loan market, assisting such loans recalibrate into performing ones is a large market to exploit.

It is expected that some of the loans originated early in the life of the Group may repay over the coming year and the Group is continuously focussed on the need to promptly re-invest any repayment proceeds to avoid material cash drag. The Group has a strong pipeline and currently has a reasonably substantial nominal amount in execution that it expects to close in the coming weeks. The loan profiles being closed cover numerous geographical jurisdictions and sectors. Given the amount in execution the Group expects to see sizeable redrawing of the working capital facility and, potentially, additional equity raising in due course.

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