



September 2013

Share Price / NAV at 30 September 2013

Share price (p)	101.50
NAV (p)	99.02
Premium / (discount)	2.5%
Issued shares	238,100,000
Market cap	£241.7m

Fund Information

Fund Type	Closed-ended investment company
Domicile	Guernsey
Inception Date	17 December 2012
Listing	London Stock Exchange (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

Key Portfolio Statistics at 30 September 2013

Number of issuers	4
Number of investments	4
Number of industries	4
Percentage of committed portfolio in floating rate investments	83.9%
Committed Loan Portfolio annualised total return	10.1%
Blended portfolio LTV – to Company first £	33.0%
Blended portfolio LTV – to Company last £	52.9%
Average loan term	3.5 years
Percentage of net assets in available cash	66.1%
Percentage of net assets in committed cash	4.3%
Percentage of net assets committed to senior loans	6.1%
Percentage of net assets committed to second lien and mezzanine loans	11.7%
Percentage of net assets committed to whole loans	16.1%
Percentage invested in GBP	52.4%
Percentage invested in Euro	47.6%

Starwood European Real Estate Finance Limited

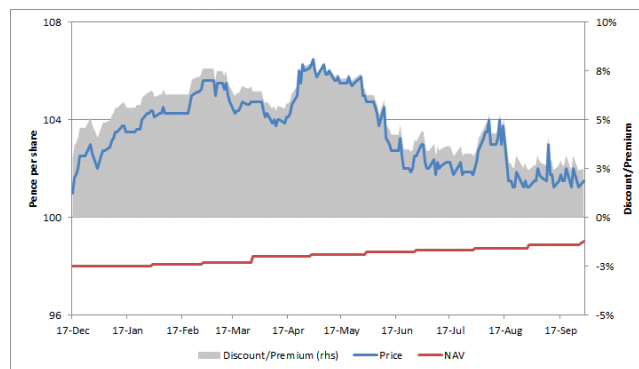
Quarterly Investment Update

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 is targeting 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 future dividend payments.

Company Performance



Investment Adviser's Commentary

Investment portfolio

As at 30 September 2013 the Company was 33.9% committed through the following investments:

	Committed	Drawn as at 30 September 2013
Maybourne Hotel Group	£19.0 m	£19.0 m
West End Development	£10.0 m	£10.0 m
Lifecare Residences	£12.8 m	£9.1 m
Retail Portfolio – Finland*	£38.0 m	£30.7 m
Total	£79.8m	£68.8m

*Euro loan – the first draw is converted at 0.8417. As at 15 October 2013 this loan has been fully drawn.

Between the publication of the June factsheet released on 2 August 2013 and 30 September 2013, the following transactions were closed:

Lifecare Residences: The Company executed a facility agreement with a member of the Lifecare Residences group to fund £8.5 million of a £16.75 million mezzanine loan and £4.3 million of a £40 million senior loan together to finance the development of a



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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.

prime London retirement village. Lifecare Residences is a leading developer and operator of retirement care villages in both the United Kingdom and New Zealand. The Company was the mezzanine loan arranger. This investment was undertaken on a mid-sixties per cent. loan to gross development value and the Company will earn a blended double digit yield in line with its investment criteria.

Retail Portfolio, Finland: The Company, together with Starwood Property Trust, Inc (NYSE: STWD), provided a €95 million medium term facility to an entity sponsored by Tristan Capital Partners and AEW Europe. The facility refinanced 225 retail hypermarket and convenience stores located in Finland. The Company has invested €45 million in the facility which has a low-60 per cent. loan to value. The Company expects to earn a solid single digit return in line with its investment criteria. The portfolio will be divested over the coming years, with reasonably rapid loan repayment expected.

Subsequent to 30 September the following transactions have been closed or committed for a total of approximately £36.3 million, bringing the Company to £116.1 million or 49.3 per cent. committed:

Heron Tower, London: the Company provided an £18 million participation in a £288 million 5 year refinancing facility for the Heron Tower, a single office property located in the EC2 district of the City of London. The remainder of the facility was provided by Starwood Property Trust, Inc. The Company expects to earn a solid single digit return in line with its investment criteria.

Industrial Portfolio, Netherlands: the Company has committed to provide a €21.8 million whole loan to finance the acquisition of an industrial and office portfolio in the Netherlands. The Company expects to earn a single digit return in line with its investment criteria. The loan is expected to be fully drawn before the end of October.

Pipeline

In the June factsheet the Company reported that it had six loans in the immediate investment pipeline with approximately £130 million of investment potential. We expected that these transactions would close by end September and if that were to occur the Company would have been 68 per cent. invested or committed.

As described above the Company has either closed or committed to four of these transactions with a value of £87.1 million and is now 49.3 per cent. invested or committed.

The reasons for the short delays in those transactions that were closed or committed after the end of September are varied, ranging between well-publicised shareholder dialogues, extended periods of sale and purchase agreements and relative complexity of transaction execution.

We are currently in the final stages of execution of one loan which will account for a further 17 per cent. investment. We hope to make an announcement in the next seven to ten days and fund during November. If this loan closes the Company would be 66.3 per cent. invested.



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The remaining loan has been in execution for an extremely long time but has been delayed due to particular issues relating to the property's seller. We have been continually disappointed with timing here and prudently assume it will not close, notwithstanding we still remain in an execution phase. This loan would account for a further 5 per cent. investment, taking the Company to 71 per cent. invested or committed.

At IPO the Investment Adviser emphasised its desire for diversification and the transactions that have closed to date provide geographical, sector and loan type diversification. In addition, the Company has invested into smaller transactions as well as gaining exposure to larger loans by working with Starwood Property Trust and relationship banks.

Against this objective, the Investment Adviser believes that, across the portfolio of loans assembled to date, the Company has delivered on its diversification targets. The key frustration has clearly been the time taken to consummate transactions and invest the capital. The IPO occurred at a pivotal moment in time when the European markets started to change fundamentally from that of a defensive and negative position to that of more cautious optimism which has fed through into both the equity and debt capital markets.

The Company continues to benefit from a good and increasing pipeline of opportunities, almost all of which are whole loans. Approximately £1 billion of opportunities are being actively pursued and, in addition, we are optimistic that the Company will be able to benefit from follow-on transactions relating to loans that it has already made or committed to. Some of these opportunities immediately meet the Company's target return requirements, and some will require subsequent syndication to achieve these levels. The pipeline is geographically spread and we expect Ireland, the Netherlands and Scandinavia to remain strong areas of focus in addition to the UK.

After the loan currently in the final stages of execution has completed, the Company should be substantially fully invested on the basis of completing two to three more transactions. Whilst the Company remains committed to achieving the original target of substantial full investment within 12 months, given the execution difficulties which have been encountered in a number of cases to date, as well as the desire to maintain portfolio diversity and investment quality, we feel it prudent to caution that there is a risk that some part of that deployment may occur in the first months of next year.

Dividends

At launch, the Company had targeted a dividend of 3.5 pence per Ordinary Share in respect of the period from Admission (17 December 2012) to the first financial year end (31 December 2013) and 7.0 pence per Ordinary Share in subsequent financial periods. This was predicated on the assumption that 50% of the Company's available cash would be invested within six months from Admission and the remainder within 12 months.

For the period to 31 December 2013, the Company now expects to be able to pay a dividend of up to 1.9 pence based on the six deals that have been closed or committed to date and the deal that is

currently in the final stages of execution. In the event that further transactions close prior to the year end, the total dividend could be higher. Further updates in this regard will be provided in due course.

The Company is today declaring a first interim dividend of 0.80 pence per ordinary share for the period ending 30 September 2013.

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

In the last few months market optimism in specific markets has further accelerated and indeed could now be slightly ahead of actual fundamentals. Nowhere is this more apparent than in London which has recently seen some tightly priced equity investments. Notwithstanding the risk cushion implicit in lending we have also observed a small number of lending transactions that are questionable on either price or structure or both. Conversely market optimism has also now fully engendered a resurgent desire for investors to act upon their refinancing requirements or reinvigorated interest in new investment, fostering need for creative property lending. Finally there are many other sectors or geographies that still remain cautious and consistent with underlying economic fundamentals such as the Netherlands or Ireland. Put together the demand for property finance has unquestionably increased, offering greater opportunities but also requiring the Company to continue to be diligent in its underwriting requirements.

The on-going theme of market withdrawal by some banks, and deleveraging for most others, remains. The lending opportunity has however now encouraged some new entrants to the market, and political and P&L requirements have further encouraged some existing lenders, notably UK clearing banks and German real estate banks. The UK clearing banks have greater lending capacity than previously, but remain, for the most part, cautious on business possibilities. An increasing presence from US and European insurance companies in the lending market means there is excess finance capacity for certain sectors, particularly prime London offices with strong sponsors and low leverage.

Similarly mainstream German lending has become highly competitive given typical limitations to national borders and a dearth of non-bank real estate lenders.

The European mezzanine lending space continues to develop and is summarily defined by investment funds raising substantial third party capital for higher return lending strategies. We expect to observe at least £2 billion of "fund style" investor commitments to the specialist fund managers in this field by the end of 2013, but typically at target return levels no longer evident in the market due to spread compression.

The Investment Adviser observes that there are now two "bookends" in the market; being the attractive, efficiently priced



core senior market on the one hand and, on the other hand, a well-capitalised mezzanine market that has the ability to embrace quite significant risk should it choose to do so, but which is often hampered by quite high return requirements. Neither end of the market is quite as deep as it appears when transitional assets or a broader geographical focus are concerned, and the number of players that can embrace “one stop shop lending” in an efficient and timely manner, such as the Company, remains a much smaller subset.

Geographically the UK is offering continued opportunities as the regions (notably Manchester, Leeds, Birmingham, Glasgow and Edinburgh) open up in tandem with economic improvement. Exploiting the “bottom” of the cycle in a number of Continental European markets will be a key theme for the Company as well as taking advantage of the reluctance of Scandinavian banks for transitional asset lending. Germany is unlikely to deliver the scale of lending opportunity that was originally envisaged, and the Investment Adviser believes there is better risk / return elsewhere.



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