September 2016

Share Price / NAV at 30 September 2016

Share price (p)	107.50
NAV (p)	101.33
Premium/ (discount)	6.1%
Issued shares	375,019,398
Market cap	£403.1m

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	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.

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 30 September 2016

As at 30 September 2016, the Group had 16 investments and commitments of £370.3 million as follows:

Transaction	Sterling equivalent balance (1)	Sterling equivalent unfunded commitment (1)
Centre Point, London	£45.0m	–
5 Star Hotel, London	£13.0m	–
Center Parcs Bonds, UK	£9.5m	–
Industrial Portfolio, UK	£31.8m	–
Hospitals, UK	£25.0m	–
Hotel, Channel Islands	£26.9m	–
Varde Partners mixed portfolio, UK	£28.8m	–
Mixed use development, South East UK	£6.7m	£8.3m
Regional Budget Hotel Portfolio, UK	£75.0m	-
Total Sterling Loans	**£261.7m**	**£8.3m**
Industrial Portfolio, Netherlands	£22.6m	–
Office, Netherlands	£12.1m	–
Retail & Residential Portfolio, Ireland	£4.0m	–
Residential Portfolio, Cork, Ireland	£5.3m	–
Residential Portfolio, Dublin, Ireland	£6.8m	–
Logistics, Dublin, Ireland	£12.9m	–
Total Euro Loans	**£63.7m**	**£0.0m**
Industrial Portfolio, Denmark,	£36.6m	–
Total Danish Krona Loans	**£36.6m**	**–**
Total Portfolio	**£362.0m**	**£8.3m**

(1) Euro and Danish Krona balances translated to sterling at 30 September 2016 exchange rates.

Portfolio Activity

The following significant activity occurred since the publication of the last factsheet on 25 July 2016 up to 30 September 2016.

***W Hotel, Netherlands**:* On 29 July 2016 the group received full repayment of the W Hotel Amsterdam loan as a result of the refinancing of the loan following completion of the refurbishment and a period of trading.

Regional Budget Hotel Portfolio, UK: On 23 August 2016, the Group acquired the mezzanine component of a package of loan facilities recently provided by internationally recognised banks to fund the acquisition of a portfolio of UK budget hotels. The portfolio is a homogeneous portfolio of UK regional limited-service hotels that is geographically diversified, benefits from strong branding and management by an international operator and is now owned by an experienced hotel investor. The new loan is a £75 million five year floating rate loan, and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

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Key Portfolio Statistics at 30 September 2016

Number of investments	16
Percentage of currently invested portfolio in floating rate loans (1)	68.2%
Invested Loan Portfolio annualised total return (2)	8.3%
Weighted average portfolio LTV – to Group first £ (3)	26.8%
Weighted average portfolio LTV – to Group last £ (3)	66.4%
Average loan term (stated maturity at inception)	4.7 years
Average remaining loan term	3.5 years
Net Asset Value	£380.0m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	£0.0m
Portfolio value (including accrued income)	£364.3m
Cash	£27.3m
Other net assets/ (liabilities) (including hedges)	-£11.6m

(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. Twelve 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.
(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 Centre Point and the mixed use development, south east UK, the calculation includes the total facility available and is calculated against the market value on completion of the project.

Remaining years to contractual maturity*	**Value of loans**	**% of invested portfolio**
0 to 1 years	£6.0m	1.7%
1 to 2 years	£49.0m	13.5%
2 to 3 years	£138.6m	38.3%
3 to 5 years	£143.4m	39.6%
5 to 10 years	£25.0m	6.9%

**excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.*

Dividend

On 21 October 2016 the Directors declared a dividend of 1.625 pence per Ordinary Share (annualised 6.5 pence per Ordinary Share) in relation to the third quarter of 2016.

Capital Raising

On 10 August 2016, the Company issued 70,839,398 New Ordinary Shares pursuant to the Placing Programme, to raise £73 million before expenses. The Issue Price was 103.05 pence per Ordinary Share, representing a premium of 2.7 per cent to the Net Asset Value per Ordinary Share as at 31 July 2016 of 100.30 pence (ex-dividend). The net proceeds of the Placing were committed to be used to finance the acquisition by the Group of a £75 million real estate mezzanine loan secured over a UK regional portfolio of budget hotels (the "Regional Budget Hotel Portfolio, UK") that was highlighted above.

Foreign Exchange

The Company had approximately £108 million of nominal hedges with two UK banks at 30 September 2016 (converted at 30 September 2016 FX rates).

Given the recent slide of Sterling relative to the Euro and Danish Krona, as at 20 October 2016 the hedges with one of the counterparties was out of the money in an amount of £12.8 million. If at any time this mark to market exceeds £15 million, the Company is required to post collateral, subject to a minimum transfer amount of £1 million. Whilst this situation is monitored closely, the Company has £27 million of available liquidity and £60 million available credit on the revolving credit facility and hence this is not seen as a material concern.

The current mark to market with the other hedging counterparty is significantly lower than the threshold amount available and use of this facility will enable us to continue to proceed with non-Sterling transactions.

Commentary

At 30 September 2016, the average maturity of loan investments was 4.7 years and the NAV £380.0 million. With a £362 million loan book, the Group has £27.3 million of cash to invest (excluding £8.3 million of existing commitments) and substantial liquidity lines of £60 million to use for new lending. The Group's gross annualised total return is an attractive 8.3% and this should be viewed within the context of the relative risk/return approach that has been adopted to transactions. The Group looks to best exploit this risk/return philosophy by remaining nimble and taking advantage of opportunities across geography, sector and product type.

Over the last 12 months, the Group has experienced a very material turnover of investment positions which it has weathered well. £161 million of the Group's loan book was repaid and these repayments have been substantially reinvested alongside the £116.5 million of gross proceeds raised in the same period.

In 2016 to date, the level of origination has exceeded that for the same period in previous years and we ordinarily expect 65-100% of total origination to be achieved in the second half of any typical year. 2016 is, however, unlikely to be a typical year. Notwithstanding the investment success to date, Brexit and heightened Europe-wide uncertainty are having immediate and mixed impacts. The Group feels, however, that these should be net positives for it in the short to long term.

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Key Portfolio Statistics at 30 September 2016

Country	% of invested assets
UK – Regional England	51.5
UK – Central London	14.6
Netherlands	9.1
Ireland	8.7
Denmark	8.5
Channel Islands	7.6

Sector	% of invested assets
Hospitality	35.4
Light Industrial	24.7
Residential for sale	11.4
Retail	8.2
Healthcare	7.0
Residential for rent	4.7
Office	4.4
Logistics	4.0
Other	0.2

Loan type	% of invested assets
Whole loans	47.5
Mezzanine	52.5

Loan type	% of invested assets
Sterling	73.6
Euro	17.9
Danish Krona	8.5

In the immediate future there are likely to be two consequences of the current market uncertainties. Firstly, that that the quantum of transactions may be lower ("if you don't need to do something don't do it") and, secondly, a reduced mainstream banking appetite. The Group is of the view that the next 6-12 months could see less small to medium size "flow" business, with the market enabling the Group to exploit larger one-off opportunities. The current pipeline outlook and shape supports this view.

In the medium to longer term, the pressure on the banking sector looks set to continue. Some of the Group's larger banking competitors are feeling material market pressures. In addition, low ROEs for banks, further increases in capital requirements and innate caution on capital intensive businesses all add to the sense that the role of alternative lenders like the Group is now mainstream and quasi-permanent.

We are of the view that Brexit and the macro implications of Brexit continue to be thoroughly discussed throughout all media forms and so we will look to avoid repetition here. The Group continues to monitor the unfolding situation to assess the impacts upon it. Property data tends to lag the rest of the business world and it will probably be some months before we can extract meaningful analysis, not least because it is only in recent weeks that market uncertainty has become visible in anticipation of the exercise of Article 50 in March 2017. We can imagine that 2017 will see a modest recessionary environment with heightened investment and lending caution. Any impact of Brexit on the UK and European economies remains uncertain. In such a short term environment, the Group could foresee property investment and leasing softening. Whilst there is of course good reason for caution, for heightened scrutiny and focus on the existing loan book, there is also reason to be optimistic that the Group can look to again extract outsized returns for moderate risk in the UK market. The rest of Europe may not be immune to heightened volatility given the number of national elections and referendums in the coming months and the ongoing financial market fragility. With the vast majority of near term loan repayments having occurred in recent months the Group is well placed to further grow with a loan maturity profile now well spread out over the coming 5 years.

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