Quarterly Investment Update

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.

STARWOOD
EUROPEAN REAL ESTATE FINANCE

SHARE PRICE / NAV AT 31 MARCH 2017

Share Price (p)	NAV (p)	Premium / Discount	Dividend Yield	Market Cap
109.50	102.03	7.3%	6%	£410.6m

FUND INFORMATION

FUND TYPE Closed-ended investment company	
DOMICILE	Guernsey
INCEPTION DATE	17 Dec 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 PORTFOLIO AT 31 MARCH 2017

As at 31 March 2017, the Group had 17 investments and commitments of £413.5 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	£18.3m	–
Mixed use development, South East UK	£8.3m	£6.7m
Regional Budget Hotel Portfolio, UK	£75.0m	–
Total Sterling Loans	**£252.8m**	**£6.7m**
Office, Netherlands	£11.9m	–
Retail & Residential Portfolio, Ireland	£2.8m	–
Residential Portfolio, Cork, Ireland	£5.2m	–
Residential Portfolio, Dublin, Ireland	£6.7m	–
Logistics, Dublin, Ireland	£12.8m	–
Hotel, Barcelona, Spain	£39.5m	–
School, Dublin, Ireland	£16.2m	–
Industrial Portfolio, Eastern Europe	£22.8m	£36.1m
Total Euro Loans	**£117.9m**	**£36.1m**
Total Portfolio	**£370.7m**	**£42.8m**

[1] Euro balances translated to sterling at 31 March 2017 exchange rates.

INVESTMENT RESTRICTIONS AND 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.

KEY PORTFOLIO STATISTICS as at 31 March 2017

Number of investments	**17**
Percentage of currently invested portfolio in floating rate loans [(1)]	**69.3%**
Invested Loan Portfolio annualised total return [(2)]	**8.1%**
Weighted average portfolio LTV – to Group first £ [(3)]	**20.0%**
Weighted average portfolio LTV – to Group last £ [(3)]	**65.0%**
Average loan term (stated maturity at inception)	**4.5 years**
Average remaining loan term	**3.4 years**
Net Asset Value	**£382.6m**
Amount drawn under revolving credit facility (excluding accrued interest)	**£0.0m**
Portfolio value (including accrued income)	**£373.1m**
Cash	**£12.2m**
Other net assets/ (liabilities) (including hedges)	**-£2.7m**

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HEDGING

At 31 March 2017, the Group's FX hedges were out of the money in an amount of £1.2 million. This was significantly lower than the 31 December 2016 liability of £9.2 million. The reduction is mainly due to the repayment of the two loans referred to above which had associated hedging liabilities of £6.4 million at the year end.

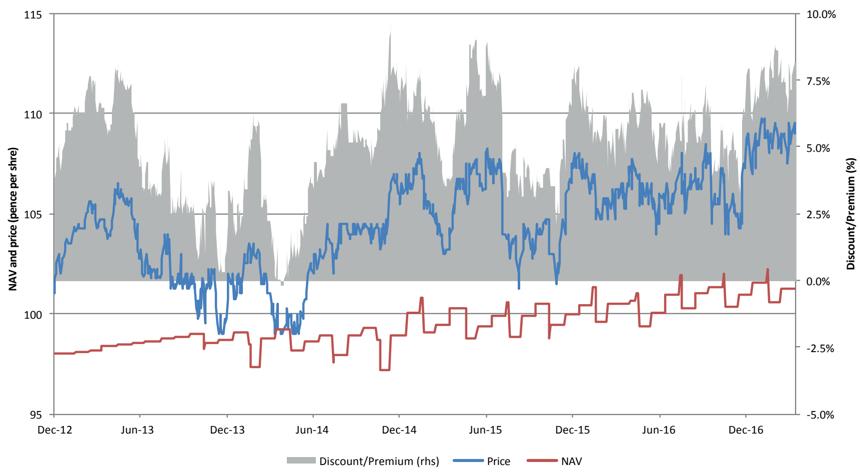
REVOLVING CREDIT FACILITY

During the first quarter of 2017, the Group extended the maturity of the £50 million revolving credit facility from 31 March 2017 to 31 March 2018. As part of the amendments to the facility, an uncommitted "Accordion" feature has been added which would allow the Group to increase the available loan up to £100 million by bringing additional lenders into the facility.

DIVIDEND

On 24 April 2017 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 2017.

SHARE PRICE, NAV AND DISCOUNT



[(1)] Calculated on loans drawn at the reporting date using the exchange rates applicable when the loans were funded.

[(2)] Calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. Thirteen 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 at the reporting 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 reporting date. 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, the Irish School, Dublin 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.

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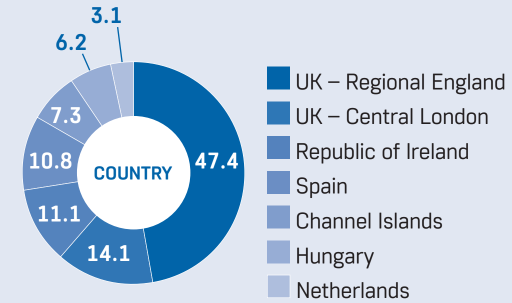
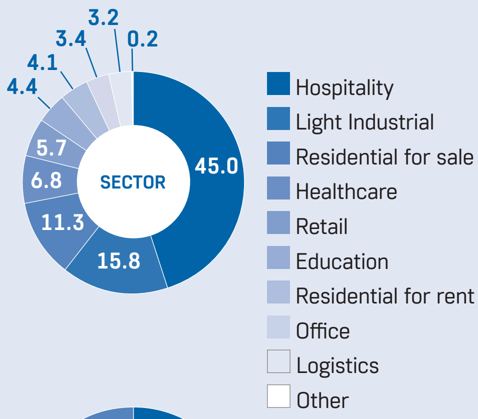
KEY PORTFOLIO STATISTICS as at 31 March 2017

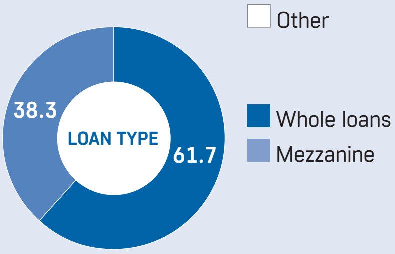
Remaining years to contractual maturity*	Value of loans	% of invested portfolio
0 to 1 years	£51.1m	13.8%
1 to 2 years	£2.8m	0.7%
2 to 3 years	£128.1m	34.6%
3 to 5 years	£163.7m	44.2%
5 to 10 years	£25.0m	6.7%

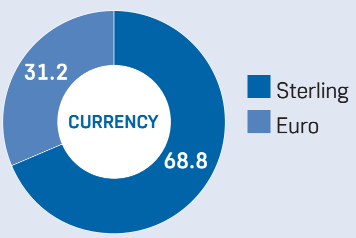
* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

% of invested assets









* the currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

PORTFOLIO COMMENTARY

The first quarter of 2017 was a busy quarter for the Group and we were pleased to announce the origination of three new loans with £79.2 million of capital deployed and a further £36.1 million committed. In the context of the first quarter of any year normally being particularly quiet this was a strong performance. This also enabled the Group to quickly re-invest the proceeds from the two repayments also received in March.

As at 31 March, the average maturity of the Group's £370.7 million loan book was 3.4 years with £12.2 million of cash and substantial liquidity lines of £50.0 million available to use for existing commitments of £42.8 million and new investments. The gross annualised total return of the invested loan portfolio is 8.1 per cent.

The following portfolio activity occurred in the first quarter of 2017:

NEW LOANS

Irish School, Dublin: On 31 March 2017 the Group advanced a €18.85 million 3-year floating rate whole loan to support the acquisition and repositioning of a South Dublin office building in the Republic of Ireland. The building will be converted to educational use with a new lease to a premium global education company. The sponsor, Barry O'Callaghan, is a highly regarded local investor with deep experience in the education sector. The transaction represents a continuation of the Group's lending strategy in Ireland, and adds to the diversity of its portfolio with its first loan in the educational sector.

Hotel, Barcelona: On 31 March 2017 the Group advanced a €46.0 million 4-year floating rate whole loan to finance the acquisition of a 4-star, 240-key hotel in central Barcelona's 22@ district. The borrower is a partnership between institutional-quality investors with track records of successful hotel acquisitions throughout Europe. The hotel is well-positioned to benefit from the sponsors' active asset management strategy in a Barcelona market with appealing hospitality performance metrics and high barriers to entry. The transaction represents the Group's entry to the Spanish market, a large market opportunity with attractive real estate fundamentals and macroeconomic growth trends.

Industrial Portfolio, Central and Eastern Europe: On 30 March 2017 the Group committed to provide a €68.5 million whole loan for a portfolio of industrial assets located across Central and Eastern Europe. The 3-year floating rate loan represents the opportunity to further diversify geographically and support a strong sponsor with a proven track record. €26.5 million of the loan was funded on 30 March 2017 with the remaining commitment expected to be drawn-down in the coming weeks.

REPAYMENTS

Industrial Portfolio, Denmark: The Group received full repayment of the Danish Industrial Portfolio loans as a result of the sale of the portfolio. A number of loans in the Group's portfolio benefit from prepayment protection in their early years, providing the Group with a level of income protection should such loans repay whilst in that protected period. The Danish loan was originated in June 2015 and benefits from such provisions, meaning that the Group will bear no effective drag on the repayment of this loan for a further few months.

Industrial Portfolio, Netherlands: The Group received full repayment of the Industrial Portfolio, Netherlands loan as a result of the sale of the portfolio, in line with the Sponsor's business plan.

Whilst we do anticipate some further repayments in the coming year we expect the quantum and pace to be slower than we experienced in the first quarter of 2017. Together with a number of opportunities currently under review, we anticipate, if they proceed, being able to raise further equity later in the year. All current opportunities remain, however, subject to final due diligence, documentation and Investment Manager Board approval.

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MARKET COMMENTARY

As a general theme, we have seen lending terms remain stable across Europe over the past few months with little recent change to risk appetite or pricing. In respect of the UK in particular, whilst there was an initial widening of spreads in the run up to and immediately post the Brexit referendum, the lending approach has since stabilised.

We have seen a pick-up in financing requests since the end of February for new acquisitions, refinancings and equity re-capitalisations. In particular, there has been a significant increase in the number of requests for large development financings. With funding for this type of loan becoming increasingly fragmented, more borrowers are using debt brokerage firms to assist them in sourcing construction finance.

In total, there are over €2 billion of active development financing requirements on our radar. Whilst we anticipate that the current market limitations on the availability of development financing present an opportunity to earn good risk adjusted returns, we will maintain our considered risk return approach and only pursue opportunities where we can achieve the best combination of return, structure, and sponsor and project quality.

In addition, we have seen a number of processes where the borrower has run a highly competitive and lengthy process and then not proceeded with the financing so we are wary of committing the Group's resources to these kind of processes unless there is a high degree of certainty around a deal advancing.

In the capital markets, the Brookfield Student CMBS closed in March and was the first new European CMBS issuance since June 2016. The securitisation comprised a £215 million single tranche, BBB rated bond secured by Brookfield's UK student accommodation portfolio. The LTV was 53 per cent, with a 7-year tenor and all in pricing of 2.66 per cent (being 185bps over the benchmark gilt). Whilst the transaction attracted a lot of attention and we do expect to see further CMBS activity in markets such as Italy and the Netherlands, CMBS issuance is still a small overall contributor to European commercial real estate debt. According to Debtwire's CMBS April 2017 monthly summary, the total CMBS issuance for 2016 was only €885 million and outstanding total CMBS in Europe was €32.7 billion. This is in marked contrast to new acquisition commercial real estate ("CRE") financing which was estimated by CBRE to be €116 billion for 2016 and a total outstanding CRE debt at €1.1 trillion.

In the syndication market, Dealogic figures published for CRE debt syndication showed a sharp decline between 2015 to 2016 driven by lower transaction volumes – UK syndication volumes fell by 51 per cent to £9.8 billion and EMEA as a whole fell 39 per cent to €48.6 billion with the decline attributed to a lower volume of larger acquisitions that would require syndicated financing. In contrast, in 2017 we have already seen a number of larger transactions close or launch: Pradera completing a €900 million acquisition of a pan European retail portfolio; the €1.28 billion acquisition by M7 and Blackstone of the Hansteen portfolio and, Blackstone's €3.3 billion acquisition of the Office First and Couer Defense portfolio is currently being brought to the market with an expected debt requirement of €1.8 billion.

We said in the December factsheet that we expected to see opportunities in Spain, Ireland and CEE and we have closed loans in each of these areas in the first quarter. Whilst the Dublin school financing is the Group's fifth transaction in Ireland, the loans in Spain and CEE are our first investments in these jurisdictions. We continue to see a good level of pipeline and, given market dynamics, expect that the largest number of new opportunities are likely to be in the UK, Ireland and Spain. We are, however, also seeing investment opportunities all across Europe including early stage pipeline deals in France and Germany.

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