Starwood European Real Estate Finance Limited

Quarterly Investment Update

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 Europe.

SHARE PRICE / NAV AT 30 JUNE 2018

Share Price (p)	NAV (p)	Premium / (discount)	Dividend Yield	Market Cap
108.0	102.0	5.0%	6.0%	£405.0m

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 30 JUNE 2018

As at 30 June 2018, the Group had 19 investments and commitments of £472.1 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Industrial Portfolio, UK	£18.6m	–
Hospitals, UK	£25.0m	–
Varde Partners mixed portfolio, UK	£3.0 m	–
Mixed use development, South East UK	£12.3m	£0.9m
Regional Hotel Portfolio, UK	£45.9m	-
Credit Linked Notes, UK real estate	£21.8m	-
Total Sterling Loans	**£126.6m**	**£0.9m**
Residential Portfolio, Dublin, Ireland	£6.7m	–
Logistics, Dublin, Ireland	£13.0m	–
Hotel, Barcelona, Spain	£40.7m	–
School, Dublin, Ireland	£16.7m	–
Industrial Portfolio, Central and Eastern Europe	£57.2m	–
Three Shopping Centres, Spain	£31.2m	£8.3m
Shopping Centre, Spain	£11.1m	£3.9m
Hotel, Dublin, Ireland	£53.1m	–
Residential, Dublin, Ireland	£4.1m	£3.9m
Office, Paris, France	£23.0m	–
Industrial, Paris, France	£13.1m	–
Student Accommodation, Dublin	£9.4m	£0.6m
Hotel, Spain	£24.0m	£24.6m
Total Euro Loans	**£303.3m**	**£41.3m**
Total Portfolio	**£429.9m**	**£42.2m**

[1] Euro balances translated to sterling at period end 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 but discretion retained. At least 75% of loans 7 years or less.

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 AT 30 JUNE 2018

Number of investments	**19**
Percentage of currently invested portfolio in floating rate loans	**92.0%**
Invested Loan Portfolio unlevered annualised total return [1]	**7.4%**
Invested Loan Portfolio levered annualised total return [2]	**8.2%**
Weighted average portfolio LTV – to Group first £ [3]	**13.3%**
Weighted average portfolio LTV – to Group last £ [3]	**64.9%**
Average loan term (stated maturity at inception)	**4.1 years**
Average remaining loan term	**3.1 years**
Net Asset Value	**£382.5m**
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	**-£64.0m**
Loans advanced	**£412.1m**
Financial assets held at fair value (including accrued income)	**£21.9m**
Cash	**£8.7m**
Other net assets/ (liabilities) (including hedges)	**-£6.2m**
Origination Fees – current quarter	**£0.1m**
Origination Fees – last 12 months	**£2.2m**
Management Fees – current quarter	**£0.7m**
Management Fees – last 12 months	**£2.8m**

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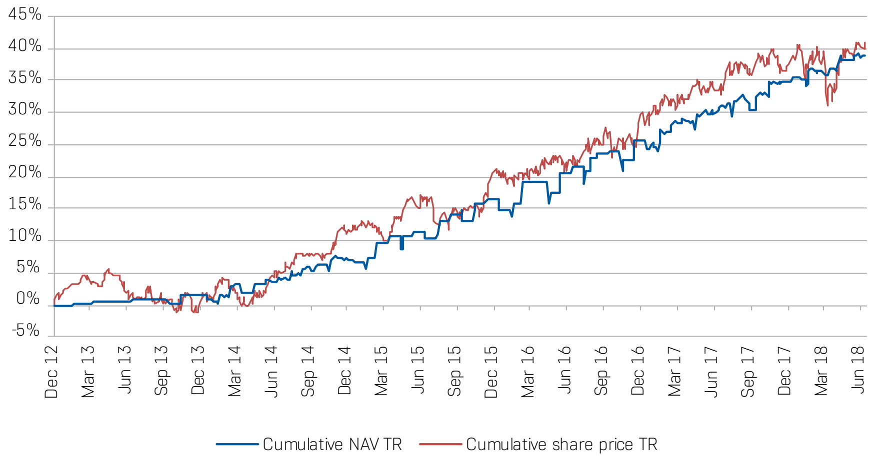
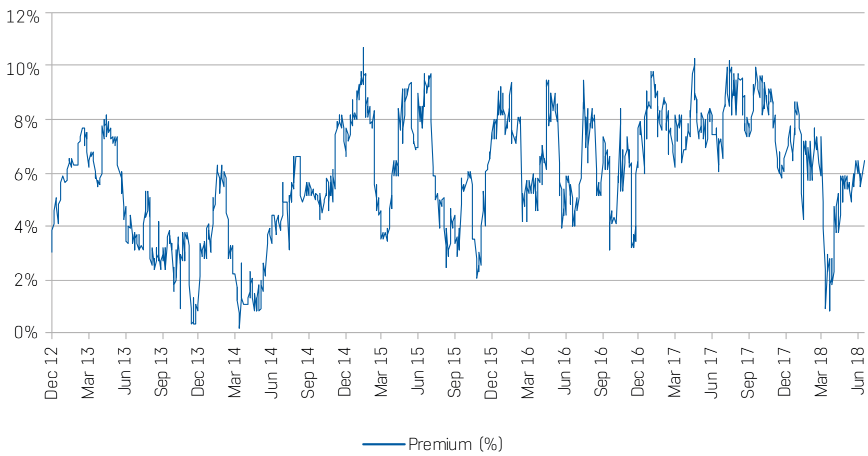
DIVIDEND

On 27 July 2018 the Directors declared a dividend in respect of the second quarter of 1.625 pence per Ordinary Share (equivalent to 6.5 pence per annum per Ordinary Share) payable on 31 August 2018 to shareholders on the register at 10 August 2018.

SHARE PRICE, NAV AND DISCOUNT





[1] The unlevered annualised total return is calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 16 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 (but including commitment fees) and excluding cash un-invested. The calculation also excludes the origination fee payable to the Investment Manager.

[2] The levered annualised total return is calculated as per the unlevered return but takes into account the amount of net leverage in the Group and the cost of that leverage at current LIBOR/EURIBOR.

[3] LTV to Group last £ means the percentage which the total loan drawn 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 loans drawn (when aggregated with any other indebtedness ranking senior to it). For the Irish School, Dublin and the mixed use development, south east UK and Student Accommodation, Dublin the calculation includes the total facility available and is calculated against the assumed market value on completion of the project.

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KEY PORTFOLIO STATISTICS AT 30 JUNE 2018

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	15.3	3.6
1 to 2 years	112.7	26.2
2 to 3 years	133.7	31.1
3 to 5 years	143.2	33.3
5 to 10 years	25.0	5.8

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

PORTFOLIO ACTIVITY

As at 30 June 2018, the average remaining maturity of the Group's loan book was 3.1 years. The gross levered return of the invested loan portfolio is 8.2 per cent per annum.

The following portfolio activity occurred in the second quarter of 2018:

Repayment: Hotel, Channel Islands: The Group received full repayment of the loan advanced to a Channel Islands Hotel company on 18 May 2018.

The Group also received amortisation in the quarter on other loans totalling £3.5 million, some of these payments relate to scheduled amortisation but the majority related to asset sales in line with borrowers' business plans.

New Loan: Industrial, Paris: On 4 May 2018 the Group arranged and subscribed to a €14.77 million note issuance, the proceeds of which were used to finance the acquisition of a light industrial asset in the Parisian region of France.

The Group also advanced £4.8 million of proceeds to borrowers to which it has existing outstanding commitments.

Following the new loan activity, and the £30.4 million of repayments and amortisation received in the second quarter, the Group remained fully invested at 30 June 2018 with £42.2 million of commitments to fund. The Group had drawn £54 million on its available credit facilities of £114 million and had cash of £8.7 million for working capital purposes.

The Group made a record level of new commitments in the first half of 2018 with £147.5 million of new commitments made (of which £116.6 million was funded in the first half of the year). Repayments were slightly below the same period in prior years and as a result, the Group's net commitments increased by £73.4 million in the first half of the year.

The table below summarises the new commitments made and repayments received in the first six months of 2015 to 2018 and demonstrates the growth of the portfolio.

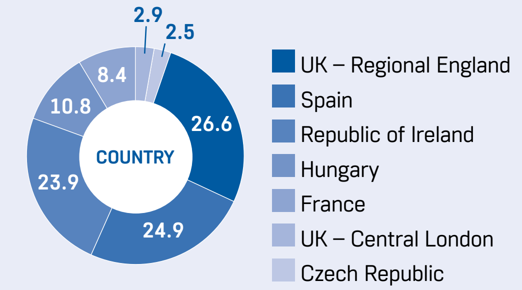
	New Commitments	Repayments & Amortisation	Net Increase in Commitments
H1 2015	£31.3 m	£21.9 m	£9.4 m
H1 2016	£98.9 m	£92.1 m	£6.8 m
H1 2017	£115.5 m	£85.2 m	£30.3 m
H1 2018	£147.5 m	£74.1m	£73.4m

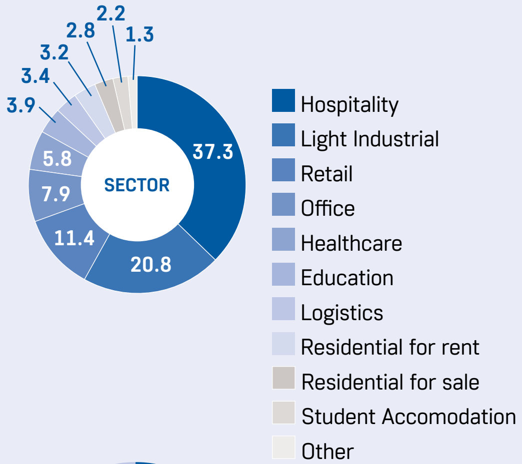
In the last two financial years, new commitments have been broadly equal between the first and second half of the year and the Group remains optimistic that this trend is likely to continue, although the upcoming summer months are often the most quiet in the market with more activity likely to be seen towards the end of the year (in the normal course).

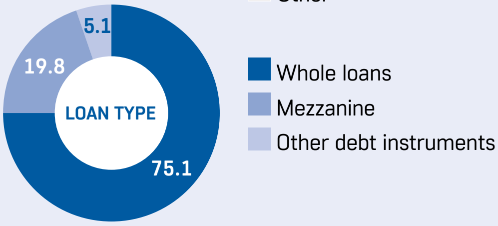
Repayments in the first half of the year were approximately 18 per cent of loans advanced at the end of 2017. We consider this to be the normalised level we anticipate and whilst it is always difficult to forecast potential repayments, and some years may be significantly higher or lower (as seen in 2017), we anticipate that the second half of 2018 may see repayments at a similar level to the first half of the year. The Group will continue to seek to minimise cash drag from potential repayments by utilising the revolving credit facilities available to it.

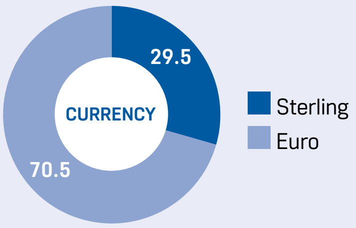
KEY PORTFOLIO STATISTICS AT 30 JUNE 2018

% 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.

COMMENTARY

Whilst the agreement of the terms of Brexit between the UK and the European Union are making slow progress, the elongated uncertainties of Brexit are less evident in the real estate markets. Appetite for London office investment is unabated and while Chinese investors have pulled back from new acquisitions, there are many other sources of capital attracted to the London investment market illustrated through recent transactions such as Ho Bee Land, a Singaporean listed company buying Ropemaker Place for £650 million, CK Holdings' purchase of 5 Broadgate for £1 billion and Korean investors buying 20 Old Bailey and Cannon Street House. The occupational market has also been strong with Savills reporting this month that the City's 12 month rolling take-up hit its highest level since September 2015 at 7.6 m square feet, which is also 25 per cent up on this point last year.

Student accommodation, residential private rented sector, light industrial, logistics and hospitality markets all remain robust with good levels of investor interest. The outlier in the UK is retail where there are a number of headwinds and since the beginning of the year there has been a constant stream of bad news on retail occupiers scaling back, Creditor Voluntary Arrangements and tenant insolvencies. While some areas of retail will do better than others from a leasing point of view, it is likely that the negative sentiment will still affect the values of UK retail assets across the board. As a result we are seeing increased interest from borrowers who had been looking to sell last year but are now considering refinancing as an alternative or a necessity as they begin to come up against financing maturities. We are cautious around this trend and are likely to watch and wait before considering new UK retail investments. Our overall retail exposure in the UK is 1.5 per cent which is derived from smaller contributions of mixed use assets or portfolios.

In the debt market there has been a resurgence in European CMBS issuance. With a small number of exceptions, over the past few years CMBS pricing had been at a level where bank and insurance companies generally would beat the CMBS market on pricing. However, since the end of 2017 CMBS pricing has lowered in line with other forms of fixed income. European fixed income yields have been driven lower by ECB bond buying and as a result CMBS pricing has come into lower levels which makes it competitive. A good example of the pricing arbitrage is the £427 million Ribbon hotel portfolio CMBS which priced at a blended margin of around 160bps at 65 per cent LTV. This represents pricing about 100bps inside of where the bank market would typically be for this loan. New CMBS issuance has created a lot of interest and headlines but to put it in context volumes at less than €2 billion in only five issuances so far this year are still quite small compared to the overall €1 trillion sized European commercial real estate loan market.

While these CMBS financings have been in sectors that the company has been active in such as hospitality and light industrial, we do not believe that CMBS is currently changing the competitive landscape for the investments the Group is making. In order to be considered for a CMBS structure, the key elements are for the loan to have sufficient scale, to spread the cost of issuance and create sufficiently large note sizes, and for the underlying collateral to have sufficient in place yield and granularity of income to obtain the required ratings analysis. When looking at whether CMBS would have been suitable as an alternative for previous investments made by the Group we concluded that CMBS would have had limited success for a variety of reasons. For example, on the light industrial side for our Danish and CEE loans both the size of the loan and the jurisdictions resulted in a CMBS structure not being feasible. For our Dutch portfolio both the loan size and the multiple closings required for the borrowers needs would have not been suitable for CMBS issuance.

In the subordinated debt space, we continue to see that widely marketed mezzanine debt on income producing assets is being priced lower than our return requirements. According to Debtwire recent examples include a Libor+ 550bps mezzanine for the Enigma student housing portfolio and Libor+625bps for the Ribbon hotel portfolio. We continue to see investment opportunities in mezzanine financings however we will have to work hard to successfully originate this type of debt by finding ways of adding value for borrowers that creates an acceptable risk / reward return profile for the Group which is in line with the Group's stated return targets.

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Starwood European Real Estate Finance Limited is an investment company listed on the premium segment of the main market of the London Stock Exchange with an investment objective 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 in the UK and the wider European Union's internal market.

www.starwoodeuropeanfinance.com

The Company is the largest London-listed vehicle to provide investors with pure play exposure to real estate lending.

The Group's assets are managed by Starwood European Finance Partners Limited, an indirect wholly-owned subsidiary of the Starwood Capital Group.

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www.starwoodeuropeanfinance.com