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.

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SHARE PRICE / NAV AT 31 MARCH 2020

Share Price (p)	NAV (p)	Discount	Dividend Yield	Market Cap
76.0	103.22	26.4%	8.6%	£314m

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 2020

As at 31 March 2020, the Group had 18 investments and commitments of £517.6 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Hospitals, UK	£25.0m	–
Credit Linked Notes, UK real estate	£21.8m	–
Hotel & Residential, UK	£49.9m	–
Office, Scotland	£4.5m	£0.5m
Office, London	£12.8m	£7.8m
Residential, London	£39.0m	£4.2m
Hotel, Oxford	£16.7m	£6.3m
Hotel, Scotland	£25.9m	£15.5m
Hotel, Berwick	£10.5m	£4.5m
Total Sterling Loans	**£206.1m**	**£38.8m**
Three Shopping Centres, Spain	£33.2m	£5.7m
Shopping Centre, Spain	£15.1m	–
Hotel, Dublin, Ireland	£53.3m	–
Hotel, Spain	£34.1m	£14.1m
Office & Hotel, Madrid	£16.4m	£0.9m
Mixed Portfolio, Europe	£34.2m	–
Mixed Use, Dublin	£1.7m	£11.4m
Office Portfolio, Spain	£18.9m	£2.4m
Office Portfolio, Dublin	£31.3m	–
Total Euro Loans	**£238.2m**	**£34.5m**
Total Portfolio	**£444.3m**	**£73.3m**

[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 31 MARCH 2020

Number of investments	**18**
Percentage of currently invested portfolio in floating rate loans	**79.1%**
Invested Loan Portfolio unlevered annualised total return (1)	**7.0%**
Portfolio levered annualised total return (2)	**7.3%**
Weighted average portfolio LTV – to Group first £ (3)	**20.8%**
Weighted average portfolio LTV – to Group last £ (3)	**62.1%**
Average loan term (stated maturity at inception)	**4.3 years**
Average remaining loan term	**2.9 years**
Net Asset Value	**£426.5m**
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	**(£24.1m)**
Loans advanced	**£424.7m**
Financial assets held at fair value (including accrued income)	**£21.9m**
Cash	**£5.3m**
Other net assets/ (liabilities) (including hedges)	**(£1.3m)**
Origination Fees – current quarter	**£0.4m**
Origination Fees – last 12 months	**£2.1m**
Management Fees – current quarter	**£0.8m**
Management Fees – last 12 months	**£3.2m**

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FIRST QUARTER PORTFOLIO ACTIVITY

The following portfolio activity occurred in the first quarter of 2020:

New Loan, Office Portfolio, Ireland: on 2 January 2020, the Group committed to an investment in a c. 6 year floating rate loan secured by a portfolio of assets in Ireland, together with Starwood Property Trust, Inc (through a wholly owned subsidiary) participating in 50 per cent of the mezzanine loan amount, providing the Group with a net commitment of €35.15 million. The portfolio consists of 12 properties in Central Dublin with primarily office and some small amounts of retail and residential space totalling over 600,000 sqf in total. The portfolio currently has 98.8 per cent occupancy.

New Loan: Hotel, North Berwick, Scotland: On 12th February 2020, the Group committed to fund a hotel acquisition financing for a total commitment of £15.0 million. The sponsor is a repeat borrower for the Group. The financing, which has been provided in the form of a significant initial advance to finance an asset acquisition together with a smaller capex facility, will support the sponsor's capital expenditure for improvement and rebranding of the hotel. The day one advance amount is £10.5 million whilst the total commitment is £15.0 million. The loan is for a term of 5 years.

Loan Upsize: Hotel & Residential, UK: On 27th February 2020 the Group also committed to fund a £20.0 million upsize to an existing fixed rate mezzanine loan to support the development of a mixed-use scheme in London. Starwood Property Trust, Inc (through a wholly owned subsidiary) is participating in 50 per cent of the loan amount, providing the Group with a net commitment of £10.0 million. The remaining loan term is 1.75 years with a 1 year extension option.

Loan Repayments & Amortisation: the following loan repayments and material amortisation were received during the first quarter:

- a full and final repayment of the €16 million loan on an office in Paris;
- €11.9 million of unscheduled amortisation on the loan on the mixed portfolio in Europe, following a portfolio of asset sales which was in line with the borrower's business plan; and
- Full and final repayment of the mixed use development, South East UK loan as the borrower completed their business plan.

(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. 13 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.

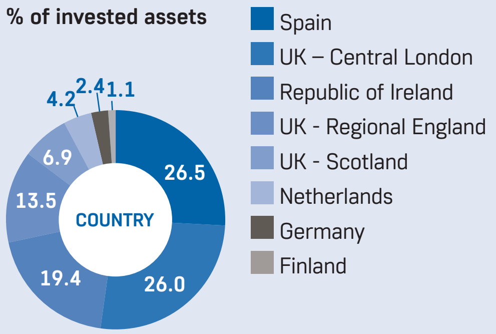
(3) LTV to Group last £ means the percentage which the total loan drawn less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the reporting date. LTV 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 development projects the calculation includes the total facility available and is calculated against the assumed market value on completion of the relevant project.

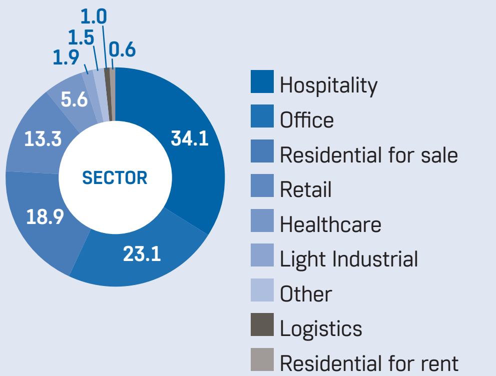
KEY PORTFOLIO STATISTICS AT 31 MARCH 2020

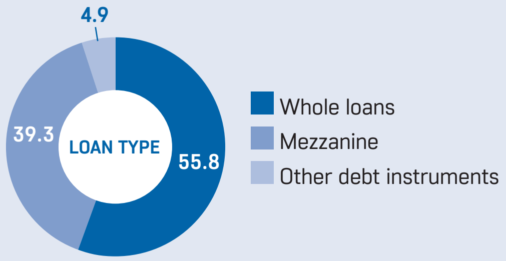
Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	15.1	3.4%
1 to 2 years	146.7	33.0%
2 to 3 years	137.8	31.0%
3 to 5 years	88.4	19.9%
5 to 10 years	56.3	12.7%

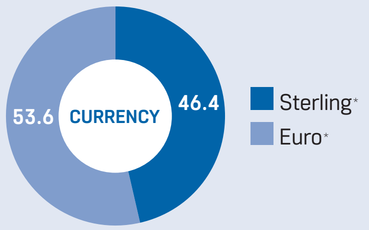
* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

% 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.

LIQUIDITY

The Group is very modestly levered with net debt of just £18.8 million at 31 March (equal to 4.4 per cent of NAV), has no repo facilities outstanding and significant available but undrawn revolving credit facilities of £102 million to fund existing commitments of £74.8 million and carefully selected new opportunities.

The way in which the Group's borrowing facilities are structured means that it does not need to fund spread mark margin calls. The Group does have the obligation to post cash collateral under its hedging facilities. However, cash would not need to be posted until the hedges were more than £20 million out of the money. The mark to market of the hedges at 31 March 2020 was just £1.3 million (out of the money) and with the robust hedging structure employed by the Group, post cash collateral has never been required since inception.

PORTFOLIO OVERVIEW IN LIGHT OF COVID-19

The Investment Adviser is in regular dialogue with all of the borrowers in the Group's portfolio and is working alongside them to navigate this currently disrupted market. In the current market, the Group is particularly focussed on its exposure to hospitality, retail and on construction and renovation projects. Outside of these areas, whilst there is clearly disruption in all markets and we monitor all loans closely, borrowers have either collected the majority of rent, are expected to, and/or have adequate interest reserves available for the short to medium term and therefore are not discussed in further detail.

Hospitality

Hospitality was 34.1 per cent of invested assets as at 31 March 2020. Given local requirements to close hotels in many jurisdictions and the temporary cessation of almost all leisure and business travel, we expect to see a significant negative impact in operational performance generally across the hospitality sector for 2020 as a whole.

Whilst this negative impact is expected across the hospitality sector in the near term, the Group's Investment Adviser is confident in the fundamentals of the markets in which the assets are located and the borrower's business plans for the assets over the medium to long term. The Group's hospitality exposure has been structured defensively by the Investment Adviser by conducting thorough due diligence, working with strong sponsors and implementing robust loan structures combined with significant diversification by jurisdiction and asset type. Each investment has a significant cushion to real estate collateral value protecting the lender's position.

The Group's hospitality exposure at 31 March 2020 can be further categorised as follows:

	Percentage of invested assets in hospitality	Percentage of total invested assets
Three UK hotels currently closed but with interest reserves in place	35.0%	11.8%
Irish asset under contract to Irish HSE	28.1%	9.6%
Hotel under construction with interest capitalised during construction	22.4%	7.7%
Hotels under construction but interest paid current	7.5%	2.6%

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The largest single hotel exposure is the hotel in Dublin, Ireland, representing 28.1% of hospitality exposure at 31 March. As previously announced, the borrower has granted a licence to the Health Service Executive ("HSE"), Ireland's public healthcare provider, which allows the HSE to use the Hotel and Convention Centre for accommodation and the provision of healthcare and other important services to the Irish public. This licence will assist the HSE with delivering significant additional accommodation capacity and in its efforts to manage the expected increased demand for accommodation related to the coronavirus outbreak. The contract was effective from 26 March 2020. The Group considers that this has significantly de-risked its hospitality exposure.

The table above also shows that 29.9 per cent of the hospitality exposure relates to hotels which are currently under construction and therefore not expected to be income generating during this period. The interest on the largest loan, representing 22.4 per cent of hospitality exposure, was always expected to capitalise during this period and has therefore had no impact on the operating cash flows of the Group. The interest on the other hotel under construction, representing 7.5 per cent of hospitality exposure, is paid current and was received in full and on time at the end of March. An interest reserve is also in place for this loan. There may of course be an impact on the completion and opening dates of these assets in due course as a result of the disruption to construction during this period and we continue to monitor this closely.

The final material category relates to the three UK hotels which are currently required to be closed by the government and represent 35 per cent of the Group's hospitality exposure. We have been working closely with the borrowers during this period with regards to asset safeguarding and cost management. All loans have lender controlled cash reserves in place which will enable interest to remain current in the near term.

Construction and renovation projects

The final major area of focus has been construction and renovation projects. This can be further categorised as follows:

	Percentage of invested assets in construction / renovation	Percentage of total invested assets
UK Hotel and Residential under construction – paid current	50.7%	11.2%
Hotel under construction – interest capitalised	34.6%	7.7%
Non-hotel under renovation – interest capitalised	13.0%	2.9%
Non-hotel under construction – interest capitalised	1.7%	0.4%
Other hotels (part of mixed portfolios)	6.9%	2.4%

FOR FURTHER INFORMATION, PLEASE CONTACT:

Dave Taylor

Apex Fund and Corporate Services (Guernsey) Limited as Company Secretary

T: +44 1481 735 810

Duncan MacPherson

Starwood Capital

T: +44 207 016 3655

Mark Bloomfield
Mark Young
Nick Donovan
Maarten Freeriks

Stifel Nicolaus Europe Limited

T: +44 20 7710 7600

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The hotel under construction is discussed above. Interest on the largest construction project, representing 50.7 per cent of construction and renovation assets, is paid current and was paid in full and on time at the end of March. An interest reserve is also in place for this loan. Interest on the other projects is capitalised and therefore group cash flow is not impacted by the current disruption.

Some sites have been required by local laws to close, others have had progress disrupted due to social distancing measures. Whilst this will lead to some opening delays, our underwriting on these types of loans tends to be conservative such that we do not anticipate any material adverse impacts in the medium term against our underwriting.

Expected Credit Losses (Impairment)

With the exception of the credit linked notes, all loans within the portfolio are classified and measured at amortised cost as they meet the following criteria:

- They are held within a business model whose objective is to hold the asset in order to collect contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payment of principal and interest on principal on a specified date.

The adoption of IFRS 9 in 2018 changed the basis of impairment from an incurred loss to an expected credit loss basis and established a three stage approach for recognition of impairment, based on whether there has been a significant deterioration in the credit risk of a financial asset since initial recognition. These three stages then determine the amount of impairment provision recognised.

At Initial Recognition	Recognise a loss allowance equal to 12 months expected credit losses resulting from default events that are possible within 12 months.
After initial recognition:	
Stage 1	Credit risk has not increased significantly. Recognise 12 months expected credit losses.
Stage 2	Credit risk has increased significantly since initial recognition. Recognise lifetime expected losses. Interest revenue recognised on a gross basis.
Stage 3	Credit impaired financial asset. Recognise lifetime expected losses. Interest revenue recognised on a net basis (i.e. losses are "above the line" and impact P&L and NAV).

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The Group has not recognised expected credit losses at initial recognition on any of its loans.

For the purposes of classifying between stages 1 to 3 after initial recognition, the Group considers a change in credit risk based on a **combination** of the following factors:

- Underlying income performance is at a greater than 10 per cent variance to the underwritten loan metrics;
- Loan to Value is greater than 75-80 per cent;
- Loan to Value or income covenant test results are at a variance of greater than 5-10 per cent of loan default covenant level;
- Late payments have occurred and not been cured;
- Loan maturity date is within six months and the borrower has not presented an achievable refinance or repayment plan;
- Covenant and performance milestones criteria under the loan have required more than two waivers;
- Increased credit risk has been identified on tenants representing greater than 25 per cent of underlying asset income;
- Income rollover / tenant break options exist such that a lease up of more than 30 per cent of underlying property will be required within 12 months in order to meet loan covenants and interest payments;
- Borrower management team quality has adversely changed.

At the end of 2019 it was considered that all loans were Stage 1. It is likely in the current circumstances that many loans will move to stage 2 based on the criteria above. However, it is important to note that this will not automatically mean that an expected credit loss will be recognised. This is because the formula for calculating the expected credit loss is:

"Present Value of loan" x "probability of default" x "value of expected loss".

The Group considers it very likely that the third part of the formula "value of expected loss" is likely to remain as nil for most if not all loans, even if they move from Stage 1 to Stage 2, due to the significant headroom the Group has with an average loan to value (based on the last third party valuations) of 62.1 per cent.

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DIVIDEND

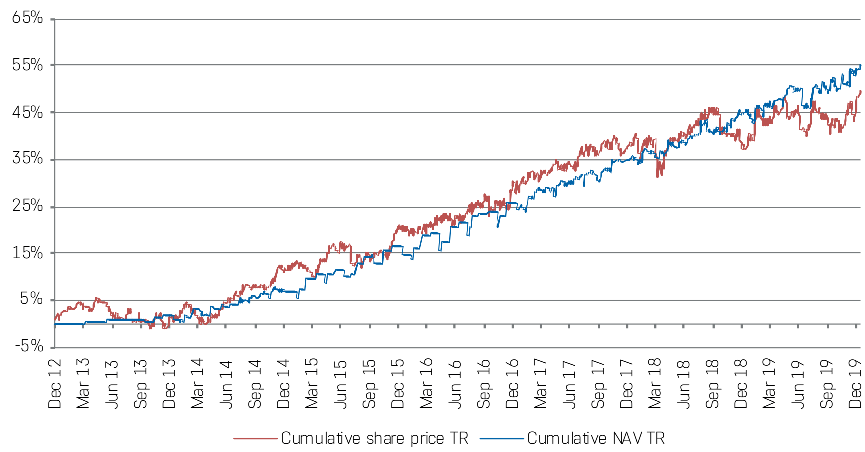
On 23 April 2020, the Directors declared a dividend in respect of the first quarter of 1.625 pence per Ordinary Share. This was covered 0.89x excluding unrealised FX gains and 0.99x covered including unrealised FX gains.

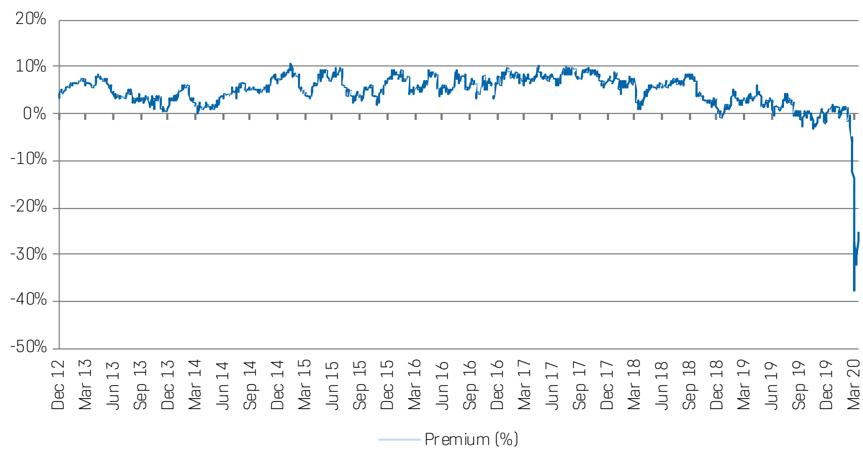
The Board and Investment Adviser recognise the importance of dividends for our shareholders. We hold a dividend reserve built up over several years which we currently expect will enable us to maintain the dividend at 6.5 pence per annum in the short to medium term, even if the dividend is uncovered by earnings in any quarter. As a result, dividends would therefore not be paid out of capital reserves. The Company will keep the level of dividend under review as the situation evolves and update shareholders as appropriate.

SHARE PRICE PERFORMANCE

At the end of the quarter, the share price traded at a significant discount to NAV of (26.4) per cent, having started the quarter at a premium of 1.2 per cent. The discount manifested itself as a direct consequence of weak market sentiment following the COVID-19 crisis as equity markets experienced substantial declines. The Company's NAV has however not moved in tandem with the share price and remained stable during the quarter, having started the quarter at 103.24 pence and moving only marginally to 103.22 pence as at 31 March 2020. The Company has over the last financial year typically traded at around a 2 per cent premium to NAV, and post-period has rebounded somewhat to trade at a 9.7 per cent discount to NAV as at close of business on 23rd April 2020.

SHARE PRICE, NAV AND DISCOUNT





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MARKET COMMENTARY AND OUTLOOK

Global markets have seen unprecedented disruption since the spread of COVID-19 to Europe and the U.S. from early March onwards. Real estate has been no exception with the iShares UK Real Estate ETF trading as low as 414.15 pence per share on 19 March, a decrease of 38 per cent from the start of the year, and has subsequently recovered to 517.7 pence per share on 9 April. Due to isolation measures in place around the world, real estate transactional and occupancy markets have both been highly impacted. On the private transaction side, a very small number of transactions which were already far along the closing process continue to be completed but otherwise new transactional and financing activity has slowed to practically zero in Europe. In addition to the issues of market uncertainties, executing real estate transactions with a lockdown in place provides a number of practical challenges. Considerations include the ability to visit and access the physical real estate for inspections, surveys and appraisals, the challenges of coordinating teams of lawyers, diligence providers, buyers, sellers and financing parties all working remotely and in some jurisdictions the need for physical closing meetings. For transactions that are closing, valuation reports are currently being issued with material uncertainty caveats reflecting the market environment.

Disruption to real estate cashflows have come through quickly. This has appeared most immediately on the hospitality side where the income is mainly driven by daily operational cashflows rather than longer term rents seen in office, logistics and retail. Large parts of the world's hotel stock has been forced to close for practical or legal reasons, although we do still see some continuing operations, for example for healthcare related uses and key worker isolation housing. Retail and student accommodation will also be hit swiftly on the cashflow disruption side. Non-essential retail has been shut down and some tenants will not be able to pay rent on time. In student accommodation, the bulk of the major operators have provided flexibility for the final term for students who are not in occupation as a result of COVID-19. The disruption will not be fully contained to these asset classes as there will also be office and industrial tenants that have issues in income generation during the shutdown. The UK REITs provide some interesting data as to levels of collection across the asset classes at the March rent date with Intu reporting 29 per cent of rent collected on its retail portfolio for the March rent date versus 77 per cent at the same time last year; Land Securities reporting 86 per cent of rent collected on its office portfolio for the March rent date versus 98 per cent at the same time last year; and Segro reporting 71 per cent of rent collected on its shed portfolio for the March rent date versus 96 per cent at the same time last year.

On the other hand, government action to support affected industry has equally been very rapid with over $7 trillion of fiscal policy stimulus announced globally. Responses have varied country to country but with some common themes around enhanced access to liquidity for banks, loan support programs for disrupted business, business rates relief and income support for furloughed employees. Government fiscal policies, combined with the success and method of easing isolation measures, balanced against how extensive the period of income disruption will be, are all factors which will drive the final outcomes for businesses and industries. Governments have shown they will do whatever it takes it is still too early to fully predict the outcomes across the real estate or any other industry as to exactly how effective this balance will be.

From a financing perspective specifically, dealing with immediate consequences of the income disruption is taking up the vast majority of lenders' time. The level of simultaneous income disruption is unprecedented, thus the volume of loan actions is also on a scale beyond normal capacities. With such a high volume of borrower requests, many origination teams are assisting portfolio management colleagues in analysing and processing the required amendments and waivers to allow operating assets to close and to deal with income based and other covenant issues which have arisen due to the

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effects of the lockdown. Capital markets have been disrupted with the usually deep and liquid US CMBS market effectively closed for new issuance. There has been a limited amount of new issuance in the real estate corporate bond market with both Vonovia and Grand City Properties succeeding with new issuance in early April.

Looking forwards, there are a number of uncertainties as to how the financing market will look as and when the market reopens. On the credit side, many lenders will look to the transaction market to provide some stability over a number of transactions and a period of time before their terms will be extended back to the full levels allowable under their mandates. As such, the initial loans made by banks will likely have five to ten per cent lower LTVs than the previous maximums they were offering. There is uncertainty on the pricing side with CMBS new issuance markets closed and banks still not clear as to how their term financing costs will stabilise over the coming months. We anticipate that lenders will also experience a lower number of repayments due to less property sales and refinancings over the coming months which will reduce the natural churn of assets on their books and the need to replace repaying loans with new originations to maintain portfolio size. In addition typically after a crisis there is often a pullback of less experienced real estate lenders who have come to the market late.

While there is a lot of uncertainty and short term disruption, real estate provides a long-term, robust income stream from a tangible asset with significant capital cost to replace. The fundamental long term ability of real estate assets to generate cashflows will remain post the disrupted period, supporting the fundamental value of the real estate asset. The Group has entered into the COVID-19 disrupted phase with strong credit metrics and as such the portfolio is expected to be resilient to significant stresses. The outlook for new investment opportunities for lenders with a flexible mandate should be strong, however the Group will be patient in evaluating and making new investments.

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Starwood European Real Estate Finance Limited: Quarterly Factsheet Publication

Starwood European Real Estate Finance Limited (the "Company") announces that the factsheet for the quarter ended on 31 March 2020 is available at:

www.starwoodeuropeanfinance.com