Gaudi Le Roux, Jefferies International

Thank you for joining us for this investor update call which has been facilitated by Starwood European Real Estate Finance. This call will be presented by the team from Starwood Capital who are the investment adviser to Starwood European Real Estate Finance and will last around thirty minutes. Further to the release of Q2 factsheet, Starwood will discuss the Company's first half performance and the outlook for the remainder of the year.

Before we start, please bear with me for a few housekeeping points:

Please note that this call is being recorded and unauthorised recording of this call is not permitted.

The Company directs your attention to the information on slide 32 of the latest investor update document published by the Company on 24 July 2020 which applies equally to the content of this call.

Certain statements on this call will be forward looking statements, including forward looking statements related to market conditions and the economic environment. Such forward looking statements are based on current expectations, estimates, and/or beliefs of the Company and its investment manager. Such forward-looking statements are made only as at the date of this call and involve known and unknown risks (including risks relating to the market and the business of the Company), uncertainties and other factors, and undue reliance should not be placed thereon. There can be no assurance that any targets, projections, forecasts or estimates discussed on the call will be realised.

The information provided on this call is for information purposes only and should not be construed as a recommendation to buy or sell investments or to enter into any transaction or investment. By way of reminder, members of the Media and the Press are not authorized to attend this event. If you work for the Media or the Press, please disconnect now.

Investor queries received since the factsheet was released into today's call have been incorporated into the discussion. Should you have any queries after the call please send these to your usual Jefferies sales contact or directly to Starwood at the email address provided when registering for the call.

With the compliance and legal disclosures now taken care of, I would like to introduce the Starwood team. Joining us this morning are Duncan MacPherson, head of Capital Markets Europe, Lorcain Egan, head of Lending Europe, Irene Ryan – head of Debt Asset Management Europe and Sarah Broughton European CFO for Starwood.

I will now hand over to Duncan to start the company update.

Duncan Macpherson, head of Capital Markets Europe

Thank you Gaudi and welcome to everyone who has joined us today for this update call.

This is the first time that we have done this format of update. We have started this new format in response to dealing with a new world of working and communication over the past few months in the post COVID environment.

We expect an even higher level of focus in uncertain times and we also understand some investors have concerns around specific sectors of credit such as hospitality and retail. We are listening to our investors and we are keen to provide them with the information they need to evaluate and make their investment decisions.

While we are limited in the detail of what we can disclose by client confidentiality, we have found ways to communicate the risk in the portfolio and we have undertaken a number of different initiatives over the past few months to provide increased communication and disclosure.

You will have seen this additional detail in particular in our recent factsheets where we have expanded on areas we think are of particular interest and where we have had increased levels of questions from investors.

Where there is useful new information we have added portfolio updates in our recent investment updates. This quarter we have also provided a more detailed investor update presentation which contains a lot of information and which we expect to be a useful resource to investors.

We have also considered how best to get these messages to investors. Last month the Company appointed a new corporate broker with Jefferies taking on this role, we believe they have the best in class team to advise us and to help us reach the investor audience.

We are pleased that the Matt Hose has been commenced research coverage of the company and many investors have commented favourably to us about Matt's work.

We also understand post MIFID 2 the way research reaches investors has changed and so we are in the process of appointing a leading provider of paid for research to cover SEREF. The coverage will be initiated in the next couple of weeks and we expect this format to reach a larger universe of market participants.

Moving to the Company update, we are pleased to report your portfolio continues to be resilient.

The average loan to value across the portfolio of 62.9% gives a strong value cushion for the investment portfolio.

Importantly, all of the loans in the investment portfolio continue paying their interest on time and there have been no delays with respect to interest payments.

Equally important, we are please to confirm that there are no required impairments in the investment portfolio.

The Company has a strong balance sheet and is well positioned from a liquidity point of view.

We are well set with modest leverage of only 3.5% of NAV at end of Q2, and good liquidity with flexible debt facilities with £101.9 million undrawn that give us coverage for all of the future commitments of £67.2 million and further capacity for new investments.

We also expect a favourable environment for future investments in the long term as post GFC trends for non-bank lenders continue.

This liquidity has already allowed us to make one new investment post COVID. In line with our investment approach this loan is with a repeat borrower who we have a long track record of doing business with and it is within the industrial and logistics area which is one of our preferred asset types.

One area we cannot control is interest rates which have been in a long-term decline which has been exasperated by monetary policy in response to COVID.

Sterling LIBOR has fallen by 70 bps points to 8bps since the beginning of 2020. The interest rate curve is very flat as well. In real estate finance we typically look at the 5 year swap as most investment loans have this duration. On average 5 year swap has been on average 1.16% since the inception of SEREF but now it is 8bps, a decline of over 100bps compared to the average over this time period.

In response to this we have evaluated and set a sustainable level of dividend for this low interest rate environment and adjusted the Companies dividend policy to 5.5 pence per share per annum from 2021 onwards. This will allow the Company to set a long term policy to pay a dividend covered by earnings without increasing the credit risk profile of the vehicle.

We believe that with a very low interest rate environment and many companies suspending dividends entirely that our stable dividend with a significant premium to risk free assets will be a very attractive proposition to investors.

I am now going to hand over to Sarah Broughton, our European CFO to discuss financial performance and IFRS 9.

Sarah Broughton, Starwood European CFO

Good morning, starting with the portfolio performance; the portfolio is currently returning 6.7% on a gross headline basis which results in a 7% return taking into account the £24.1 million of leverage at the quarter end.

Since 2016 the Company has paid a 6.5 pence per year dividend. The dividend coverage for the first half of 2020 was 0.92x. Taking into account changes in the portfolio towards the end of the first half and a decreased projected Libor rate going forward we would expect to be at approximately 0.87x covered for the second half of the year based on a dividend of 6.5 pence per share.

The Company has built up a dividend reserve of approximately £4.6 million in previous years and has confirmed it will continue to pay a dividend of 6.5 pence for 2020, with the final dividend for 2020 being declared in late January 2021. If there are no further changes in the portfolio in the second half of the year this would use approximately £1.7 million of the reserve to cover the expected shortfall, leaving the Company with a dividend reserve of approximately £2.9 million.

As Duncan mentioned at the beginning of the call the Company has also announced a new policy to pay a dividend of 5.5 pence per share from 2021 onwards. This will be paid in an equal quarterly dividend of 1.375 pence per share. Based on the new policy level and the current portfolio the dividend cover would be 1.03x excluding any benefits from prepayment receipts or FX gains.

Much of the historic decline in dividend coverage has been driven by lower LIBOR expectations but with rates now so low, there is a very limited amount of further erosion that can occur due to lower LIBOR rates as all loans benefit from libor floors set at 0% or higher.

We expect to continue to benefit from gains from FX on non-UK loans and from additional return from early prepayments but we do not include this additional income in our projections as the timings and amounts are uncertain.

In a time of dividend uncertainty for many companies, our goal has been to provide shareholders with an attractive and sustainable level of income with a high level of clarity about the long term dividend. With almost zero libor rates now built into our projections, above one times coverage on a headline basis, an ongoing dividend reserve and some additional return expected from prepayments and FX we are confident that we have solid footing to pay a well covered level of dividend in the long term.

I also wanted to briefly cover IFRS 9 which governs how we report NAV. We have received a number of investor questions about NAV and so have included additional disclosure around NAV and IFRS 9 in our recent factsheets and our investor update presentation which we hope you have found helpful.

All loans within the portfolio are classified and measured at amortised cost less impairment in line with IFRS9. As no impairments have been recognised in the portfolio to date this results in a very steady NAV for the Company.

However in order to help investors understand the sensitivity of the portfolio to increased or decreased returns we have provided an analysis of the sensitivity of the portfolio on a discounted cashflow basis which can be found on page 7 of the factsheet.

The calculations are made on a yield to worst analysis, assuming that loans are repaid on their contractual maturity date. The sensitivity shown is 1.3 per cent decline in the value for every 50 basis point expansion in spread.

We continue to believe that the pricing on the portfolio represents an attractive risk adjusted return and while there is a COVID impact, there are other impacts of loan seasoning, successful business plan implementation and deleveraging that enhance the starting risk versus reward balance.

We would like to highlight that this analysis is for indicative purposes only to assist investors evaluate the sensitivity to this factor and does not represent how the loans will be accounted for in NAV.

I am now going to hand over to Lorcain Egan, head of Lending for Europe, who is going to give a summary of the investment portfolio.

Lorcain Egan, head of Lending Europe

Good morning, and thank you for being with us today. I am going to give you an update on the investment portfolio, including recent investments and repayments. I will also provide an outlook for new investments.

Overall there are currently 18 loans in the Investment Portfolio. They have a total drawn balance of £447.5 million and total commitments of £514.7 million.

The weighted average starting LTV for the portfolio is 18.4% and the last £ LTV for the portfolio is 62.9%. This level has been declining over recent quarters as the portfolio mix has been modified. The portfolio LTV peaked at 66% in 2016.

The portfolio today is a clear reflection of our core strategy. First of all we are supporting our top tier clients and secondly we have maintained focus on our core jurisdictions. 91.6% of the portfolio is in our key target jurisdictions of the UK, Ireland and Spain.

We have a very high quality borrower base. They are best in class operators in their respective asset classes.

In 2020 we have made a total of £75.2 million of commitments across three new loans and one upsize. All of the new loans have been advanced to repeat borrowers. A high percentage of the new investments are in the key target geographies with a small contribution from Germany.

The portfolio today is almost 50% in the residential, office and industrial sectors which have shown income resilience so far in 2020. From a capital markets perspective these sectors have also proven to be robust.

Of the remaining sectors, the most heavily impacted by covid are hotels and retail. We have 34% and 13% of the portfolio respectively in these sectors. However, our loans are well structured and thus far have performed well. All loans have paid interest on time despite the income disruption. Irene will cover each asset class in some more detail in the next section of the update.

The senior loans versus subordinated loans split is largely in line with our target with a slight tendency to senior loans in the current portfolio. Senior loans make up 61.2% of the portfolio today.

A theme in the portfolio is that all our current hotel exposure is in senior loans. In the past we have originated good opportunities in the hotel mezzanine loan space, particularly post the 2016 Brexit vote. However, these positions have all been refinanced on more aggressive financing terms. In the last 18 months we have found a better risk reward profile in senior hotel loans and as a result all of our hotel loans are in simple bilateral senior loan positions today.

While asset management has been our primary focus during the covid disruption period, the origination team has continued to follow market developments closely. We are spending a lot of time with our existing clients and our target clients. Our pipeline is strong and we are continuing to assess opportunities with robust risk return profiles.

In line with our stated strategy we are very focussed on those key target jurisdictions - UK, Spain and Ireland. On the asset class side residential, industrial and offices are the main focus at the time being.

There are a number of strong residential themes around Europe which will create opportunity for us, and we continue to seek out attractive residential transactions.

With regards to industrial and logistics we expect to see value add themes that have been successful in the past such as aggregation plays, mixed-use portfolios, multi-jurisdictional lending solutions and intensive active asset management business plans will present opportunities.

In the short term we expect to see increased uncertainty as the full impact of the covid disruption is assessed. New opportunities will likely demand a premium over pre-covid economic terms or have a lower risk point. In the longer term, market conditions will stabilise. We anticipate that the big trends in the industry will continue. Non-banks will grow market share and banks are expected to further limit their balance sheet lending to capital intensive asset classes.

SWEF is well positioned to benefit from these industry trends. The company is currently assessing £600 million of lending opportunities in it's pipeline. These opportunities are located in our preferred countries and asset classes.

I am now going to hand over to Irene Ryan, head of Debt Asset management to go into some further detail on themes in portfolio asset management.

Irene Ryan, head of Debt Asset Management

Good morning, it has been a busy time for debt asset management and I am going to run through some of the highlights over the past weeks.

We have always had a detailed, hands on approach to asset management, almost all our loans are direct origination with the borrowers. We therefore know our borrowers well and we monitor the credit closely through the life of the investments.

Typically, loans are structured in line with underwritten borrower business plans. Financial and other milestone covenants are set and ratchet up over time to track those business plans, which means that should underlying performance start to deteriorate, early triggers are in place which effectively, allow us to review the position with the borrower and recommend loan amendments or restructurings as appropriately tailored to each deal.

These loan structures, close relationships and monitoring have proved particularly useful during COVID where disruption to business plans has resulted in requirements for amendments and waivers under loan documentation.

Just under a quarter of the portfolio has required some form of amendment or waiver a result of COVID so far with most waivers required in respect of income based covenants.

An example of this has been; limited debt yield test or income covenant waivers to allow for the disruption of hospitality assets performance. However it is important to note that these deals are well capitalised with cash reserves in place to fund forecast shortfalls of income and, no deal or project has identified a funding shortfall in the medium term.

Amendments to-date have also included refurbishment or ground up construction loans where loans are structured with required project completion dates. Where construction progress has been hampered by either mandatory government shutdowns or the introduction of covid-compliant social distancing measures, some milestones have been pushed out to account for the time lost. Again, these deals are all adequately capitalised where any cost increase identified as a result of on-site delays, has identified funding in place.

From a loan payments perspective; All loan interest up to the date of this factsheet has been paid in full and on time and future interest payments are expected to be paid in full based on the forecast gradual continued easing of lockdowns across the UK and Europe.

I am now going to run through the key asset classes in some more detail.

Hospitality makes up 34.7 per cent of Investment Portfolio

- The hospitality industry has been most affected by the Covid-19 pandemic.
- The largest hotel exposure (Hotel, Dublin) has granted a licence to the Health Service Executive which has significantly de-risked its hospitality exposure.
- Four hotels, which equates to 40 per cent of hotels in the portfolio had to close during the pandemic.
- All hotels are now open and operational, aside from the Spanish hotel which remains under construction and is due to achieve practical completion in Q3 2020.
- Every hospitality loan within the Group's loan book continued to pay interest on time and has adequate resources to meet their cash needs for the medium term.

Retail makes up 12.7 per cent of Investment Portfolio

- The retail sector has also been hard hit by the Covid-19 pandemic. This is on the back of a number of difficult trading years for the retail "bricks and mortar" sector as a whole.
- Across Europe almost all non-essential retail assets were shut for a number of months. These retail assets are now beginning to open once again and start to become operational.
- In some parts of the retail market we have witnessed footfall return to as much as 70 per cent of its pre-Covid level. It is generally accepted that the remainder of 2020 will be one of recovery for most retail tenants with rental discounts being offered to assist tenants to remain in occupation, while 2021 is targeted as reverting to closer to pre-covid rental cash flows.
- The Group's retail investments are either a small part of a large portfolio of mixed assets or benefit from robust loan structures including interest / cash reserves which will enable the borrower to weather the storm over the medium term. Additionally the majority of the Group's retail exposure is in Spain, where tenant insolvencies over the past year have been significantly lower than of the UK or US given different legal and lease structures and this can also be attributed to generally lower density of Spanish retail per capita.
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Construction makes up 29 per cent of Investment Portfolio

- Construction sites have continued to make progress during the Covid-19 pandemic.

- In England construction sites were able to remain open at all times. In Spain and Ireland, construction sites were closed for 14 and 52 days respectively.
- We expect to see more moderate delays to final completion in our construction deals as a result of Covid-19.
- However, every deal remains fully funded by debt and equity with ample contingencies and cost overrun protections to enable borrowers to mitigate any Covid-19 impacts.

Office, Industrial & Residential together representing 47% of Investment Portfolio

- These three sectors have been the most resilient sectors during the Covid-19 pandemic.
- Underlying office rent collections for loans with greater than 75 per cent exposure to office remain strong at 96 per cent year to date.
- Residential sales have continued to progress well during the Covid-19 related disruption with a number of units being sold since 1 March 2020 at premiums to underwritten values. The LTV for this segment is 59.3 per cent.
- Underlying industrial loan rent collections remain strong at 100 per cent year to date.

We are pleased to report that the portfolio has proved resilient to COVID so far. The pandemic is not over however, and the longer-term effects are still to be seen. We will remain close to the borrowers as they navigate through the coming months, remaining vigilant in portfolio management and monitoring activities.

I am now going to hand it back to Duncan to wrap up.

Duncan Macpherson

You have heard from myself and the team about SEREF's financial stability, the performance of the portfolio, the low interest rate environment and the expectation of a continued favourable dynamic for SEREF's business.

We believe that there is a continued opportunity for SEREF to grow in the coming years, providing an increased investment opportunity for investors, increased liquidity and a more diverse portfolio and offering a steady attractive income in a world where yield is hard to find.

We believe the current share price does not reflect the quality of the portfolio and the desirability of income in this low interest rate environment and so we have taken a number of steps as I mentioned at the beginning to get this message out to existing and to new investors with a goal of re-establishing a premium rating for the shares. It is worth emphasizing that the Board remains acutely aware of the Company's discount to NAV as well as the Company's stated ambition of trading on a discount to NAV of no wider than 7.5%. The directors continue to closely monitor the discount to NAV and will give consideration to repurchasing Shares under this authority if and when appropriate, having due consideration for the excess cash available at the time for such purchases.

We understand there are many uncertainties as to the impact of COVID but consider our focus of lending to hard assets with secured lending will continue to be a good sector offering significant downside protection in an uncertain market.

We have put our own money behind this portfolio with both Lorcain and I buying shares last month.

In conclusion I would like to reiterate the portfolio is performing well with all loans having paid interest on time, no impairments have been required and a significant cushion of value in the collateral that secures the loan portfolio.

We have very conservative leverage today and we have liquidity available to us.

We will continue our detailed approach to portfolio management as we navigate through these uncertain times as the world adapts to a post COVID environment.

We will also continue to add new investments to the portfolio with the main focusses highlighted by Lorcain earlier in the call.

We will also continue to keep our investors informed and will seek new investors and to target a premium rating.

That concludes today’s call – thank you for joining us and for your support for the Company.