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 2020

Share Price (p)	NAV (p)	Discount	Dividend Yield	Market Cap
86.40	104.08	17.0%	7.5%	£357m

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

UPDATE SUMMARY

- All of the loans in the investment portfolio are paying their interest on time
- There are no required impairments in the investment portfolio
- The Group expects a favourable environment for future investments in the long term
- The Group has strong liquidity with net debt of £15.1 million at 30 June 2020 and undrawn revolving credit facilities of £101.9 million to fund existing commitments
- The average loan to value across the portfolio remained at approximately 63 per cent representing a strong equity cushion.
- In light of the lower interest rate environment the Group has re-evaluated its dividend policy to create a stable, sustainable and covered dividend level for the long term
- The Group will continue to pay a dividend of 6.5 pence per share through 2020 and will target to pay 5.5 pence per share thereafter. More information on the dividend can be found below and in the accompanying investor update presentation, which is available on the Company's website at: www.starwoodeuropeanfinance.com

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 2020

Number of investments	**18**
Percentage of currently invested portfolio in floating rate loans	**79.5%**
Invested Loan Portfolio unlevered annualised total return [1]	**6.7%**
Portfolio levered annualised total return [2]	**7.0%**
Weighted average portfolio LTV – to Group first £ [3]	**18.4%**
Weighted average portfolio LTV – to Group last £ [3]	**62.9%**
Average loan term (stated maturity at inception)	**4.4 years**
Average remaining loan term	**2.8 years**
Net Asset Value	**£430.1m**
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	**(£24.1m)**
Loans advanced	**£448.9m**
Cash	**£9.0m**
Other net assets/ (liabilities) (including hedges)	**(£3.8m)**
Origination Fees – current quarter	**£0.1m**
Origination Fees – last 12 months	**£1.9m**
Management Fees – current quarter	**£0.8m**
Management Fees – last 12 months	**£3.2m**

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INVESTMENT PORTFOLIO AT 30 JUNE 2020

As at 30 June 2020, the Group had 18 investments and commitments of £514.7 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Hospitals, UK	£25.0m	–
Hotel & Residential, UK	£49.9m	–
Office, Scotland	£4.6m	£0.4m
Office, London	£13.0m	£7.6m
Residential, London	£37.0m	£2.7m
Hotel, Oxford	£16.7m	£6.3m
Hotel, Scotland	£25.9m	£15.5m
Hotel, North Berwick	£10.5m	£4.5m
Logistics Portfolio, UK[2]	£12.0m	–
Total Sterling Loans	**£194.6m**	**£37.0m**
Three Shopping Centres, Spain	£34.1m	£5.9m
Shopping Centre, Spain	£15.6m	–
Hotel, Dublin, Ireland	£55.0m	–
Hotel, Spain	£40.1m	£9.5m
Office & Hotel, Madrid	£17.0m	£0.9m
Mixed Portfolio, Europe	£31.3m	–
Mixed Use, Dublin	£2.0m	£11.5m
Office Portfolio, Spain	£19.6m	£2.4m
Office Portfolio, Dublin	£32.2m	–
Logistics Portfolio, Germany[2]	£6.0m	–
Total Euro Loans	**£252.9m**	**£30.2m**
Total Portfolio	**£447.5m**	**£67.2m**

[1] Euro balances translated to sterling at period end exchange rates.
[2] Logistics Portfolio, UK and Logistics Portfolio, Germany is one single loan agreement with sterling and Euro tranches.

[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. 14 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.

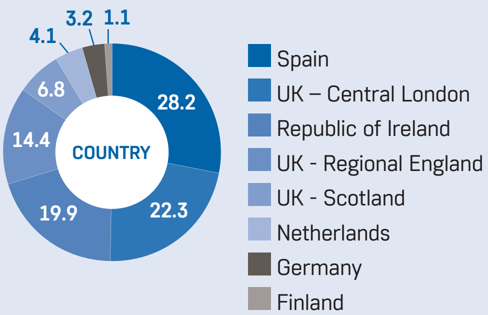
[3] LTV to Group last £ means the percentage which the total loan drawn less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the reporting date. LTV 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.

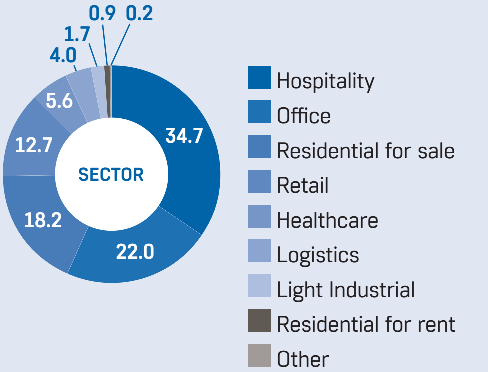
KEY PORTFOLIO STATISTICS AT 30 JUNE 2020

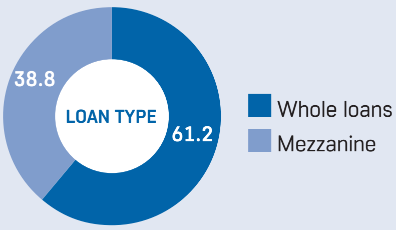
Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	20.2	4.5%
1 to 2 years	133.2	29.8%
2 to 3 years	147.2	32.9%
3 to 5 years	89.7	20.0%
5 to 10 years	57.2	12.8%

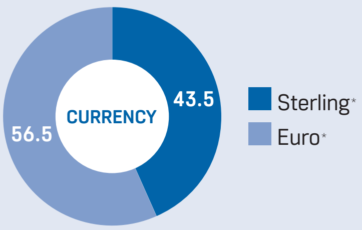
* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

% 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.

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SECOND QUARTER PORTFOLIO ACTIVITY

The following portfolio activity occurred in the quarter:

New Loan, Logistics, UK and Germany: On 17 June 2020, the Group closed an investment in the funding of a €71.9 million, 36 month floating rate senior loan secured by a portfolio of industrial/logistics assets in the UK and Germany. The investment has been made alongside Starwood Property Trust, Inc (through a wholly owned subsidiary) with the Group participating in €20 million (27.8 per cent) of the senior loan amount. The Group expects the transaction to generate attractive risk-adjusted returns, in line with its stated investment strategy.

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

- Credit Linked notes: a full and final repayment of the £21.8 million loan;
- Mixed Portfolio, Europe: €4.3 million of unscheduled amortisation following asset sales; and
- Residential, London: £3.5 million of amortisation following the sale of residential units.

Following the activity noted above, in addition to drawdowns on existing commitments of £6.9 million, the Group had approximately £447.5 million of total loans advanced across 18 investments with £67.2 million of unfunded commitments. The average loan to value across the portfolio remained at approximately 63 per cent representing a strong equity cushion.

LIQUIDITY

The Group is very modestly levered with net debt of £15.1 million (3.5 per cent of NAV) at 30 June 2020, has no repo facilities outstanding and significant liquidity available with undrawn revolving credit facilities of £101.9 million to fund existing commitments as summarised below.

As at 30 June 2020	£ million
Drawn on Group debt facilities	(24.1)
Cash at hand	9.0
Net Debt	**(15.1)**
Undrawn Debt Facilities available to Group	101.9
Undrawn Commitments to Borrowers	(67.2)
Available Capacity (cash + undrawn facilities - commitments to borrowers)	**43.7**

As described in our last factsheet, the way in which the Group's borrowing facilities are structured means that it does not need to fund mark to market 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 30 June 2020 was just £4.5 million (out of the money) and with the robust hedging structure employed by the Group, cash collateral has never been required to be posted since inception.

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CURRENT AND FUTURE DIVIDEND

On 23 July 2020, the Directors declared a dividend in respect of the second quarter of 1.625 pence per Ordinary Share, equating to an annualised 6.5 pence per annum. This was covered 0.95x by earnings excluding unrealised FX gains. We expect the dividend cover to reduce to approximately 0.87x during the second half of the year following the repayment and amortisation received in the second quarter.

The Board and Investment Adviser recognise the importance of stable and predictable dividends for our shareholders. Accordingly, we hold a dividend reserve built up over several years which we have been using to maintain the annual dividend at 6.5 pence per share over the last eighteen months even though the dividend has been uncovered by earnings more recently. As a result of this reserve, dividends have not therefore been paid out of capital reserves. The Company intends to continue to use the remaining reserve to maintain the annual dividend at 6.5 pence per share for the rest of 2020 which will leave a small reserve remaining.

In the period since the Group's inception, the Bank of England base rate has reduced from 0.50 per cent to 0.10 per cent. The average 5 year GBP swap rate from inception to year end 2019 was 1.16 per cent, compared to 0.13 per cent at 30 June 2020 representing a fall of over 1 per cent on the average. At inception LIBOR / EURIBOR might have contributed up to 10 per cent of the company's underlying return profile, today it makes up less than 1 per cent.

In light of the declining interest rate environment, from 1 January 2021 the Group intends to reduce the dividend target to 5.5 pence per annum (payable quarterly) which, in the Board and the Investment Adviser's view, is a more sustainable level of dividend which should be fully covered by earnings whilst ensuring we maintain our strong credit discipline whilst managing risk. On the share price at 30 June 2020, a dividend of 5.5 pence per annum represents an attractive 6.4 per cent dividend yield.

PORTFOLIO OVERVIEW IN LIGHT OF COVID-19

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.

On 19 June 2020 the Group published an update on the performance of the loans during Covid-19. The key points are summarised below by sector.

Hospitality (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.
- All hospitality loans have adequate resources to meet their cash needs for the medium term.

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Retail (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. However, we do expect to see more insolvencies across the sector as 2020 continues.
- 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.

Construction (29 per cent of Investment Portfolio)

- Construction sites have continued to make progress during the Covid-19 pandemic.
- In the UK 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 (including logistics) & Residential (47 per cent 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.

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Expected Credit Losses (Impairment)

As described in our last factsheet, all loans within the portfolio are classified and measured at amortised cost less impairment.

Under IFRS 9 a three stage approach for recognition of impairment was introduced, 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 since initial recognition. 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).

Please refer to the March factsheet for details on the factors the Group considers when classifying loans between Stages 1 to 3.

At the end of 2019 all loans were classified as Stage 1. The position as at the end of June will be finalised once quarterly borrower reporting is received during the course of July. Some loans may move to Stage 2 as a result but we do not expect any loan to move to Stage 3. It is important to note that classification to Stages 2 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”.

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The Investment Adviser has closely analysed all available information on the value of the Group's assets as at 30 June 2020 and considers that it is still very likely that the third part of the formula "value of expected loss" will remain as nil for 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 approximately 63 per cent.

The Group is unable to record the loans at fair value as the loans do not qualify for this accounting treatment. However, we have calculated the fair value of the loans based on a discounted cash flow basis at different discount rates with the assumption all loans run to full maturity and the results are shown below.

Discount Rate	Fair Value	% of book value
4.7%	£473.3 m	105.4%
5.2%	£467.0 m	104.0%
5.7%	£460.8 m	102.7%
6.2%	£454.8 m	101.3%
6.7%	**£448.9 m (= book value)**	**100.0%**
7.2%	£443.1 m	98.7%
7.7%	£437.4 m	97.5%
8.2%	£431.9 m	96.2%
8.7%	£426.5 m	95.0%

The effective interest rate ("EIR") – i.e. the discount rate at which future cash flows equal the amortised cost, is 6.7 per cent. We have sensitised the cash flows at intervals of 0.5 per cent up to +/- 2.0 per cent of the EIR. The table above shows that even if the Group did mark the assets to fair value, the movement would not be significant. Further, the Group considers the EIR of 6.7 per cent to be conservative as many of these loans were part of a business plan which involved transformation and many of these business plans are advanced in the execution and therefore significantly de-risked from the original underwriting and pricing.

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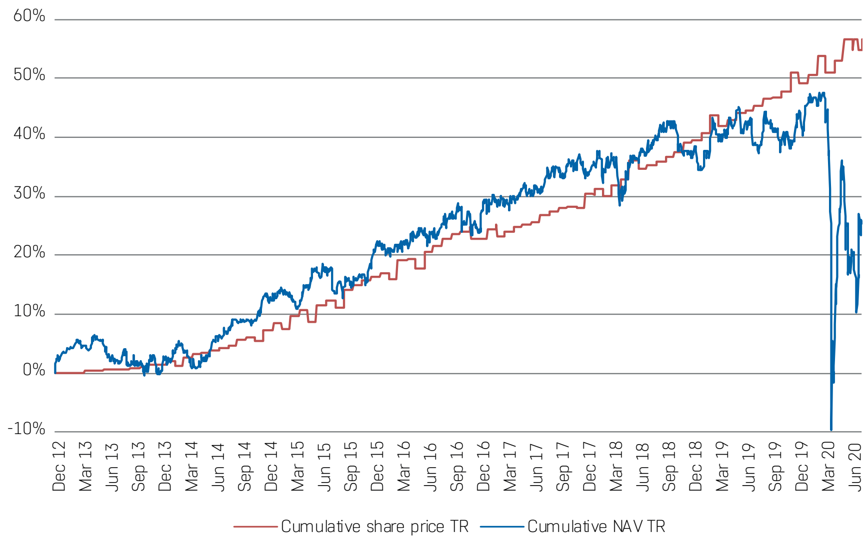
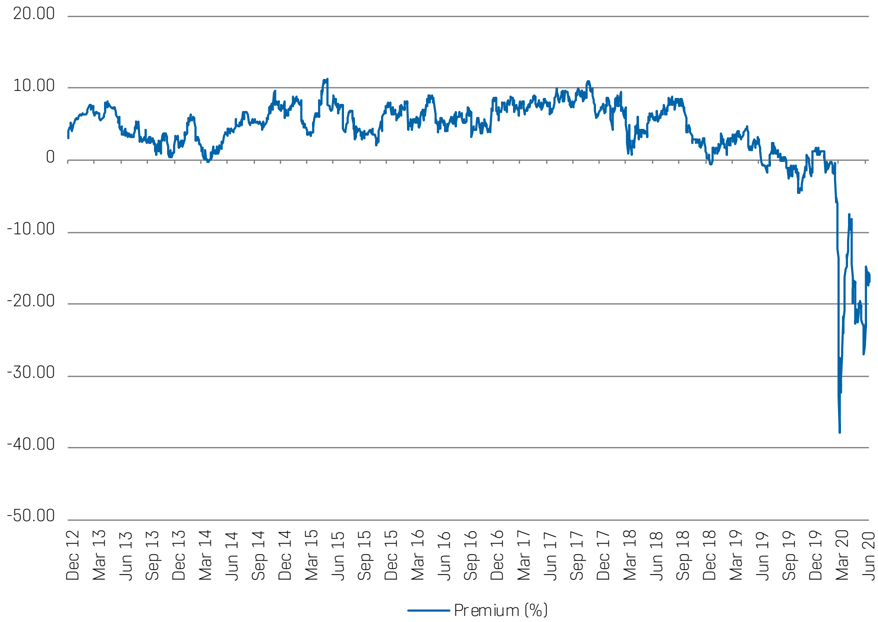
SHARE PRICE PERFORMANCE

At the end of the quarter, the share price traded at a significant discount to NAV of 17 per cent which has improved from a 26.4 per cent discount at the end of the first quarter. The Board and the Investment Adviser consider the shares to represent very attractive value at this level and individuals at the Investment Adviser have made personal purchases during the quarter, as disclosed by the Group.

The Company received authority at the recent AGM to purchase up to 14.99 per cent of the Ordinary Shares in issue on 8 June 2020. The directors continue to closely and regularly monitor the discount to NAV and will give consideration to repurchasing Shares under this authority if appropriate. Any share buyback would be subject to available cash not otherwise required for commitments to borrowers, working capital purposes or the payment of dividends.

SHARE PRICE, NAV AND DISCOUNT





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MARKET COMMENTARY AND OUTLOOK

Markets have continued to be reasonably volatile but have stabilised since our last factsheet in April. The VIX is down from 38.2 to 27.2 having peaked at 82.7 in March 2020. The iShares UK Property ETF is almost completely unchanged at 495.15p on 17 July versus 495.85p three months earlier. This more stable picture is the result of an effective campaign of unprecedented monetary and fiscal stimulus. Overall one of the largest drivers of the market will be the balance of these stimulus measures versus the long-term economic effects of the disruption caused by Covid-19.

We have also seen more clarity in real estate valuation. In April real estate valuers had been caveating their work with material uncertainty clauses however the RICS Material Valuation Uncertainty Leaders Forum have now recommended that central London offices, as well as all industrial and logistics assets, no longer need a material uncertainty clause in valuations.

The stimulus has had a great effect on the outlook for interest rates. At the end of June the FT reported that the UK 30 year gilt was trading below the Japanese 30 year bond. Since the Company launched in December 2012 the 30-year rate has decreased by 2.5 per cent in total. Shorter rates have plummeted since Covid-19 with GBP Libor declining by 0.69 per cent to 0.08 per cent over the last six months. The curve is also extremely flat with the UK 5-year swap rate also at only 0.08 per cent. Overall the lower interest rate environment is likely to be supportive of property values with an increasing lack of yield in the fixed income world.

Investment grade credit has moved tighter since last quarter. Specifically, in the real estate space, Vonovia, which is one of the largest real estate bond issuers now has lower yields than it did at the start of the year on some of its medium and longer dated maturities. The evolution of pricing can be seen with the new Vonovia 10 year bond issued in July with a 1 per cent coupon versus 2.25 per cent in April this year.

Covid-19 has accelerated some of the long-term trends from physical to online retail. The UK is particularly hard hit by this and we have seen more bricks-and-mortar retailers have gone into administration during the first half of this year than in the whole of 2019, which was described by some observers as 'the worst year for 25 years' for the industry. According to the Centre for Retail Research 40 companies have failed affecting 2,630 stores in the first half of the year versus 43 companies and 2,051 stores for 2019 as a whole.

Large logistics and last mile logistics continue to benefit from the long-term trend to online retail and the continued growth in requirements for the logistics infrastructure to service the model. This continued trend in favour of logistics is evident in both increased take-up which was up 36 per cent year on year in the UK and also in the transaction market. Last quarter we reported that expectations for transaction volumes generally were heavily down given market uncertainties and practicalities of doing business in lockdown. However in the second quarter the volume of logistics transactions has held up much better than other asset classes. While still down on 2019 logistics investment volumes reached £1.12 billion for H1 2020, a fall of 26 per cent when compared with H1 2019. Volumes for logistics investment fell by just 24 per cent from Q1 to Q2, compared with the commercial market as a whole where volume fell by 82 per cent during the same time period. Values have also held up well while initially Savills moved prime yields out 25bps to 4.50 per cent for prime single let logistics units and 4.25 per cent for multi-let industrial estates they now see positive sentiment and competitive tension putting downward pressure on these yields.

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In residential there are many themes driving the market, the stamp duty holiday and very low interest rates are helping buyers and the imbalance of pent up demand from buyers having put moves on hold as the market was shut looking to a limited supply of available property so far are outweighing the uncertainties of full implications of the macro-economic impacts of Covid-19 and there is limited downward pressure and in some parts of the market there is a significant upwards pressure. We are also seeing the continuing theme of successful creation of larger institutional private rented sector product in many countries around Europe and expect to see this continue to grow.

There is much debate about the future of office space. In particular there are short to medium term practicalities about reopening the office space which will still take some months to bed down. Some workers have thrived working from home in lockdown but it is also clear that people miss and need other essential aspects of office life around close teamwork and spontaneous communication, training, culture building, ideas generation and the social aspects of the office environment. There has been limited activity so far to see the impacts on the long-term outlook. Savills City Office research shows City office rents holding up but with some pressure on incentives and their investment market prime yields for office are flat. As volumes have been significantly lower during the second quarter for commercial real estate transactions some market participants are expecting a similar pent up demand as we have seen in the residential market from both buyers and sellers to transact and expect many processes to be launched after the summer for Q4 closing.

The real estate debt market reflects the underlying real estate market and there has been relatively low volumes of financing concluded. We expect that as with the underlying real estate market the early transactions will be seen in the logistics, residential and office sectors. There is still dislocation in the market, however we are seeing an easing and even in some markets such as the German core office space financing terms are back to pre-Covid-19 levels. Pricing tends to be quite opaque in the market however currently we generally estimate that most types of income producing real estate are between 25bps and 50bps wider than pre-Covid-19. Pricing for more complex credits can be significantly wider. We have observed this premium has been changing quickly and normalising over recent weeks. Larger deals requiring syndication have been particularly difficult to evaluate given a lack of clarity in the CMBS and syndication market but we are hearing that banks with pre-Covid-19 loan inventory to sell are now making good progress with some syndications which will help create new underwriting capacity in the market. We still see a fair way to go to get back to pre-Covid-19 conditions with less market participants and capacity but we are also beginning to hear market participants worrying about missing targets and opportunities and so we are expecting the market to continue to stabilise into a new equilibrium in Q4.

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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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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 30 June 2020 is available at:

www.starwoodeuropeanfinance.com