

Quarterly Portfolio Update



11.1 per cent Share Price Total Return During 2021

Annual dividend yield of 5.9 per cent

Starwood European Real Estate Finance Limited (“SEREF” or “the Group”), a leading investor originating, executing and managing a diverse portfolio of high quality senior and mezzanine real estate debt in the UK and Europe, is pleased to announce a portfolio update for the quarter ended 31 December 2021.

SHARE PRICE / NAV AT 31 DECEMBER 2021



HIGHLIGHTS

- **Strong cash generation** - The portfolio as a whole continues to support annual dividend payments of 5.5 pence per Ordinary Share, paid quarterly, and generates an annual dividend yield of 5.9 per cent on the share price as at 31 December 2021
- **Income stability** - All loan interest and scheduled amortisation payments paid in full and on time
- **78 per cent of the portfolio is contracted at floating interest rates** (with floors) which may benefit the Group if higher inflation results in higher interest rates
- **Portfolio robust** - Despite pandemic-related disruption, the portfolio continues to fully perform in line with expectations
- **Borrowers remain adequately capitalised** and are expected to continue to pay loan interest and capital repayments in line with contractual obligations
- **Further strategic progress** - In November 2021 the Group announced that it had closed a £76.0 million floating rate whole loan secured by two hotels in the United Kingdom
- **11.1 per cent** – Share price total return for the year ended 31 December 2021
- **50.7 per cent** – Share price total return since inception in December 2012
- **6.6 per cent** – Annualized net asset value total return since inception in December 2012
- **Strong pipeline of opportunities** - The Investment Advisor and Manager believes the current investment pipeline is the strongest since the Group was established

John Whittle, Chairman of SEREF, said:

“We are pleased and encouraged by SEREF’s 2021 performance, which demonstrates the high quality of our portfolio. The portfolio has continued to perform well despite the challenges of Covid-19 to certain property sectors. The 11.1 per cent share price total return and strong cash generation achieved during 2021 is a testament to the Investment Manager’s ability to manage our portfolio in such a way as to optimise value and returns for shareholders regardless of the macro economic environment. In this vein, we are pleased to note that the portfolio continues to support annual dividend payments of 5.5 pence, yielding 5.9 per cent on the share price as at 31 December 2021. An increasing key area of focus for investors is, as it should be, the looming shadow of inflation with the additional potential for interest rate rises. Here the asset backed element of the portfolio’s loans and an impressive 78 per cent of the portfolio invested in floating rate investments should provide enduring strong relative performance in this environment. Our Investment Adviser and Manager continue to be active in origination and execution as well as active management. The Manager believes that the current investment pipeline is at its strongest since the Company was established, and sees attractive opportunities to create further shareholder value. Therefore I, and the Board, look forward to the future with confidence.”

PORTFOLIO CHANGES DURING THE QUARTER ENDED 31 DECEMBER 2021

In November 2021 the Group announced that it closed a £76 million floating rate, acquisition and capital expenditure whole loan secured on a portfolio of two UK based hotel assets. This loan was closed in conjunction with Starwood European Real Debt Finance I and its subsidiaries, a newly launched, Guernsey domiciled, private debt fund acting as co lender.

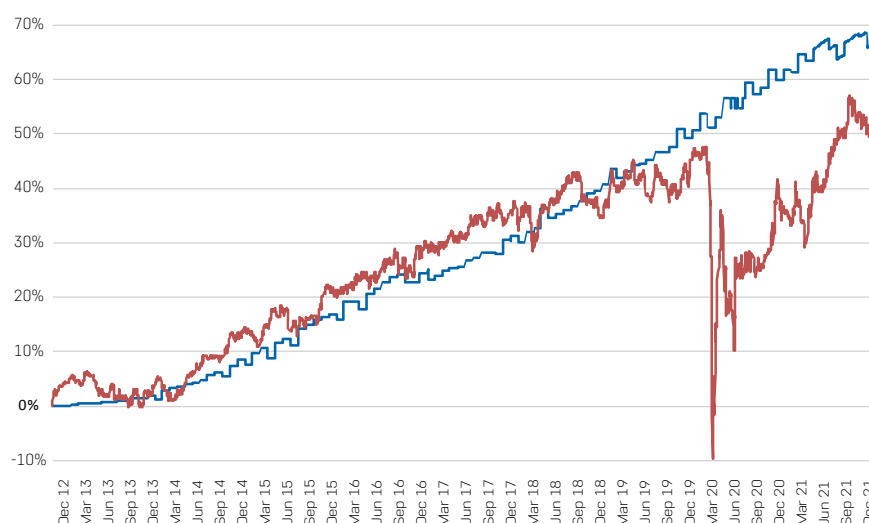
SEREF has taken on two thirds of the £76 million commitment, with the private debt fund taking the other third. The loan term is five years and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

The portfolio consists of two hotels in attractive city centre locations in Manchester and Edinburgh. The hotels will be rebranded, targeting domestic and international visitors in two of Europe’s best performing markets in 2021.

DIVIDEND

On 21 January 2022, the Directors declared a dividend in respect of the fourth quarter of 1.375 pence per Ordinary Share, equating to an annualised income of 5.5 pence per annum. The Board is targeting a dividend of 5.5 pence per annum (payable quarterly) which it considers sustainable. Largely as a result of the early repayment of the Group’s large position in the “Hotel, Spain” in July 2021 and as anticipated in the last factsheet the current year earnings did not fully cover the target dividend (but did cover over 98 per cent of the target dividend) but the Group has a modest dividend reserve which was utilised to ensure that the target dividend was met. Given the extremely attractive environment for the Group’s investment strategy it is anticipated that the dividend will swiftly return to full coverage from earnings during the course of 2022 with any excess cash generated being used to replenish dividend reserves.

SHARE PRICE AND CUM-FAIR NAV TOTAL RETURN



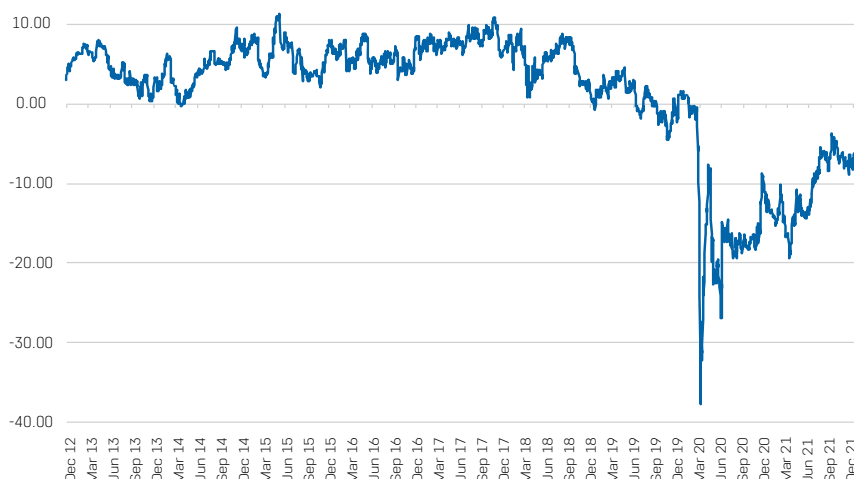
KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2021

Number of investments	19
Percentage of currently invested portfolio in floating rate loans	78.0%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	6.9%
Portfolio levered annualised total return ⁽²⁾	7.0%
Weighted average portfolio LTV – to Group first £ ⁽³⁾	16.4%
Weighted average portfolio LTV – to Group last £ ⁽³⁾	61.9%
Average loan term (based on current contractual maturity)	4.9 years
Average remaining loan term	2.3 years
Net Asset Value	£421.6m
Amount drawn under Revolving Credit Facilities (including accrued interest)	£8.5m
Loans advanced (including accrued interest)	£414.6m
Cash	£3.0m
Other net assets (including hedges)	£12.5m

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	104.6	25.4%
1 to 2 years	85.3	20.7%
2 to 3 years	106.5	25.8%
3 to 5 years	115.6	28.1%

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

PREMIUM / DISCOUNT CUM-FAIR



PORTFOLIO UPDATE

The portfolio continues to perform robustly despite the backdrop of the ongoing pandemic. All loan interest and scheduled amortisation payments up to the date of this factsheet have been paid in full and on time in line with expectations. There have been no new closures of trading assets, construction or refurbishment projects as a result of the Omicron variant related disruption which emerged in late Q4 2021. The office portfolio also continues to perform very satisfactorily and we have seen positive instances of borrowers successfully leasing refurbished office space above underwritten projections and completing strong sales processes where business plans have been executed. All loans remain adequately capitalised by sponsors.

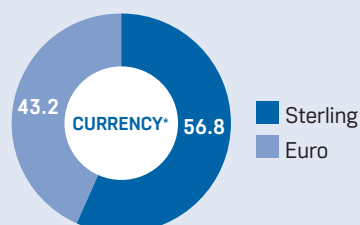
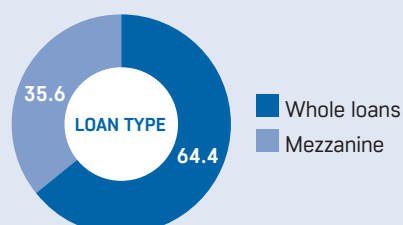
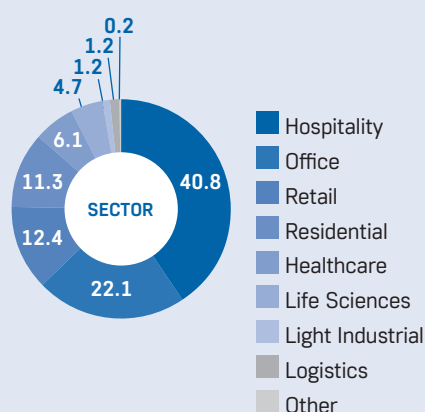
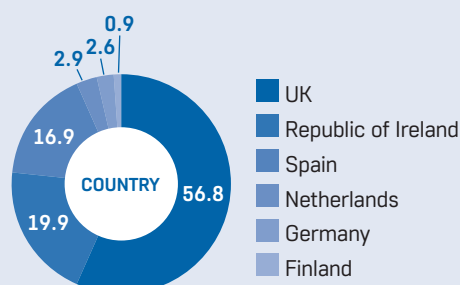
All income producing assets securing the loans undergo regular third party valuations, with assets under development or heavy refurbishment typically being valued prior to commencement of projects and upon achieving completion. The current weighted average age of the valuations for the income producing portfolio (i.e. excluding loans for development or heavy refurbishment) is 1.04 years. The Group has an average last £ LTV of 61.9 per cent across the total loan portfolio (see Loan to Value section below also).

(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 all 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 uninvested. 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/SONIA/EURIBOR.

(3) LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and 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.

% 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.

Key updates in relation to pandemic impacted sectors are outlined below:

Hospitality (41 per cent of funded investment portfolio)

- The Group's hospitality exposure is currently weighted to leisure-dominated assets located in the UK. Approximately 72 per cent of the Group's hotel exposure is secured on assets that are leisure focused rather than corporate or meeting and events driven assets. 75 per cent of the Group's hospitality exposure is located in the UK, where over the past six months, there have been significantly fewer restrictions on the hospitality trade than in other jurisdictions and these UK markets have seen strong domestic led demand following re-opening of hotels in late Q2 2021.
- Furthermore, approximately 72 per cent of the Group's hospitality exposure is secured on assets that have either been comprehensively refurbished during 2021, or are in a phase of refurbishment or construction with the capital in place to complete the projects. These assets will therefore have a strong new product with which to compete and are expected to perform well in their respective markets.
- The Group's only exposure to a large meeting and event driven hotel is "Hotel, Dublin" (approximately 25 per cent of the total hospitality exposure) which has remained subject to an occupational contract with the Irish Health Executive. It is expected that this hotel will recover well once the Health Executive vacates as the hotel is domestic market focused, with a strong order book of customers wishing to run annual events that have been postponed for up to two years.

Retail (12 per cent of funded investment portfolio)

- All retail loans have continued to pay interest and scheduled amortisation since the onset of the pandemic.
- The Group's exposure to retail is predominantly comprised of the "Three Shopping Centres, Spain" and "Shopping Centre, Spain" loans. These are the only stand-alone retail loans in the portfolio and comprise 11 per cent of the Group's total funded investment portfolio and 87 per cent of total retail exposure. All other retail exposure is contained in a limited number of mixed use portfolios.
- As previously reported, with restrictions being eased over the second and third quarters of 2021 in Europe, along with high vaccination rates, retail footfall traffic had recovered on average to over 70 per cent of the comparable period in 2019 and this trajectory continued into mid Q4 2021 based on the latest data received up to November 2021. While the rise of the Omicron variant is projected to have impacted footfall in December 2021 and January 2022, we generally consider that this is likely to be a temporary setback and that footfall will again recover as evidenced in the second half of 2021.
- The sponsor continues active asset management of the centres, having executed a number of new lettings to strong tenants during 2021 and deployed additional equity to support tenant fit out and incentives where warranted. Tenant occupancy in the centres has continued to be robust and is on average higher than pre-pandemic levels.

Office (22 per cent of funded investment portfolio)

- There has been much debate about the future of the office and what the quantum and shape of demand will be going forward. There is, however, an established consensus that having good quality office space for employees to gather and collaborate is of vital importance to business successes. The Group's exposure to office is considered to be well placed and is highly diversified across eight loan investments which comprise many underlying individual properties located in eight different countries across Europe. The office portfolios have performed well on rent collection and occupation during the pandemic, with all loans continuing to pay interest and any scheduled amortization throughout.

INVESTMENT RESTRICTIONS AND GUIDELINES

LOCATION

UK & wider European Union's internal market.
No more than 50 per cent 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 per cent 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 per cent with a blended portfolio LTV of no more than 75 per cent.

REAL ESTATE SECTOR & PROPERTY TYPE

Commercial real estate. No more than 30 per cent of NAV in residential for sale. No more than 50 per cent of NAV in any single sector in the UK except office which is limited to 75 per cent.

COUNTERPARTY & PROPERTY DIVERSIFICATION

No more than 20 per cent of NAV exposed to one borrower legal entity and no single investment exceeding 20 per cent of NAV at time of investment.

- Just under 50 per cent of the Group's office exposure are loans where refurbishment or construction facilities are in place which will result in these assets being either brand new attractive office buildings or newly refurbished space upon completion of their respective projects. An example of this was realized in Q4 2021, where the office building secured under the "Office, London" loan, representing approximately 15 per cent of the total office exposure, has been successfully pre-let to a strong tenant. The office building is located in Central London and is currently under heavy refurbishment. The rent agreed was in line with market and ahead of the pre-pandemic underwritten level. This letting has substantially de-risked the Group's exposure on this loan, even in advance of the refurbishment project completing. The pre-letting has further demonstrated that demand for good quality office space remains.

MARKET COMMENTARY AND OUTLOOK

2021 was a very active year in many markets and transactional activity in 2022 is already high. 2021 was also a record year for Starwood's European real estate credit business with new business of £2.8 billion and a pipeline that continues to be at record volumes. We saw similar trends in other areas of non-bank lending to real estate. European CMBS volume in 2021 was three times higher than in 2020 and over twice the past 5 year average with € 7.2 billion of new issuance. It was a record-breaking year in the real estate corporate bond space with issuance in the unsecured market growing approximately 50 per cent compared to 2020. There was over € 66 billion of new issuance in 2021 driven both by new issuers making their debut in the unsecured market and by M&A financing. For 2021 real estate primary supply has represented 18 per cent of total corporate supply and so far in 2022 the trend has continued with real estate contributing 30 per cent of corporate supply year to date.

In the equity markets there were also healthy levels of activity in the real estate sector during 2021. While full year data is not yet available, total transaction volumes through Q3 of 2021 reported by CBRE are at the same level as pre-pandemic data from 2019 at € 210 billion. In public markets 2021 volumes are significantly higher than recent years at € 111 billion (versus € 51 billion, € 72 billion and € 53 billion for 2018, 2019 and 2020 respectively). For the full year real estate equities have out-performed UK equities as a whole. The iShares UK Property ETF has increased by 25.5 per cent versus an increase in the FTSE All-Share of 14.6 per cent.

In the early days of 2022 the markets have been dominated by inflation considerations. New record inflation levels continue month to month with December headline inflation for the Eurozone coming in at the highest recorded figure since the inception of the Euro currency at 5.0 per cent. The December UK CPI rate was 5.4 per cent and in the US the latest December CPI level at was 7.0 per cent. Much of the increase in these inflation numbers comes from increased energy costs which are likely to plateau at some point. Energy prices were up 26 per cent compared to a year earlier for the Eurozone and 29 per cent for the US. After stripping out energy and food, core inflation was 2.6 per cent for the Eurozone and at a concerning level of 5.5 per cent for the US. This has been reflected in treasuries where yields for the 10-year US Treasury note were at 1.771 per cent on 14th January 2022. Yields in these treasury notes have climbed 26 basis points in the first 10 trading days of the year, which is the fastest rise in this period for 30 years. The knock on effect of higher interest rates is being felt in growth stocks with non-profitable tech in particular being negatively impacted. Overall indices values are hiding some big differences between winners and losers. The number of Nasdaq stocks down 50 per cent or more is almost at a record with 40 per cent of the index's firms having fallen by half from one-year highs. Our portfolio is 78 per cent floating rate so our returns will benefit if higher inflation results in higher interest rates.

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Notes:

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Last week the Investment Advisor spent time with PWC discussing their Emerging Trends in Real Estate 2022 report where many themes resonated and it is well worth a read. PWC found sentiment in the industry at a high level with business confidence, profitability and headcount indices at some of the highest levels of the last ten years. The top four real estate business risks stated were construction costs and resource availability, availability of suitable assets, sustainability / decarbonisation and government intervention. It was interesting that only a relatively low 61 per cent of respondents were concerned about sustainability / decarbonisation. As a rapidly changing area it will require even best in class businesses to evolve with maturing approaches to this important area. We can see all four of these top risks at play in the pipeline and our loan underwriting is tailored to consider the specific risks. For example we are seeing good opportunities for lending in the residential development space but amongst other things we will be particularly focussed on areas such as appropriate cost overrun protections, understanding the carbon impact of the project and regulatory uncertainties such as the potential burden of new levies on developers to address historical cladding issues in the UK.

London regained the top spot from Berlin for overall investment and development prospects in the PWC report this year with Paris retaining third place. UK and German volumes taken together are greater than the rest of Europe altogether. The dynamism, volume and liquidity of the UK investment market are some of the reasons that the UK makes up the highest proportion of our European loan book. Furthermore PWC's report highlights strong investor sentiment to alternate real estate asset classes. This is an area where we continue to see good opportunities for the Group with investments in life sciences, healthcare, student, leisure and hospitality already having featured. Working with high quality operators in these specialist areas is key and the Investment Adviser's experience and hands-on approach to underwriting operational real estate and the operating partners continues to position us well to serve borrowers in these markets while achieving excellent risk adjusted returns for the Group.

NO CREDIT LOSSES RECOGNISED

All loans within the portfolio are classified and measured at amortised cost less impairment. The Group closely monitors the loans in the portfolio for deterioration in credit risk. There are some loans for which credit risk has increased since initial recognition. However, we have considered a number of scenarios and do not currently expect to realise a loss in the event of a default. Therefore no credit losses have been recognised.

This assessment has been made, despite the continued pressure on the hospitality and retail markets from Covid-19, on the basis of information in our possession at the date of reporting, our assessment of the risks of each loan and certain estimates and judgements around future performance of the assets.

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INVESTMENT PORTFOLIO AT 31 DECEMBER 2021

As at 31 December 2021, the Group had 19 investments and commitments of £456.5 million as follows:

	Sterling equivalent balance ⁽¹⁾	Sterling equivalent unfunded commitment ⁽¹⁾	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m		£25.0 m
Hotel & Residential, UK	£49.9 m		£49.9 m
Office, Scotland	£5.0 m		£5.0 m
Office, London	£13.9 m	£6.6 m	£20.5 m
Hotel, Oxford	£21.5 m	£1.5 m	£23.0 m
Hotel, Scotland	£42.6 m		£42.6 m
Hotel, North Berwick	£14.1 m	£0.9 m	£15.0 m
Life Science, UK	£19.5 m	£7.1 m	£26.6 m
Hotel and Office, Northern Ireland	£12.5 m		£12.5 m
Hotels, United Kingdom	£30.4 m	£20.3 m	£50.7 m
Total Sterling Loans	£234.4 m	£36.4 m	£270.8 m
Three Shopping Centres, Spain	£29.9 m		£29.9 m
Shopping Centre, Spain	£14.3 m		£14.3 m
Hotel, Dublin	£50.3 m		£50.3 m
Hotel, Spain	£0.0 m		£0.0 m
Office, Madrid, Spain	£15.5 m	£0.8 m	£16.3 m
Mixed Portfolio, Europe	£21.5 m		£21.5 m
Mixed Use, Dublin	£5.1 m	£7.2 m	£12.3 m
Office Portfolio, Spain	£9.5 m	£0.1 m	£9.6 m
Office Portfolio, Ireland	£26.6 m		£26.6 m
Logistics Portfolio, Germany	£4.9 m		£4.9 m
Total Euro Loans	£177.6 m	£8.1 m	£185.7 m
Total Portfolio	£412.0 m	£44.6 m	£456.5 m

⁽¹⁾ Euro balances translated to sterling at period end exchange rate.

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LOAN TO VALUE

All assets securing the loans undergo third party valuations (as detailed above in Portfolio Update section) the current weighted average age of the valuations for the whole portfolio is 1.24 years and the current average weighted average age of the valuations for the income producing portfolio (i.e. excluding loans for development or heavy refurbishment) is 1.04 years.

On the basis of the methodology and valuation processes previously disclosed (see 30 June 2020 factsheet) and including new valuations received, at 31 December 2021 the Group has an average last £ LTV of 61.9 per cent (30 September 2021: 64.2 per cent).

The table below shows the sensitivity of the loan to value calculation for movements in the underlying property valuation and demonstrates that the Group has considerable headroom within the currently reported last LTVs.

Change in Valuation	Hospitality	Retail	Residential	Other	Total
-25%	81.9%	99.5%	79.3%	78.5%	82.6%
-20%	76.8%	93.3%	74.3%	73.6%	77.4%
-15%	72.3%	87.8%	69.9%	69.2%	72.9%
-10%	68.3%	82.9%	66.1%	65.4%	68.8%
-5%	64.7%	78.6%	62.6%	62.0%	65.2%
0%	61.4%	74.6%	59.4%	58.9%	61.9%
5%	58.5%	71.1%	56.6%	56.1%	59.0%
10%	55.8%	67.9%	54.0%	53.5%	56.3%
15%	53.4%	64.9%	51.7%	51.2%	53.8%

SHARE PRICE PERFORMANCE

During the fourth quarter of 2021, the Company's share price total return of -2.7 per cent resulted in a share price total return for 2021 of 11.1 per cent, with the share price trading between 93.3 pence and 98.8 pence and ending the quarter at 94.0 pence. As at 31 December 2021, the discount to NAV stood at 8.8 per cent, with an average discount to NAV of 6.7 per cent over the quarter, a further narrowing of the discount to NAV, from an average of 7.0 per cent in the previous quarter. The Board, the Investment Manager and Adviser continue to believe that the shares represent attractive value at this level.

Note: the 31 December 2021 discount to NAV is based off the current 31 December NAV as reported in this factsheet. All average discounts to NAV are calculated as the latest cum-dividend NAV available in the market on a given day, adjusted for any dividend payments from the ex-dividend date onwards.

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