

Quarterly Portfolio Update



Annualised dividend yield of 6.2 per cent, fully covered by income; Portfolio 79 per cent contracted at floating interest rates

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 strong performance for the quarter ended 31 December 2022.

SHARE PRICE / NAV AT 31 DECEMBER 2022



HIGHLIGHTS

- **Strong cash generation** - the portfolio continues to support annual dividend payments of 5.5 pence per Ordinary Share, paid quarterly, and generates an annual dividend yield of 6.2 per cent on the share price as at 31 December 2022
- **Regular and consistent dividend** - £201 million of dividends paid since inception
- **Inflation protection** - 79 per cent of the portfolio is contracted at floating interest rates (with floors)
- **Robust portfolio** - the loan book is performing in line with expectations with its defensive qualities reflected in the Group's continued NAV stability
- **Significant equity cushion** - the weighted average Loan to Value for the portfolio reduced this quarter to 58.6 per cent from 59.9 per cent last quarter
- **51 per cent** share price total return since inception in December 2012

John Whittle, Chairman of SEREF, said:

“ In these turbulent times we are reassured by the highly defensive nature of the Group’s portfolio, the quality and resilience of which has again been proven in a testing macro environment. As evidence of this, once again all interest payments have been received in full, with the ongoing strong cash generation supporting our annual dividend target distribution of 5.5 pence per share and a fully covered yield of 6.2 per cent on the share price as at 31 December 2022. Further, portfolio income has continued to increase in part as a consequence of the 79 per cent floating rate loan book. This has resulted in an increase in the Invested Loan Portfolio unlevered annualised total return by 90 basis points over 2022.

Importantly, we remain satisfied with our average portfolio LTV which has further fallen during this quarter to 58.6 per cent, representing a very significant cushion to the Group’s loans.

Despite strong portfolio performance, due to a near term likelihood that the Group would no longer be of a viable size to provide shareholders with sufficient liquidity and scale, and following a review of the Group’s strategy and advice sought from its advisers, the Board announced on 31 October 2022 that it intended to recommend to shareholders that the investment objective and policy of the Group are amended such that the Board can pursue a strategy of orderly realisation and the return of capital over time to shareholders. On 28 December 2022, the Group published a Circular containing a Notice of Extraordinary General Meeting to this effect and the EGM will be held on 27 January 2023.”

ORDERLY REALISATION AND RETURN OF CAPITAL

On 31 October 2022, the Board announced the Company’s Proposed Orderly Realisation and Return of Capital to Shareholders. A Circular relating the Proposed Orderly Realisation, containing a Notice of Extraordinary General Meeting was published on 28 December 2022. If approved by the shareholders, the Company will seek to return cash to Shareholders in an orderly manner as soon as reasonably practicable following the repayment of loans, while retaining sufficient working capital for ongoing operations and the funding of committed but currently unfunded loan commitments.

DIVIDEND

On 20 January 2023, the Directors declared a dividend in respect of fourth quarter of 2022 of 1.375 pence per Ordinary Share, equating to an annualised income of 5.5 pence per annum.

The Invested Loan Portfolio unlevered annualised total return has been increasing steadily as interest rates curves have moved upwards. The year-on-year increase is 90 basis points (i.e. now 7.8 per cent, up from 6.9 per cent in December 2021). As interest rates increase there is additional support for dividend cover.

PORTFOLIO UPDATE

The portfolio continues to perform in line with expectations. All interest and scheduled amortisation has been paid in line with contractual obligations. Borrowers are also continuing to make progress on underwritten business plans including executing strategic asset sales and paying down the loans.

During Q4 2022, a total of £25.8 million, equivalent to almost 6 per cent of the September 2022 total closing loan outstanding balance, has been repaid across six investments. Approximately 79 per cent of these repayments were related to strategic underlying property sales executed by borrowers in line with business plan and typically following the completion of underwritten asset management initiatives, with the remainder representing regular quarterly loan amortisation or borrowers electing to voluntarily pay down loan balances with surplus cash.

The Group’s exposure to development and heavy refurbishment projects continues to decrease as current developments reach completion. As at 31 December 2022, £63 million or 13 per cent of total loan commitments represented loans funding two construction projects. Both of these projects are expected to have reached substantial completion during the first quarter of 2023. The larger of these projects (with a total Group loan commitment of £49 million) has pre-sold the majority of its residential for-sale product and we are forecasting the loan to be fully repaid during 2023 from the proceeds of pre-sold unit completions.

The Group continues to closely monitor all of its loan exposures. Asset classes representing more than 10 per cent of total investments include Hospitality (39 per cent), Office (21 per cent), Retail (11 per cent) and Residential (11 per cent). The Hospitality exposure is diversified across seven different loan investments. Hotel performance on the trading hotel assets has continued to improve and recovered from the pandemic very well during 2022. Despite the potential that trading may be impacted from lower discretionary consumer spending related to inflationary pressures, the Group’s borrowers on trading assets such as hotels have generally indicated a positive end to 2022 and the outlook for Q1 2023 is cautiously optimistic based on forward sales activity as at year end. Office exposure (21 per cent) is spread across eight loan investments. Occupancy across the leased office portfolio has held up well, with the vast majority of the underlying tenants renewing leases and staying in occupation. We also continue to see prospective new tenants being attracted particularly to newly refurbished, high quality buildings. The Retail exposure (11 per cent) has continued to perform in line with expectations; occupancy continues to remain robust and footfall continues its post pandemic recovery. Our retail loan borrowers continue their active asset management and are signing new leases where tenants wish to expand and renew existing leases. Residential exposure (11 per cent) is predominantly related to the

KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2022

Number of investments	20
Percentage of currently invested portfolio in floating rate loans	78.6%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	7.8%
Portfolio levered annualised total return ⁽²⁾	7.9%
Weighted average portfolio LTV – to Group first £ ⁽³⁾	13.2%
Weighted average portfolio LTV – to Group last £ ⁽³⁾	58.6%
Average loan term (based on current contractual maturity)	5.0 years
Average remaining loan term	1.7 years
Net Asset Value	£416.1m
Amount drawn under Revolving Credit Facilities (including accrued interest)	£19.2m
Loans advanced (including accrued interest)	£432.5m
Cash	£3.6m
Other net liabilities (including hedges)	£0.8m

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	£172.6	40.5%
1 to 2 years	£107.4	25.2%
2 to 3 years	£86.7	20.4%
3 to 5 years	£59.2	13.9%

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

successfully pre-sold residential for sale development project that is due to complete during the first half of 2023, with the loan projected to be fully repaid this year. In general market outlook for residential product remains high as rents have trended upwards with inflation over the prior year and many markets remain supply challenged.

Across all loans we continue to benefit from material headroom in underlying collateral value against the loan basis, with a current weighted average LTV of 58.6 per cent across the portfolio. These metrics are based on independent third party appraisals which are typically updated annually for income producing assets and following completion on newly constructed or refurbished assets. While the average age of valuations is just over one year for income producing assets and we recognise that interest rate increases within the last twelve months are expected to place downward pressure on valuation inputs, we are confident in the very significant buffer to absorb any negative valuation impact of the current market. On loans where new valuations were instructed in the second half of 2022, average values did not change materially as in many cases increased rents and asset management initiatives being achieved by sponsors outweighed or offset any increase in discount or capitalisation rates.

PARTIAL REPAYMENTS

During the quarter, despite lower transaction volumes across the markets because of the cautionary approach being adopted by investors, borrowers in the portfolio successfully executed a number of disposals ahead of business plan that resulted in the following partial repayments of loan obligations:

- €11.4 million, Office and Industrial Portfolio, The Netherlands
- €7.2 million, Office Portfolio, Dublin
- €5.1 million, Hotel, Dublin
- €4.5 million, Mixed Portfolio, Europe

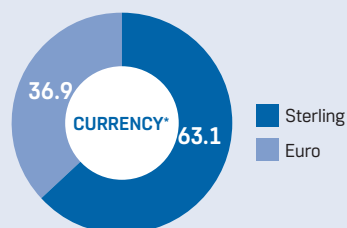
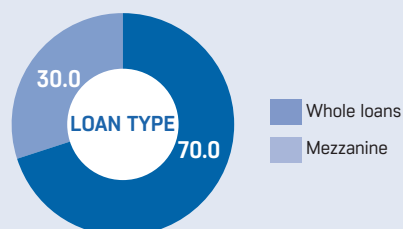
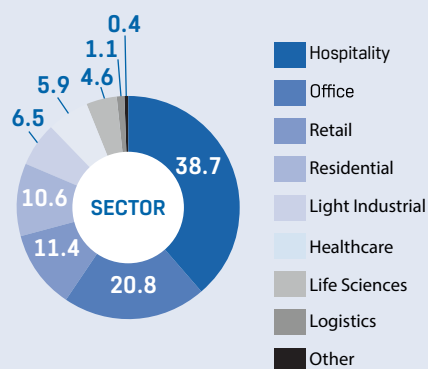
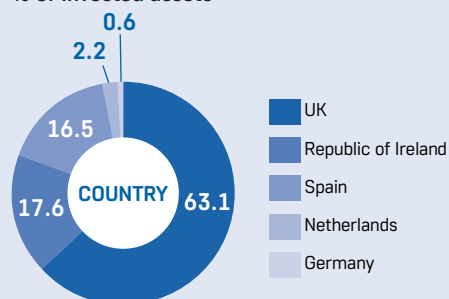
These repayments were used in the quarter to repay some of the outstanding bank debt and to fund the share buybacks referred to in the Share Price Performance and Share Buyback Programme section below.

(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. 17 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 SONIA/Euribor.

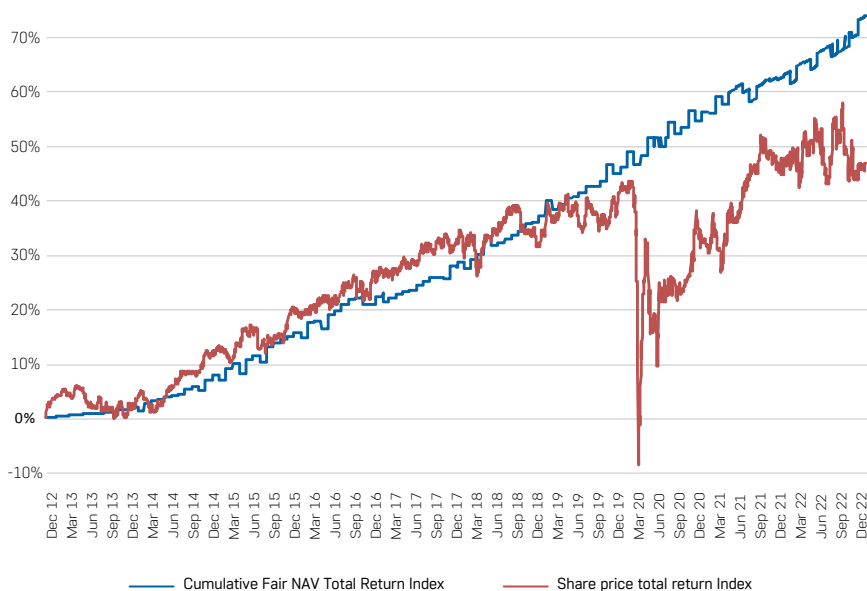
(3) LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal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

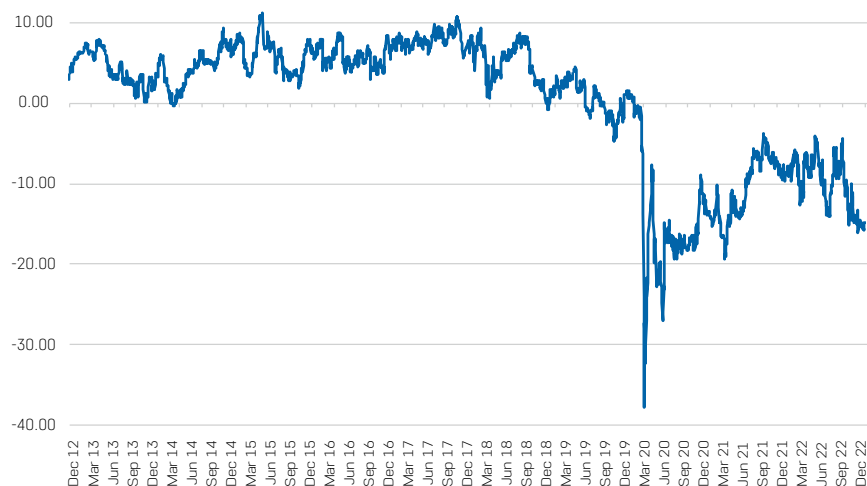


*the currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

SHARE PRICE AND CUM-FAIR NAV TOTAL RETURN



PREMIUM / DISCOUNT CUM-FAIR



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.

MARKET COMMENTARY AND OUTLOOK

After decades of declining interest rates and a long period of benign inflation, 2022 saw a sea change in inflation and a knock on effect into interest rates across the globe.

Rising inflation was driven by two key factors. First as a consequence of the COVID-19 pandemic global supply chains and shipments slowed in 2020 and 2021 causing worldwide shortages and affecting consumer patterns. The causes of the economic slowdown included workers becoming sick with COVID-19 as well as mandates and restrictions affecting the availability of staff resulting in production disruption and logistics issues in cargo shipping, where goods remained at port due to staffing shortages. The related global chip shortage also contributed to the supply chain crisis, particularly in the automobile and electronics sectors. During the Christmas and holiday season of 2021, an increase in spending in North America, combined with the spread of the Omicron variant of COVID-19, further exacerbated already tight supplies.

Initially these issues were thought to be transitory, and the expectation was that inflation would settle back as an equilibrium in supply chains was restored. As a result central banks were initially cautious about raising rates which could stall the fragile economic recovery.

Concerns began to rise about more persistent inflation in the later part of 2021, but the second driver that compounded the issues was the war in Ukraine that further disrupted supply of energy, commodities and food. The result was an unprecedented rise in inflation in almost every country in the world and a huge policy response. Subsequently the US, UK and Eurozone inflation have peaked at 9.1 per cent, 11.1 per cent and 10.6 per cent and in response the central banks have acted rapidly with the US Fed Funds rate, UK Bank of England Base Rate and the ECB deposit policy rate leaping from 0-0.25 per cent, 0.25 per cent and -0.5 per cent to 4.25-4.5 per cent, 3.5 per cent and 2.0 per cent respectively between the end of 2021 and the end of 2022. The knock on effect for longer rates is that benchmarks such as the 5 year swap which are typically the benchmark for commercial real estate loans have also risen significantly. The US, UK and Euro 5 year swaps grew from 1.11 per cent, 1.05 per cent and -0.02 per cent to 3.70 per cent, 4.10 per cent and 3.18 per cent respectively during the year.

Most economists are now seeing inflation having peaked and the expectations of future interest rises having peaked too. Goldman Sachs now see UK rates peaking at 4.5 per cent in May 2023 versus expectations by some economists that they might rise as far as 5 per cent or even 6 per cent previously.

Inflation and interest rates impact hard assets in a number of ways. For example, higher inflation in labour and construction materials and higher interest rates for the financing of development all lead to a higher overall construction cost which can lead to reduced supply that benefits existing stock. Higher rates generally can also put pressure on real estate yields that may look less desirable versus other forms of long income such as long dated bonds and higher financing costs will leave levered real estate buyers with less free cash after debt. On the other side of the coin, real estate incomes are often strongly linked to inflation either through direct linking within lease terms or through the correlation of revenue with inflation.

In markets such as logistics and residential to rent, low levels of vacancy combined with high demand have seen rents increase and this trend is likely to continue in a number of areas where there is insufficient new supply delivered although a bad recession could reset demand and / or the tenants' ability to pay. Rising rents will be supportive of values in these asset classes even while yields are softening.

Real estate and leveraged finance volumes have fallen significantly in 2022 while liquidity continues to be lower and pricing higher. A large share of the increase in costs has been the base interest rate component mentioned earlier, but spreads having widened

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Notes:

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.

as well. Larger loans that require distributions through syndication CMBS or CLOs are largely stalled where spreads are at highs and new liquidity is very low. However we do continue to see steady underlying activity in bilateral and small club deals with spreads in Europe having changed much less than in the bond markets since 2021 albeit with more conservative risk metrics and structures. As is common in slower markets there has been an increased gap in appetite between prime and secondary assets and stock selection through a combination of asset class, sponsor and business plan is absolutely key. Where rates settle is still uncertain and it is likely that until the equilibrium is met we will still see smaller volumes both in transaction and financing volumes.

We are also continuing to see these existing themes in the bank lending market. There is a focus on stress tests, capital treatment and managing risk weighted assets. As a result the trend towards banks working together with non-banks in co-origination or financing of loans as opposed to providing direct loans is persisting. This is evident in the latest Bayes lending survey which tracks the UK commercial real estate lending market. The most recent report shows that alternative lenders now provide 24 per cent of new origination from almost none a decade ago and we see that trend continuing to the benefit of non-bank lenders.

NO CREDIT LOSSES RECOGNISED

All loans within the portfolio are classified and measured at amortised cost less impairment. The Group closely monitors all 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 for these cases and do not currently expect to realise a loss in the event of a default. Therefore no expected credit losses have been recognised.

This assessment has been made based on 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 2022

As at 31 December 2022, the Group had 20 investments and commitments of £474.9 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, London	£19.0 m	£1.5 m	£20.5 m
Hotel, Oxford	£23.0 m		£23.0 m
Hotel, Scotland	£42.6 m		£42.6 m
Hotel, North Berwick	£15.0 m		£15.0 m
Life Science, UK	£19.5 m	£7.1 m	£26.6 m
Hotel and Office, Northern Ireland	£11.5 m		£11.5 m
Hotels, United Kingdom	£32.0 m	£18.6 m	£50.6 m
Office and Industrial Portfolio, UK	£5.5 m		£5.5 m
Industrial Estate, UK	£27.2 m	£19.0 m	£46.2 m
Total Sterling Loans	£270.2 m	£46.2 m	£316.4 m
Three Shopping Centres, Spain	£30.3 m		£30.3 m
Shopping Centre, Spain	£15.1 m		£15.1 m
Hotel, Dublin	£42.0 m		£42.0 m
Office, Madrid, Spain	£16.4 m	£0.9 m	£17.3 m
Mixed Portfolio, Europe	£7.8 m		£7.8 m
Mixed Use, Dublin	£11.2 m	£1.8 m	£13.0 m
Office Portfolio, Spain	£8.5 m	£0.1 m	£8.6 m
Office Portfolio, Ireland	£21.7 m		£21.7 m
Logistics Portfolio, Germany	£2.7 m		£2.7 m
Total Euro Loans	£155.7 m	£2.8 m	£158.5 m
Total Portfolio	£425.9 m	£49.0 m	£474.9 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 before each investment closes and periodically thereafter at a time considered appropriate by the lenders. The current weighted average age of the dates of these third party valuations for the whole portfolio is just 1.4 years while the current weighted average age of the valuations for the income-producing portfolio (i.e. excluding loans for development or heavy refurbishment) is just over one year.

On the basis of the methodology and valuation processes previously disclosed (see 30 June 2020 factsheet) at 31 December 2022 the Group has an average last £ LTV of 58.6 per cent (30 September 2022: 59.9 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
-15%	67.5%	81.5%	67.6%	67.2%	69.0%
-10%	63.7%	77.0%	63.8%	63.5%	65.1%
-5%	60.4%	72.9%	60.5%	60.1%	61.7%
0%	57.3%	69.3%	57.4%	57.1%	58.6%
5%	54.6%	66.0%	54.7%	54.4%	55.8%
10%	52.1%	63.0%	52.2%	51.9%	53.3%
15%	49.9%	60.2%	49.9%	49.7%	51.0%

SHARE PRICE PERFORMANCE AND SHARE BUYBACK PROGRAMME

The Company's shares closed on 31 December 2022 at 89.0 pence, resulting in a share price total return since for 2022 of 0.5 per cent. As at 31 December 2022, the discount to NAV stood at 15.4 per cent, with an average discount to NAV of 13.9 per cent over the quarter.

Note: the 31 December 2022 discount to NAV is based off the current 31 December 2022 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.

The Company received authority at the most recent AGM to purchase up to 14.99 per cent of the Ordinary Shares in issue on 10 June 2022. On 19 July 2022 the Board announced that it had engaged Jefferies International Limited as buy-back agent to effect share buy backs on behalf of the Company. During the quarter to 31 December 2022, the Company bought back 4.3 million shares for a total consideration of £3.9 million.

DISCLAIMER

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