Starwood European Real Estate Finance Limited

Quarterly Portfolio Update

£37.9 million repaid across four investments

Fourth and fifth capital redemptions totalling £45.0 million undertaken in February and March 2024

Starwood European Real Estate Finance Limited ("SEREF" or the "Group"), a leading investor managing and realising a diverse portfolio of high quality senior and mezzanine real estate debt in the UK and Europe, is pleased to present its performance for the quarter ended 31 March 2024.

SHARE PRICE / NAV AT 31 MARCH 2024

HIGHLIGHTS

- **Further realisation progress** – during the quarter:
  - A total of £37.9 million, over 14 per cent of the Group's 31 December 2023 total funded loan portfolio, has been repaid across four investments
  - This included the full settlement of one loan (Shopping Centre, Spain which had been classified as a Stage 3 loan) and three partial repayments
  - The proceeds of these repayments, along with some of the cash balance held at 31 December 2023, were used in the quarter to fund the fourth and fifth returns of capital to shareholders totalling £45.0 million
- **Dividend** – on 25 April 2024, the Directors announced a dividend, to be paid in May, in respect of the first quarter of 2024 of 1.375 pence per Ordinary Share in line with the 2024 dividend target of 5.5 pence per Ordinary Share in total
- **Strong cash generation** – going forward the portfolio is expected to continue to support annual dividend payments of 5.5 pence per Ordinary Share, paid quarterly
- **All assets are constantly monitored for changes in their risk profile** – the current status of the investments is listed below:
  - Seven loan investments equivalent to 72 per cent of the funded portfolio are classified in the lowest risk profile, Stage 1
  - Four loan investments equivalent to 28 per cent of the funded portfolio are classified as Stage 2
  - Following the settlement of the Shopping Centre, Spain loan during the quarter there are no loans classified as Stage 3. €0.2 million of the €4.0 million provided for impairment against this loan as at 31 December 2023 was released in March 2024 following the sale of the underlying loan asset.
- **The average remaining loan term of the portfolio is 1.4 years**
- **Inflation protection** – 89 per cent of the portfolio is contracted at floating interest rates (with floors)
- **Robust portfolio** – the loan book is performing broadly in line with expectations with its defensive qualities reflected in the Group's continued NAV stability in a challenging macro environment
- **Significant equity cushion** – the weighted average Loan to Value for the portfolio is 58 per cent

The factsheet for the period is available at: **www.starwoodeuropeanfinance.com**

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John Whittle, Chairman of SEREF, said:

"2024 has started well in terms of our orderly realisation strategy, with £37.9 million being realised from loan repayments during the quarter. This has enabled us to return £45.0 million to shareholders via two capital redemptions in 2024 to date.

Despite continued high interest rates, volatile economic conditions and lower transaction volumes, the portfolio has continued to perform well. Following the settlement of the Shopping Centre, Spain loan and the partial repayment of the Three Shopping Centres, Spain loan, just 5 per cent of the total funded loan portfolio is allocated to the Retail sector as of 31 March 2024.

We are on track to meet our aim of paying out a 5.5 pence per share dividend for 2024. We also expect to make further realisations in the coming months and look forward to updating shareholders on these realisations in due course."

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 to the Proposed Orderly Realisation, containing a Notice of Extraordinary General Meeting (EGM) was published on 28 December 2022. The proposals were approved by Shareholders at the EGM in January 2023 and the Company is now seeking 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.

The redemptions announced and implemented in 2023 returned circa £85.0 million in total to shareholders. During the first quarter of 2024, the Company announced and implemented its fourth and fifth capital redemptions, returning, in total, circa £45.0 million to shareholders through the compulsory redemption of 43,512,736 shares. Following the fifth redemption, the Company has 270,178,206 shares in issue and the total number of voting rights is 270,178,206.

LIQUIDITY AND CREDIT FACILITIES

During 2023 the Company built up a cash reserve sufficient to cover its unfunded commitments (which as at 31 March 2024 amounted to £31.4 million). This cash reserve is included in the £53.9 million of cash held as at 31 March 2024.

During the quarter the Lloyds £25.0 million revolving credit facility was terminated. It had been due to mature in May 2024. The decision was taken to terminate it early as the Company holds sufficient cash to meet its commitments and there was no intention to use the facility before the end of the availability period.

DIVIDEND

On 25 April 2024, the Directors announced a dividend, to be paid in May, in respect of the first quarter of 2024 of 1.375 pence per Ordinary Share in line with the 2024 dividend target of 5.5 pence per Ordinary Share.

PORTFOLIO UPDATE

The Group continues to closely monitor and manage the credit quality of its loan exposures and repayments. Despite continued high interest rates, volatile economic conditions and lower transaction volumes, the portfolio has continued to perform well.

On an aggregate portfolio level we continue to benefit from material headroom in underlying collateral value against the loan basis, with a current weighted average loan to value of 58 per cent. These metrics are based on independent third party appraisals (with the exception of one loan that has been marked against comparable lower recent sale levels). These appraisals are typically updated annually for income producing assets. The current weighted average age of valuations is eight months.

Significant loan repayments totalling £37.9 million, equivalent to 14 per cent of the 31 December 2023 total funded portfolio, were received during the quarter to 31 March 2024. This included full settlement of the Shopping Centre, Spain loan and 60 per cent of the Three Shopping Centres, Spain loan. These repayments mark a significant 73 per cent reduction in the Group's exposure to the Retail sector, with just 5 per cent of the total funded loan portfolio allocated to the Retail sector as of 31 March 2024.

The Group's exposure is spread across eleven investments. 99 per cent of the total funded loan portfolio as of 31 March 2024 is spread across six asset classes; Hospitality (50 per cent), Office (14 per cent), Light industrial (12 per cent), Healthcare (11 per cent), Life sciences (7 per cent) and Retail (5 per cent).

Hospitality exposure (50 per cent) is diversified across five loan investments. Two loans (12 per cent of hospitality exposure) benefit from State/Government licences in place at the properties and also benefit from significant amortisation that continues to decrease

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KEY PORTFOLIO STATISTICS AT 31 MARCH 204

Number of investments	**11**
Percentage of currently invested portfolio in floating rate loans	**88.9%**
Invested Loan Portfolio unlevered annualised total return [1]	**8.4%**
Weighted average portfolio LTV – to Group first £ [2]	**13.0%**
Weighted average portfolio LTV – to Group last £ [2]	**57.9%**
Average remaining loan term	**1.4 years**
Net Asset Value	**£282.2m**
Loans advanced (including accrued interest)	**£228.1m**
Cash	**£53.9m**
Other net liabilities (including hedges)	**£0.2m**

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	**£94.2**	**41.8%**
1 to 2 years	**£61.4**	**27.3%**
2 to 3 years	**£69.4**	**30.9%**

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

these loan exposures. One loan (37 per cent of hospitality exposure) has two underlying key UK gateway city hotel assets, both of which are undergoing comprehensive refurbishment programmes which are due to complete during 2024. The remaining two loans (51 per cent of hospitality exposure) have both been recently refurbished. The Group expects its exposure to hospitality to significantly reduce during 2024 from a combination of planned asset sales and refinancings of stabilised, strong performing assets. The weighted average loan to value of the hospitality exposure is 54 per cent.

The Group's Office exposure (14 per cent) is spread across three loan investments. The weighted average loan to value of loans with office exposure is 75 per cent. The average age of these independently instructed valuation reports is less than one year and there continues to be headroom to the Group's loan basis.

Light industrial and healthcare exposures comprise 12 per cent and 11 per cent each respectively, totalling 23 per cent of the total funded portfolio (across two investments) and provides good diversification into asset classes that continue to have very strong occupational and investor demand. Weighted average loan to value of these exposures is 57 per cent.

The Group's Retail exposure has been materially reduced in the quarter to 31 March 2024 to £11.4 million remaining on one loan, equivalent to 5 per cent of the total funded portfolio. This is a reduction of £31.1 million or 73 per cent of Retail exposure versus the 31 December 2023 position. This followed the sale of three of the shopping centres underlying two Retail loans, with 100 per cent of net disposal proceeds being used to pay down the loans. The remaining Retail exposure of £11.4 million is held against one remaining shopping centre under the Three Shopping Centres, Spain, senior loan. This asset is well occupied and 100 per cent of the loan is forecast to be recovered when the asset is sold. The weighted average loan to value of the remaining retail exposure is 75 per cent. The value basis of this calculation is the lower of projected sale value (benchmarked against the recent sales value realised) and most recent third party independent appraisals.

The Group has no exposure to development and heavy refurbishment projects (as at 31 March 2023 this exposure amounted to 11 per cent of total loan commitments).

(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. 10 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 paid to the Investment Manager.

(2) 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.

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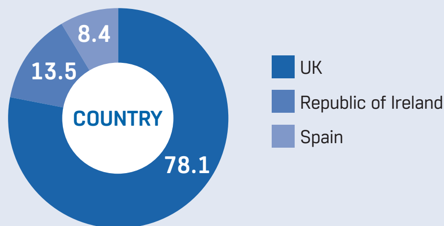
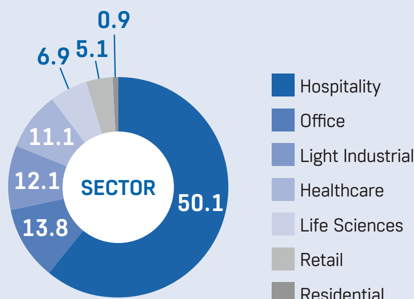
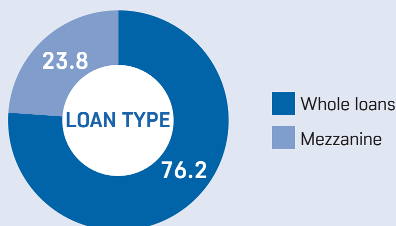
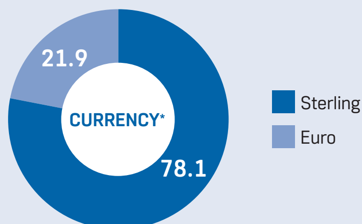
% of invested assets



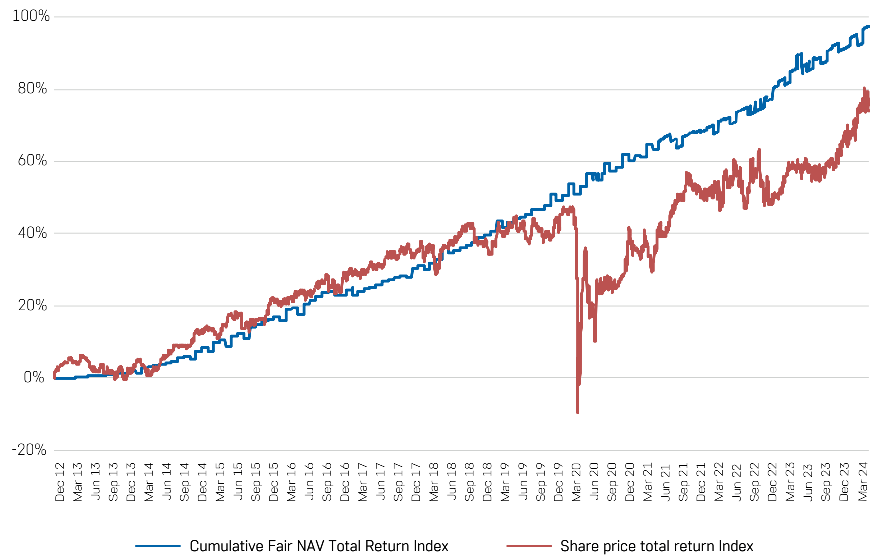




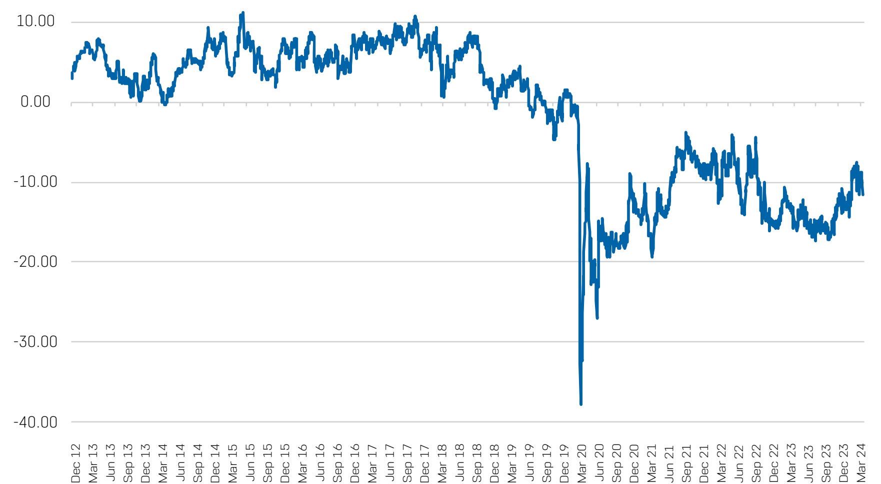


*The currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

SHARE PRICE AND CUM-FAIR NAV TOTAL RETURN



PREMIUM / DISCOUNT CUM-FAIR



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INVESTMENT RESTRICTIONS AND GUIDELINES (UNDER WHICH THE PORTFOLIO WAS ORIGINATED PRIOR TO THE CHANGE IN INVESTMENT OBJECTIVE TO THE ORDERLY REALISATION OF THE ASSETS OF THE COMPANY)

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.

CREDIT RISK ANALYSIS

All loans within the portfolio are classified and measured at amortised cost less impairment.

During the quarter there have been no changes to the existing credit risk levels for any of the loans in the portfolio, however following the reduction during the quarter of the Retail sector exposure, there has been a £31.4 million, 33 per cent decrease in the aggregate of the Stage 2 and 3 category loans as of 31 March 2024 compared to 31 December 2023.

The Group follows a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified as Stage 1 and has its credit risk continuously monitored by the Group. The expected credit loss ("ECL") is measured over a 12-month period of time.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. The ECL is measured on a lifetime basis.
- If the financial instrument is credit-impaired it is then moved to Stage 3. The ECL is measured on a lifetime basis.

The Group closely monitors all loans in the portfolio for any deterioration in credit risk. As of 31 March 2024, assigned classifications are:

- Stage 1 loans – seven loan investments totalling £162.2 million, equivalent to 72 per cent of the funded portfolio are classified in the lowest risk profile, Stage 1.
- Stage 2 loans – four loan investments totalling £62.8 million, equivalent to 28 per cent of the funded portfolio are classified as Stage 2. The average loan to value of these exposures is 69 per cent. The weighted average age of valuation report dates used in the loan to value calculation is eight months old. While these loans are higher risk than at initial recognition, no loss has been recognised on a twelve-month and lifetime expected credit losses basis. Therefore, no impairment in the value of these loans has been recognised. The drivers for classifying these deals as Stage 2 are typically either one or a combination of the below factors:
  - lower underlying property values following receipt of updated formal appraisals by independent valuers or agreed and in exclusivity sale values;
  - sponsor business plans progressing more slowly than originally underwritten meaning that trading performance has lagged expectation and operating financial covenants under the facility agreements have breached; and
  - additional equity support is required to cover interest or operating shortfalls as a result of slower lease up or operations taking longer to ramp up.

  The Stage 2 loans continue to benefit from headroom to the Group's investment basis. The Group has a strategy for each of these deals which targets full loan repayment over a defined period of time. Timing of repayment will vary depending on the level of equity support from sponsors. Typically, where sponsors are willing to inject additional equity to partially pay down the loans and support their business plan execution, then the Group will grant some temporary financial covenant headroom. Otherwise, sponsors are running sale processes to sell assets and repay their loans.
- Stage 3 loans – As at 31 March 2024, no loans were classified as Stage 3. The Shopping Centre, Spain, mezzanine loan, which had been classified as Stage 3 as at 31 December 2023, was fully settled during the quarter and €3.8 million of the previously recognised €4.0 million impairment provision against this loan was realised. Despite the impairment the loan investment achieved local currency returns of 1.3 times the Group's capital invested.

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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REPAYMENTS

During the quarter borrowers repaid at total of £37.9 million under the following loan obligations:

- €12.2 million, Shopping Centre, Spain (settlement of loan in full)
- €19.5 million, Three Shopping Centres, Spain (partial repayment of loan, including €0.3 million of scheduled amortisation)
- €12.0 million, Hotel, Dublin (partial repayment of loan)
- £0.6 million, Hotel and Office, Northern Ireland (partial repayment of loan)

These repayments, along with some of the cash balance held as at 31 December 2023, were used in the quarter to fund the fourth and fifth returns of capital to Shareholders (which amounted to circa £45.0 million).

MARKET COMMENTARY AND OUTLOOK

Global inflation has moved back significantly from the highly elevated levels seen in 2023 but remains above target levels. During the past few weeks the optimism around the speed at which target inflation would be reached and expectations for rapid central banks' reductions in interest rate policy have diminished.

Recent inflation numbers have been persistently higher than expectations and target inflation levels. The overall decline since the peak in US Inflation has been considerable, having moved from 9.1 per cent in June 2022 to 3.5 per cent in March 2024. In the United Kingdom similarly there has been a significant reduction in inflation from 11.1 per cent in November 2022 to 3.2 per cent in March 2024. In this first quarter economic data has generally pointed to a slower pace of stabilisation of inflation.

Interest rate policy makers have maintained a resolute stance on finishing the job on combatting this inflation with interest rate policy. Since the beginning of the year the expectations of the number of interest rate cuts the market expects in 2024 have reduced significantly. In the United States the Federal Reserve dot plots predicted three cuts during 2024 and the market had priced in six cuts at the beginning of the year but the expectation now is that there will only be one or two cuts during 2024. Similarly in the United Kingdom the market had priced in 1.04 percentage points of cuts at the beginning of the year but the expectation now is that there will only be 0.38 percentage points of cuts during 2024.

This has also fed into longer term interest rates which remain elevated relative to the past few years and which have rebounded from recent trough levels achieved at the end of 2023. Since the beginning of the year the US 10 Year Treasury yields have moved up more than half way back to recent peak levels. The US 10 Year Treasury rate has risen by 0.7 per cent to 4.6 per cent having started the year at 3.9 per cent which compared to a peak of 5.0 per cent in October 2023. Similarly UK 10 Year Gilt rates are 4.3 per cent which is up from 3.5 per cent at the beginning of the year and compared with a peak of 4.7 per cent in October of 2023. German 10 Year Bond rates follow the same directional trend but at lower rates and with smaller movement. The German 10 Year Bond yields are 2.5 per cent up from 2.0 per cent at the beginning of the year and compared with a peak of 3.0 per cent in October 2023.

European commercial real estate is typically financed using 3 to 5-year floating rate debt and the key benchmark for financing cost is the 5-year swap. The GBP and EUR 5-year swaps currently stand at circa 4.1 per cent and 2.7 per cent respectively, having started the year at 3.3 per cent and 2.3 per cent.

Over the last two years higher uncertainty over the levels of inflation and interest rates has been one of the key factors leading to significantly lower transaction volumes in commercial real estate and according to CBRE research, 2023 had the lowest level of

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Notes:

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investment volume since the GFC in Europe with volumes half of the levels of recent years. With stickier inflation and a higher for longer expectation for interest rates this slower trend is continuing.

A crowded set of geo-political considerations including the conflicts in Ukraine and Gaza and other tensions in the Middle East combined could continue to disrupt supply chains and commodity pricing that could create increased volatility in the path of inflation and interest rates and lead to investor hesitancy in real estate investments.

In contrast with the investment market we have seen a competitive market in real estate credit for both acquisition and refinancings. Last quarter we reported that the sentiment was meaningfully better than this time last year with a high degree of confidence in capital markets. At that time spread tightening in secondary trading had already showed a stronger market appetite and the banks were expecting healthy volumes of new issuance being cleared efficiently and with further price tightening also on the cards.

While problem areas (such as lower quality offices and distressed thinly capitalised developers) will still need to be worked through, that general sentiment has played out as expected with a very strong start of the year in capital markets. This has been seen across the board in bond markets both in and outside of the real estate space. The Investment Grade and High Yield markets are off to strong starts and in real estate specifically the US CMBS market has seen USD 19.5 billion of CMBS issuance in the first three months of the year which is an increase of 166 per cent versus USD 7.3 billion at the same time last year. We have also seen the predicted spread tightening with the Single Asset Single Borrower AAA rated tranches having been issued as tight as 140 basis points over the benchmark interest rate versus low 200s at the end of last year.

While CMBS and the unsecured bond markets play a smaller part in the European commercial real estate market, the health of the public credit markets have a knock on effect into general real estate finance sentiment and we have seen a similar dynamic in the European loan markets. There has been a larger number of active loan requests in the market and with larger average loan sizes than we have seen over the last two years. The market has been competitive both on pricing and risk relative to last year. Many of the larger transactions are in the logistics and student refinancing sectors but we are also seeing strong appetite for asset classes across the board including demand for the right types of office with a good example being the £280 million refinancing of the Blue Fin building in London which closed in the first quarter.

There are some indicators that the second quarter may be more measured than the first quarter. The VIX is the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, which a popular measure of the stock market's expectation of volatility based on S&P 500 index options. The VIX has risen to 18.96 which is the highest level since October 2023.We have also seen the Itraxx Crossover index which is a benchmark for crossover corporate credit retrace from a recent low of 290 to 341. This is still down from a peak of 473 in October 2023 but the recent change of direction is notable. Expectations for the pace of the recovery in transaction volumes continue to move around as the interest rate and geo-political outlook develops.

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INVESTMENT PORTFOLIO AT 31 MARCH 2024

As at 31 March 2024, the Group had 11 investments and commitments of £256.4 million as follows:

	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1], [2]	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m		£25.0 m
Hotel, Scotland	£42.6 m		£42.6 m
Hotel, North Berwick	£15.0 m		£15.0 m
Life Science, UK	£15.5 m	£4.0 m	£19.5 m
Hotel and Office, Northern Ireland	£8.2 m		£8.2 m
Hotels, United Kingdom	£42.3 m	£8.4 m	£50.7 m
Industrial Estate, UK	£27.2 m	£19.0 m	£46.2 m
Total Sterling Loans	**£175.8 m**	**£31.4 m**	**£207.2 m**
Three Shopping Centres, Spain	£11.4 m		£11.4 m
Hotel, Dublin	£9.4 m		£9.4 m
Office Portfolio, Spain	£7.5 m		£7.5 m
Office Portfolio, Ireland	£20.9 m		£20.9 m
Total Euro Loans	**£49.2 m**		**£49.2 m**
Total Portfolio	**£225.0 m**	**£31.4 m**	**£256.4 m**

[1] Euro balances translated to sterling at period end exchange rate.
[2] These amounts exclude interest which may be capitalised.

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LOAN TO VALUE (LTV)

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 LTVs shown below are based on independent third party appraisals with the exception of one loan which has been marked against the lower of the projected sale value (benchmarked against recent comparable sales) and most recent third party independent appraisal. The current weighted average age of the dates of these valuations for the whole portfolio is just over eight months.

On the basis of the methodology and valuation processes previously disclosed (see 30 September 2020 factsheet with the exceptions as noted above) at 31 March 2024 the Group has an average last £ LTV of 57.9 per cent (31 December 2023: 61.8 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	Office	Light Industrial & Healthcare	Other	Total
-15%	63.4%	88.1%	66.8%	67.7%	68.1%
-10%	59.9%	83.2%	63.1%	64.0%	64.3%
-5%	56.7%	78.8%	59.8%	60.6%	61.0%
0%	53.9%	74.9%	56.8%	57.6%	57.9%
5%	51.3%	71.3%	54.1%	54.8%	55.2%
10%	49.0%	68.1%	51.6%	52.3%	52.6%
15%	46.9%	65.1%	49.4%	50.1%	50.4%

SHARE PRICE PERFORMANCE

The Company's shares closed on 31 March 2024 at 92.2 pence, resulting in a share price total return for the first quarter of 2024 of 4.1 per cent. As at 31 March 2024, the discount to NAV stood at 11.7 per cent, with an average discount to NAV of 12.1 per cent over the quarter.

Note: the 31 March 2024 discount to NAV is based off the current 31 March 2024 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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