

Quarterly Portfolio Update



0.5 pence dividend per share uplift compared to target; resulting in a 6.0 pence per share dividend for 2023

£48.8 million repaid during the quarter across seven investments

A third capital redemption of £45.0 million undertaken in December 2023

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 December 2023.

SHARE PRICE / NAV AT 31 DECEMBER 2023



HIGHLIGHTS

- **Further realisation progress** – during the quarter:
 - A total of £48.8 million, nearly 16 per cent of the Group’s 30 September 2023 total funded loan portfolio, has been repaid across seven investments
 - This included the full repayment of three loans and four partial repayments
 - Proceeds were used in the quarter to fund the third return of capital to shareholders of £45.0 million
- **Dividend** – on 25 January 2024, the Directors declared a dividend, to be paid in February, in respect of the fourth quarter of 2023 of 1.875 pence per Ordinary Share – resulting in a dividend of 6.0 pence per Ordinary Share for the full year - an increase of 0.5 pence per share compared to the 2023 target of 5.5 pence per Ordinary Share. The 2024 dividend target remains at 5.5 pence per Ordinary Share
- **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** – during the quarter to 31 December 2023, no changes to investment risk classification were made and the current status of the investments is listed below:
 - Seven loan investments equivalent to 64 per cent of the funded portfolio are classified in the lowest risk profile, Stage 1
 - Four loan investments equivalent to 31 per cent of the funded portfolio are classified as Stage 2
 - One loan equivalent to 5 per cent of the funded portfolio is classified as Stage 3. During the period, the Group has accounted for an additional credit impairment of £1.7 million which is equivalent to 0.5 per cent of Net Asset Value as at 31 December 2023. We note that despite the impairment, this loan investment is projected to achieve local currency returns of 1.3 times the Group’s capital invested
- **The average remaining loan term of the portfolio is 1.4 years**
- **Inflation protection** – 90.5 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 61.8 per cent

John Whittle, Chairman of SEREF, said:

“ During 2023, we have continued to make strong progress on our orderly realisation strategy, with £85.0 million being returned to shareholders via three capital redemptions, and further substantial realisations are expected in 2024. We have also created a cash reserve to fund the currently unfunded loan cash commitments (£36.2 million as at 31 December 2023). At the same time, our commitment to achieving realisation in a timely manner while retaining sufficient working capital for ongoing operations has enabled us to make attractive annual dividend payments of 6.0 pence per Ordinary Share, paid quarterly, for 2023.

The average remaining loan term of the portfolio is now 1.4 years and as such we look forward to updating shareholders on further 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.

In December 2023, the Company announced and implemented its third capital distribution, returning circa £45.0 million to shareholders through the compulsory redemption of 43,157,186 shares at a price of £1.0427 per share. The first and second redemptions, in June and August 2023 respectively, returned circa £40.0 million in total to shareholders through the redemption of 38,744,568 shares in aggregate. Following the third redemption, the Company has 313,690,942 shares in issue and the total number of voting rights is 313,690,942.

DIVIDEND

On 25 January 2024, the Directors declared a dividend, to be paid in February, in respect of the fourth quarter of 2023 of 1.875 pence per Ordinary Share – resulting in a dividend of 6.0 pence per Ordinary Share for the full year – an increase of 0.5 pence per share compared to the 2023 target of 5.5 pence per Ordinary Share. The 2024 dividend target remains at 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 risk around high interest rates, volatile economic conditions and lower transaction volumes, the portfolio has continued to perform well.

Significant loan repayments totalling £48.8 million, equivalent to nearly 16 per cent of the 30 September 2023 total funded portfolio balance, were received during the quarter to 31 December 2023. This included full repayment of three loan investments following successful underlying property sales: £20.5 million Office, London, €18.8 million Office, Madrid and €3.7 million Mixed Portfolio, Europe investments. These repayments mark a significant 55 per cent reduction in the Group's exposure to the Office sector.

The Group's remaining exposure is spread across twelve investments. 99 per cent of the total funded loan portfolio as at 31 December 2023 is spread across six asset classes; hospitality (45 per cent), retail (16 per cent), office (12 per cent), light industrial & logistics (10 per cent), healthcare (10 per cent) and life sciences (6 per cent).

Hospitality exposure (45 per cent) is diversified across five loan investments. Two loans (19 per cent of hospitality exposure) benefit from State/Government licences in place at the properties and benefit from significant amortisation that continues to decrease these loan exposures. One loan (32 per cent of hospitality exposure) has two underlying key UK gateway city hotel assets, both of which are undergoing comprehensive refurbishment programmes. The remaining two loans (49 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 52 per cent.

The retail exposure (16 per cent) is spread across two remaining investments, with four underlying shopping centre assets providing collateral against the two loans. While investor sentiment and transactional activity in this asset class has been very low for a prolonged period, operational performance has recovered strongly post pandemic and the assets are performing well. The sponsor of these loans is in the advanced stages of selling three of the four assets to a cash buyer with a proven transaction track record.

KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2023

Number of investments	12
Percentage of currently invested portfolio in floating rate loans	90.5%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	8.2%
Weighted average portfolio LTV – to Group first £ ⁽²⁾	14.7%
Weighted average portfolio LTV – to Group last £ ⁽²⁾	61.8%
Average remaining loan term	1.4 years
Net Asset Value	£327.3m
Loans advanced (including accrued interest and net of impairment)	£264.1m
Cash	£63.8m
Other net liabilities (including hedges)	£0.6m

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	£121.4	46.2%
1 to 2 years	£76.7	29.2%
2 to 3 years	£64.6	24.6%

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

The sale is expected to complete during Q1 2024. The sale and subsequent loan repayments are projected to reduce the Groups exposure to retail by over 60 percent, with a remaining projected loan balance of under £16 million with strong interest coverage based on current trading performance. Executing a sale of these assets in a difficult market is considered a very positive result. However as outlined in the credit risk section, we have increased the impairment provision against the Shopping Centre, Spain loan by £1.7 million based on expected net sales proceeds. This new provision equates to 0.5 per cent of the Groups Net Asset Value as at 31 December 2023. Despite the projected impairment, this loan investment is currently projected to recover 1.3 times the Groups capital invested. The weighted average loan to value of the retail exposure is 91 per cent. The value basis of this calculation is the lower of projected sale values and most recent third party independent appraisals.

The office exposure (12 per cent) is spread across three loan investments. This exposure has significantly decreased by 55 per cent in the quarter under review, predominately due to the repayment of three loans following successful sale processes. The weighted average loan to value of loans with office exposure is 77 per cent. The average age of these independently instructed valuation reports is less than one year and hence there continues to be sufficient headroom to the Group's loan basis on these loans.

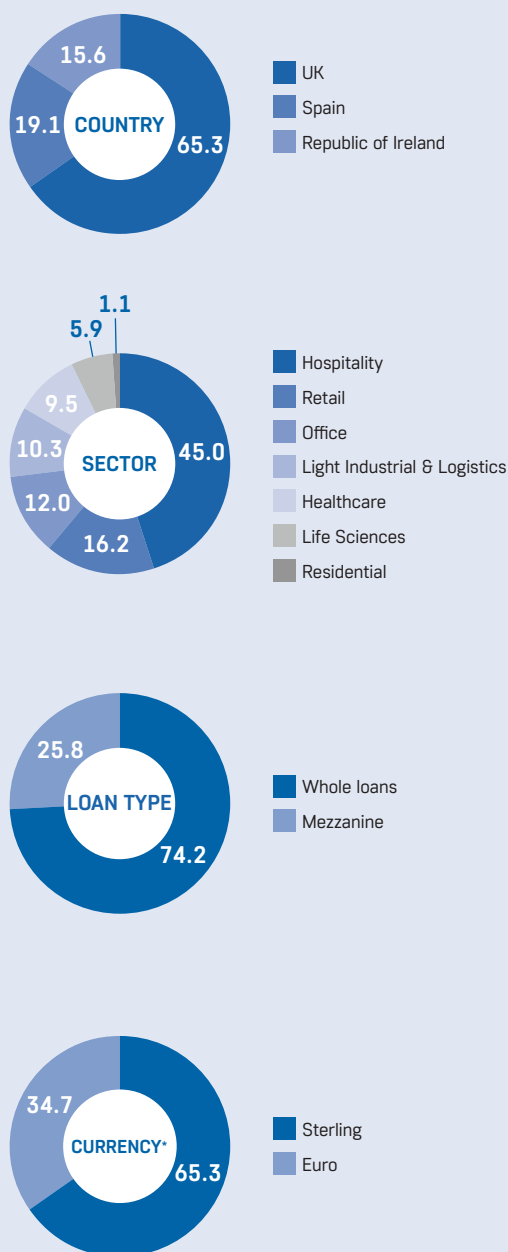
Light industrial & logistics and healthcare exposure comprise 10 per cent each, totalling 20 per cent of the total funded portfolio (across two investments) and provides good diversification into asset classes that continue to have very strong occupational and investor demand. Weighted average loan to value of these exposures is 57 per cent.

On a 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 62 per cent. These metrics are based on independent third party appraisals (with the exception of two loans that have been marked against a sale process bid level). These appraisals are typically updated annually for income producing assets. The weighted average age of valuations is seven months.

(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. 11 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.

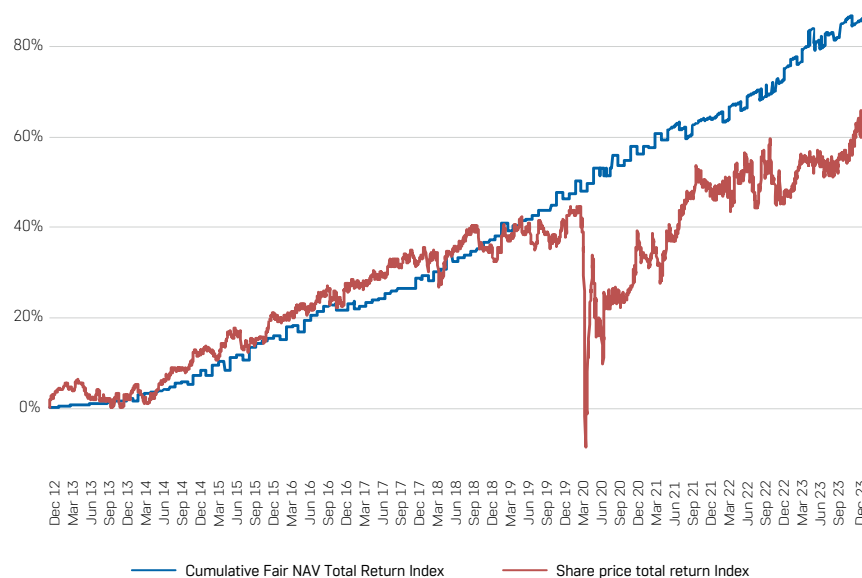
(2) LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal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

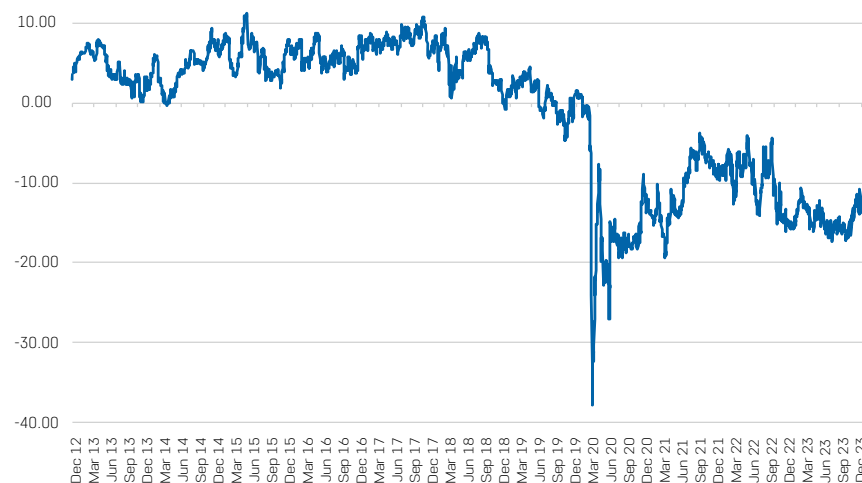


*The currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

SHARE PRICE AND CUM-FAIR NAV TOTAL RETURN



PREMIUM / DISCOUNT CUM-FAIR



INVESTMENT RESTRICTIONS AND GUIDELINES (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 we have recognised an additional impairment of £1.7 million, equivalent to 0.5 per cent of the Group's Net Asset Value as at 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 at 31 December 2023, assigned classifications are:

- Stage 1 loans – seven loan investments equivalent to 64 per cent of the funded portfolio are classified in the lowest risk profile, Stage 1.
- Stage 2 loans – four loan investments equivalent to 31 per cent of the funded portfolio are classified as Stage 2. The average loan to value of these exposures is 73 per cent. The average age of valuation report dates used in the loan to value calculation is eight months old. While these loans are considered to be 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.

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- Stage 3 loan – one loan equivalent to 5 per cent of the funded portfolio is classified as Stage 3. This investment has a loan to value of 110 per cent. This value is based on the projected net proceeds which are expected to be available for loan repayment upon sale of the underlying loan collateral. The sponsor has run a comprehensive competitive sale process through a global advisory firm with oversight by the lenders and the bidder has a proven execution track record in the same asset class and deal size and intends to close with all equity with no reliance on debt. Given continued capital markets volatility, materially lower transaction volumes and uncertainty regarding interest rates, the Group has approved the sale. The sale process is now in the advanced stages and is expected to occur during Q1 2024.

Based on the advanced stage of sale process and agreed sale price level, the Group has accounted for an additional credit impairment of £1.7 million which is equivalent to circa 0.7 per cent of total funded loan portfolio and 0.5 per cent of Net Asset Value as at 31 December 2023. The total amount of the impairment accounted for against this asset is £3.5 million, equivalent to 1 per cent of the funded portfolio as at 31 December 2023. We note that despite the impairment, this loan investment is projected to achieve 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.

REPAYMENTS

During the quarter borrowers repaid at total of £48.8 million under the following loan obligations:

- £20.5 million, Office, London (repayment of loan in full)
- €18.8 million, Office, Madrid, Spain (repayment of loan in full)
- £4.0 million, Life Science, UK (partial repayment of loan)
- €4.6 million, Hotel, Dublin (partial repayment of loan)
- €3.7 million, Mixed Portfolio, Europe (repayment of loan in full)
- £0.5 million, Hotel and Office, Northern Ireland (partial repayment of loan)
- €0.3 million, Three Shopping Centres, Spain (scheduled amortisation)

These repayments were used in the quarter to fund the third return of capital to Shareholders (which amounted to circa £45.0 million).

MARKET COMMENTARY AND OUTLOOK

The volatility in inflation and interest rates expectations has been the most important macro factor affecting real estate markets over the past two years. Fast movements in inflation and the resulting speed of central banks responses created uncertainty in real estate valuation and led to significantly lower transaction volumes. According to CBRE research, 2023 had the lowest level of investment volume since the GFC with volumes half of the levels of recent years.

Improving inflation data has led to significant momentum in the expectations for continued moderation of inflation and a knock-on effect of decreasing interest rates. US Inflation has declined from a high of 9.1 per cent in June 2022 to 3.4 per cent in December 2023, UK inflation from 11.1 per cent in November 2022 to 4.0 per cent in December 2023 and Eurozone inflation from 10.6 per cent in October 2022 to 2.9 per cent in December 2023. While the general momentum is towards more normal target levels, movement has not all been one way. December inflation in the US ticked up 0.3% versus November and in the United Kingdom the December inflation number came in higher than expected at 4 per cent versus expectations of 3.8 per cent and up from 3.9 per cent in November of

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2023. However, the 4 per cent number remains below the Bank of England forecast of 4.6 per cent. As a result of the data, on the day of release the swaps market pricing of Bank of England cuts in 2024 reduced, with ~113 basis points priced for 2024 versus 135 basis points on the previous day and 163 basis points at the start of the year).

As a result of the general trend downward in inflation, US 10 Year Treasury yields are now at circa 4.1% having reached 5.0 per cent in October 2023, UK 10 Year Gilt rates are circa 4.0 per cent down from 4.7 per cent in October of 2023 and German 10 Year yields are circa 2.3 per cent vs. 3.0% in October of 2023. Investors continue to compare fixed-income returns with real estate yields, so as bond yields decrease, real estate yields are likely to follow. Real estate is a capital-intensive investment and the lower interest rate environment reduces the cost and improves the availability of debt, boosting levered returns. 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 3.8 per cent and 2.6 per cent respectively, having peaked at 5.2 per cent and 3.4 per cent.

The price of these longer-term interest rate instruments is determined by market expectations of future interest rate moves. Currently, pricing reflects expectations of significant interest rate cuts over the coming quarters. For example, in the US, while rates have not yet been lowered, the guidance from dot plots provided by the Federal Reserve, show an expectation of three 25 basis point cuts in 2024. Yet, the market is currently pricing in twice as much reduction demonstrating its expectations of a faster fall in inflation. The pattern is similar in the UK and the Eurozone as while central banks are determined to defeat inflation and have flagged that they are likely to continue with the approach being more cautious on the hawkish side, markets are projecting the data will allow them to cut earlier.

Generally the stabilised interest rate environment should lead to a more normalised volume of real estate transactions, however there is still risk around the path to stabilisation of interest rates which could continue to subdue transaction volumes. In particular geo-political events such as the disruption of Red Sea shipping routes that could delay and increase the cost of moving goods and commodities and disrupt supply chains could disrupt the path of inflation.

Nevertheless there is a significant amount of commercial real estate focussed dry powder. Currently the proportion of capital is more concentrated on value add and opportunistic strategies and less on cheaper, core equity. The Investment Advisor recently attended the Commercial Real Estate Finance Council conference in Miami and while there are some problem areas (such as low quality office and distress for thinly capitalised developers), it was clear that bank sentiment is meaningfully better than this time last year. There is a high degree of confidence in US CMBS bond issuance from the large US banks. While CMBS plays a smaller part of the European market, the health of the US CMBS market is a bellwether for real estate finance sentiment. Spread tightening in secondary trading has already showed a stronger market appetite as investors move off the side-lines into what is still a cheaper sector. The banks are expecting healthy volumes of new issuance being cleared efficiently by the market with further tightening also on the cards which will further support sentiment for commercial real estate.

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INVESTMENT PORTFOLIO AT 31 DECEMBER 2023

As at 31 December 2023, the Group had 12 investments and commitments of £298.9 million as follows:

	Sterling equivalent balance (1), (2)	Sterling equivalent unfunded commitment (3)	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m		£25.0 m
Hotel, Scotland	£42.5 m		£42.5 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	£8.8 m		£8.8 m
Hotels, United Kingdom	£37.5 m	£13.2 m	£50.7 m
Industrial Estate, UK	£27.2 m	£19.0 m	£46.2 m
Total Sterling Loans	£171.5 m	£36.2 m	£207.7 m
Three Shopping Centres, Spain	£28.4 m		£28.4 m
Shopping Centre , Spain (2)	£14.1 m		£14.1 m
Hotel, Dublin	£19.9 m		£19.9 m
Office Portfolio, Spain	£7.6 m		£7.6 m
Office Portfolio, Ireland	£21.2 m		£21.2 m
Total Euro Loans	£91.2 m		£91.2 m
Total Portfolio	£262.7 m	£36.2 m	£298.9 m

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

(2) Balances shown are funded balances before any impairments.

(3) 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 two loans that have been marked against a sale process bid level. The current weighted average age of the dates of these valuations for the whole portfolio is just over seven 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 December 2023 the Group has an average last £ LTV of 61.8 per cent (30 September 2023: 58.3 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	Office	Light Industrial & Logistics	Other	Total
-15%	60.5%	107.1%	90.3%	75.5%	57.4%	72.7%
-10%	57.2%	101.1%	85.3%	71.3%	54.2%	68.6%
-5%	54.2%	95.8%	80.8%	67.6%	51.3%	65.0%
0%	51.5%	91.0%	76.8%	64.2%	48.8%	61.8%
5%	49.0%	86.7%	73.1%	61.1%	46.5%	58.8%
10%	46.8%	82.8%	69.8%	58.3%	44.3%	56.2%
15%	44.8%	79.2%	66.8%	55.8%	42.4%	53.7%

SHARE PRICE PERFORMANCE

The Company's shares closed on 31 December 2023 at 90.4 pence, resulting in a share price total return for the fourth quarter of 2023 of 4.6 per cent. As at 31 December 2023, the discount to NAV stood at 13.4 per cent, with an average discount to NAV of 16.0 per cent over the quarter.

Note: the 31 December 2023 discount to NAV is based off the current 31 December 2023 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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