

Quarterly Portfolio Update

During the quarter the sixth capital redemption returned £80 million and £7 million was received in full repayment on one investment.

In October 2024, after the quarter end, a €12.9 million impairment was provided against one loan investment.

Starwood European Real Estate Finance Limited ("SEREF", the "Company" 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 30 September 2024.



SHARE PRICE / NAV AT 30 SEPTEMBER 2024



*The 30 September 2024 NAV shown here has been calculated before taking into account the €12.9 million provision related to Office Portfolio, Ireland and the dividend of 1.375 pence per share, both of which were announced by the Company in October 2024 and will be reflected in the October 2024 NAV.

HIGHLIGHTS

- **£80.0 million returned to Shareholders** - during the quarter:
 - A total of £80.0 million was returned to Shareholders through the compulsory redemption of a further 76,248,573 shares. As at the date of the issuance of this factsheet the Company had 193,929,633 shares in issue and the total number of voting rights was 193,929,633.
 - To date, the Company has returned £210.0 million to shareholders in Compulsory Redemptions in accordance with its orderly realisation strategy adopted on 27 January 2023. This is equivalent to 50.8 per cent of NAV as of 31 January 2023.
- **Further progress on portfolio realisation** - during the quarter a total of £7.3 million, over 4 per cent of the Group's 30 June 2024 total funded loan portfolio, has been repaid on one investment (now fully repaid). The remaining portfolio consists of seven investments.
- **Impairment** - after the quarter end, one investment was reclassified and an impairment provision made:
 - As announced on 21 October an impairment provision of €12.9 million, equating to 5.3 per cent of the Group's 30 September 2024 net assets, has been provided against one investment, Office Portfolio, Ireland. At the same time this investment has been reclassified as a Stage 3 loan (previously classified as Stage 2). See Credit Risk Analysis section below for more information.
- **All assets are constantly monitored for changes in their risk profile** - the current risk status of the investments is listed below:
 - Following the repayment of one loan during the quarter four loan investments equivalent to 67 per cent of the funded portfolio as at 30 September 2024 are classified in the lowest risk profile, Stage 1
 - Following the reclassification of one asset from Stage 2 to Stage 3, two loan investments equivalent to 19 per cent of the funded portfolio as at 30 September 2024 are classified as Stage 2
 - One loan (equivalent to 14 per cent of the funded portfolio as at 30 September 2024), has been reclassified from Stage 2 to Stage 3 in October and an impairment provision has been made against this loan investment as detailed above.
- **Dividend** - on 29 October 2024, the Directors announced a dividend, to be paid in November, in respect of the third quarter of 2024 of 1.375 pence per share in line with the 2024 dividend target of 5.5 pence per share
- **Strong cash generation** - going forward the portfolio is expected to continue to support annual dividend payments of 5.5 pence per share, paid quarterly.
- **The weighted average remaining loan term of the portfolio is 1.4 years.**
- **Inflation protection** - 84 per cent of the portfolio is contracted at floating interest rates (with floors).
- **Significant equity cushion** - the weighted average Loan to Value for the portfolio is 63 per cent.

John Whittle, Chairman of SEREF, said:

“ The third quarter marked further positive progress in our orderly realisation strategy, with a sixth capital redemption of £80 million implemented during the quarter. This milestone means that the Company has now returned £210 million to Shareholders, equating to 50.8 per cent of the Company’s NAV prior to the adoption of the orderly realisation strategy. Further, we have registered a successful full repayment of one loan investment of £7.3 million during the quarter, equating to 4 per cent of our 30 June 2024 total funded portfolio. Current cash levels remain healthy at £44.6 million.

After the quarter end, the Company saw an impairment on one investment, Office Portfolio, Ireland, equating to €12.9 million. As a result of new operational updates received in October 2024, the Board has impaired the investment’s valuation but as previously guided, there are a range of possible outcomes whereby the loan may have a lesser or greater degree of recovery. The Investment Adviser is actively advising on the position to maximise the opportunity for a positive value recovery scenario.

The remaining portfolio continues to perform to expectations. We remain on track to meet our aim of paying out a dividend of 5.5 pence per share for 2024. We look forward to providing Shareholders with further updates on progress 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.

Three redemptions were announced and implemented in 2023 returning 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.

During the third quarter of 2024 the Company announced the sixth capital redemption, which returned, circa £80.0 million to Shareholders in July 2024 through the compulsory redemption of a further 76,248,573 shares. As at the date of the issuance of this factsheet the Company had 193,929,633 shares in issue and the total number of voting rights was 193,929,633.

LIQUIDITY AND CREDIT FACILITIES

During 2023 the Company built up a cash reserve sufficient to cover its unfunded commitments (which at 30 September 2024 amounted to £23.0 million). This cash reserve is included in the £44.6 million of cash held as at 30 September 2024.

The Company holds sufficient cash to meet its commitments, including unfunded commitments.

DIVIDEND

On 29 October 2024, the Directors announced a dividend, to be paid in November, in respect of the third quarter of 2024 of 1.375 pence per share in line with the 2024 dividend target of 5.5 pence per share. The dividend will be paid on shares in issue as 8 November 2024.

Following the impairment recognised in October, the year end 2024 financial statements of the Company will show modest income reserves which will be lower than the targeted quarterly dividends. However, given the current level of cash flow generated by its’ portfolio, the Company intends to maintain its annual dividend target of 5.5 pence per share. Dividend payments may be made by the Company (as a Guernsey registered limited company) as long as it passes the solvency test (i.e. is able to pay its debts as they come due).

PORTFOLIO UPDATE

The Group continues to closely monitor and manage the credit quality of its loan exposures and repayments. A repayment of £7.3 million, which related to the full repayment of one loan investment, was received in the quarter to 30 September 2024, equivalent to over four per cent of the 30 June 2024 total funded portfolio. This repayment marked a successful execution of an underlying borrower business plan to sell one of their assets. The Group’s loan was fully repaid and the sponsor now holds the remainder of the portfolio unlevered.

Following new information received from the borrower subsequent to 30 September 2024 relating to the Office Portfolio, Ireland loan, together with a detailed analysis of scenarios and potential future outcomes, the Group impaired 50 per cent, equivalent to €12.9 million, of this loan in October.

KEY PORTFOLIO STATISTICS AT 30 SEPTEMBER 2024

Number of investments	7
Percentage of currently invested portfolio in floating rate loans	84.3%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	9.0%
Weighted average portfolio LTV – to Group first £ ⁽²⁾	20.6%
Weighted average portfolio LTV – to Group last £ ⁽²⁾	62.9%
Average remaining loan term*	1.4 years
Net Asset Value	£204.8m
Loans advanced (including accrued interest)	£160.2m
Cash	£44.6m
Other net assets (including hedges)	£0.0m

Remaining years to contractual maturity*	Funded loan balances (£m)	% of invested portfolio
0 to 1 years	£55.5	34.9%
1 to 2 years	£56.0	35.3%
2 to 3 years	£47.3	29.8%

* Remaining loan term to current contractual loan maturity excluding any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity or may elect to exercise legal extension options, which are typically one year of additional term subject to satisfaction of credit related extension conditions. The Group, in limited circumstances, may also elect to extend loans beyond current legal maturity dates if that is deemed to be required to affect an orderly realisation of the loan.

The Group's exposure is spread across seven investments. 99 per cent of the total funded loan portfolio as of 30 September 2024 is spread across five asset classes; Hospitality (39 per cent), Office (17 per cent), Light Industrial (17 per cent), Healthcare (16 per cent) and Life Sciences (10 per cent).

Hospitality exposure (39 per cent) is diversified across two loan investments. One loan (76 per cent of hospitality exposure) has two underlying key UK gateway city hotel assets, both of which are undergoing refurbishment programmes. One hotel recently completed its refurbishment and the second is due to complete in the fourth quarter of 2024. Both hotels are rebranding to a major internationally recognised hotel brand. The second hospitality loan (24 per cent of hospitality exposure) has also been recently refurbished and is slowly increasing operating performance metrics post refurbishment. The weighted average loan to value of the hospitality exposure is 57 per cent.

The Group's office exposure (17 per cent) is spread across two loan investments. The weighted average loan to value of loans with office exposure is 95 per cent. The value used to calculate the LTV for the Stage 1 loan uses the latest independent lender instructed valuation. The value used for the reclassified Stage 3 office loan is the marked down value as per the recently announced loan impairment. The higher loan to value of this sector exposure reflects the wider decrease in market sentiment driven by post pandemic trends and higher interest rates. These factors have resulted in reduced investor appetite for office exposure and a decline in both transaction volumes and values. We note however, a more positive recent outlook for real estate given interest rates have begun to reduce.

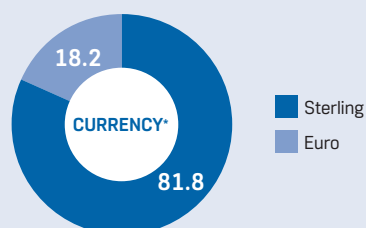
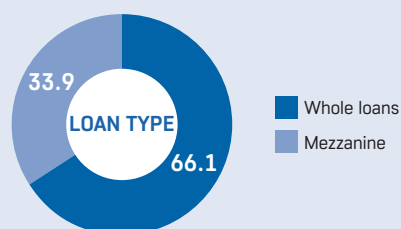
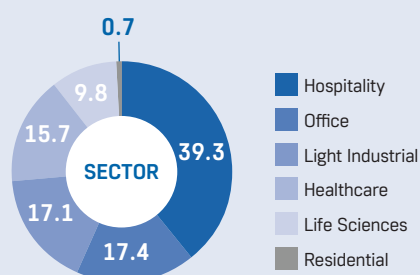
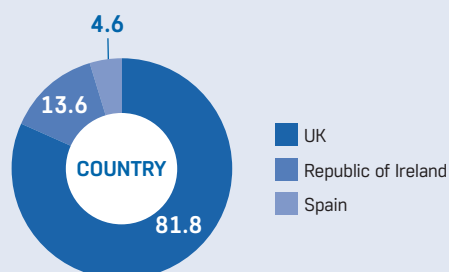
The largest office investment is a mezzanine loan which represents 74 per cent of this exposure and in October has been reclassified as a Stage 3 risk rated loan (previously Stage 2). As outlined in previous factsheets, the underlying assets now comprise seven well located European city centre CBD buildings and have historically been well tenanted, albeit certain assets are expected to require capital expenditure to upgrade to Grade-A quality to retain existing tenants upon future lease expiry events. A 50 per cent loan impairment provision related to this asset was announced on 21 October 2024 as a result of new operational information received from the borrower. Following an analysis of potential future scenarios and outcomes, the Board decided to make this provision. As noted in the announcement potential outcomes could recover a greater or lesser amount of the loan. The Investment Adviser is actively advising on this position to maximise recovery and will provide updates as appropriate.

Light Industrial and Healthcare exposures comprise 17 per cent and 16 per cent each respectively, totalling 33 per cent of the total funded portfolio (across two investments) and provide good diversification into asset classes that continue to have very strong occupational and investor demand. The weighted average LTV of these exposures is 57 per cent.

(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. Six 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.

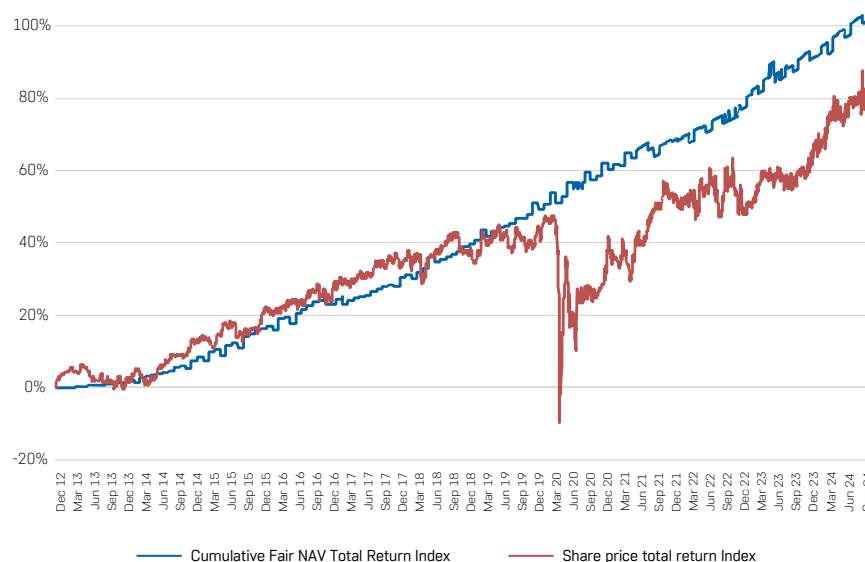
(2) LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to its value determined by the last independent third party appraisals for loans classified as Stage 1 and Stage 2 and on the marked down value per the recently announced loan impairment for the loan classified as Stage 3. 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).

% of invested assets

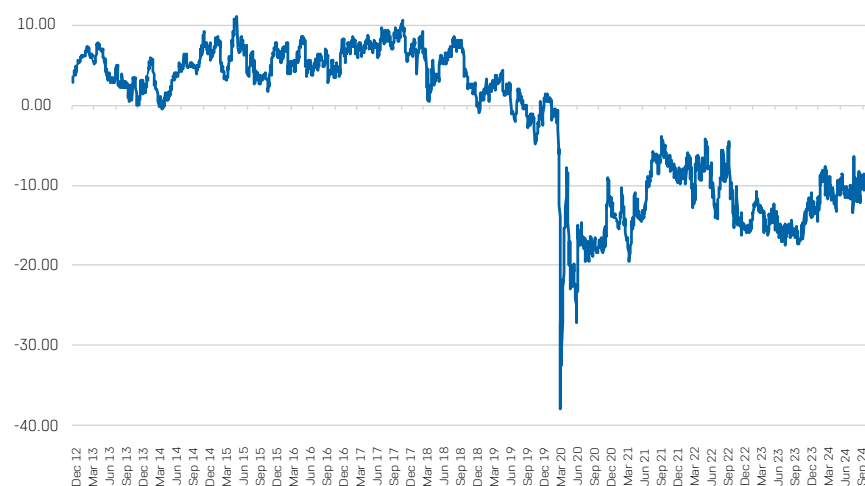


*The currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

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.

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 the date of this factsheet, assigned classifications are:

- Stage 1 loans – four loan investments totalling £106.8 million, equivalent to 67 per cent of the funded portfolio as at 30 September 2024 are classified in the lowest risk profile, Stage 1.
- Stage 2 loans – two loan investments totalling £30.5 million, equivalent to 19 per cent of the funded portfolio as at 30 September 2024 are classified as Stage 2. The average loan to value of these exposures is 54 per cent. The weighted average age of valuation report dates used in the loan to value calculation is just over one year. 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 expectations 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 – during October, one loan (with a funded balance amounting to £21.5 million as at 30 September 2024) has been reclassified as Stage 3. As at 30 September 2024 the balance of this loan represented 14 per cent of the total funded portfolio. As outlined above a 50 per cent impairment has been provided for as per the Company's announcement dated 21 October 2024. The position is being monitored and managed closely and updates will be provided as appropriate and when practically available.

This assessment has been made based on information in our possession at the date of publishing this factsheet, our assessment of the risks of each loan and certain estimates and judgements around future performance of the assets.

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Notes:

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REPAYMENTS

During the quarter borrowers repaid a total of £7.3 million under the following loan obligations:

- £7.3 million, Hotel and Office, Northern Ireland (full repayment of loan)

MARKET COMMENTARY AND OUTLOOK

The interest rate cutting cycle has now commenced with almost all major central banks having now started to cut rates. The Federal Reserve started with a solid 50 basis point cut in September. Since then, the markets have been very sensitive to each piece of market data and every twist in geopolitical events meaning the expectations around the pace of future rate movements has been volatile.

In the Eurozone the expectations are a little clearer than in the rest of the major markets as the market expects relatively weaker growth and lower inflation. Rates have been cut by 75 basis points in total with 25 basis points cuts in each of June, September and October and are expected to drop by a further 1.25 per cent to 2 per cent by the end of 2025.

The anticipation of the budget at the end of October looms over the UK market at present. The new Labour government is looking to walk the fine line of setting up a pro-growth economy while maintaining public services at the same time as holding to pre-election promises on tax and fiscal discipline. While markets expect a continued higher terminal interest rate in the UK with more concern about inflationary pressure lingering compared to the Eurozone, the September consumer price index data did create some surprise with the main rate significantly inside the target rate at 1.7 per cent and the services inflation number dropping from 5.6 per cent to 4.9 per cent.

Government bond yields were largely unchanged again in the third quarter with UK 10 year Gilt rates at 4.2 per cent versus 4.3 per cent at the beginning of the quarter and 3.6 per cent at the beginning of the year. German 10 year bonds are down at 2.2 per cent versus 2.6 per cent at the beginning of the quarter but flat on the year. Swap rates generally declined during July and August but then picked up from the lows during September. UK and Euro 5-year swaps currently stand at 3.8 per cent and 2.2 per cent having declined 0.2 per cent and 0.6 per cent respectively and having reached trough levels of 3.4 per cent and 2.1 per cent respectively earlier in the quarter. The recent volatility has been driven by a combination of market data and increased geo-political tensions. A number of factors are likely to maintain a level of volatility over the coming weeks including the heightened tensions in the Middle East, the upcoming UK budget and the US presidential election.

European investment volumes in commercial real estate remain low at around half of the 2021 levels and are lower year to date than in 2023. In the Eurozone we have begun to see some improvement with increased volumes each quarter this year. After the global financial crisis and the Brexit vote private capital led the early stages of a market pick-up in activity. We are seeing the same again with private high net worth capital, which is typically less debt sensitive, and private equity, which tends to be nimble, leading the way. Looking at the largest sectors by asset class there is a marked difference between cross-border and domestic capital. The largest sectors by volume for cross border transactions are Logistics, Retail, Hotel, Living and with Office being the last of the top five areas. For domestic capital the order is almost exactly the opposite with Office topping the list and Logistics last.

In the European debt capital markets after almost closing entirely from the second quarter of 2022 until the end of 2023, the European unsecured corporate bond market for real estate companies has continued its quarter on quarter increase in volumes with an increasing number of issuers across all asset classes seeking to access the market. Quarter three volumes were €8 billion versus €4 billion and €6 billion for the first and second quarter respectively. The total first 3 quarters volume of €18 billion compares to a pre 2022 average of €46 billion a year.

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The level of appetite for private commercial real estate loans has further stepped up a level over the summer period. We had commented last time on the diverse set of lenders that are competing including domestic and international banks, insurance companies, debt funds and other non-bank lenders. With the low level of transactions in the market a number of lenders are seeing faster levels of repayments than they can replenish their books. This has led to some lenders working harder to both retain existing loan positions and competing for new acquisition financing and the right refinancing opportunities.

Interest rate margins have been decreasing as a result of this competition and combined with lower swap rates this means that interest coverage ratios (ICRs) have been improving. For a generic Euro loan the 5 year swap rate is down one per cent and the margin down a half of a per cent from the peak and so the total interest cost is down by over a quarter. Low ICRs had become the key constraints on the amount of leverage over the past couple of years and with this constraint easing we are seeing a reversion from the depressed loan to value ratios of the last couple of years to more normalised levels. The market is open for most asset classes including prime office. The largest part of the liquidity, however, is focussed on more vanilla lending and there are fewer options for more active business plans particularly in the office sector.

Encouragingly for the transaction market, many lenders are reporting a higher proportion of acquisition financing requests in their pipelines. One debt advisory firm recently told us that they had seen volumes drop from the typical relatively equal split between acquisition and refinancing to only 6 per cent of their business being acquisition financing in 2023. That proportion had grown to 20 per cent so far this year and the look forward pipeline continues to revert towards more acquisitions. If this leading indicator from lenders' pipelines plays out then the next quarters should see a more healthy level of more transactional activity in the real estate market.

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INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2024

As at 30 September 2024, the Group had 7 investments with total cash commitments (funded and unfunded) of £181.8 million as shown below.

	Sterling equivalent balance ⁽¹⁾	Sterling equivalent unfunded commitment ⁽²⁾	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m		£25.0 m
Hotel, North Berwick	£15.0 m		£15.0 m
Life Science, UK	£15.5 m	£4.0 m	£19.5 m
Hotels, United Kingdom	£47.3 m		£47.3 m
Industrial Estate, UK	£27.2 m	£19.0 m	£46.2 m
Total Sterling Loans	£130.0 m	£23.0 m	£153.0 m
Office Portfolio, Spain	£7.3 m		£7.3 m
Office Portfolio, Ireland	£21.5 m		£21.5 m
Total Euro Loans	£28.8 m		£28.8 m
Total Portfolio	£158.8 m	£23.0 m	£181.8 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 for loans classified as Stage 1 and Stage 2 and on the marked down value as per the recently announced loan impairment for the loan classified as Stage 3 in October 2024. The weighted average age of the dates of these valuations for the whole portfolio is just over eight months.

As of 30 September 2024, the Group has an average last £ LTV of 62.9 per cent (30 June 2024: 58.0 per cent).

The Group's last £ LTV 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, reviewed in detail and approved by the reporting date or, in the case of the Stage 3 asset classified as Stage 3 in October 2024, the marked down value per the recently announced loan impairment. 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.

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%	67.0%	111.6%	67.4%	58.3%	74.0%
-10%	63.3%	105.4%	63.7%	55.0%	69.9%
-5%	59.9%	99.8%	60.3%	52.1%	66.2%
0%	56.9%	94.9%	57.3%	49.5%	62.9%
5%	54.2%	90.3%	54.6%	47.2%	59.9%
10%	51.8%	86.2%	52.1%	45.0%	57.2%
15%	49.5%	82.5%	49.8%	43.1%	54.7%

SHARE PRICE PERFORMANCE

The Company's shares closed on 30 September 2024 at 93.6 pence, resulting in a share price total return for the third quarter of 2024 of 2.1 per cent. As at 30 September 2024, the discount to NAV stood at 11.4 per cent, with an average discount to NAV of 11.9 per cent over the quarter.

Note: the 30 September 2024 discount to NAV is based off the 30 September 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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