

K-Star Asset Management LLC

K-Star Asset Management LLC (K-Star, or the company) is a direct wholly owned subsidiary of K-Star Holdings LLC, which in turn is a direct wholly owned subsidiary of Kohlberg Kravis Roberts & Co. L.P. (KKR Adviser) and an indirect subsidiary of KKR & Co. Inc. (KKR & Co. and, together with KKR Adviser and other related entities, KKR). The company was incorporated in April 2022 to act as special servicer for securitized CRE transactions in which KKR holds controlling class interests held by various funds, accounts and investment vehicles managed by KKR (KKR Funds). K-Star provides due diligence support for future KKR CRE investments and asset management support for the CRE-direct lending portfolio held by KKR Funds.

KKR (NYSE: KKR) is a global investment firm offering alternative asset management and capital markets and insurance products. Investment funds sponsored by KKR invest in private equity, credit and real assets and maintain strategic partnerships that manage hedge funds. KKR's insurance subsidiaries offer retirement, life and reinsurance products under the management of Global Atlantic Financial Group. KKR had approximately \$496 billion in assets under management (AUM) as of September 2022, including \$64 billion within its global real estate business. KKR has approximately 2,000 employees located in 23 cities across the U.S., Europe and Asia, including a real estate team of 170 employees.

As of September 2022, K-Star was actively providing asset management support and primary servicer oversight for the CRE-direct lending portfolio held by KKR Funds. This portfolio comprises 578 nonsecuritized loans totaling \$33.2 billion, which includes loans secured by multifamily (39% by loan count), office (21%), industrial (19%) and retail (13%) properties. The company expects to be named special servicer for the securitization portfolio held by KKR Funds totaling \$42.6 billion and comprising approximately 2,000 loans in 45 multiborrower, 15 single-asset single-borrower (SASB) and two CRE-collateralized loan obligation (CLO) transactions in 1H23.

Servicer Ratings

- Fitch Ratings rates primary and master servicers that protect the interests of certificateholders in the trust by servicing and administering the mortgage loans.
- The primary servicer is responsible for day-to-day servicing functions, while the master servicer is responsible for monitoring the activities of the primary servicers, investor reporting and timely remittance of funds to trustees.
- Fitch also rates special servicers, which are key to maintaining the credit quality of a pool containing nonperforming commercial mortgages and REO assets. The special servicer is responsible for working out loans, foreclosing and liquidating assets.
- In assessing and analyzing the capabilities of primary, master and special servicers, Fitch reviews several key factors, including the management team, organizational structure and operating history, financial condition, information systems and, with respect to the special servicer, workout and asset disposition experience and strategies.
- Fitch rates commercial mortgage primary, master and special servicers on a scale of 1-to-5, with '1' being the highest rating. Within each of these rating levels, Fitch further differentiates ratings by plus (+) and minus (-) along with the flat rating.

Ratings^a

Commercial Special Servicer CSS3

^aLast Rating Action: Rating assigned Feb. 28, 2023.

Rating Outlook^b

Stable

^bRating Outlook assigned Feb. 28, 2023.

Applicable Criteria

[Criteria for Rating Loan Servicers \(December 2022\)](#)

[Criteria for Rating North American Commercial Mortgage Servicers \(December 2022\)](#)

Related Research

[Fitch Assigns K-Star A Commercial Special Servicer Rating \(February 2023\)](#)

[Fitch Affirms KKR at 'A'; Outlook Stable \(October 2022\)](#)

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Key Rating Drivers

Company and Management: K-Star is a direct wholly owned subsidiary of K-Star Holdings LLC, which in turn is a direct wholly owned subsidiary of KKR Adviser and an indirect subsidiary of KKR & Co. Inc. The company was formed in 2022 to provide special servicing and asset management support for affiliate CRE direct lending and securitized investment portfolios. Support provided by K-Star is expected to become integral to KKR's CRE investments as it becomes operational and assumes direct special servicing responsibility and oversight of primary servicing for the direct lending portfolio. KKR provides finance, accounting, human resources, compliance, facilities and technology support to K-Star through an administrative services agreement.

Staffing and Training: As of YE22, K-Star had 25 employees allocated to special servicing, five of whom are fully dedicated with the remainder serving as shared resources with the credit asset management team. Special servicing comprises members of: the executive management team (1), compliance (1), legal (1), finance and accounting (1), technology (1), surveillance and reporting (1), special servicing (5) and credit asset management (14).

As a start-up entity, employees average only one year of tenure with the company, which is low compared to other Fitch-rated servicers. The senior management comprises 11 managers, with only the head of special servicing as a fully dedicated resource, averaging 23 years of industry experience. Seven middle managers, including two employees designated as senior asset managers who are fully dedicated to special servicing, average 14 years of industry experience. Staff level employees, who average four years of industry experience, include a junior asset manager and operations analyst dedicated to special servicing and five shared credit asset management staff.

Employees completed an average of approximately 20 hours of training through YE22, including six hours of new hire training. Recent training topics include real estate credit-ESG, conflicts of interest and insider trading, harassment prevention, CLO/CMBS/grantor trusts, office/retail/student housing market trends, intro to zoning issues and insurance requirements and impact on economic and real estate outlook, among others.

Technology: K-Star will use ReallINSIGHT, a third-party developed application, for special servicing, investor reporting and asset management. While K-Star's experience with the application has been limited to testing, KKR has been using the application for several years to support CRE asset management and securities investment business. Ancillary applications include an internally managed Salesforce application supporting the CRE originations platform, an internally managed data warehouse for reporting and a cloud-based, third-party document management software. K-Star will use ReallINSIGHT for all investor reporting functions and may develop its own data warehouse in the future.

Corporate Governance: K-Star's internal governance infrastructure is transitional as the company develops its policies and procedures and builds out internal controls. The company expects internal controls to consist of policies and procedures supplemented by desktop procedures, dedicated compliance oversight, an independent internal audit and external audits. Whereas the company does not have any active special servicing, there is no demonstrated proficiency to validate the effectiveness of controls, resulting in Fitch applying conservative assumptions to corporate governance controls.

Defaulted/Nonperforming Loan Management: With a short operating history contributing to limited demonstrated performance resolving specially serviced loans and concerns over the scalability of the servicing group, K-Star maintains experienced asset managers, sufficient asset management technology and a plan for internal controls. Fitch identified three employees, including the head of special servicing, who will serve as asset managers once K-Star is named special servicer for securitized transactions. These three asset managers will be responsible for handling the asset from cradle to grave. The three asset managers average 20 years of industry experience and less than one year of tenure. Based on a potential portfolio of 36 specially serviced loans, the number of assets to asset managers is 12:1, comparable to other Fitch-rated servicers.

Financial Condition: Fitch affirmed the Long-Term Issuer Default Ratings (IDRs) of KKR & Co. Inc. and its related entities (collectively, KKR) at 'A'/Stable on Oct. 31, 2022.

Company Experience Since

CRE Loan Workout	N/A
Securitized Workout	N/A
N/A – Not available	
Source: K-Star	

Operational Trends

Business Plan	■	Demonstrated sponsor support investing in servicing infrastructure
Servicing Portfolio	■	Expected growth in portfolio
Financial Condition	■	Rating Outlook/Trend
Staffing	■	Staffing changed less than 12% +/-
Technology	■	Evolving technology platform
Internal Controls	■	Lack of demonstrated proficiency
Servicing Operations	■	Evolving infrastructure

Source: Fitch Ratings

Company Overview



K-Star, a direct wholly owned subsidiary of K-Star Holdings LLC, which in turn is a direct wholly owned subsidiary of Kohlberg Kravis Roberts & Co. (KKR Adviser) and an indirect subsidiary of KKR & Co. Inc. (KKR & Co. and, together with KKR Adviser and other related entities, KKR) began operations in early 2022 and became incorporated in April 2022. KKR established the company to support the CRE securities and direct lending portfolios held by various funds, accounts and vehicles managed by KKR (KKR Funds), as well as to provide due diligence and underwriting support for future CRE investment.

K-Star will become the named special servicer for the securities portfolio held by KKR Funds, which includes roughly 60 securitized transactions as of September 2022 representing a mix of multiborrower, SASB and CRE-CLO transactions. The company performs oversight of primary servicers of the direct-CRE lending portfolio held by KKR Funds, in conjunction with an in-house asset management team, and credit asset management and surveillance support for the portfolio.

KKR is a global investment firm offering alternative asset management along with capital markets and insurance products. Investment funds sponsored by KKR invest in private equity, credit and real assets and maintain strategic partnerships that manage hedge funds. KKR's insurance subsidiaries offer retirement, life and reinsurance products under the management of Global Atlantic Financial Group, a KKR-owned insurance subsidiary. KKR had about \$496 billion in AUM as of September 2022, including \$64 billion within its global real estate business. KKR has roughly 2,000 employees in 23 cities across the U.S., Europe and Asia, including a real estate team of 170 employees.

In 2015, KKR established a real estate credit group focused on U.S. CRE direct lending and securities investing. The group is responsible for managing CRE investments across multiple KKR funds and capital sources, and it has directly originated over \$32 billion in CRE mortgages since inception. The direct lending portfolio represents loans on behalf of KKR Funds, KKR-controlled CRE REITs and certain assets held in the general account of The Global Atlantic Financial Group LLC. CRE-direct lending originations target stabilized, transitional or construction assets with either first mortgage, mezzanine or preferred equity structures.

KKR, through various affiliates, originated 119 CRE loans totaling \$10.6 billion within the CRE-direct lending portfolio in 2022. KKR expects to originate approximately \$10.0 billion in loans within the CRE-direct lending portfolio in 2023.

The real estate credit group began acquiring controlling class holder positions in multiborrower securitizations in 2017 and has since maintained a sizable market share of new issue transactions. KKR began purchasing SASB transactions in 2019 and retained controlling interest in its 2021 and 2022 CRE-CLO transactions.

Servicing Portfolio Overview

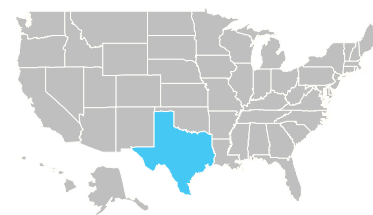
	9/30/22	% Change	12/31/21	% Change	12/31/20
Special Servicing – Named					
UPB (\$ Mil.)	33,183.0	–	0.0	–	0.0
No. of Loans	578	–	0	–	0
Special Servicing – Active^a					
UPB (\$ Mil.)	0.0	–	0.0	–	0.0
No. of Loans	0	–	0	–	0

^aIncluding REO. UPB – Unpaid principal balance.
Source: K-Star

As K-Star's business plan comes to fruition, it is expected to provide material support for KKR Funds' CRE-direct lending and investment portfolios, which collectively total approximately \$73.6 billion as of September 2022. Currently, K-Star is named special servicer for KKR's direct lending portfolio totaling \$33.2 billion.

K-Star's named special servicing portfolio is expected to increase in 2Q23 as it becomes the named special servicer for 1,974 loans totaling \$42.6 billion in 62 securitizations as of Sept. 30, 2022.

Office Locations



Primary Office: Dallas, TX

All special servicing activities are performed in Dallas, TX. K-Star benefits from access to KKR's offices in New York, Houston and San Francisco, where certain credit asset management employees are located for local market information. KKR provides finance, accounting, human resources, compliance, facilities and technology support to K-Star via an administrative services agreement.

Financial Condition

Fitch affirmed the Long-Term IDRs of KKR & Co. Inc. and its related entities at 'A'/Stable on Oct. 31, 2022.

The rating affirmations reflect KKR's strong competitive position as a global alternative investment manager, experienced management team, large institutional investor base, solid investment track record, strong fundraising capabilities, relatively predictable fee-earnings stream given sizable fee-earning AUM (FAUM), carry-generating capabilities, solid liquidity and below average payout ratio.

Rating constraints for the industry include key person risk, which is institutionalized throughout many limited partnership (LP) agreements; reputational risk, which can affect the company's ability to raise funds; and legal, political and regulatory risk, which could alter the alternative asset industry. Rating constraints specific to KKR include its sizeable balance sheet, which exposes the capital base to potential valuation declines and higher cash flow leverage, although this is somewhat offset by relatively low balance sheet leverage.

The current challenging economic conditions, including rising interest rates, inflationary pressures, declining market valuations and an elevated recession risk, may pressure investment performance and fundraising.

The Stable Rating Outlook reflects Fitch's expectation that KKR will continue to generate stable management fees and fee-related EBITDA (FEBITDA), retain FAUM through the raising of new and expansion of existing funds and maintain solid leverage and liquidity profiles. The Stable Rating Outlook incorporates an expectation that cash flow leverage may remain above the peer average and Fitch's general tolerance level for 'a' category-rated alternative investment managers, although this is offset by the company's low balance sheet leverage and strong liquidity profile.

Employees

As of YE22, K-Star had 25 employees allocated to special servicing, five of whom are fully dedicated with the remainder serving as shared resources from the credit asset management and due diligence teams. Special servicing comprises members of the executive management team (1), compliance (1), legal (1), finance and accounting (1), technology (1), surveillance and reporting (1), special servicing (5) and credit asset management (14). The five special servicing employees are fully dedicated and include the head of special servicing, two senior asset managers, a junior asset manager and an operations analyst. Sixteen employees, including the entire special servicing team, are based out of the company's Dallas headquarters while four employees are located in Houston, four are in New York and one is in San Francisco.

As a start-up entity, employee tenure is low compared to other Fitch-rated special servicers. The lack of tenure is mitigated by the strong industry experience of its employees, many of whom have prior special servicing experience at Fitch-rated servicers.

	2023			
	No. of Employees	Average Years Industry Experience	Average Years Tenure	% Turnover
Special Servicing				
Senior Management	11	23	1	0
Middle Management	7	14	1	0
Servicing Staff	7	4	1	0
Total	25	—	—	0

Source: K-Star

Staffing levels depend upon the number of securitized transactions the company is named special servicer for, as well as the number and complexity of actively specially serviced loans and potential transfers. The company expects to maintain a ratio of 10 to 15 specially serviced assets for every asset manager. K-Star expects to increase staffing to 40-50 employees as it assumes additional

support responsibilities for KKR. The company also expects to perform annual 360 reviews of employees and managers.

The senior management team comprises 11 managers with only the head of special servicing as a fully dedicated resource. The senior management team includes representatives of each functional area, including legal, compliance, finance and accounting and surveillance and reporting, among others. Senior management team members average 23 years of industry experience and one year of tenure.

Seven middle managers, including two employees designated as senior asset managers who are fully dedicated to special servicing, average 14 years of industry experience and one year of tenure. Five of the seven middle managers are responsible for credit asset management functions, and they are located outside of Dallas in affiliate KKR offices.

Special servicing staff level employees include a junior asset manager and an operations analyst dedicated to special servicing and five shared credit asset management staff. Collectively, staff level employees average four years of industry experience and one year of tenure.

Fitch identified three employees, including the head of special servicing, who will serve as asset managers once K-Star is named special servicer for securitized transactions. The three asset managers average 20 years of industry experience and less than one year of tenure. Based on a potential portfolio of 36 specially serviced loans, the number of assets to asset managers is 12:1, comparable to other Fitch-rated servicers.

Training

K-Star is in the process of developing an annual training plan to support employees in completing their annually required 40 hours of training. Training is expected to comprise internal and external resources and be facilitated via online programs, instructor-led programs and lunch-and-learn formats. Topics are expected to include IT, cybersecurity, risk management, special servicing and K-Star policies and procedures. The company will utilize KKR's existing training platforms, Percipio and KnowB4.

Employee training is expected to be recorded in an electronic tracking system that has not yet been identified. K-Star intends for managers to be provided quarterly summaries to monitor completed training hours.

As a start-up entity onboarding all employees, K-Star is also developing and onboarding an orientation program. The program is also intended to familiarize K-Star employees with KKR human resources, technology and compliance functions. Additionally, new hires are required to attend KKR orientation programs based on their respective roles.

Employees completed an average of approximately 20 hours of training through YE22, including six hours of new hire training. Recent training topics include real estate credit-ESG, conflicts of interest and insider trading, harassment prevention, CLO/CMBS/grantor trust, office/retail/student housing market trends, intro to zoning issues and insurance requirements and impact on economic and real estate outlook, among others. Additionally, special servicing employees completed approximately four hours of ReallNSIGHT training.

Future training topics include additional ReallNSIGHT training, distressed debt investing, CRE-CLO bootcamp and macroeconomic update, among others.

Operational Infrastructure

Outsourcing

K-Star does not currently intend to outsource core special servicing functions. However, the company plans to engage third-party vendors for site inspections, appraisals, environmental reports, property management and legal matters.

Operationally, KKR provides finance, accounting, human resources, compliance, facilities and technology support to K-Star through an administrative services agreement. Additionally, the company outsources the management of its IT network in Dallas to a third-party vendor under the oversight of the technology and data manager.

Fitch identified three employees who will serve as K-Star's asset managers for specially serviced loans. Based on the number of defaulted loans within the potential portfolio as of September 2022, asset managers will have an assets-to-asset manager ratio of approximately 12:1.

While K-Star maintains a list of potential vendor contracts for key services, including legal, property management, receivers, brokerage and legal and environmental assessments, no vendors have been formally onboarded as of YE22. The company may change vendors currently engaged for active specially serviced loans once named special servicer.

Vendor Management

K-Star is subject to KKR's global vendor management policy and oversight by KKR's vendor risk management and enterprise risk management teams. KKR maintains a vendor portal to facilitate the onboarding and due diligence of new vendors. New vendors are reviewed for negative news and potential sanctions, conflicts of interest and scope of services to be provided. The onboarding process takes between nine days and 35 days with potential engagements by various KKR teams, including legal, compliance and technology.

Monitoring vendor performance is based on risk level with K-Star intending to monitor the quality, cost, risk, timeliness and responsiveness of vendors using ReallINSIGHT. K-Star currently does not have any approved vendors in place and is reviewing potential vendors in preparation to be named special servicer. The company maintains a list of potential vendor contracts for key services, including property management, receivers, brokerage, legal and environmental assessments, among others.

Information Technology

K-Star will use ReallINSIGHT, a third party-developed application, for special servicing, investor reporting and asset management functions. KKR currently uses ReallINSIGHT to support certain functions as controlling class holder for securitized transactions.

The application is hosted by the vendor via a web-based cloud environment and provides centralized workflow management and reporting capabilities. The application also incorporates monthly data updates for securitized loans from a third-party external data provider. ReallINSIGHT is integrated with a third-party securitized data provider that provides daily data feeds for all loans in transactions where the company will be named special servicer, including tenant information. K-Star currently does not receive regular data feeds from master servicers, and its data is limited to monthly CRE Finance Council (CREFC) data files. The special servicing application also receives realtime Federal Emergency Management Agency (FEMA) data to show where disasters are declared to support disaster reporting and response management.

System functionality includes: generation of asset status reports (ASRs) for specially serviced loans and borrower consent packages for approval; loan and purchase and sale agreement (PSA) covenant tracking; loan watchlist creation; automated investor reporting, including the CREFC Investor Reporting Package (IRP); creation of checklists and tasks for asset managers; rule-based notifications and alerts; and tracking the timely ordering of inspections, appraisals and third-party reports. ASRs are generated from the system into an Excel template that is pre-populated with data points such as loan information and property cash flows. In the template, asset managers perform net present value (NPV) calculations and create commentary and workout rationales.

Ancillary applications include an internally managed Salesforce application supporting the CRE originations platform, an internally managed data warehouse for reporting and a cloud-based, third-party document management software. K-Star will use ReallINSIGHT for all investor reporting functions and may develop its own data warehouse in the future.

Future technology initiatives include completing the implementation of ReallINSIGHT for the special servicing platform, linking the data within ReallINSIGHT to the internally managed data warehouse to provide more timely and accurate reporting to KKR and identifying technology solutions to support surveillance and underwriting functions. While K-Star will use ReallINSIGHT as its initial asset management system, the company continues to explore more holistic life of loan technology solutions that may include future internally developed applications or additional vendor products.

Network support is provided by K-Star's technology vendor while its administrative services agreement with KKR provides internal support from KKR's technology, engineering and data teams within KKR real estate credit.

Cybersecurity

Cybersecurity administration is the combined responsibility of KKR and K-Star's technology teams through the administrative services agreement. KKR's chief information security officer is responsible for managing cybersecurity risk across KKR and reports to the chief innovation and information officer of KKR. K-Star has reported no cybersecurity incidents since inception.

While K-Star has a limited history of using ReallINSIGHT to manage defaulted loans, Fitch notes positively that employees have been trained on the system and testing it for several months. The company currently does not utilize a data warehouse for special servicing, as reporting is limited to data within ReallINSIGHT.

While K-Star will initially use ReallINSIGHT to support special servicing, the company continues to explore other technology alternatives to support the platform.

KKR maintains an information security committee that meets quarterly to review IT security and cybersecurity risks. A cybersecurity incident response plan provides an organizational structure, operational structure and processes and procedures for personnel to follow in response to potential cyber incidents. KKR also has an incident management team that leverages established policies and procedures for all cyber intrusion incidents.

KKR reports its most recent external vulnerability assessment took place in May 2022, with subsequent findings addressed. Supplementing annual testing, KKR maintains a security operations center to continuously monitor its network for potential threats and anomalous activity. KKR's corporate policy restricts the sharing of certain documentation. As such, Fitch was not provided with documentation to support KKR's cybersecurity framework, incident response measures or recent vulnerability testing scope and results; therefore, it applied more conservative scores for cybersecurity.

Disaster Recovery/Business Continuity Plan

K-Star relies upon KKR for disaster recovery and business continuity functions through its administrative services agreement. The company is in the process of developing policies and procedures for business continuity specific to itself.

KKR's technology engineering and data team and global risk strategies team are responsible for maintaining a crisis management and business continuity program that provides policies and procedures addressing potential business disruptions. KKR's technology infrastructure leverages multiple geographically diverse datacenters with realtime replication across high availability servicers, resulting in minimal expected data loss. The expected recovery time of core systems is 24 hours.

K-Star employees are issued laptops to support the company's business continuity plan of having employees work from home in the event the Dallas office is inaccessible. Employees can also work from other KKR offices, the closest of which is in Houston.

Special servicing data within ReallINSIGHT are hosted by the vendor, which also uses realtime replication to minimize potential data loss. The most recent disaster recovery test of ReallINSIGHT occurred in October 2022, with no material findings reported.

KKR's most recent disaster recovery tests occurred in 4Q21 for U.S. regional offices and in June 2022 for its cloud datacenter. All tests were deemed successful. Although the Dallas office of K-Star has not completed a formal business continuity exercise, employees are equipped with laptops to support remote working and the office maintains a backup power supply to support several hours of work in the event of power loss.

Corporate Governance

K-Star's internal governance infrastructure is transitional as the company develops policies and procedures and builds out internal controls. The company expects internal controls to consist of policies and procedures supplemented by desktop procedures, dedicated compliance oversight, an independent internal audit and external audits.

Policies and Procedures

K-Star has developed policies and procedures for special servicing that provide a high level overview of special servicing functions without detailed instructions to complete tasks, guidance on the use of ReallINSIGHT or templates or forms. The company continues to develop more detailed desktop procedures, which Fitch believes will provide more guidance on how servicing functions are performed. The experience of special servicing asset managers, who average 20 years of industry experience and prior securitization experience, partially mitigates the summary nature of existing policies and procedures.

Policies and procedures are available to all employees via a shared cloud-based file location. The company expects to review policies and procedures annually. Changes to policies and procedures will be reviewed by the chief compliance officer and general counsel of K-Star and require approval from the CEO. While procedures will be formally reviewed annually, K-Star will also make incremental updates as its servicing platform is developed and in response to regulatory changes.

K-Star has scoped out an internal control environment consisting of quality control, compliance and internal audits. However, given that the company does not have any active special servicing, there is no demonstrated proficiency to validate the effectiveness of controls. Fitch applied conservative assumptions to corporate governance controls.

K-Star currently maintains high level policies and procedures for special servicing that are less detailed compared to those of other Fitch-rated servicers. However, the company continues to develop desktop procedures.

Compliance with policies and procedures will be maintained via processing controls within RealINSIGHT, as well as quality control and compliance reviews.

In addition to servicing policies, K-Star employees are subject to KKR's code of ethics, compliance manual, conflicts of interest and information security policies. There are additional enterprise policies addressing whistleblower rules, use of technology and social media, records management, confidential information and information barriers and privacy, among others.

Compliance and Controls

Quality control over servicing functions is expected to be administered through programmatic controls within RealINSIGHT, as well as monthly quality control reviews by the operations and compliance group. K-Star expects to use RealINSIGHT's workflows, dashboards and exception management reporting for quality control of servicing functions. RealINSIGHT can be configured to incorporate the company's policies and procedures, along with requirements abstracted from servicing agreements by K-Star.

K-Star maintains a dedicated operations and compliance department comprising the chief operations and compliance officer, a compliance analyst, a yet-to-be-hired compliance paralegal and two administrative staff members. The group reports directly to the CEO and president of K-Star and has a secondary dotted line to the global chief compliance officer and counsel of KKR.

The compliance analyst within the operations and compliance group will be responsible for monthly quality control reviews of key deliverables based on external audit requirements such as Regulation AB (RegAB). Deliverables will include items such as required appraisals, asset summaries, inspections and property management reporting, among others. Monthly quality control reviews are expected to be distributed to the special servicing asset management team and the K-Star audit and compliance committee.

Compliance oversight over servicing functions is also the responsibility of the compliance analyst through quarterly reviews, which will review file retention and disposal activities, specially serviced loan budgets, portfolio data accuracy and loan file documentation, among others. The results of quarterly compliance reviews will be reported to the K-Star compliance and audit committee, the special servicing asset management team and, in some instances, the legal group.

Internal Audit

K-Star expects to be subject to annual risk assessments and internal audits by KKR once it begins to service loans. KKR maintains an internal audit function comprising approximately 15 auditors who report to KKR's chief audit executive and administratively to the global chief compliance officer and counsel of KKR. There is currently no scope for the first internal audit review or risk assessment with internal audit activities expected to begin in 2024.

External Audit

As a newly formed company, K-Star has not been subject to external audits thus far. However, the company will be required to undergo an annual RegAB audit once it is named special servicer for securitized transactions. Additionally, K-Star expects to undergo a Sarbanes-Oxley Act (SOX) audit in the future. The company's first external audit is expected to occur in early 2024 for loans serviced in 2023.

Special Servicing

Special Servicing Portfolio

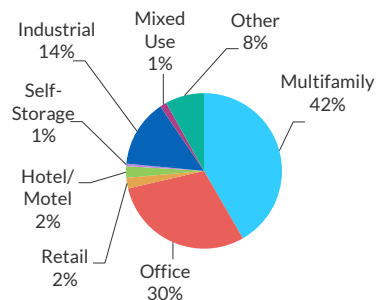
As of Sept. 30, 2022, K-Star was named special servicer for 578 nonsecuritized loans totaling \$33.2 billion of which there were no loans in special servicing. The nonsecuritized portfolio represents loans originated on behalf of KKR Funds, KKR-controlled CRE REITs and the KKR-owned insurance subsidiary. Nonsecuritized loans may be either first mortgage, mezzanine or preferred equity structures secured by stabilized, transitional or construction assets.

The securitized portfolio for which K-Star is expected to be named special servicer consisted of 1,974 loans totaling \$42.6 billion in 62 securitizations as of Sept. 30, 2022. There were 36 loans totaling \$696.3 million in special servicing as of the same date and no REO assets. The named special servicing securitized portfolio was fairly evenly distributed among traditional CRE property types: retail

The company continues to build out systemic internal controls within RealINSIGHT, as well as exception and quality control reports.

K-Star has yet to undergo internal or external audits to validate controls. The first external audit is expected to occur in 2024 for 2023 activity. The schedule and scope of internal audits have yet TBD.

Nonsecuritized Servicing Property Type



Source: K-Star

properties accounted for 27% of all properties by count, followed by office (17%), multifamily (16%), hotel (12%), self-storage (8%) and industrial (8%) properties. The top five states accounted for 46% of all loans in the portfolio and included: California (14%), New York (11%), Texas (9%), Florida (8%) and Illinois (4%).

Special Servicing Portfolio Overview

	9/30/22	% Change	12/31/21	% Change	12/31/20
Securitized					
No. of Transactions – Special Servicer	0	–	0	–	0
UPB – Special Servicer (\$ Mil.)	0.0	–	0.0	–	0.0
No. of Loans – Named Special Servicer	0	–	0	–	0
UPB – Actively Special Servicer (Non-REO) (\$ Mil.)	0.0	–	0.0	–	0.0
No. of Loans – Actively Special Servicer (Non-REO)	0	–	0	–	0
UPB – REO Assets (\$ Mil.)	0.0	–	0.0	–	0.0
No. of REO Assets	0	–	0	–	0
Nonsecuritized					
UPB – Named Special Servicer (\$ Mil.)	33,183.0	–	0.0	–	0.0
No. of Loans – Named Special Servicer	578	–	0	–	0
UPB – Actively Special Servicing (Non-REO) (\$ Mil.)	0.0	–	0.0	–	0.0
No. of Loans – Actively Special Servicing (Non-REO)	0	–	0	–	0
UPB – REO Assets (\$ Mil.)	0.0	–	0.0	–	0.0
No. of REO Assets	0	–	0	–	0

UPB – Unpaid principal balance

Source: K-Star

Loan Administration

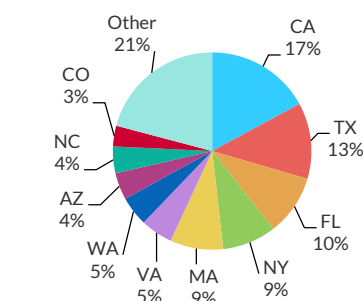
K-Star uses KKR’s proprietary database to manage and monitor nonsecuritized loans in the CRE-direct lending portfolio, which tracks property performance metrics such as debt service coverage ratio (DSCR), NOI and occupancy on a quarterly basis. K-Star also reviews CRE loans held in KKR’s funds each quarter, analyzing performance from underwriting and highlighting any changes qoq. Loans are placed on a watchlist to actively monitor. Monthly, K-Star reviews upcoming maturities, financial statement compliance and any loan covenant breaches, and interactions between the asset manager and borrower are reviewed to determine if performance is expected to deteriorate.

Non-specially serviced loans are monitored via obtaining updated information from the master servicer that might explain changes in asset performance. The monthly CREFC IRP is also uploaded into ReallNSIGHT, providing updated information relative to tenancy; operating performance; property condition; the financial condition of tenants, borrowers and/or guarantors; and borrower consent requests. K-Star reviews available information, including frequent reviews of operating statement analysis reports (OSARs) against prior periods, to identify trends that may signal a loan needs to be placed on or removed from the watchlist

The company will upload financial reporting requirements and cash sweep covenants into ReallNSIGHT’s covenants module, alert the master servicer to an impending trigger event and work to implement the cash sweep as soon as possible once the trigger event has occurred. Loans in special servicing are monitored via portfolio reviews between asset managers and management, asset discussions during credit committee with the presentation of consent or resolution recommendations and monthly calls with the controlling class representative (CCR) to review the status of all specially serviced assets.

K-Star begins the loan transfer process from the master servicer following a determination that a servicing transfer event has occurred. A master servicer may make the determination that a transfer event has occurred and sends the transfer notification to the special servicer and other

Nonsecuritized Geographic Distribution



Source: K-Star

PSA parties. For more complicated discussions on whether an issue warrants a transfer, K-Star management may participate in communication with the master servicer and, in some instances, K-Star may discuss related issues with the master servicer and borrower directly. Typically, transfer events as defined per governing PSAs include when a loan is 60 days delinquent, 30 days past the maturity date or in borrower bankruptcy; the appointment of a receiver over the collateral property; written notification by the borrower of its inability to continue to make payments; or a request for a concession or loan modification.

When required to consent to the master servicer's recommended assumption, modification, waiver or consent, the asset manager reviews the master servicer's borrower consent package to confirm the information against information from the borrower, prepare a recommendation summary and seek approval pursuant to K-Star's authority delegations. Where K-Star is required to underwrite the request, the asset manager requests appropriate information relative to the request, prepares a consent memo using a consent model generated through ReallNSIGHT and obtains approval via the delegations of authority. K-Star's legal department will assist with documenting and closing the consent along with outside counsel. ReallNSIGHT will track the date each consent request is received and the approval date. K-Star generally expects to present an approval recommendation within seven calendar days after receiving all necessary information from the borrower.

Asset managers assess advance recoverability by tracking advancing levels in ReallNSIGHT, which provides a report that filters by specific advance levels (such as total advances in excess of 40% of the estimated realizable value). K-Star will promptly communicate to the master servicer any determinations of nonrecoverability. Investor reporting for specially serviced loans is handled by K-Star's reporting and portfolio analytics group, which automatically produces CREFC IRP reporting via ReallNSIGHT.

Defaulted/Nonperforming Loan Management

When a loan transfers, asset managers perform a comprehensive review of the real estate, leases, borrower's personal property, guarantees, carveout indemnities and reserves. Market research includes the review of servicing and underwriting documents, prior due diligence and surveillance materials, previous borrower communication and initial market and industry research. K-Star uses third-party information providers such as CoStar, Trepp and REIS for market and property research. For sponsors on defaulted loans, legal counsel runs background checks as needed and counsel is engaged in addition to internal resources to review sponsors for borrower requests.

Asset managers will perform the initial property inspection as required by the governing PSA after a loan transfers to special servicing. Site inspections may also be performed by an appraiser in conjunction with ordering an appraisal. Additional property inspections are performed by the K-Star asset manager or an approved inspection vendor prior to presenting a resolution recommendation to obtain the most current property condition.

Property inspection reports include occupancy information, management status, any identified deferred maintenance or potential environmental concerns, market area competition and vacancy and rental rate information. Property inspection results are entered into ReallNSIGHT, including the report, and deferred maintenance identified is communicated to the borrower with a deadline to cure. If serious property condition or management issues are identified, the asset manager will consult with legal counsel regarding a potential motion for appointment of a receiver, either independently or in connection with pursuit of foreclosure.

K-Star takes a dual-track approach to loan resolutions, similar to most special servicers, to encourage borrower engagement during negotiations and to minimize advances on the loan. While asset managers pursue legal remedies such as foreclosure and/or appointment of a receiver, they also negotiate with the borrower on a potential resolution of the asset. K-Star uses borrower certifications in negotiated resolutions to ensure key information has not materially changed as of the closing date. Further, asset managers will perform NPV analyses of various resolution methods to determine the best outcome for the lender. Each month, asset managers and K-Star management perform portfolio reviews of all specially serviced assets to identify urgent issues and determine next steps.

Initial ASRs are prepared and presented for approval in accordance with the governing PSA and K-Star's delegations of authority. PSAs generally require delivery of the initial ASR within 30 to 45 days following transfer to special servicing, and due dates for each asset are loaded into and

The credit committee consists of K-Star's president and CEO serving as chair, general counsel, the head of special servicing, the head of portfolio analytics and investor reporting and the head of transitional asset management. The committee chair may cast the deciding vote if there is a tie in voting or may override the decision of other voting members altogether. Currently, the approval authority policy for the direct lending portfolio is in progress.

K-Star uses borrower certifications at the beginning and end of workouts; the certifications involve forgiveness of debt and ensuring all salient property and leasing details are disclosed.

tracked via ReallNSIGHT. Interim (e.g. forbearance or foreclosure) or final recommendations for resolution or liquidation of the defaulted loan (e.g. modification, settlement, note sale or REO sale) require presenting an updated business plan or ASR.

Final business plans are presented for approval by the K-Star special servicing credit committee or for internal signature approval pursuant to the delegation of authority. Recommendations requiring credit committee approval include actions such as discounted payoffs, modifications, foreclosures, release of carveout liabilities, sale of a property via a loan assumption, marketing and selling defaulted loans or REO properties and pursuit of a representation and warranty claim against the loan seller.

Approved ASRs and business plans are uploaded to ReallNSIGHT with relevant data appearing in various data fields within the system. Additionally, ReallNSIGHT maintains a document portal into which all relevant loan and property documentation, correspondence, ASRs/business plan documents and exhibits can be stored.

Appraisals are generally required following a specific event, such as 60 days after a payment default or the date a receiver is appointed, an asset becomes REO, a loan becomes a modified mortgage loan or a borrower files for bankruptcy. Any exceptions are approved via the delegations of authority and uploaded to ReallNSIGHT. K-Star's appraisal consultant obtains bids for appraisal work from which K-Star can select a vendor to prepare the appraisal. K-Star's appraisal consultant reviews the draft appraisal for compliance and reasonableness of assumptions. Asset managers regularly perform internal valuations on assets in their portfolio to support value assumptions against broker opinions of value (BOVs) and appraisals. K-Star is also able to leverage KKR's debt and equity resources for market intelligence and feedback on internal valuations.

REO Management

To ensure all pre-foreclosure and deed-in-lieu issues are addressed, the asset manager completes a pre-foreclosure checklist. An REO account is established according to the PSA and ongoing property records, such as deposits to and withdrawals from the account, are recorded. Each month on or prior to the remittance date, proceeds from the REO account are transferred via wire to the master servicer's collection account. K-Star may retain a portion of the rental income in the REO account as a reserve for repairs, replacements and necessary capital improvements and related expenses.

At least 30 days prior to foreclosure, the asset manager interviews prospective REO property management companies for management and leasing. Property management companies sign property management agreements and establish the necessary operating accounts and are required to submit annual operating and capital repair budgets. The asset manager reviews the budget and presents the budget for approval pursuant to K-Star's delegation of authority. Any disbursements in excess of the approved budget and/or outside the scope of the property management agreement require management approval. Rental income is collected and held in an REO depository account established by K-Star with the property management company having view access. K-Star disburses funds to the property operating account in conjunction with funding requests presented by the property management company and pursuant to the approved budget.

Alternatively, rental income may be swept from a lockbox and deposited into the REO account with funds disbursed to the property manager for approved operating expenses.

The asset manager monitors the property management company's performance through review of monthly reporting required under the property management agreement. Required reporting includes operating reports, budgets and budget variance reports and lockbox receipts (if applicable). As funding requests are submitted by the property manager, the asset manager reviews amounts requested against the approved budget and all variance explanations. The head of special servicing approves all funding requests, which are completed by the K-Star accounting group.

Following an approved sell/hold analysis for an REO property, the asset manager identifies and engages a qualified broker to market the asset for sale, taking into account the property's type and size, market area and marketing strategy. Brokers must present a current market analysis or broker price opinion and marketing plan detailing competitive properties in the market area, suggested asking and sales prices and the suggested marketing strategy (traditional or auction).

The asset manager will communicate with and review the broker's monthly activity reports to monitor the status of the marketing effort. If after 60 days on the market there are no current offers for the REO property, the asset manager and property manager will explore strategies to promote more interest, which could include a recommendation to reduce the list price. Any list price reduction recommendations are to be approved pursuant to K-Star's delegation of authority. In the event the REO is not sold within the 180-day listing period, the disposition effort will be evaluated for potential reassignment to another qualified broker. After receipt of a purchase offer, sale terms are approved pursuant to K-Star's delegation of authority, and a standard K-Star sales contract is prepared by counsel and delivered to the purchaser for execution and escrow at the title company.

Fitch reviewed a business plan template and noted it presented data in a clear and concise layout and contained sections for a loan and property overview, as well as the asset manager's rationale and estimation of loss/recovery.

Governance and Conflicts of Interest

Managing Conflicts of Interest

Potential conflicts of interest in special servicing can arise through various forms, particularly as investors retaining controlling positions in securitizations or specific loans have influence on workout strategies and the ability to select the special servicer.

Fitch notes that senior management may be aware of affiliate CCR investment holdings and, while asset managers are generally precluded from such information, they may become aware of investment holdings during the workout process. K-Star and KKR are separate entities and share a common network; however, firewalls exist between their respective systems. There are also policies on conflicts of interest and managing privileged information. Furthermore, K-Star prohibits employees from buying or selling securities associated with securitized or CLO interests held by KKR Funds and/or those serviced by K-Star.

The president of K-Star, who is aware of controlling class position holdings, retains the authority to override the workout decisions of the company's credit committee.

K-Star maintains a code of ethics policy to address potential conflicts of interest. The policy, which was reviewed by Fitch, covers a wide range of potential conflicts, such as personal (including family) benefits, objectivity, competing activities and gifts. The code includes a method for reporting potential conflicts and clearly identifies executive officers of the company who may be contacted on interpretation of the policy.

Affiliated Companies

K-Star does not plan to engage affiliates to perform any functions that are generally performed by professional third parties (e.g. property management firms, brokerage services, etc.). Affiliate resources may be used as needed to augment staffing or expertise pursuant to a shared services agreement with KKR. Affiliates of K-Star may provide CRE financing or equity investments for sponsors of specially serviced loans.

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