

Operational Risk Assessments

K-Star Asset Management LLC

Morningstar DBRS

April 2024

Contents

- 1 Rationale
- 2 Trend
- 3 Company Profile and Business Overview
- 4 Operational Infrastructure
- 10 Special Servicing Administration
- 15 Ranking Scale

Michael S. Merriam

Senior Vice President, Operational Risk
 U.S. Structured Finance Ratings
 +1 203 883-5780
 michael.merriam@morningstar.com

Kathleen Tillwitz

Managing Director
 Credit Ratings Operational Risk
 Global Structured Finance Ratings
 +1 212 806-3265
 kathleen.tillwitz@morningstar.com

Operational Classification:	Commercial Mortgage Special Servicer
Ranking:	MOR CS3 (Confirmed)
Trend:	Positive (From Stable)

Rationale

DBRS, Inc. (Morningstar DBRS) confirmed its MOR CS3 commercial mortgage special servicer ranking for K-Star Asset Management LLC (K-Star or the Company), an indirect subsidiary of KKR & Co. Inc. (together with its respective subsidiaries, KKR). Morningstar DBRS also changed the ranking trend to Positive from Stable.

K-Star launched in April 2022 to serve as the special servicer for commercial mortgage-backed securities (CMBS) and collateralized loan obligation (CLO) transactions in which KKR has controlling positions. K-Star also provides due diligence for securitized investments as well as asset management support for KKR's direct lending real estate portfolio. The Company received its first assets for special servicing in April 2023 as the successor special servicer on 57 CMBS and two CLO transactions.

The confirmed ranking considers K-Star's short operating history and still limited asset resolution performance record. The Company also has not yet completed the first cycle of all of the components of its internal audit program. However, K-Star has a highly experienced management team overseeing a soundly designed organizational structure. K-Star significantly expanded its solid professional depth in 2023 and added designated personnel for real estate owned (REO) asset management in March 2024. It also plans to add designated personnel this year for borrower consents. The employee roster includes a number of well-seasoned people hired from other special servicers who collectively have strong backgrounds in asset workouts and CMBS pooling and servicing agreement (PSA) requirements. The Company should be well positioned with the requisite personnel and scalability to address its current and projected work volume this year. An administrative services agreement with KKR provides corporate-level operational resources as well.

K-Star's other operational strengths include its technology capabilities, asset management practices, audit and compliance regimen, and commitment to employee training and career development.

- The Company leverages KKR's extensive, and mostly cloud-based, technology infrastructure. For its core data management and reporting tool for special servicing, K-Star uses ReallINSIGHT® (RI), which is a well-recognized application geared to CMBS requirements. Through KKR's resources and platform, K-Star has sound practices for data backup, security, and associated testing.

- K-Star's well-detailed CMBS-centric policies denote a controlled and proactive approach for all core functions and processes such as loan transfers, foreclosure management, asset analytics, resolution approvals, investor reporting, portfolio surveillance, borrower consent requests, and vendor management. During 2023, the Company also implemented more detailed, desktop-level procedures. Additionally, K-Star has abstracted its PSAs and loaded all of the essential data points and corresponding reporting dates into RI.
- K-Star's compliance team oversees a multifaceted audit and quality control regimen that currently consists of monthly process reviews, self-administered quarterly audits, and annual Regulation AB examinations (its recently issued first Regulation AB attestation had no exceptions). Additionally, K-Star has completed a System and Organizational Controls (SOC 1) readiness assessment and expects its first annual SOC 1 Type II examination to conclude in May 2025. KKR's internal audit department also is conducting a review of K-Star, which began in March 2024.
- For REO properties, K-Star plans to engage respective accounting firms to conduct quarterly property manager audits and periodic cash compliance assessments.
- The Company has a well-structured training function and is developing the curriculum to launch an analyst training program this year as well.

K-Star's named special servicing portfolio consists of CMBS and CLO transactions in which KKR-managed funds, financing vehicles, and accounts maintain control rights and/or own first-loss bond positions. The Company stated that it administers its duties according to the servicing standard in which its actions are to protect the interests of the trust as a whole.

As of December 31, 2023, K-Star was the named special servicer for 1,908 loans with an aggregate unpaid principal balance (UPB) of \$45.7 billion involving 57 CMBS transactions (1,874 loans) and two CLO transactions (34 loans). All of the transactions were issued between 2017 and 2023. As of December 31, 2023, the active special servicing portfolio contained 31 loans (\$650.8 million UPB) and four REO assets (\$35.2 million UPB), with an aggregate UPB of approximately \$686 million.

Trend

Morningstar DBRS changed the trend for the ranking to Positive from Stable. Morningstar DBRS believes that K-Star's operating position is on a favorable trajectory as the Company continues to expand its professional depth, progress with its audit and compliance routines, and build a performance record. Based on its well-experienced personnel, procedures and controls, and technology capabilities, the Company should increasingly serve as an effective special servicer for CMBS and other commercial real estate structured transactions.

Company Profile and Business Overview

KKR established Dallas-based K-Star in April 2022. K-Star continues to expand its services for KKR that encompass underwriting/due diligence, asset management, and special servicing in support of KKR's commercial real estate credit business, which involves a direct lending portfolio and investments in CMBS and CLO bond positions.

Formed in 2015, KKR's U.S.-based real estate credit group, through direct lending and CMBS investing, had approximately \$36 billion of assets under management (AUM) across various capital sources as of December 31, 2023. KKR has cumulatively originated more than \$38 billion in commercial real estate mortgage loans and has been one of the largest buyers of CMBS B pieces since 2017.

The direct lending portfolio includes commercial mortgage real estate investment trusts and other investment funds, financing vehicles and accounts managed by KKR, as well as certain assets of The Global Atlantic Financial Group LLC (Global Atlantic), KKR's insurance subsidiary. The direct lending portfolio includes stabilized and/or transitional/construction assets that may involve not only first mortgage positions but also mezzanine and preferred equity financing structures.

K-Star currently serves as a CMBS special servicer only for those transactions in which KKR-managed funds, financing vehicles, and accounts have control rights and generally represent the directing certificateholder. The Company does not expect to pursue third-party special servicing in the short term, but it likely may assume such a role if a CMBS transaction incurs a control-position change. K-Star also oversees the various third-party primary servicers on KKR's direct lending portfolio, surveils the performance of those loans, and selectively provides certain associated asset management services.

KKR Overview and Financial Position

Founded in 1976, KKR is a publicly listed (NYSE: KKR) global investment firm that offers alternative asset management as well as capital markets and insurance solutions. KKR sponsors funds that invest in private equity, credit, and real assets and has strategic partners that manage hedge funds. Its insurance subsidiaries offer retirement, life, and reinsurance products through Global Atlantic. KKR has offices in 25 cities across four continents with more than 2,600 total employees. KKR Real Estate has offices in 16 cities across 11 countries that include approximately 150 investment and asset management professionals, approximately 95 of whom focus on real estate credit. As of December 31, 2023, KKR, which has high credit ratings, had approximately \$553 billion in total AUM, including approximately \$69 billion of AUM in its global real estate business, which began in 2011.

K-Star generates revenue principally from value-added asset management and special servicing fees as an integral part of KKR's commercial real estate debt and equity investment business. Based on its current and projected book of business through KKR, K-Star expects its fee revenue to substantially increase in 2024 and to generate positive net income for the year. As evidenced by the quality and progress of K-Star's operational launch and subsequent expansion, as well as KKR's demonstrated capital investment, the Company displays a solid commitment to special servicing with the requisite resources.

Exhibit 1 K-Star Special Servicing Portfolio*

	December 31, 2023		June 30, 2023	
	UPB (\$ Millions)	Assets	UPB (\$ Millions)	Assets
Loan Portfolio	650.8	31	457.9	27
REO Portfolio	35.2	4	23.3	2
Total Active Portfolio	686.0	35	481.2	29
Named Special Servicer (Volume)**	45,701.7	1,908	42,702.2	1,836

* Excludes KKR's direct lending portfolio. K-Star received its first assets for special servicing in April 2023.

** As of December 31, 2023, 1,874 CMBS loans in 57 transactions and 34 CLO loans in two transactions.

Operational Infrastructure

Organizational Structure

K-Star's leadership team consists of the chief executive officer (CEO) and president as well as department heads each respectively overseeing the Company's main functional areas: CMBS/CLO special servicing, credit asset management, operations and compliance, finance and accounting, legal, and technology. Through an administrative services agreement, KKR provides K-Star with personnel and general support for value-added asset management, human resources, technology, finance and accounting, corporate compliance, and facilities.

Special Servicing: This department encompasses three teams: a CMBS/CLO special servicing team; a portfolio analytics, surveillance, and investor/master servicer reporting team; and a due-diligence team. The special servicing team, currently at nine people including the department head, manages the resolution of nonperforming CMBS and CLO assets as well as borrowers' credit-related consent requests for performing loans. As the active portfolio had only a few REO properties at YE2023, an asset manager may handle both loans and REO assets.

Credit Asset Management: This department handles performing-loan surveillance, reporting, and value-added asset management for KKR's direct lending portfolio. It also liaises with KKR's direct lending external primary servicers.

Compliance and Administration: K-Star's chief operating officer oversees this department, which consists of two employees for compliance and three others for office administration. The department leads K-Star's CMBS PSA compliance efforts, conducts its own internal audits, manages policies and procedures, and coordinates other required externally led audits. Additionally, the department coordinates and tracks employee training activities.

Finance and Accounting: K-Star's chief operating officer oversees this department, which consists of a senior-level manager who oversees loan-level and transaction-level accounting and related cash management, including setting up REO bank accounts and processing vendor-related invoices in accordance with KKR's processes, technology applications, and control practices. K-Star is recruiting to add a staff accountant as well.

Technology: K-Star has a four-person technology team consisting of a dedicated manager and three staff to oversee data management needs, assist with software and hardware, and further build out the technology platform in coordination with KKR's corporate-level technology department and consultants. K-Star plans to expand the team this year by adding a developer and data engineer.

Legal: This department consists of a general counsel to identify and manage legal issues across K-Star, including transactional oversight. The general counsel's duties include overseeing K-Star's PSA abstraction process with external counsel, working with the operations and compliance team to draft/revise policies and procedures, advising asset managers and monitoring the status of pending cases, providing counsel to asset resolution credit committees, working with the operations team in transitioning special servicing assignments to K-Star, and managing vendor contracts, including the vetting and hiring of law firms in consultation with the special servicing team. This year, K-Star expects to hire a transaction analyst, who will report into the business lines with a dotted line to the general counsel's office, to support consent requests.

Employee Hiring, Turnover, and Experience

Subsequent to KKR hiring K-Star's CEO and president to launch the platform in mid-2022, the Company has added more than 40 people, including all department heads, to cover all core CMBS special servicing and direct lending asset management functions. K-Star has recruited its management team from well-recognized CMBS special servicers and commercial real estate investment firms. Many of the employees have joined K-Star from companies based or with an operations hub in the Dallas area.

Through YE2023, K-Star had not incurred any employee turnover. The Company is currently recruiting to add several more positions including a manager for borrower consents, a staff accountant, an REO analyst, a portfolio transaction analyst reporting to K-Star's general counsel and head of special servicing, as well as several positions for credit asset management, data analytics, and technology.

As of December 31, 2023, K-Star had 52 people including seven KKR employees (five senior-level) in its credit asset management department.

The management team averages 24 years of experience and includes several CMBS industry veterans. This includes the CEO and president with 24 years of experience, the chief operating officer with 32 years of experience, the general counsel with more than 20 years of experience, the head of special servicing with 33 years of experience, the head of technology with 27 years of experience, and the head of finance and accounting with 27 years of experience. CMBS asset managers average 11 years of experience, including three senior asset managers who average 17 years of experience. The head of the portfolio analytics and investor reporting group has 15 years of experience.

Exhibit 2 Average Years of Experience (December 31, 2023)*

	Industry	Company Tenure
Senior Management	24 (12)	<2
Middle Management	15 (10)	<2
Professional Staff	6 (30)	1
Subset: CMBS Asset Managers	11 (5)	<1
Other Asset Managers (Contingency)**	9 (13)	2.5

* Includes some KKR management. Number of people shown in parentheses.

** Credit asset management personnel.

Workload Ratios

Based on five CMBS asset managers and excluding the special servicing department head and three support analysts, K-Star's assets-to-asset manager ratio was about 7:1 (9:1 by property count) based on 31 active loans and four REO assets as of December 31, 2023. The ratio was closer to 10:1 as of February 2024 because of additional loan transfers.

Assessment: K-Star's expanded staffing depth and scalable organizational structure, combined with KKR's resources, should soundly address its projected workflow and requirements over the next year. Asset managers' workload levels, although increasing because of recent transfers, should remain reasonable, especially as K-Star expects to complete several pending asset resolutions and may expand the special servicing team. The Company's plan to hire a manager to coordinate borrower consents should increase workflow efficiency as well.

Although K-Star has a short operating history, the Company's management and professional team members are solidly experienced and collectively possess a strong understanding of CMBS special servicing. K-Star's collective expertise extends not only to asset surveillance and resolution management but also to PSA compliance, master servicer interaction, and associated reporting nuances.

Training

The compliance department oversees a formal training function consisting of live, online, and recorded sessions scheduled throughout the year. The curriculum covers topics in real estate finance, CMBS and special servicing-centric issues, general skills training, and compliance requirements. Training events encompass presentations from externally invited and KKR/K-Star subject matter experts, industry-sponsored seminars, and professional accreditation courses. The Company leverages KKR's web-based training portal of elective and required courses as well. Team meetings and credit committee discussions further serve as a training forum for case studies and procedural issues. New hires also attend onboarding orientation that covers technology, compliance, and other corporate-level requirements.

K-Star expects all personnel to complete 40 hours of training annually, excluding participation at conferences. The compliance department monitors employee participation through a continuing education and professional development tracking log that enables managers to review their teams' progress. The Company noted that it met its training-hour targets in 2023.

Additionally, the Company is developing the curriculum to launch an analyst training program this year. It plans to start with summer internships followed by college campus recruiting, in which new hires will rotate through K-Star and KKR business lines over a two-year period before final placement.

Assessment: K-Star has established a sound training regimen that also leverages KKR's resources. The Company's training-hour requirement is solid and higher than that of some other Morningstar DBRS-ranked special servicers. The planned analyst training program further demonstrates the Company's commitment to fostering career development and enriching its professional depth.

Audit, Compliance, and Procedural Completeness

Internal Audit and Compliance

Through its compliance department, K-Star has a multifaceted audit and compliance program to ensure adherence with legal, contractual, and regulatory requirements under the applicable PSAs and with KKR's and K-Star's policies and procedures. The audit regimen consists of:

- Monthly quality control reviews and quarterly internal audits covering timeliness and accuracy within various functions and processes. The monthly reviews examine six areas of special servicing and the quarterly audits involve more formally documented and detailed compliance testing.
- The compliance department's annual risk assessment of the entire platform, which it will use to determine, and modify as needed, the scope and priority of areas and processes subject to the quality control reviews and audits.
- Annual Regulation AB examinations for the publicly issued CMBS transactions in which K-Star serves as special servicer. K-Star's recently issued first attestation letter had no exceptions.
- Annual SOC 1 reports. K-Star expects its first annual SOC 1 Type II examination to conclude in May 2025.
- KKR's internal audit department also will conduct recurring operational reviews of K-Star, and the first such audit began in March 2024.
- For REO properties, K-Star will engage a third-party accounting firm to conduct quarterly property management account cash compliance reviews. It also will be engaging another consulting firm to audit selected property managers.

The features of the asset management system also enable K-Star to self-monitor timeliness and accuracy across a range of tasks. The Company's ongoing build-out of its workflow checklists, customized reports, and work product templates, as well as its defined delegations of authority and credit committee process, further support the compliance regimen.

Policies and Procedures

The compliance department controls the Company's formal policies and procedures, which are kept as read-only documents on a purchased file management/sharing application. K-Star's policies and procedures encompass a policy manual that covers the essential elements and mechanics of CMBS special servicing in accordance with PSA requirements; the delegations of approval authority, which centers on requiring credit committee approval for most types of asset resolutions; and a companion desktop manual of detailed instructional procedures with references to the corresponding use of RI or other applications.

In conjunction with in-house general counsel, the compliance team reviews policies and procedures annually with interim changes made as needed. Department heads also will review drafted revisions to policies and procedures, with the CEO providing final sign-off. K-Star employees also are subject to KKR's corporate compliance policies and procedures, which KKR manages through a compliance attestation application.

Assessment: K-Star has a sound and strengthening audit and compliance function to effectively monitor the operational risks for its growing special servicing activity. The Company's policies and procedures are well detailed. Their content, along with the PSA abstractions and the corresponding tracking features in K-Star's asset management system, denotes a proactive and controlled approach for CMBS special servicing. The Company may consider consolidating its policies and procedures into a unified document with embedded hyperlinks to facilitate users' navigation.

Legal Liability and Corporate Insurance

K-Star has directors and officers, errors and omissions, and fidelity bond insurance policies with highly rated carriers. The insurance program also includes a cybersecurity policy. The Company reported it was not involved in any defensive litigation.

Assessment: K-Star's corporate insurance coverage limits should be more than satisfactory based on its projected portfolio activity as a named special servicer and relative to other special servicers. The Company's inclusion of cybersecurity coverage also is a standard and best practice. Based on K-Star's representations, Morningstar DBRS is not aware of any material lawsuits related to, or which could potentially impair, the Company's operations.

Technology

Applications

K-Star uses the RI application for all its special servicing work. KKR already uses a separate installation of RI for CMBS B-piece and other investment underwriting and associated surveillance. RI has a web browser interface and is hosted through a cloud-based computing structure.

Through RI, K-Star can produce the latest CMBS investor-reporting package (IRP) requirements established by the Commercial Real Estate Finance Council (CREFC). RI's functionality includes direct input and storage of asset business plans and status reports, consent and asset resolution workflow management, vendor tracking, loan covenant/trigger event/critical dates tracking, and loan-level activity tracking using file downloads/data feeds from master servicer reports and CMBS data providers. RI also provides for digital approvals, which K-Star has aligned with its authority delegations. The application has cloud-based document storage capabilities, a menu of standard reports, and produces customizable tracking/quality control reports. RI includes geographic asset mapping and performance dashboards to support analytics. As noted, K-Star has configured the application to contain the essential data points for covenant/trigger event monitoring and is working to establish business processes to populate and manage them.

K-Star's other supporting applications, provided by KKR, include an automated vendor invoice tracking and processing application, which is integrated with KKR's corporate accounting system; a purchased application for file storage and sharing; and Microsoft Office 365. K-Star/KKR technology personnel continue to work with consultants to implement additional application enhancements and interfaces. As part of those efforts, K-Star/KKR launched a project toward the end of 2023 to construct a data warehouse built on an Amazon Web Services platform.

Staffing, Data Backup, and Disaster Recovery

Besides having its own technology manager, K-Star leverages KKR's IT department of more than 200 employees for network management, user support, programming, data backup, and data security. The KKR IT department includes a dedicated team for its real estate business. K-Star also contracts with a vendor to support its office network infrastructure.

K-Star stated its technology platform, which resides in KKR's existing infrastructure, is fully cloud-computing based. As part of the annual SOC examination and separately, KKR's technology platform also undergoes recurring security assessments.

KKR conducts annual disaster recovery/business continuity testing, and the most recent test had no material findings. KKR stated that it maintains geographically separate primary/production and backup data centers and uses various technologies to back up the data, replicate it, and store it off-site.

K-Star's business continuity plan identifies event types and covers response management and recovery strategies. Personnel can remotely obtain access to all network applications through a virtual private network and to third-party applications through multifactor authentication. The Company indicated it should have access to all business-critical systems and data and resume all functions within 24 hours of a declared disaster event or business interruption. However, the actual recovery time could be much less given KKR's failover design to a secondary data center and real-time network data replication through its cloud services providers.

Data Security

KKR's data security program follows the guidelines of the National Institute of Standards and Technology. A comprehensive information security program (CISP) committee meets quarterly to review potential data security threats and remedies. The Company noted the CISP committee was formed to follow the enterprise-risk management framework for designing, implementing, and evaluating internal controls as established by the Committee of Sponsoring Organizations of the Treadway Commission.

Through KKR, K-Star’s data security protocols include:

- Technology architecture and risk assessments and penetration tests conducted at least annually.
- A security operations center that monitors potential threats and anomalous activity.
- Monthly and randomized cybersecurity awareness and training campaigns.
- Incident response exercises.
- Strict role-based access controls, including multifactor authentication.
- Continual updating of firewalls, encryption, and malware detection technologies.

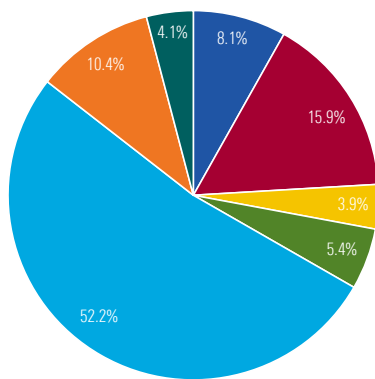
Assessment: Through the RI application and leveraging KKR’s platform, K-Star has solid technology capabilities to manage workflows and effectively meet its data management and reporting requirements, especially for CMBS and CLO transactions. Based on KKR’s stated practices and representations of its technology environment, the Company’s data backup, recovery, and security measures appear to be sound. K-Star’s technology capabilities also should strengthen this year as it leverages more of RI’s functionality and progresses with its data warehouse and other application integration projects.

Special Servicing Administration

As of December 31, 2023, the active portfolio of 31 loans and four REO assets involved 39 properties in 16 states plus Washington, D.C. K-Star noted that the active portfolio had 43 loans as of mid-February 2024 because of subsequent transfers.

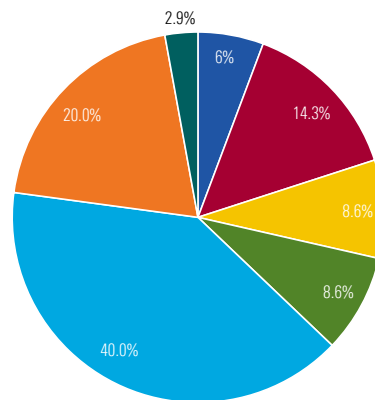
Exhibit 3 Active Special Servicing by Property Type (UPB)*

■ Industrial ■ Lodging ■ Mixed Use ■ Multifamily ■ Office ■ Retail ■ Other



Active Special Servicing by Property Type (Asset Count)*

■ Industrial ■ Lodging ■ Mixed Use ■ Multifamily ■ Office ■ Retail ■ Other



* Loans and REO as of December 31, 2023. Based on consolidated positions secured by common collateral. Range of asset vintage years: 2017–21. Percentages may not equal 100% because of rounding.

Asset Analytics and Resolution Management

Loan Surveillance

Through monthly CREFC IRP file downloads and other information provider data feeds, K-Star maintains information on its RI application for all loans in which it is the named special servicer. K-Star noted its surveillance process, managed through RI tracking reports and the portfolio analytics team, includes reviewing IRP data, such as watchlists and servicers' operating statement analyses; monitoring performance metrics; identifying actual/potential loan covenant breaches and trigger events; and discussing covenant breaches, cash management, and other trigger events as well as potential loan transfer situations with master servicers.

Special Servicing Asset Transfers

For loans transferring into K-Star, the Company's legal department, in conjunction with the special servicing team and compliance department, oversees the intake process of custodial documents and servicing files. The assigned asset manager ensures that RI is properly updated with all critical loan and property data as well as key tickler date alerts. Using a loan transfer checklist, the asset manager conducts a file review, including PSA-related requirements, loan-level covenants, the loan's history, and performance issues. As needed and required, K-Star will obtain an updated property inspection, appraisal, and other third-party valuation opinions.

Through this due-diligence process, asset managers assess options and strategies to maximize the highest net present value recovery for the trust according to the servicing agreement and the servicing standard. Within 10 days of loan transfer, K-Star sends the borrower a notification letter along with a required prenegotiation and reservation of rights agreement as a prerequisite for workout discussions, as appropriate. The Company noted its legal department has standard form documents for these items.

Within 60 days of transfer, or in less time as specified by the PSA, asset managers will prepare and obtain approval of an initial asset status report (ASR), which also serves as the asset business plan. For pre-existing specially serviced loans, which comprise most of its active portfolio, K-Star also has prepared updated ASRs as the situations warranted. Asset managers also must submit updated ASRs for senior management credit committee approval for foreclosure bids, final resolution terms, and other major asset decisions.

K-Star has developed a template in RI so that asset managers can prepare ASRs directly in the application. The Company uses RI's electronic approval functionality, thereby enabling RI to serve as the central tracking tool for each approval request.

The Company stated it monitors outstanding advances against property values and expected recovery amounts. The Company stated that in most instances it will defer to the master servicer for declarations of nonrecoverability. However, K-Star noted it will adhere to the requirements of the governing PSA to provide notification to the master servicer on nonrecoverability determinations and is available to discuss each situation with the master servicer beforehand.

Assessment: Based on K-Star's stated policies and procedures and the management team's strong experience with CMBS transactional requirements, the Company has effective practices for receiving loan transfers, asset analysis, and resolution management. RI's tracking and workflow features also facilitate K-Star's asset analytics and data management controls as the Company steadily leverages more of the application's functionality.

REO Property Management

Loan asset managers continue to manage the asset as an REO property, which includes overseeing external property managers as well as leasing and marketing agents. However, as noted, the Company has recently hired an REO manager and is interviewing to add an REO analyst for both the securitized and direct lending portfolios and potentially anchor a dedicated REO asset management team. Asset managers, in consultation with K-Star legal staff, use a property-takeover checklist when transitioning an asset to REO status to ensure all issues are addressed, including property management, real estate mortgage investment conduit and PSA compliance, and insurance coverage. Recommended property managers and brokers must be approved by senior management and qualify for or already be on K-Star's approved-vendor list.

Within 120 days of an asset becoming REO, asset managers will prepare and obtain approval of an updated ASR delineating the REO business plan, which includes the property's operating budget. Specific sales offer terms or other major decisions require asset managers to submit subsequent ASRs/business cases.

Property managers must adhere to K-Star's monthly reporting requirements and procedures as defined in their agreements. The Company also uploads property managers' operating reports to the asset management system to track budget-to-actual property performance and to prepare operating statement analysis reports.

For most REO properties, K-Star will control property-level cash management through dual operating accounts: one for rent collections and one to fund expenses based on approved budgets. For multifamily and certain other cases, K-Star may permit property managers to use a single operating account to collect rents and pay expenses. The finance and accounting manager will control account setups, fundings, and cash sweeps. Asset managers are responsible for monthly account reconciliations, although K-Star plans to engage a third-party accounting firm to perform REO account and cash assessment reviews as well. Although asset managers review monthly property manager reporting packages and will reconcile operating accounts, they will not have access to execute banking transactions. Account disbursements require approval from K-Star's finance manager or its president and CEO. As noted, the Company also plans to have a third-party consulting firm conduct property manager audits.

Assessment: K-Star, based on its policies and use of RI for activity tracking, demonstrates sound practices for transitioning loans to REO status, overseeing property managers and brokers, and managing REO property resolutions. Although not the usual practice among special servicers, giving asset managers direct responsibility for REO bank account reconciliations instead of accounting staff is acceptable based on their experience, the Company's use of dual operating accounts for rent collection and expense fundings for most assets, and K-Star's plan to have accounting firms conduct frequent cash assessment reviews and property manager audits. The Company's stated 120-day maximum time frame for developing and approving REO business plans is longer than the industry norm, which is usually 60 to 90 days. K-Star's plan to hire specialists for REO assets this year should further strengthen this function.

Borrower Consent Requests

The special servicing team handles consent requests such as loan assumptions, lease reviews, collateral releases, and property manager changes. As a staffing enhancement, K-Star plans to hire a designated consents manager this year. For most of K-Star's CMBS transactions thus far, the Company's role is to fully manage the underwriting and interact directly with the borrower. The assigned asset manager or analyst obtains consent approvals through K-Star's delegations of authority, which require sign-off from the head of special servicing and submission to the credit committee for certain actions.

K-Star expects to increasingly manage request status, timelines, and document submission checklists through RI, which already houses customized templates for various request types. For leasing consents, one of the most common requests, K-Star has a lease abstract template to analyze effective rents and property cash flow stress scenarios. As with ASRs and resolution cases, K-Star uses RI to manage consent request approvals.

During 2023, the Company reviewed and processed 10 loan assumptions, 43 leasing requests, and 13 property manager changes, in addition to some other consent types. Processing time frames were overall reasonable.

Assessment: K-Star has sound controls and proactive practices for credit-oriented borrower requests based on its documented policies and leveraging of RI for status tracking, approvals, and underwriting templates. The special servicer team, based on the asset managers' collective backgrounds, is experienced in this area. The Company's plan to hire a dedicated manager should strengthen its handling of this important function as well.

Vendor and Legal Oversight

K-Star has developed and continues to refine/expand its list of preferred and approved vendors for services such as appraisals, environmental and engineering assessments, legal counsel, property management, and brokerage. For legal services, K-Star currently has 12 preferred firms. The Company also has some master agreements with designated firms for certain recurring services such as property inspections, tax appeals, environmental/property condition reports, and insurance reviews. The Company uses RI's vendor module to manage the approved lists, track pending job orders, and maintain vendor performance ratings. The legal department, in consultation with the special servicing department, manages the vetting process and integrity of the approved vendor list.

Most engagements involve a request-for-proposal bid from the prospective vendor. Prospective vendors also must complete a registration form, which includes disclosures of insurance and bond coverage and documentation requests of data security controls. K-Star uses standardized engagement letters and services agreements as much as possible. As noted, K-Star uses an automated vendor invoice tracking and processing application. The head of special servicing and the asset manager approve legal services invoices.

Assessment: The Company demonstrates sound vendor qualification and oversight practices based on its described policies, approval controls, and corresponding system tracking.

Investor and Master Servicer Reporting

The portfolio analytics team, with input from the special servicing team, manages the production and distribution of the applicable components of the CREFC IRP and other required investor reports as well as accompanying officers' certifications. The Company stated that report production is mostly automated through the RI application.

Policies delineate the Company's essential reporting content requirements such as calculating property protection advances, appraisal subordination entitlement reductions, final payoffs, realized losses/final recovery determinations, and fees. The Company controls reporting content and investor submissions through a dual-level review process and manager approval through its delegations of authority. K-Star's PSA abstracts and programmed system ticklers support the function as well.

Assessment: Although it has less than one year of performance history, K-Star has sound investor reporting capabilities for CMBS and CLO transactions based on its experienced personnel, described policies and controls, technology, and performance to date.

Asset Resolutions

K-Star did not liquidate any specially serviced assets or conclude any true loan workouts in 2023. However, in coordination with the respective master/primary servicer, K-Star did resolve and return two loans that had transferred with relatively minor and correctable issues, and finalized an amended forbearance on a third loan. The Company noted that it has several asset resolutions pending and expects to resolve an increasing number of assets as the year progresses.

Exhibit 4 K-Star: Special Servicing Loan Portfolio Activity (All in CMBS Transactions)

	H2 2023		H1 2023	
	Volume (\$ Millions)	Loans	Volume (\$ Millions)	Loans
Loan Portfolio at Beginning of Period	457.9	27	0.0	0
Loans Transferred Into Portfolio:				
Pre-Existing from Another Special Servicer	0.0	0	399.9	24
New Nonmonetary/Imminent Default Transfers	28.2	1	21.0	1
New Monetary Default Transfers	209.0	8	37.0	2
Total Transfers	237.2	9	457.9	27
Total Loan Resolutions and Recoveries	0.0	0	0.0	0
Completed Foreclosures	(12.1)	(2)	0.0	0
Net Adjustments and/or Other Loans Transferred Out	(32.2)	(3)	0.0	0
Loan Portfolio at End of Period	650.8	31	457.9	27
Property Count at End of Period		39		34

Exhibit 5 K-Star: REO Portfolio Activity (All in CMBS Transactions)

	H2 2023		H1 2023	
	Volume (\$ Millions)	Properties	Volume (\$ Millions)	Properties
REO Portfolio at Beginning of Period	23.3	2	0.0	0
Asset Already REO When Acquired	0.0	0	23.3	2
Completed Foreclosures	12.1	2	0.0	0
REO Sold in Period	0.0	0	0.0	0
Other REO Transferred Out or Adjustments	(0.2)	0	0.0	0
REO Portfolio at End of Period	35.2	4	23.3	2

Ranking Scale

- MOR CS1: Superior Quality—Exceeds prudent loan servicing standards. Unlikely to be significantly vulnerable to future credit events.
- MOR CS2: Good Quality—Demonstrates proficiency in loan servicing standards. May be vulnerable to future credit events, but qualifying negative factors are considered manageable.
- MOR CS3: Adequate Quality—Demonstrates satisfactory loan servicing standards. May be vulnerable to future credit events.
- MOR CS4: Weak Quality—Demonstrates lack of compliance with one or more key areas of risk. Vulnerable to future credit events.

A servicer assigned a ranking of at least MOR CS3 is deemed to comply with what Morningstar DBRS views as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role.

Disclaimer

Morningstar DBRS commercial mortgage servicer rankings are not credit ratings. Instead, they are designed to evaluate the quality of the parties that service or conduct master servicing on commercial mortgage loans. Although the servicer's financial condition contributes to the applicable ranking, its relative importance is such that a servicer's ranking should never be considered as a proxy of its creditworthiness.

While Morningstar DBRS obtains information for its servicer ranking from sources it believes are reliable, Morningstar DBRS relies on the factual accuracy of the servicer's information and the servicer's own representations about its operations, practices, and business. Accordingly, the servicer ranking itself is not an audit as it does not entail examining individual asset files, testing procedures, and technology applications, or conducting any other testing that may be construed as an audit. Certain assumptions, including, but not limited to, an assumption that the information received from third parties is complete and accurate, in connection with its ranking, may have been made by Morningstar DBRS in preparing the servicer ranking. For more information about Morningstar DBRS' servicer ranking methodology, please visit dbrs.morningstar.com.

This report, and the rankings and trends contained herein, represent Morningstar DBRS' opinion as of the date of this report, and thus are subject to change and should not be viewed as providing any guarantee. Morningstar DBRS performs surveillance of the servicer and, as a result, may place a servicer ranking Under Review with the appropriate Implications designation: Positive, Negative, or Developing. However, Morningstar DBRS expects servicers to supply certain information over the life of the ranking(s). The maintenance of a ranking is conditional upon the ongoing timely receipt of this data and/or information, which may be obtained from reasonably reliable sources as part of the surveillance process.

Note:

All figures are in U.S. dollars unless otherwise noted.

About Morningstar DBRS

Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at dbrs.morningstar.com.



The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany) (EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies please see: <https://dbrs.morningstar.com/research/highlights.pdf>.

The Morningstar DBRS Group of companies are wholly-owned subsidiaries of Morningstar, Inc.

© 2024 Morningstar DBRS. All Rights Reserved. The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such credit ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON [HTTPS://DBRS.MORNINGSTAR.COM](https://dbrs.morningstar.com). Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.