

# 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. In this report, KKR & Co., together with KKR Adviser and other related entities, is referred to as KKR.

K-Star 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 received its first securitized special servicing assignment in March 2023 and continues to be named special servicer for new KKR Fund investments. The company also provides due diligence support for affiliate CRE investments and asset management support for the CRE-direct lending portfolio held by affiliate 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 \$553 billion in assets under management (AUM) as of year-end 2023, including \$69 billion within its global real estate business. KKR has approximately 2,600 employees located in 25 offices worldwide.

As of year-end 2023 (YE23), K-Star was named special servicer for 41 multiborrower, 16 single-asset single-borrower (SASB) and two CRE-CLO securitizations totaling \$45.7 billion. The company was also providing asset management support and primary servicer oversight for the CRE-direct lending portfolio held by KKR Funds comprising 593 nonsecuritized loans totaling \$34.1 billion as of the same date.

## 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<sup>a</sup>

Commercial Special Servicer CSS3

<sup>a</sup>Last Rating Action: Rating affirmed April 15, 2024

## Rating Outlook<sup>b</sup>

Positive

<sup>b</sup>Rating Outlook revised April 15, 2024.

## Applicable Criteria

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

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

## Related Research

[Fitch Affirms K-Star Commercial Special Servicer Rating; Revises Outlook \(April 2024\)](#)

[Fitch Affirms KKR at 'A'; Outlook Stable \(October 2023\)](#)

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## Key Rating Drivers

**Company and Management:** K-Star is an indirect subsidiary of KKR & Co. Inc. (KKR & Co, and together with their respective subsidiaries, KKR). The company was formed in 2022 to provide special servicing and value-add asset management support for affiliate CRE direct lending and securitized investment portfolios. K-Star provides integral supporting CRE primary servicing oversight and special servicing for KKR’s CRE investment management platform. KKR provides finance, accounting, human resources, compliance, facilities and technology support to K-Star through an administrative services agreement.

**Staffing and Training:** As of YE23, K-Star had 52 employees, 30 of whom were allocated to supporting special servicing functions. Fourteen employees are fully dedicated with the remaining shared resources. The senior management team comprises 12 managers with only the heads of special servicing and surveillance, and reporting fully dedicated resources. The senior management team averages 24 years of industry experience and two years of tenure, while the company’s 10 middle managers average 15 years and two years, respectively.

The majority of employee growth since Fitch’s last review occurred at the staff level as K-Star added more than 20 staff-level employees. Collectively, the company’s 30 staff-level employees, including nine fully dedicated to special servicing, average six years of industry experience and one year of tenure. Fitch identified four employees as asset managers with greater than three years of industry experience and currently assigned specially serviced assets. Asset managers average 14 years of industry experience, and the company maintains an assets to asset manager ratio of 9:1, in line with rated peers.

There was no turnover among employees during 2023, and employees completed an average of 40 hours of training. As a start-up entity, employees average only one year of tenure with the company, which is low compared to other Fitch-rated servicers.

**Technology:** K-Star uses RealINSIGHT, a third-party-developed application, for special servicing, investor reporting and asset management. Ancillary applications include an internally managed third-party customer relationship management application supporting the CRE originations platform, an internally managed data warehouse for reporting and cloud-based, third-party document management software.

Future technology enhancements are expected to focus on the expanded use of RealINSIGHT to support performing loan covenant tracking and benchmark analysis, vendor oversight, expanded reporting, and the development of custom dashboards and data interface tools, among others.

**Corporate Governance:** K-Star’s internal governance infrastructure consists of policies and procedures and key metrics within RealINSIGHT, based on the requirement of individual servicing agreements. Oversight is provided by managers through exception reporting, a dedicated compliance group, internal and external audits, and a credit committee for all material workout decisions. As a recently established servicer, internal controls have limited demonstrated proficiency, given its short operating history, for which Fitch has applied conservative assumptions to corporate governance controls. The company completed its first RegAB audit and two quality control audits for specially serviced loans in 2023.

**Defaulted/Nonperforming Loan Management:** Notwithstanding a short operating history contributing to limited demonstrated performance resolving specially serviced loans, K-Star has made progress building out its technology and policies and procedures for key functions such as performing loan surveillance, timely transfer of loans from master servicers, timely development and execution of reasonable business plans, and REO disposition. While K-Star conducts a quarterly review of assets with KKR, it currently does not have a formal annual business plan review and approval of specially serviced loans by credit commit process consistent with industry best practices of highly rated servicers. The company has resolved three loans since inception totaling \$29.5 million.

**Financial Condition:** Fitch affirmed the Long-Term Issuer Default Ratings (IDRs) of KKR & Co. Inc. and its related entities (collectively, KKR) at 'A'/Stable in October 2023.

## Company Experience Since

CRE Loan Workout	N.A.
Securitized Workout	N.A.
N.A. – Not available Source: Fitch Ratings, 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	■ Limited 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 an indirect subsidiary of KKR & Co. Inc. (NYSE: KKR) (“KKR & Co” and together with their respective subsidiaries, “KKR”) began operations in early 2022 and was 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 investments.

K-Star initially began providing special servicing and asset management support for KKR’s direct lending portfolio in 2022 and subsequently received its first named special servicing assignment for a securitized CRE transaction in March 2023. As of year-end 2023, the company’s portfolio included 41 multiborrower, 16 single-asset single-borrower (SASB) and two CRE-CLO securitizations, with additional growth expected from controlling class purchases of up to 5-10 transactions annually by affiliates, depending on market conditions, and CRE-CLO issuance. The company oversees primary servicers of the direct-CRE lending portfolio held by KKR Funds, in conjunction with an in-house asset management team, and provides 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 approximately \$553 billion in assets under management (AUM) as of year-end 2023, including \$69 billion within its global real estate business. KKR has approximately 2,600 employees located in 25 offices worldwide.

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 \$35 billion in CRE mortgages since inception. The direct lending portfolio represents loans on behalf of KKR affiliates. CRE-direct lending originations target stabilized, transitional or construction assets with either first mortgage, mezzanine or preferred equity structures.

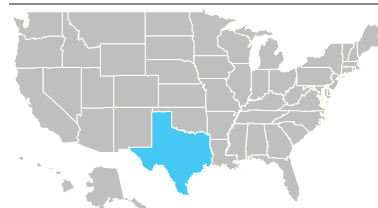
KKR, through various affiliates, originated more than 640 CRE loans totaling \$38.2 billion in 2023 inclusive of its securitization, direct lending and general account business lines. KKR

expects to originate approximately 60 loans totaling \$7.8 billion through direct lending, 19 loans totaling \$2.0 billion for securitization, and 45 loans totaling about \$5.6 billion in 2024, market conditions permitting.

The real estate credit group began acquiring controlling classholder 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.

KKR purchased three CMBS transactions in 2023 for which K-Star was named special servicer. KKR, through affiliates, expects to originate or purchase up to five CMBS transactions in 2024, market conditions permitting.

## Office Locations



Primary Office: Dallas, TX

## Most Recent Management Meeting:

January 25, 2024      Dallas, TX

## Servicing Portfolio Overview

	12/31/23	% Change	9/30/22	% Change	12/31/21
<b>Special Servicing – Named</b>					
UPB (\$ Mil.)	79,831.6	241	33,183.0	–	0.0
No. of Loans	2,497	432	578	–	0
<b>Special Servicing – Active<sup>a</sup></b>					
UPB (\$ Mil.)	686.0	–	0.0	–	0.0
No. of Loans	35	–	0	–	0

<sup>a</sup>Including REO. UPB – Unpaid principal balance.  
Source: Fitch Ratings, K-Star

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. 27, 2023.

The rating affirmations reflect KKR's strong competitive position as a global alternative IM, its 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 a below-average pay-out ratio.

Rating constraints for the industry include key-person risk, which is institutionalized throughout many limited partnership agreements; reputational risk, which can affect the company's ability to raise funds; and legal and regulatory risk, which could alter the alternative IM industry. Rating constraints specific to KKR include its sizable balance sheet, which exposes the capital base to potential valuation declines, and higher cash flow leverage, which is somewhat offset by relatively low balance sheet leverage. Fitch also notes the more challenging macroeconomic conditions, including rising interest rates, inflationary pressures, elevated recession risk, geopolitical risk and an increased risk of a government shutdown, all of which may pressure investment performance and fundraising.

KKR's core operating performance remains strong, driven by the relative stability of management fees on a growing FAUM base, despite lower transaction fees related to its capital markets business. The firm's FEBITDA margin was 63.1% for the TTM ended 2Q23, which was flat yoy. KKR's margins are consistent with Fitch's 'aa' and above' category benchmark range above 50% for alternative IMs, and at the top end of the peer group levels.

Fee-related performance revenue was \$118.7 million for the TTM ended 2Q23, or approximately \$47.5 million, net, assuming a 60% compensation ratio. Realized carry and balance sheet investments can be meaningful contributors to KKR's earnings, given its differentiated business model, to invest heavily alongside investors and generate cash yield. Net realized carried interest totaled \$474.8 million and net realized investment gains amounted to \$709.0 million for the same period.

Based on deals that closed or are expected to close as of June 30, 2023, management expects to generate at least \$350 million of gross monetization-related revenue (including performance fees and realized income) in 2H23. Realization activity has been relatively muted, but Fitch expects it to accelerate in 2024.

Unrealized carried interest amounted to \$2.9 billion at June 30, 2023, net of compensation, providing healthy future realization potential for the firm.

When assessing KKR's leverage, Fitch takes a hybrid approach, given the firm's cash-generative business model and heavy balance sheet utilization. On this basis, Fitch views KKR's leverage

profile as commensurate with the current rating level, with relatively elevated debt to FEBITDA (3.1x for the TTM ended 2Q23) offset by relatively low debt to tangible equity (0.3x at 2Q23), which was flat yoy.

Fitch continues to view KKR's liquidity profile as solid, with \$3.8 billion of cash and liquid short-term investments, along with \$1.5 billion of available revolver capacity. KKR's balance sheet investments, which totaled \$18.0 billion at fair value (1.4x cost) at 2Q23, could also serve as an additional source of debt repayment. KKR has no upcoming debt maturities, with its next maturity in 2025 when JPY5 billion (\$34.6 million) comes due.

The Stable Rating Outlook reflects Fitch's expectation that KKR will continue to generate stable management fees and FEBITDA; retain FAUM through new funds and the expansion of existing funds; and maintain solid leverage and liquidity profiles. The Stable Outlook incorporates expectations of cash flow leverage remaining above the peer average and Fitch's general tolerance level for 'a' category rated alternative IMs, offset by the company's low balance sheet leverage and strong liquidity profile.

## Employees

K-Star continued its expansion during 2023, as the number of employees increased from 25 to 52 as of YE23, of which 30 employees support special servicing functions. Employees support executive management (one), compliance (three), legal (one), finance and accounting (one), technology (four), surveillance and reporting (five), special servicing (nine), underwriting (three) and credit asset management (22) functions. The company expects to fill eight positions through 2024 to support continued growth and expansion. The positions include those needed to further support reviews of performing loan consent requests, underwriting, REO management and European credit asset management.

Fourteen employees, up from five employees at YE22, are fully dedicated to special servicing including the senior managers of the special servicing and surveillance, and reporting groups, three middle managers and nine staff-level employees. Remaining special servicing resources are shared resources who also support compliance, legal, technology, administrative, underwriting, and finance and accounting functions. The company's 22 employees that support credit administration functions, who average nine years of industry experience, do not currently support special servicing functions but are available as additional resources if needed. A majority of employees, including all employees allocated to supporting special servicing, are based out of the company's Dallas headquarters. The credit administration group includes employees located in affiliate KKR offices, with four located in New York, three in Houston and one in San Francisco.

K-Star has not experienced any turnover during the 12-months ended December 2023. The company's four special servicing asset managers average 14 years of industry experience and maintain an assets to asset manager ratio of 9:1 as of the same date.

K-Star expects to add additional staff as it builds out support for KKR's EMEA CRE portfolio with additional support provided by the company's Dublin office. Approximately 20% of KKR's CRE investments in 2024 are allocated to EMEA.

	2023				2022			
	No. of Employees	Avg. Years Industry Experience	Avg. Years Tenure	% Turnover	No. of Employees	Avg. Years Industry Experience	Avg. Years Tenure	% Turnover
<b>Special Servicing</b>								
Senior Management	12	24	2	0	11	23	1	0
Middle Management	10	15	2	0	7	14	1	0
Servicing Staff	30	6	1	0	7	4	1	0
<b>Total</b>	<b>52</b>	<b>—</b>	<b>—</b>	<b>0</b>	<b>25</b>	<b>—</b>	<b>—</b>	<b>0</b>

Source: Fitch Ratings, K-Star

Staffing levels depend on the number of securitized transactions of which the company is named special servicer, 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 continue to increase staffing levels modestly as it assumes additional support responsibilities for KKR.

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 the management team, some of whom have prior special servicing experience at Fitch-rated servicers.

The senior management team comprises 12 managers with only the heads of special servicing and surveillance, who report as fully dedicated resources. The senior management team includes representatives of each functional area, including legal, compliance, finance and accounting, among others. Senior management team members average 24 years of industry experience and two years of tenure.

Ten middle managers, three of which are fully dedicated to specially servicing, average 15 years of industry experience and two years of tenure. The majority of employee growth since Fitch's last review occurred at the staff level as K-Star added more than 20 such employees. Collectively, the company's 30 staff-level employees, including nine fully dedicated to special servicing, average six years of industry experience and one year of tenure.

Fitch identified four employees as asset managers with greater than three years of industry experience and currently assigned specially serviced assets. Asset managers comprise three middle managers and one staff-level employee who collectively average 14 years of industry experience and one year of tenure, and maintain an assets to asset manager ratio of 9:1. The current level of assets to asset managers is comparable to that of other Fitch-rated servicers and indicative of additional capacity to absorb future transfers.

**Training**

K-Star maintains a formal training program consisting of internal and external resources to facilitate new hire training and ongoing professional development through KKR's Percipio and KnowB4 platforms. The company requires special servicing employees to complete 40 hours of training annually, inclusive of mandatory required compliance and cybersecurity training. During 2023, special servicing employees completed an average of approximately 40 hours of training per employee, consistent with company goals. Employees are required to certify their attendance and completion of training courses through an online portal monitored by the K-Star compliance group. Management and team leaders are provided quarterly reports to monitor employee compliance with required training goals.

Employees completed an average of 40 hours of training in 2023, consistent with company goals.

Employee training is delivered through web-based platform and instructor-led programs hosted by internal and external subject matter experts. New employees are required to complete an onboarding orientation program addressing KKR HR, compliance and technology topics. There are also supplemental orientation programs based on their role.

All K-Star employees were required to complete multiple security and compliance training courses in 2023 addressing cybersecurity, ethics and global compliance, conflicts of interest and insider training, anti-money laundering and anti-bribery, social media training, and security and resiliency training, among others. Recent CRE-focused training topics include introduction to CMBS, lender liability suits, workouts, interest rate caps, Florida litigation strategies, lender liability prevention strategies and loan assumptions, among others.

**Operational Infrastructure**

**Outsourcing**

K-Star does not outsource core special servicing functions. The company engages third-party vendors for site inspections, appraisals, environmental reports, property management and legal matters through the normal course of special servicing and REO asset management.

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.

**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.

K-Star has made progress in establishing an inventory of vendors to support special servicing functions. The company continues to develop vendor management tools within its asset management system, which are expected to be completed in 2024.

K-Star currently maintains active contracts with environmental risk consultants, appraisal services, property management services, a real estate broker, a tax consultant and a commercial property inspector, among others.

Vendor performance is annually based on quality of work, cost, risk, timeliness and responsiveness with RealINSIGHT used to track key performance metrics. Performance is also monitored through the year by the business line owner responsible for engaging the vendor and the legal and compliance groups.

## Information Technology

K-Star will use RealINSIGHT, a third party-developed application, for special servicing, investor reporting and asset management functions.

The application is hosted by the vendor via a web-based cloud environment and provides centralized workflow management and reporting capabilities. Concurrently, it also incorporates monthly data updates for securitized loans from a third-party external data provider. RealINSIGHT is integrated with a third-party securitized data provider that provides daily data feeds for all loans in transactions where the company is named special servicer, including tenant information. K-Star currently does not receive regular data feeds from master servicers, and its data are limited to monthly CRE Finance Council (CREFC) data files. The special servicing application also receives real-time 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 third-party customer relationship management application that supports the broader KKR CRE originations platform, an internally managed data warehouse for reporting and a cloud-based, third-party document management software. All investor reporting functions for special servicing are currently supported by RealINSIGHT, although the company may develop its own data warehouse in the future.

Future technology enhancements are expected to focus on the expanded use of RealINSIGHT to support performing loan covenant tracking and benchmark analysis, vendor oversight, expanded reporting, the development of custom dashboards and data interface tools, among others. While K-Star uses RealINSIGHT as its asset management system, it 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.

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

K-Star made progress implementing the core asset management and reporting functionality of RealINSIGHT and demonstrated the ability to generate business plans and perform loan surveillance.

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 2023, with subsequent findings addressed. Supplementing annual testing, KKR maintains a security operations center to continuously monitor its network for potential threats and anomalous activity. K-Star is also covered under KKR's cyber liability insurance for which KKR has not made any claims against. 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. KKR's technology, engineering and data teams, and global risk strategy team maintain crisis management and business continuity programs, which include policies and procedures to manage a variety of contingencies to mitigate operational interruptions.

KKR's technology infrastructure leverages multiple geographically diverse datacenters with real-time replication across high availability servicers, resulting in minimal expected data loss. The expected recovery time of core systems is 24 hours. K-Star's Dallas office also maintains a battery backup to supplement short-term power interruptions. Special servicing data within ReallINSIGHT are hosted by the vendor, which also uses real-time replication to minimize potential data loss. The most recent disaster recovery test of ReallINSIGHT occurred in November 2023, with no material findings reported.

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.

KKR's most recent disaster recovery and business continuity tests occurred in May 2023 with no material findings.

## Corporate Governance

K-Star's internal governance infrastructure consists of both policies and procedures as well as key metrics within ReallINSIGHT based on the requirement of individual servicing agreements. Oversight is provided by managers through exception reporting, a dedicated compliance group, internal and external audits, and a credit committee for all material workout decisions. As a recently established servicer, internal controls have limited demonstrated proficiency, given its short operating history, for which Fitch has applied conservative assumptions to corporate governance controls.

K-Star currently maintains high level policies and procedures for special servicing supplemented by more detailed task-specific procedural documents.

### Policies and Procedures

K-Star maintains a primary special servicing policies and procedures manual that is supplemented by multiple procedures addressing special servicing tasks. Policies and procedures are reviewed annually and re-affirmed by the president and CEO of K-Star, COO, general counsel and business line head. All policies and procedures are maintained on a central file location and available to all employees. The compliance department oversees the administration of policies and procedures as well as compliance through its quarterly compliance and quality control testing. Training is provided to new employees during the onboarding processes and annually thereafter. Interim changes to policies and procedures are communicated by the compliance department via e-mail with training provided to support significant changes.

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.

As a new special servicer, K-Star has limited demonstrated proficiency of controls. Fitch applied conservative assumptions to corporate governance controls.

K-Star has made significant enhancements to its policies and procedures since Fitch's last review, as it continues to refine its processes. Recent policy revisions include changes to



approval authority, control shifts, due diligence and surveillance, exposure reports, crisis management, property inspections, watchlists, asset summary report preparation, investor reporting, maturity reporting, and third-party report ordering procedures, among others.

Fitch reviewed K-Star's special servicing policies and procedure manual and a random sample of supplemental procedures. Policies and procedures provide a high-level basic overview of servicing functions and asset manager responsibilities while procedures provide more detail with varying degrees of detail necessary to complete tasks. All procedures sampled had been reviewed within the past 12-months.

## Compliance and Controls

K-Star maintains a dedicated compliance department comprising two staff-level employees and one senior manager, who are responsible for quality control oversight, internal audit coordination, and oversight and updating of policies and procedures. 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.

A quarterly compliance and quality control audit is performed by the compliance department using ReallNSIGHT to monitor key deliverables such as appraisals, inspections, asset status report, foreclosure and environmental assessment deadlines and requirements. Fitch reviewed second- and third-quarter 2023 compliance and quality control reports that covered a representative sample of active specially serviced loans and contained no material findings.

## Internal Audit

K-Star is subject to annual risk assessment and internal audit by KKR, which maintains an internal audit function comprising approximately 20 auditor team members who report to KKR's chief audit executive and administratively to the global chief compliance officer and counsel of KKR. As of March 2024, KKR had completed its first initial review of K-Star, and the first audit is expected to be completed in the second half of 2024.

## External Audit

Fitch reviewed K-Star's first annual RegAB audit report, issued by FORVIS, LLP, on Feb. 13, 2024. The report, which examined K-Star's compliance with servicing criteria through Dec. 31, 2023, contained no materially adverse findings and confirmed managements attestations of compliance with servicing agreements.

K-Star is not subject to an annual Uniform Single Attestation Program (USAP) audit, as all of its current named special servicing transactions are included within the scope of the RegAB audit.

K-Star completed its first external audit in February 2024 with no material findings. The company's first internal audit is expected to be completed in the second half of 2024.

## Special Servicing

### Special Servicing Portfolio

As of YE23, K-Star was named special servicer for 41 multiborrower, 16 single-asset single-borrower (SASB) and two CRE-CLO securitization transactions comprising approximately 1,900 loans totaling \$45.7 billion. The company was also named special servicer for 593 nonsecuritized loans totaling \$34.1 billion of which there were no loans in special servicing. The nonsecuritized portfolio represents loans originated on behalf of various KKR affiliates. Nonsecuritized loans may be either first mortgage, mezzanine or preferred equity structures secured by stabilized, transitional or construction assets.

Also as of YE23, the company was actively working out 31 defaulted loans totaling \$650.8 million and managing four REO assets representing \$35.2 million in outstanding balance. During 2023, K-Star completed its first three resolutions of securitized loans, all of which were returned to performing status with no losses. Loan resolutions included two retail and one office assets.

### Special Servicing Portfolio Overview

	12/31/23	% Change	9/30/22	% Change	12/3121
<b>Securitized</b>					
No. of Transactions – Special Servicer	59	–	0	–	0
UPB – Special Servicer (\$ Mil.)	45,701.7	–	0.0	–	0.0
No. of Loans – Named Special Servicer	1,904	–	0	–	0
UPB – Actively Special Servicer (Non-REO) (\$ Mil.)	650.8	–	0.0	–	0.0
No. of Loans – Actively Special Servicer (Non-REO)	31	–	0	–	0
UPB – REO Assets (\$ Mil.)	35.2	–	0.0	–	0.0
No. of REO Assets	4	–	0	–	0
<b>Nonsecuritized</b>					
UPB – Named Special Servicer (\$ Mil.)	34,129.9	–	33,183.0	–	0.0
No. of Loans – Named Special Servicer	593	–	578	–	0
UPB – Actively Special Servicing (Non-REO) (\$ Mil.)	–	–	0.0	–	0.0
No. of Loans – Actively Special Servicing (Non-REO)	–	–	0	–	0
UPB – REO Assets (\$ Mil.)	–	–	0.0	–	0.0
No. of REO Assets	–	–	0	–	0

UPB – Unpaid principal balance  
Source: Fitch Ratings, 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 RealINSIGHT, 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 consolidates these data points into its own internal watchlist, whereby each loan is assessed based on probability of transfer to special servicing.

The company is working toward uploading financial reporting requirements and cash sweep covenants into RealINSIGHT’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 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 RealINSIGHT 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. RealINSIGHT 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 RealINSIGHT, 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 communicates 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 RealINSIGHT.

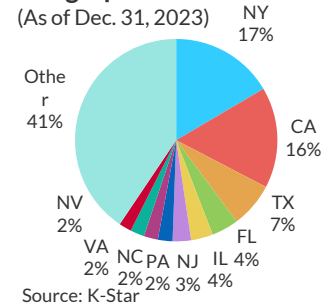
**Defaulted/Nonperforming Loan Management**

When a loan transfers, asset managers review the collateral performance, leases, borrower’s personal property, guarantees, carveout indemnities and reserves. K-Star will also request the release of the mortgage file from the custodian and inventory the loan documentation. 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, Green Street, Reis and RCA for market and property research. For sponsors on defaulted loans, legal counsel runs background checks as needed. In addition, K-Star’s surveillance team also reviews third-party sources such as the Wall Street Journal, Bloomberg News and Trepp 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.

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 credit asset management.

**Securitized Servicing Geographic Distribution**



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 ReallINSIGHT, 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 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 tracked via ReallINSIGHT. 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 ReallINSIGHT with relevant data appearing in various data fields within the system. Additionally, ReallINSIGHT 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 ReallINSIGHT. 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.

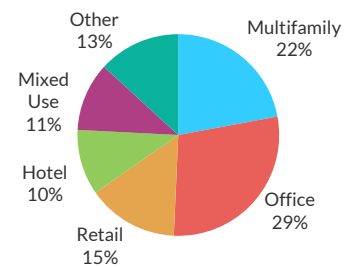
**REO Management**

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

**Securitized Servicing Property Type**

(As of Dec. 31, 2023)

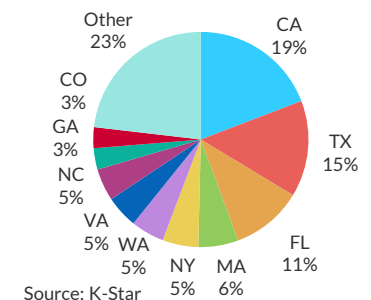


Source: K-Star

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.

**Non-Securitized Geographic Distribution**

(As of Dec. 31, 2023)



Source: K-Star

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.

## 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.

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.

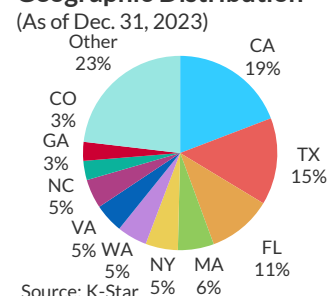
### Affiliated Companies

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.

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.

Fitch reviewed a randomly selected sample of approximately 12 business plans of active and resolved specially serviced assets and discussed seven active workouts with asset managers. Business plans were current, and contained recent valuations and property performance data. Asset managers were knowledgeable about local markets, sponsors and workouts. Business plans sampled by Fitch did not contain NPV analysis of alternative resolution strategies, although none of the recommendations for the loans sampled required it.

### Non-Securitized Geographic Distribution



## SOLICITATION & PARTICIPATION STATUS

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