

Rated entity:

Bearer notes (ABCRED III Notes) with ISIN XS1704854089 issued by AB Commercial Real Estate Debt German Feeder Fund III, Sub-Fund I

Rating:

BBB+

Rating outlook / addition:

watch neutral

Basic rating data:

Initial Issue Date	June 20, 2018
Jurisdiction Rated Entity	German law
Exchange	--
Legal Form	S.C.S. SICAV-RAIF
Issue Volume	USD 153 mm
Seniority	Non-subordinated
Collateralization	Unsecured
Credit Enhancement	Available
Legal Maturity	June 20, 2030
Coupon	2.5% p.a.
Coupon Period	Quarterly
Coupon Type	Fix, non-deferrable
Lead Analyst	m.peiss@creditreform-rating.de / +49 2131 109 1053
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Rating rationale:

As of the rating date, CRA continues to see an increased operational and credit risks affecting the rating object. Pandemic-driven operational difficulties and challenges in the US real estate market led to sectoral downturns: liquidity shortages and impairments at the level of the underlying assets of the ABCRED III portfolio have been driving up credit risk in the portfolio. Facing the pandemic-driven challenges, the manager has made a consistent and promising effort to mitigate some of the credit risks, for instance, via de-leveraging, (partial) repayments, and other loan modifications throughout the portfolio. Among the four previously communicated defaults in the portfolio, one property has meanwhile been sold without incurring additional losses. The manager continues the workout process of the other defaulted investments seeking to maximize recoveries. Presently, loss expectations are not substantial as measured by the total outstanding loan commitment and in line with CRA's quantitative recovery assumptions. CRA continues to see low to moderate structural risk affecting the rating object: liquidity risks are adequately mitigated via the borrower's voluntary cash reserve and substantial overcollateralization in the form of equity has been built up accounting for roughly 20% of the borrower's total assets. CRA does not deviate from the quantitative base-case result. CRA maintains the rating qualifier "watch" indicating the persistence of significant opposing forces (i. downside risk of remaining defaulted assets; ii. elevated operational risks in the portfolio; iii. continued build-up of credit enhancement) in the structure that affect the rating object's credit quality at the time of the rating.

Primary key rating driver:

- (+) Loss buffer in the form of accumulated equity contribution and net increase from operations
- (+) Rating object indirectly participates in a substantial collateral package on underlying investment level
- (+) Track record of the manager AllianceBernstein
- (+) Well-diversified portfolio without currency risks
- (-/+) Liquidity risk at the level of the borrower, which is mitigated through a voluntary liquidity reserve
- (-) Investment vehicle invests in higher risk spectrum strategies (refurbishments, repositioning, etc.)
- (-) Pronounced Pandemic-driven increase in operational and credit risk at the underlying level
- (-) Impairments in the form of loan defaults with realized losses and additional sub-performing loans as of the rating date

Ratings sensitivities:

Best-case scenario: In this scenario, CRA increased (ceteris paribus) the borrower's Equity-to-Asset ratio to 25%, resulting in a quantitative result and a rating of A-.

Worst-case scenario: In this scenario, CRA reduced (ceteris paribus) the borrower's Equity-to-Asset ratio to 15% and increased the collateral value haircut (weighted average; BBB+ Scenario) to 61%, resulting in a quantitative result and a rating of BB+.

ESG-Criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the present case, ESG criteria had no comprehensive impact to the rating.

ESG factors with material impact were not identified.

Latest rating date / Disclosure to rated entity / Maximum validity:

November 3, 2021 / November 3, 2021 / June 20, 2030

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

Initial rating date:

June 23, 2017 / BBB+

Status of solicitation:

The rating is a solicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: Yes

With Access to Internal Documents: Yes

With Access to Management: Yes

Notes:

This document is a CRA Press Release. The CRA Press Release outlines significant rating-relevant changes compared to CRA's most recent rating action. It immediately follows that the assigned rating must not be limited to the motivators mentioned in the CRA Press Release. Instead, a comprehensive acknowledgement of all explanations provided in previous reports, other forms of documentation, rating updates and, in particular, the CRA initial rating report is indispensable. At this point, CRA refers the reader to these forms of documentation, rating updates and reports.

Regulatory Requirements and Legal Disclosures

Creditreform Rating AG was mandated on March 29, 2016 by AllianceBernstein to conduct a rating for the bearer notes under German law, issued by AB Commercial Real Estate Debt German Feeder Fund III, Sub-Fund I. This is a public rating which is regulatory applicable according to EU Regulation 1060/2009 (CRA-Regulation).

The rating was conducted on the basis of Creditreform Rating's "Issue Ratings" in conjunction with Creditreform's basic document "Rating Criteria and Definitions".

Important sources of information in the context of the rating were, in addition to the submitted documents, a due diligence meeting was conducted on October 19, 2021. The submitted documents and information provided by the client were sufficient to meet the requirements of Creditreform Rating AG's rating methodology.

A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document "The Impact of ESG Factors on Credit Ratings", which is available on the homepage under the following link:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

Analysts Matthias Peiss (Lead) and Agne Bacionyte, all located in Neuss/Germany, carried out this rating. Sascha Pomorin performed the function of Person Approving Credit Ratings (PAC).

Closing of the transaction occurred on May 18, 2018. The rating is based on the portfolio information and transaction documentation as of the rating date, as provided by the client or the Issuer.

The issuer or all relevant parties have examined the rating report prior to publication and were provided with at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

In addition to the provision of rating activity, no further ancillary services were provided.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflicts of Interest

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee" policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants
2. Transaction documents
3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

This rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

The "Basic Data" information card or the press release published on Creditreform Rating's website indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic Data" card or in the press release published on Creditreform Rating's website as a "rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card Creditreform`s basic document "Rating Criteria and Definitions".

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website:

<https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website. Further information can also be found on the CRA website in the document "Rating Criteria and Definitions".

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