

**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 / watch:**

watch neutral

**Rating summary:**

Object of this rating are the ABCRED III Notes (rating object) issued by AB Commercial Real Estate Debt German Feeder Fund III, Sub-Fund I (borrower). The borrower invests the proceeds indirectly in the form of debt in commercial real estate loans. The investments are made through AB Commercial Real Estate Debt Fund III, SICAV-SIF S.C.Sp., Compartment 1 (investment vehicle, IVV). The relevant manager is AllianceBernstein. The CRA rating of BBB+ represents a highly satisfactory level of credit quality and a low to medium investment risk.

As of the rating date, CRA identifies a significant increase in operational and credit risks affecting the rating object. Pandemic-driven operational difficulties and challenges in the US real estate market have 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. The manager has communicated to CRA four (4) loan defaults in the portfolio and sees evidence of additional sub-performing assets. 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 deviates from the quantitative base-case result of A- by one notch acknowledging the substantially increased operational and credit risk at the level of the underlying assets. CRA adds the rating qualifier "watch" indicating significant opposing forces (i. Pandemic-related risk; ii. Build-up of credit enhancement) in the structure that impact 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 four loan defaults and additional sub-performing loans as of the rating date

**Rating 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 of A 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; A- Scenario) to 55%, resulting in a quantitative result of BBB- 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.

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>

**Rating Date / disclosure to rated entity / maximum validity:**

November 4, 2020 / November 4, 2020 / 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

**Lead-analyst – position / Person approving (PAC):**

Matthias Peiss (Lead) – Senior Analyst

Sascha Pomorin (PAC) – Senior Analyst

**Name & address of legal entity:**

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

**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

**Rating methodology / Version / Date of application / Link:**

[Rating Criteria and Definitions, Version 1.3, January 2018](#)

[Rating Methodology Financial Instruments \(Issue Ratings\), Version 1.3, July 2016](#)

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

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

**Regulatory requirements:**

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.

Conflict of Interests

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 policy "Rating Committee," 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. Issuing documents
4. Other rating relevant documentation

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