

Solutus Advisors Limited

Servicer Report



Fitch Ratings assigned Solutus Advisors Limited (SA) a UK Commercial Primary Servicer Rating of 'CPS3' on 23 August 2016.

The primary servicing portfolio consists of two UK loans, with a value of around GBP204.5m, and eight assets. SA also acts as facility agent on 21 loans, with a value of approximately GBP550m and 168 assets, and as special servicer on nine loans with a value of GBP467m and 34 assets.

Key Rating Drivers

Limited Primary Servicing Experience: SA was founded in 2010 as a commercial special servicer and began acting as primary servicer in 4Q14. Although SA's UK primary servicing experience is limited when compared with rated peers, the senior management team has good industry experience. The Servicer Rating also takes into account that some of the activities SA carries out as facility agent are typically part of the primary servicing role.

Developing Infrastructure: SA's infrastructure is not as developed as that seen at more established rated peers. The training and development framework is less structured and reported training hours are below the average. Fitch gives credit to the fact that SA has access to the group's wider resources, for both operational and servicing support, as they imply a wider range of knowledge and expertise than the servicer itself can provide.

Improving Financial Condition: Neither SA nor its parent BG Holdings, are Fitch-rated financial institutions. The audited financial statements for the servicer, over a three-year period up to December 2015, show a positive trend. SA reported an operating profit for the first time in 2014, and again in 2015. Fitch expects the growing servicing portfolio to improve the servicer's sustainability over the medium term.

Developing Risk Management: Fitch considers the governance framework at SA to be appropriate, given the current size of the company. The primary servicing function was audited by an external provider for the first time in 2016, with a small number of findings. Although special servicing activities and IT controls have been through a number of audit cycles, the ratings reflect that the servicer has yet to demonstrate a regular and ongoing appropriate audit programme.

Weak Technology: At the time of review, SA was in a transitional period, with a number of technology projects under way. SA is currently using Microsoft Excel-based models and templates to track and process loan activities, while sourcing for an appropriate servicing platform to manage the variety of loans under management. SA is also addressing a number of findings raised by the external audit of IT controls.

Ratings

Commercial Primary Servicer
UK CPS3

Sources of Information

The report is based on information provided to Fitch Ratings by the servicer as of April 2016, unless stated otherwise.

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Company History and Management Experience

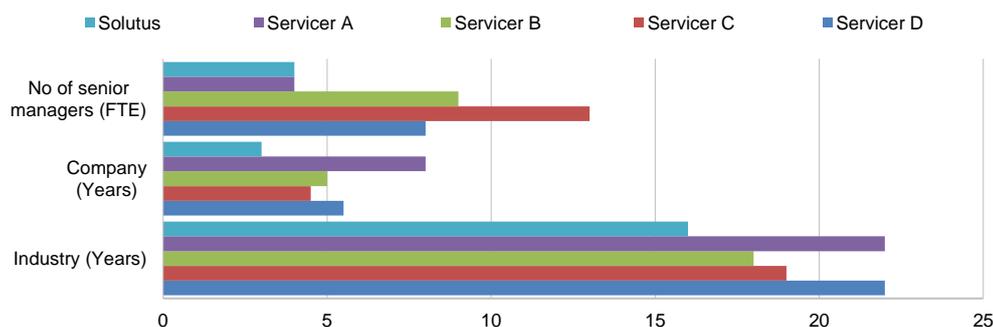
SA was founded in October 2010 by two real estate servicing professionals who had previously headed Deutsche Bank AG’s London-based commercial mortgage servicing team.

All of the company’s shares are owned by BG Holdings, which provided the servicer with a loan facility to fund the development of the company. In March 2016 Acepark purchased 100% of BG Holding’s shares, bringing SA into the Acepark group structure. The change in ownership structure had no material impact on SA’s operations or structure.

Operationally the group provides SA with support functions such as HR, IT and corporate finance, giving the servicer access to additional knowledge and expertise. Acepark also has a network of real estate professionals, which support SA’s activities as required (see *Staffing and Training*).

Historically SA was focused on the special servicing of UK and European commercial loans; however, since 4Q14 the company has also acted as primary servicer and facility agent. This report relates only to the primary servicing of UK commercial mortgage loans; however, Fitch recognises that the variety of activities and business revenues is good for the servicer’s sustainability in the midterm.

Average Experience Across Senior Management



Source: Fitch&SA

Although SA’s servicing experience is limited when compared with rated peers, the senior management team has a good amount of experience, with an average of 16 years. The senior management of SA consists of the MD, who is one of the company founders and acts as head of special serving, the director of primary servicing, the commercial operations manager and the director of European servicing. The breadth of senior management experience is considerably less than some rated peers; however, some consideration is given for two board members who have an average of 30 years’ experience and participate in operational servicing committees.

Financial Condition

Neither SA nor its parent BG Holdings, are Fitch-rated financial institutions.

The audited financial statements for the servicer, over the three-year period up to December 2015, show a positive trend. SA reported an operating profit for the first time in 2014, and again in 2015.

Key financial indicators, such as liquidity ratio and net operating margin, have improved over the same three-year period. Turnover has increased significantly, while operating expenses have stabilised. A loan note facility between the group and SA has been reduced from GBP1.5m to GBP422,000 over the period.

While Fitch does not consider SA’s financial condition to be stable yet, the agency gives some credit for the support provided by the parent. Fitch also expects the growing servicing portfolio to further improve the servicer’s sustainability over the medium term.

Related Criteria

[Rating Criteria for Structured Finance Servicers \(July 2016\)](#)

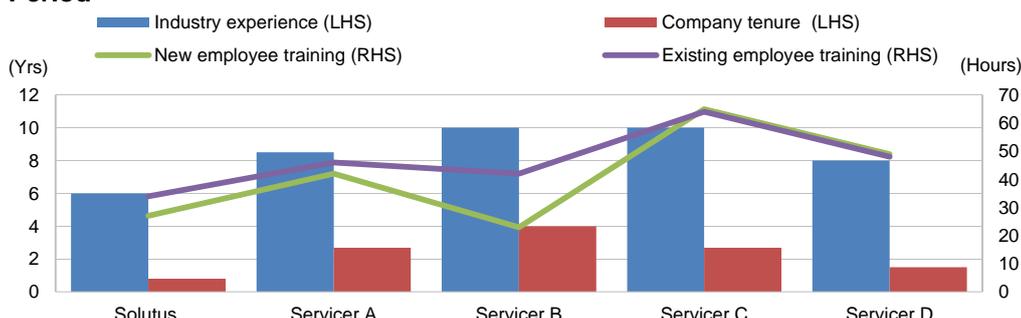
Staffing and Training

SA has 16 full-time employees (FTE). The 16 FTE consists of: four senior managers; four managers; and eight staff. One group HR employee dedicates approximately 10% of their time to SA, while the group Head of IT dedicates approximately 40%. IT support is provided to SA by a group IT team (see *Technology*), as required. SA also has access to around 300 property, accounting and investment professionals across the group, who can provide servicing support to SA where required.

SA operates from two offices: one in central London where business development and loan closing activities are based; and one is Lancashire where the loan servicing teams are based.

Average industry experience across managers is 20 years, which compares well to rated peers; however, average company and role tenure is less than one year. Average industry experience across SA staff is just less than six years, while average company tenure is less than one year, which is low when compared with rated peers. Fitch recognises that the company has grown over the past two years and that a relatively small number of leavers, new hires and internal advancements have had a significant impact on the average tenure levels. The agency also acknowledges that managers and senior management are heavily involved in day-to-day operational activities.

Average Staff Experience v. Average Training Hours Delivered Over 12 month Period



Source: Fitch& SA

The average number of training hours delivered per employee over the past 12 months was low when compared with rated peers. The majority of training delivered is internal, through on-the-job, system and process training, coupled with shadowing of more experienced team members. External consultants provide regulatory and market updates to the servicer and SA employees may be seconded to other businesses within the group to develop their understanding of other servicing-related roles.

SA is subject to a number of group HR policies; however, infrastructure is not as developed as can be seen at more established peers. There is no structured training and development framework and formal performance feedback is limited to an annual review once an employee becomes a permanent employee.

Fitch recognises that in a small company performance feedback can be informal and on a continuous basis. However, in the agency’s view, a more structured and documented process provides a servicer with clear oversight of any skill gaps and potential succession planning needs. These operational risks become more significant as the business grows.

There is no formal incentives policy in place at SA; discretionary bonus payments or salary increases, if any, are made based on company performance and individual contribution.

Policies and Procedures

Governance at SA consists of regular board meetings and structured servicing committees

which make strategic and operational decisions. There are three servicing committees: one for primary servicing and facility agent decisions; and two for special servicing decisions. The committees have clear terms of reference and the voting quorums include independent members who are not involved in the servicer's day-to-day operations. Potential conflicts of interest are addressed in the servicing committee structure.

As a small company SA does not have risk management or compliance functions, as can be seen at larger rated peers. The MD is responsible for maintaining a detailed risk register, which is reviewed at each quarterly board meeting. Senior management and managers are responsible for ensuring the business is compliant with all regulatory requirements.

At the operational level, control of activities is through four-eye checks and manager oversight. Every six months two loans are subject to a quality review to assess adherence to procedure, providing an additional level of assurance.

Given the size of the company and the current servicing portfolio, the risk management framework at SA is, in Fitch's view, adequate. However, controls are manual and the servicer is not using exception reporting or automated timeline management, which are now industry standard.

In 1Q16, SA's primary servicing function was subject to audit for the first time, engaging a third-party provider to carry out an ISAE3402 standard audit. The special servicing and IT controls have been subject to such audits since 2013. The 2016 audit reports provided to Fitch demonstrate a thorough audit process and SA has confirmed the intention to continue this relationship to provide the servicer with an internal audit programme. The audits resulted in two high risk and six medium or low risk findings, which Fitch considers to be a good indication that SA has appropriate controls in place. SA was in the process of resolving all findings at the time of review.

The audit process is coordinated by the commercial operations manager, who is responsible for reporting to the MD and the board on a regular, although informal, basis. The commercial operations manager also ensures that any agreed actions are completed on a timely basis.

Fitch views regular and appropriate independent audit to be a key part of effective risk management, providing an objective assessment of the controls in place at a servicer. At the time of review SA was in the process of implementing a full formal audit programme across all functions of the business and so ongoing and regular activity had yet to be demonstrated.

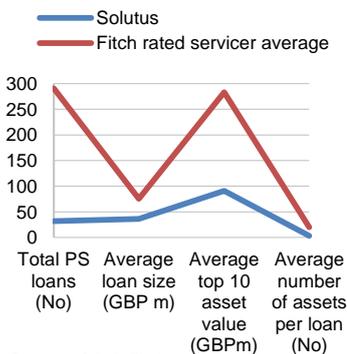
Policies and procedures are formally reviewed on a six-monthly basis; however, changes are ongoing as the business continues to develop at a fast pace. Minor amendments are signed off by the area head, with more significant changes requiring MD or board approval. Fitch has reviewed a sample of the procedural documents and considers them to be user friendly and fit for purpose.

Servicing Methodology – Loan Administration

SA's primary servicing team consists of three employees (two loan managers and one loan analyst) with an average of 8.6 years' industry experience and less than one year in the role. The team is supervised by the senior primary servicing manager who has 20 years' industry experience and 1.5 years with the company. The team is headed by the director of primary servicing, who has 11 years' experience, and the European servicing director, who has 13.5 years. Both have less than four years with the company. Given the size of SA's operations, the senior primary servicing manager and the directors are heavily involved in the day-to-day servicing.

SA's servicing portfolio is small when compared with rated peers and SA has acted as primary servicer for a short time. This limits the servicer's ability to demonstrate that it can effectively

PS Portfolio Characteristics



Source: SA & Fitch

manage a variety of loan and asset types. Fitch has therefore taken a conservative approach when comparing SA's servicing performance with rated peers.

Typically, a facility agent role is mechanical and administrative in nature. However, it has been demonstrated to Fitch that the role carried out by SA includes activities generally considered to be part of the primary servicer's duties. Each loan on which SA acts as primary servicer or facility agent has a dedicated loan manager assigned to it prior to closing, who is responsible for all loan administration activities.

On the 21 loans where SA is acting facility agent, it carries out loan accounting, cash management and investor reporting activities. SA also carries out a limited amount of asset administration on two loans, where it collects and analyses borrower operating statements and carries out property inspections.

To date, SA has not carried out valuations, or been required to manage portfolio watch lists on loans where it acts as facility agent. SA takes a flexible approach with regards to its activities under the facility agent role and in 3Q16, the servicer agreed a full asset management mandate with one client to initially cover two loans. Fitch has given credit for the additional experience as facility agent when assessing loan administration activities.

New Loan Setup

SA boarded four portfolios with 13 loans and 71 assets over the past 12 months. One portfolio, with one loan and one asset, was a primary servicing portfolio, the remainder being facility agent portfolios. The servicer's experience of boarding portfolios is limited when compared to rated peers; however, Fitch recognises that SA is focused on smaller scale portfolios and clients. The majority of SA's new business has been through newly originated loans, rather than servicer replacement mandates.

On confirmation that Solutus has been appointed on a deal, a checklist is drafted to manage the workflow elements of the loan closing and boarding process; this includes receipt of essential documentation. The loan will be allocated to a loan manager who will be the primary point of contact for the borrower and the lenders during the life of that facility. The loan manager is responsible for ensuring all the required data and documentation is collected.

The process is more manual than is seen at rated peers but thorough, with checks at various stages. The average boarding time reported for loans taken on in the 12 months to April 2016 was seven business days. SA reported that all loans over this period were boarded with full documentation and complete data fields. This reflects the type of loans which have been boarded and SA's involvement prior to closing.

Loan Accounting and Cash Management

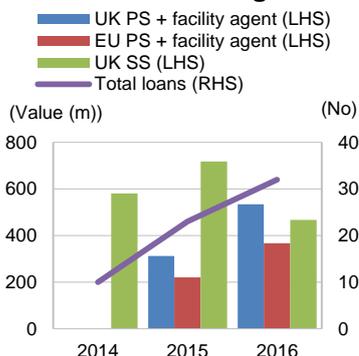
The senior primary servicing manager's 20 years' experience has largely been gained in finance. Although the manager has been with SA for less than two years, they spent around 11 years in finance-related roles within Acepark prior to this. This level of experience is high when compared with similar roles at rated peers.

All payments received by SA are via bank transfer, which provides automatic allocation of funds to the loan account. The average time to resolve a bounced payment is 2.5 days. Bank reconciliations are carried out on a daily basis and investor cash reports are provided quarterly. These timelines are in line with the average seen across rated peers, although Fitch recognises that current volumes managed by SA are very low compared to other UK rated commercial servicers.

Investor Reporting and Remitting

SA currently reports to 18 separate investors, with 60 reports delivered in the past 12 months. One report was delivered with a material discrepancy, which SA identified and rectified within one business day. All other reports were delivered according to requirements and on time.

Assets Under Management



Source: SA

Reports are based on standard approved templates, adapted to manage loan-specific features and investor requirements. The loan-specific report template is drafted by the loan manager before review and sign off by the head of primary servicing. Although the process is less automated than seen across rated peers, this does enable SA to provide bespoke reports.

Typically, investor reports are posted to Bloomberg and the trustee web sites. In addition, Solutus makes investor reports available via their own web site or, in the case of private bond placements, a password protected data room where access is monitored by the servicer. This is in line with that seen across rated peers.

Solutus does not provide investor reports on any Fitch-rated transactions; however, example reports have been reviewed by the agency and are considered to be thorough.

Asset Administration

Property inspections are generally outsourced to a third-party valuer; however, SA has the capability to carry these out in house. The MD is a RICS fellow and the assistant head of special servicing is RICS qualified, providing appropriate expertise. A graduate surveyor with 10 years' experience provides additional support. Two loans in the primary servicing portfolio require annual property inspections and in the past 12 months these were completed on time; one was carried out by SA, the other was outsourced to a qualified third party.

Fitch has reviewed examples of completed site inspection reports, which provide a good level of detail. The standard of these reports is considered to be in line with rated peers.

Operating statements are collected on a monthly, quarterly, semi-annual and annual basis. Over the past 12 months, all statements were collected on time for performing loans.

CREFC-standard watch list criteria are in place for all loans and are monitored by the servicing committee on at least a monthly basis. Each loan manager is responsible for ensuring they are aware of the applicable watch list codes and applying these codes to their loan portfolio. At the time of review, none of the loans under management were on watch list.

Technology

Between 3Q12 and 1Q16 SA used the Cassiopae servicing platform to manage loan processes. At the time of review the decision had been made to terminate the contract with Cassiopae as the system was unable to effectively manage the intricacies of SA's loan portfolio.

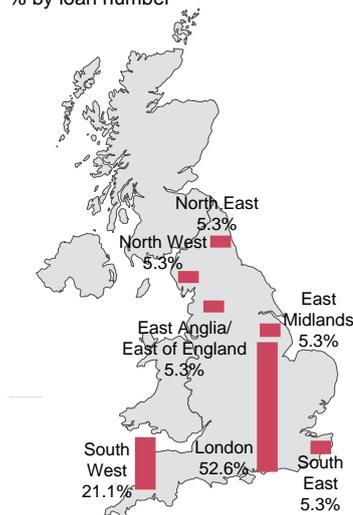
SA is currently using Microsoft Excel-based models and templates to track and process loan activities, while an appropriate servicing platform is sourced. Model calculations are hard coded and controlled by managers and there is a clear audit trail of user activity. Fitch considers an automated and controlled system to be a key tool in managing operational risk at a servicer, as it provides continuous monitoring of loan-level activity. A robust servicing system can improve the efficiency of a primary servicer, as many processes follow a standard path and timeline. The agency recognises that SA is currently in a transitional period and considers the controls in place to be adequate, given the current size of the portfolio.

SA receives technology support from a group IT team as required. The team has been strengthened recently with the recruitment of a new IT head, with over 20 years' IT experience. The team has also been broadened to seven people, including dedicated developer, system administrator and network administrator roles. In Fitch's view, the increased resources are appropriate, considering the significant projects under way.

SA has market-standard virus protection in place and penetration testing is carried out on a semi-annual basis. The most recent test was in January 2016, with a small number of medium risk findings.

UK Portfolio Geographical Split

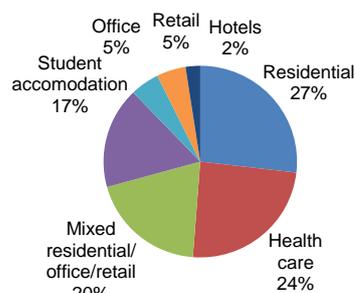
% by loan number



Source: SA

Asset Type Portfolio Split

% of total by loan number



Source: SA

A number of issues have been raised by the audit of IT controls regarding the security and conditions at both the internal server room and the third-party datacentre. Fitch views these findings to be high risk, but recognises that SA is already in the process of rectifying the issues, the majority of which are now resolved.

A comprehensive and fully documented disaster recovery plan is in place for both SA offices. The last test occurred in April 2016 and no issues were identified; however, Fitch notes that the test only covered the London office. All critical employees have a laptop and systems can be accessed through a virtual private network, allowing key business tasks to continue in the event that premises are unavailable. SA's operational recovery time is 60 minutes, which reflects the size of the business, but also the appropriate provisions in place.

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