

## **PROMOTION OF ENVIRONMENTAL AND/OR SOCIAL CHARACTERISTICS (SUMMARY OF SFDR ARTICLE 8 PRE-CONTRACTUAL DISCLOSURE)**

### **No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

### ***What environmental and/or social characteristics are promoted by Nippon Accommodations Fund?***

We invest in “accommodation assets”, which include rental apartments, dormitories, serviced apartments, senior residential properties, corporate housing and hotels; in particular, our current investments are focused on newly developed residential properties that address ongoing social and lifestyle changes. By region, approximately 80 percent of our properties are in the 23 wards of Tokyo. As we increasingly confront environmental issues such as climate change and socio-structural changes in Japan such as a shrinking and rapidly-aging population due to declining birthrates, ESG initiatives have become essential to our asset management activities and to achieve sustainable growth. In April 2016, we and Mitsui Fudosan Accommodations Fund Management Co., Ltd. (the “Asset Manager”) established a Sustainability Policy in line with the environmental policy and policy for social contribution initiatives of the Mitsui Fudosan Group, to which we belong. Since then, we have implemented various environmental initiatives at our properties that include addressing climate change, energy saving and reduction of CO<sub>2</sub> emissions, preserving water environment and promoting resource saving and waste reduction, introduction of renewable energy, collaboration with the Asset Manager and tenant, environmental consideration in supply chain, environmental consideration in supply chain. In addition, our social initiatives include initiatives for employees, such as support for acquisition of qualification, support for education and training, goal-setting and performance evaluation, periodic employee survey and consultation with the compliance officer, improving tenant satisfaction, supply chain initiatives and contribution to local community.

### ***What sustainability indicators are used to measure the attainment of the environmental or social characteristics promoted by Nippon Accommodations Fund?***

We use the following indicators to measure the attainment of the environmental and social characteristics we promote.

- *Environmental certification of properties.* To track the environmental performance of our properties, we rely on certifications issued by third-party organization, such as the Development Bank of Japan’s (“DBJ”) Green Building Certification, Building Energy-efficiency Labeling System (“BELS”) certification, Comprehensive Assessment System for Built Environment Efficiency (“CASBEE”) certification and other equivalent certifications. With respect to DBJ certifications, we consider a property to have sufficient environmental certification if it received three stars rating or higher out of DBJ’s five-star ranking system. With respect to BELS, we consider a property to have sufficient environmental certification if it received three stars rating or higher out of BELS’ five-star ranking system. With respect to CASBEE, we consider a property to have sufficient environmental certification if it received B+ Rank or higher out of the CASBEE ranking system featuring Rank S (excellent), Rank A (very good), Rank B+ (good), Rank B- (slightly inferior) and Rank C (inferior). We consider our properties that receive any such sufficient environmental certifications as “eligible green assets”. As of August 31, 2022, 30.5% of the properties in our portfolio were qualified as eligible green assets based on gross floor area.
- *Tracking of environmental performance data.* The Asset Manager tracks and monitors data on energy consumption (including electricity consumption), CO<sub>2</sub> emissions and water consumption of the common areas of the residential properties in our portfolio.
- *ESG assessment.* To track our ESG performance, we obtain third-party assessments, such as GRESB Real Estate Assessment (“GRESB”), which is an annual benchmarking assessment to measure the level of ESG integration achieved by real estate companies and funds. Launched in 2009 by a group of major European pension funds that played leading roles in launching Principles for Responsible Investment (PRI), the GRESB framework looks at the sustainability efforts of real estate companies and REITs, rather than at the property level. As of October 18, 2022, we received a “Green Star” rating for high environmental marks on the management component and performance component, and had also acquired two stars out of GRESB’s 5-star rating system.

- *Assurance of environmental performance data.* We have received an assurance report by Deloitte Tohmatsu Sustainability Co., Ltd. with respect to our 2020 and 2021 environmental performance data, which include energy consumption, CO2 emissions from energy consumption and water usage, confirming that such data were prepared in accordance with our calculation and reporting standards and therefore that such data were reliable.

***What investment strategy does Nippon Accommodations Fund follow?***

We invest in “accommodation assets”, which include rental apartments, dormitories, serviced apartments, senior residential properties, corporate housing and hotels; in particular, our current investments are focused on newly developed residential properties that address ongoing social and lifestyle changes. We believe that being responsive to the diverse needs and desires of residents and others users of our properties, and their satisfaction with the space and time of their stay, contributes to maximizing the value of our properties.

In order to ensure that our asset management is sustainable while meeting the increasingly diverse needs and desires of our customers, we established the Sustainability Policy in April 2016 to give significant consideration to ESG factors in our investment and asset management processes. We believe that our Green Finance Framework, under which we raise funds to be applied to green assets, strengthens our funding base by expanding the group of investors interested in ESG investments and financing. The key elements of our Green Finance Framework are as follows:

- *Use of proceeds.* We issue green bonds or obtain green loans (collectively referred to as “green finance”) when we intend to use the proceeds toward funds for acquisition of an eligible green asset (defined below) or funds for repayment of existing loans or redemption of investment corporation bonds that were procured for acquisition of eligible green assets. As of August 31, 2022, we had seven eligible green assets in our portfolio (30.5% of our portfolio based on gross floor area), representing a total acquisition price of ¥81.1 billion.
- *Eligibility criteria.* Assets for which any of the following certifications from a third-party certification body have been or will be obtained (“eligible green assets”): 3, 4, or 5 Stars under the DBJ Green Building Certification; 3 Stars, 4 Stars, or 5 Stars under the BELS Certification; B+, A, or S rank under the CASBEE certification for Real Estate, or rating of an equivalent level to the above under another green building certification.
- *Process for project evaluation and selection.* The eligibility criteria are drafted by the Sustainability Promotion Office, which is made up of members from across different department of the Asset Manager, and are determined by the Investment Committee, the members of which include the President & CEO, the Chief Investment Officer, and the Chief Financial Officer of the Asset Manager. Projects for green finance are selected by the Sustainability Promotion Office based on the eligibility criteria followed by deliberation and approval by the Investment Committee.
- *Management of proceeds.* The upper limit for green finance is set at an amount calculated by multiplying total acquisition price of eligible green assets in our portfolio by the ratio of interest-bearing debt to total assets (“eligible green debt”) so that the total amount invested in eligible green assets does not exceed the amount of eligible green debt.
- *Reporting.* The following items will be disclosed on our website as at the end of February of each year so long as any amount raised through green finance has been invested in eligible green assets, and such assets remain in our portfolio: total acquisition price of eligible green assets; ratio of interest-bearing debt to total assets; amount of eligible green debt; and total amount invested in eligible green assets.

***What is the policy to assess good governance practices of the investee companies and Nippon Accommodations Fund?***

We do not invest in investee companies and have therefore opted to provide information on the governance policies adopted by us and the Asset Manager. While there is no third-party rating used to assess our governance practices, we, along with the Asset Manager, have introduced the measures to assess and enhance our governance systems with respect to compliance, internal audits, and transparent and appropriate disclosure.

We also make ongoing disclosures related to our Green Finance Framework and Eligible Green Projects.

***What is the asset allocation planned for Nippon Accommodations Fund?***

As of August 31, 2022, 30.5 % of the properties in the portfolio were eligible green assets, and 69.5% were ineligible assets based on gross floor area. Our target is to increase the number of eligible green assets by one each year. We aim to achieve and maintain 40% of our portfolio as eligible green assets, based on gross floor area by 2030.

**REMUNERATION AND SUSTAINABILITY RISKS (SFDR ARTICLE 5 DISCLOSURE)**

The Asset Manager has a remuneration policy in place which aims to support its strategy, values and long-term interest, including its interest in sustainability. The Asset Manager's remuneration policy is consistent with the integration of sustainability risks as follows.

- Employees of the Asset Manager receive monthly remuneration based on job rank, and an employee's job rank is determined through a performance evaluation (generally conducted once a year) based on factors including individual performance, skills, ability, and in some cases, contribution to sustainability targets.
- Remuneration, methods of calculation and payment, timing of payment, and increases in remuneration are determined according to the Asset Manager's compensation rules, which are established based on statutory requirements.
- Employees receive remuneration that consists of monthly remuneration based on job rank, overtime allowance, twice-a-year bonus, and other allowances.
- Employees of the Asset Manager may receive twice-a-year bonuses, which are determined based on economic and market circumstances as well as the company's performance, including with respect to sustainability targets.