

STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Product name: Nippon Accommodations Fund Inc.

The following is the adverse sustainability impact statement of Nippon Accommodations Fund (“NAF”) pursuant to Regulation (EU) 2019/2088 (“SFDR”). NAF has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan and relies on Mitsui Fudosan Accommodations Fund Management Co., Ltd. (the “Asset Manager”), to manage and operate the properties in NAF’s portfolio. NAF and the Asset Manager are hereinafter referred to collectively as “we”, “us” or “our”.

Please note that SFDR requirements, including the scope of their application to issuers outside the European Economic Area, continue to evolve. We are therefore taking a principles-based approach to compliance with the SFDR disclosure standards, which are subject to change.

1. Summary

We consider principal adverse impacts of our investment decisions on sustainability factors. The present statement is our consolidated statement on the principal adverse impacts on sustainability factors (“PAI”). This statement on PAI covers the reference period from January 1, 2023 to December 31, 2023. The statement will be reviewed at least once during every twelve-month period ending on December 31 of each year.

We believe that our sustainability initiatives are essential for our sustainable growth. We improve mid and long-term returns of investors and contribute to the realization of sustainable society and urban development by implementing initiatives that address ongoing social and lifestyle changes. Under our sustainability policies, we, in collaboration with the Asset Manager, take actions on climate change, including energy saving and reduction of CO₂ emissions, introduction of renewable energy, and preserving water environment and promoting resource saving and waste reduction.

We use the definition of PAI as described in Recital 20 of SFDR being “those impacts of investment decisions and advice that result in negative effects on sustainability factors”, with sustainability factors referring to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters as defined in Article 2 (24) of SFDR.

We believe that investment decisions that negatively affect climate or other environment-related resources, or have negative implications for society, can have a significant impact to risk and value creation for NAF’s unitholders. To this end, we consider PAI of our investment decisions throughout all major steps of the investment decision and property management process throughout the lifecycle of the properties in our portfolio.

2. Description of principal adverse sustainability impacts

Nearly all types of economic activity have the potential to impact various PAI indicators, both positively and adversely. We aim to manage the risk connected to PAI from our investment decisions in several ways, including general screening criteria, due diligence and our ESG initiatives. Some of the PAI indicators listed below are currently already being monitored and

reported. As the availability of data improves, it is our intention that more indicators will be added.

Table 1

Description of the principal adverse impacts on sustainability factors

NAF does not invest in investee companies, but invests in real estate. As adverse sustainability indicators 1-16 as contained in Table 1 of Annex 1 of the SFDR Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

| Indicators applicable to investments in real estate assets | | | | | | | |
|--|---|--|--|--|--|--|---|
| Adverse sustainability indicator | | Metric | Impact in 2023 | Impact in 2022 | Impact in 2021 | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Fossil fuels | 17. Exposure to fossil fuels through real estate assets | Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels | N/A | N/A | N/A | NAF does not invest in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels. | N/A |
| Energy efficiency | 18. Exposure to energy-inefficient real estate assets | Share of investments in energy-inefficient real estate assets | As of February 28, 2024, 67.5% of NAF's properties were not "eligible green assets" (as defined to the right) based on gross floor area. NAF | As of February 28, 2023, 67.4% of NAF's properties were not "eligible green assets" (as defined to the right) based on gross floor area. NAF | As of February 28, 2022, 69.4% of NAF's properties were not "eligible green assets" (as defined to the right) based on gross floor area. NAF | To track the environmental performance of NAF's properties, we rely on certifications issued by third-party organizations, such as the Development Bank of Japan's ("DBJ") Green Building Certification, | We implement as appropriate measures to reduce their environmental impact following acquisition, including by obtaining environmental certifications such as DBJ or CASBEE certifications. We have set a goal of increasing the percentage of eligible green assets in NAF's portfolio to 40% based on gross floor area by 2030. |

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| | | | <p>operate based on six-month fiscal periods ending in February and August of each year. Accordingly, we provide the share of investments in energy-inefficient real estate assets as of the end of the latest fiscal period covering the reference period under this PAI statement.</p> | <p>operate based on six-month fiscal periods ending in February and August of each year. Accordingly, we provide the share of investments in energy-inefficient real estate assets as of the end of the latest fiscal period covering the reference period under this PAI statement.</p> | <p>operate based on six-month fiscal periods ending in February and August of each year. Accordingly, we provide the share of investments in energy-inefficient real estate assets as of the end of the latest fiscal period covering the reference period under this PAI statement.</p> | <p>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 3 stars or higher out of DBJ’s 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 refer to NAF’s properties that receive the sufficient level of any such certifications as “eligible green</p> | |
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| | | | | | | assets”, and consider NAF’s properties that have received no environmental certification from DBJ, CASBEE, BELS or other equivalent green building certifications as “energy-inefficient real estate assets”. | |
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Table 2

Additional climate and other environment-related indicators

NAF does not invest in investee companies, but invests in real estate. As additional climate and other environment-related indicators 1-17 as contained in Table 2 of Annex 1 of the SFDR Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | |
|--|---|--|
| Adverse sustainability impact | Adverse impact on sustainability factors (qualitative or quantitative) | Metric |
| Indicators applicable to investments in real estate assets | | |
| Greenhouse gas emissions | <p>18. GHG emissions</p> <p>Scope 1 and Scope 3 GHG emissions generated by real estate assets are not applicable to NAF's properties.</p> <p>Scope 2 GHG emissions (and total GHG emissions) generated by the residential properties in NAF's portfolio were: 3,297 t-CO₂ (in 2019), 2,640 t-CO₂ (in 2020), 3,356 t-CO₂ (in 2021), 3,542 t-CO₂ (in 2022) and 3,880 t-CO₂ (in 2023).</p> <p>Based on such Scope 2 GHG emissions, the GHG emissions intensity based on gross floor area of the common areas of NAF's residential properties was: 0.0159 t-CO₂/m² (in 2019), 0.0127 t-CO₂/m² (in 2020), 0.0157 t-CO₂/m² (in 2021), 0.0163 t-CO₂/m² (in 2022) and 0.0179 t-CO₂/m² (in 2023).</p> <p>We estimate Scope 2 GHG emissions based on energy consumption (including electricity consumption) of the common areas of NAF's residential properties by using adjusted emissions coefficient published by the Ministry of the Environment of Japan. In addition, we monitor and track</p> <p>We aim to reduce CO₂ emissions intensity of the common areas of NAF's residential properties by 50% by 2030 from the level in 2015 (0.0249 t-CO₂/m²).</p> | Scope 1 GHG emissions generated by real estate assets |
| | | Scope 2 GHG emissions generated by real estate assets |
| | | Scope 3 GHG emissions generated by real estate assets |
| | | Total GHG emissions generated by real estate assets |
| Energy consumption | <p>19, Energy consumption intensity.</p> <p>We track and monitor energy consumption (including electricity consumption) and its intensity of the common areas of NAF's residential properties.</p> | Energy consumption in MWh of owned real estate assets per square meter |

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| | <p>The energy consumption intensity based on gross floor area of the common areas of NAF's residential properties was: 45.38 MWh/m² (in 2019), 43.23 MWh/m² (in 2020), 42.44 MWh/m² (in 2021), 42.13 MWh/m² (in 2022) and 41.70 MWh/m² (in 2023).</p> <p>We aim to reduce energy consumption intensity of common areas of NAF's residential properties by 50% by 2030 from the level in 2015 (52.05 MWh/m²).</p> | |
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Table 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

NAF has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan, and relies on the Asset Manager to manage and operate the properties in NAF's portfolio. Accordingly, additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters in this PAI statement pertain to the Asset Manager and the tenants of the properties in NAF's portfolio, to the extent available.

| SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | |
|---|--|--|
| Adverse sustainability impact | Adverse impact on sustainability factors (qualitative or quantitative) | Metric |
| Indicators applicable to investments to the Asset Manager or tenants | | |
| Social and employee matters | <p>4. Lack of a supplier code of conduct</p> <p>We require our tenants and our property manager to implement social and environmental policies and measures.</p> <p>We have raised tenants' awareness of environmental issues by providing tenants with energy saving techniques with guidebooks and other information available on our website.</p> <p>We conduct periodic review of our suppliers' social and environmental initiatives. We evaluate our property manager once a year to confirm if it has an organizational structure to carry out its property management business appropriately.</p> <p>Because all of our tenants are individuals, they do not have any "supplier code of conduct" per se. However, for the years ended February 28, 2024 and 2023, all of the tenants in NAF's residential properties (94.3% and 94.9% of the properties in NAF's portfolio based on the number of properties, respectively) were required to save energy and</p> | Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labor and forced labor) |

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| | water to mitigate the burden on the environment under their lease agreements with us. | |
| | <p>6. Insufficient whistleblower protection</p> <p>We allow employees to consult directly with the Chief Compliance Officer or outside consultants when they become aware of any compliance problem. The Chief Compliance Officer or the outside consultants, as the case may be, are required to keep such communication confidential, except that they are allowed to consult each other. They investigate the facts of each case, report to the President, responsible officers and/or report to the Compliance Committee as needed, and give feedback to the employee. Employees are protected under the Whistleblower Protection Act of Japan, and shall not be treated unfavorably by the Company for the fact of making such consultations.</p> <p>All of the Asset Manager's officers and employees are provided whistleblower protection as a matter of policy.</p> | Share of investments in entities without policies on the protection of whistleblowers |
| Human Rights | <p>12. Operations and suppliers at significant risk of incidents of child labor</p> <p>We evaluate our property manager once a year to confirm if it has an organizational structure to carry out its property management business appropriately, and we review whether any child labor is used in its business.</p> <p>Property Manager: None, to the best of our knowledge, during 2023, 2022 and 2021</p> | Share of investments in investee companies exposed to operations and suppliers at significant risk of incidents of child labor exposed to hazardous work in terms of geographic areas or type of operation |
| | <p>13. Operations and suppliers at significant risk of incidents of forced or compulsory labor</p> <p>We evaluate our property manager once a year to confirm if it has an organizational structure to carry out its property management business appropriately, and we review whether any forced or compulsory labor is used for its business.</p> <p>Property Manager: None, to the best of our knowledge, during 2023, 2022 and 2021.</p> | Share of the investments in investee companies exposed to operations and suppliers at significant risk of incidents of forced or compulsory labor in terms in terms of geographic areas and/or the type of operation |

For descriptions of actions and initiatives which NAF takes and will take with respect to the PAI indicators, please refer to our ESG website with respect to NAF: <https://www.naf-r.jp/english/esg/index.html>.

3. Description of policies to identify and prioritize principal adverse sustainability impacts

Subject to data availability, we monitor the selected PAI indicators for the existing properties in our portfolio.

Prior to our investment in a property, we conduct due diligence review of the property, including not only profitability, but also environmental features, which includes selected PAI indicators. The due diligence findings related to selected PAI indicators are reported and reviewed prior to the investment decision.

We have a Green Finance Framework, which received the highest rank “Green 1(F)” by Japan Credit Rating Agency, Ltd. (“JCR”) on June 18, 2020. JCR evaluates green bond issuance or green loan borrowing policies for the purpose of ensuring compliance with the International Capital Markets Association’s (ICMA) International Green Bond Principles, the Loan Market Association’s Green Loan Principles or the Guidelines for Green Bonds established by the Ministry of the Environment of Japan. Our Green Finance Framework consists of (1) use of proceeds, (2) eligibility criteria, (3) process for project evaluation and selection, (4) management of proceeds, (5) reporting. When we select properties for investment in connection with our green bonds or green loans, the properties need to meet the eligibility criteria. We consider a property to be an “eligible green asset” if it obtained or will obtain either of the following certifications: 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.

For further information, please refer to our ESG website: <https://www.naf-r.jp/english/esg/finance/sustainability-finance.html>.

4. Engagement policies

Due diligence and screening

Prior to our investment in a property, the Asset Manager conducts due diligence review of the property, including its environment and soil. Specifically, we investigate whether there are any harmful substances such as asbestos in buildings, and we review the history of its land use and as appropriate retain experts to investigate soil contamination.

At the properties we operate, we set numerical targets for our entire facilities and monitor the amount of energy consumption, electricity consumption as well as the amount of CO₂ emissions of common areas of our properties in order to reduce our environmental burden.

Engagement

We require our property manager and other business partners including our tenants to understand and collaborate on our initiatives concerning sustainability and establish environmental and social measures and policies.

We conduct periodic review of our suppliers’ environmental and social initiatives. We evaluate our property manager once a year to confirm if it has an organizational structure to carry out its property management business appropriately. In particular, we monitor the following aspects of our property manager: (1) operational specifications, reported data and types of meetings held, (2) the personnel system, appropriateness of the number of business units each person is in charge and any changes in the organizational system, and (3) compliance status.

We outsource property management of our properties to Mitsui Fudosan Residential Lease Co., Ltd., which has proactively worked on environmental issues, and observes the Mitsui Fudosan Group's environmental policy and collaborates with us in implementing environmental initiatives.

Through the above collaboration, we have raised tenants' awareness of environmental issues by providing tenants with energy saving techniques with guidebooks and other information available on our website, and have implemented other measures to reduce the environmental load of our properties.

Also under lease agreements with our tenants of rental apartments, which as of December 31, 2023 accounted for over 90% of NAF's entire portfolio (based on the number of properties), we require the tenants to save energy and water to mitigate the burden on the environment.

5. References to international standards

We support for the United Nations' Sustainable Development Goals ("SDGs") and in February 2020, we identified for ourselves a set of material ESG issues that we believe must be addressed to meet global standards to contribute to SDGs. The Asset Manager also expressed its support for the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") in September 2021, and also joined the TCFD Consortium, an organization made up of Japanese companies that support the recommendations.

6. Historical comparison

See Table 1, Table 2 and Table 3 above.