

## **Japan Metropolitan Fund Investment Corporation**

August 2023 (43rd) Period Q&A Session

Q&A Session Summary

Date: Friday, October 20, 2023

In the Q&A Session, four participants put forward a total of eight questions. The questions and answers have been grouped under the titles “External Growth” and “Financial Forecasts” based on the details of the questions.

### **【External Growth】**

- Q1. : I understand that there are preferential negotiation rights of 48 billion yen for future property acquisitions and replacements. What will be the specific timing of the acquisitions? (Will it be possible to make the acquisitions at any time? Since it is a development project, will it be a somewhat long-term process? Will the acquisitions of properties be made through asset replacement?)
- A1. : We have free cash on hand of around 15 billion yen, so we will first use that for acquisitions, but in some cases, we will also allocate some of the funds from the sale of properties. In addition, some of the preferential negotiation rights of around 50 billion yen cover development properties, and we are considering making acquisitions while taking the development status into consideration.
- Q2. : Your future strategy is to invest in properties with more upside potential in the inflationary phase. What kinds of properties are you specifically focusing on? (Specific sector targets such as hotels, residences, and offices)
- A2. : Since converting to a diversified REIT, we have considered acquiring properties for a variety of asset classes, but our stance of focusing on residential properties, which account for a particularly small ratio, and mixed-use properties, which are a strength of JMF, has not changed from the previous period. The breakdown of the preferential negotiation rights of around 50 billion yen describes the features of the properties in the materials, but each of the asset categories has been diversified and 10 properties in a well-balanced manner have been secured (offices, residences, and mixed-use).
- Q3. : Regarding collaboration with the sponsor, you mentioned that you are acquiring carve-outs. Is this something that will happen in the short term, or are you considering them from a long-term perspective?
- A3. : We are taking various actions in cooperation with our sponsor, KKR, but due to confidentiality, we would like to refrain from responding regarding specific details. On the other hand, as we have previously indicated, we have established a department within the Investment Division that is primarily responsible for collaboration with our sponsor, and we are taking actions in cooperation with KKR on a daily basis.

- Q4. : Is it possible to consider acquiring urban retail properties in the inflationary phase? Your policy is to reduce the ratio of retail properties, but will the acquisition of urban retail properties increase as inflation goes up?
- A4. : After converting to a diversified REIT, we are still proceeding with asset replacement to reduce the ratio of retail properties by a certain amount, but regarding high-quality properties with competitive growth potential and potentially increasing asset value, there is also a possibility of investing in retail facilities. The basis for also considering acquisition of urban retail properties is a rise of DPU and identifying properties with asset values expected to increase in the medium to long term.

【Financial Forecasts】

- Q5. : I understand that EPU of 2,250 yen is in sight, but what is the next actual EPU target? Also, given that you will actively return gains on disposal once EPU exceeds 2,250 yen, I would like to hear your comments on how much will be added to DPU and what the outlook will be after EPU of 2,250 yen has been reached.
- A5. : I understand that your question is about future DPU targets. Although we have not announced the DPU target this time, we would like to proceed step by step while confirming the actual EPU. We have said that EPU will recover to 2,250 yen toward 2025, but we cannot tell exactly when in 2025 that will be, although it may happen earlier than expected, depending on the situation. I believe that as we carefully monitor progress, the time will come for announcing the setting of the next target, so we have not made an announcement this time.
- Q6. : As you move from the asset replacement phase to the growth phase, has your willingness to reduce the balance sheet through repurchase of own investment units become less than before? I think it is possible to enhance DPU/NAV in the medium to long term through various methods, but I would like to confirm your basic stance on repurchasing own investment units.
- A6. : We have carried out the repurchase of own investment units several times in the past, so we are aware of this as an option in the management of a REIT. Regarding our past repurchasing, we believe it is important that the top priority for free cash is to acquire properties with profitability, growth potential, and competitiveness that will benefit investors in the medium to long term. With the current pipeline building up, we intend to focus on acquiring properties that will meet the interests of investors. However, repurchasing own investment units remains an option. We will make a final decision while keeping the interests of investors in mind.
- Q7. : Regarding the return to EPU of 2,250 yen, the specific driving forces have been stated in amounts, but how do you view the downside risks (increased costs due to office tenants moving out, renovations, etc. and rise in interest rates)? Have you shown the net amount taking into account the downsides?
- A7. : Currently, we do not believe that there are any major risks or concerns in the portfolio that would prevent the increasing of actual EPU toward 2025, or if there are any, we are looking at the numbers after factoring them in. As for tenants leaving Twin 21, which we previously considered to be a downside factor, as we have reported this time, rent increases for successor tenants have been steadily confirmed, so I think we have been able to cope with the major risk.

Regarding interest rate risks, as inflation trends become stronger, JMF has the advantage of setting revenue-based rent at 39% of its entire portfolio, and it is recognized that we can use inflation to increase income. The revenue-based rent is steadily increasing as sales are on the rise, and not only the revenue-based rent but also the fixed rent is being increased through contract renewals. We use some of the surplus generated by increasing top-line income at the time of refinancing. We will continue to strengthen our financial base going forward. Although we may make adjustments to periodic earnings by incorporating some variable interest rates, we will respond to rising interest rates with a strong intention of increasing the top line and returning profits to investors.

Q8. : Regarding the background behind your decision to shift to a further growth phase, what was the trigger for JMF to shift to a growth phase?

A8. : Regarding the background behind the shift from a focus on stability to focus on growth, we have always conducted management with the aim of growth, but since 2020, due to the COVID-19 pandemic, some tenants have moved out, rents have been reduced, contracts have been revised, etc. Since the actual EPU fell below 2,250 yen, which was thought to be the bottom line, we have focused on stability in terms of dividends in order to maintain the bottom line. From now on, as the target of actual of EPU over 2,250 yen by 2025 is clearly in sight, we have a strong intention to move from the defensive actions to our original growth phase, so we have communicated this again to investors.

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• This document is prepared based on Japanese accounting principles unless otherwise noted.

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Asset Management Company: KJR Management

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