

Japan Metropolitan Fund Investment Corporation

August 2024 (45th) Period Q&A Session

Q&A Session Summary

Date: Tuesday, October 22, 2024

In the Q&A Session, five participants put forward a total of ten questions. The questions and answers have been grouped under the titles “Strategy”, “External Growth”, “Internal Growth”, “Finance Strategy” and “Others” based on the details of the questions.

【Strategy】

Q1. : At this financial closing, DPU and EPU were raised to the level of 2,700 yen and 2,400 yen respectively. If they are to be reviewed again, at what conditions do you revise them upward? EPU of above 2,400 yen would come into sight sometime soon if LTV ranges between 38% and 40% and the current pace of internal growth continues. Could you share your perspective on this?

A1. : Let me start from explaining how DPU relates to EPU. This target DPU was raised to 2,700 yen, while the current EPU is less than 2,400 yen. We will be sure to achieve the DPU level of 2,700 yen through EPU and return of gain on sales. We are very confident about returning the gain on sales and will keep delivering this. We also believe the so-called actual EPU can grow steadily.

We understand DPU will remain above 2,700 yen as the actual EPU increases and the return of gain on sales continues. As we continue this, actual EPU could reach near 2,700 yen from internal growth, and we could retain a certain DPU level without relying on gain on sales. For reference, if we compare between the 45th and 47th periods, the actual EPU grew approximately at 5% excluding the gain on sales. We are confident to retain this level and would like to drive DPU above 2,700 yen, while steadily increasing the actual EPU.

Q2. : As you have just announced about the public offering on September 25, it could not happen soon, but is there any possibility that you will repurchase your own investment units to boost the P/NAV multiple which currently stands at less than 1.0? Please let us know your thoughts.

A2. : We feel our investment unit price is valued at a huge discount despite the current growth potential of JMF. We are managing assets always considering how to increase the investment unit price.

Among others, repurchasing our own investment units could be one of the important options when we have cash on hand. JMF has repurchased its own investment units three times in the past, and may consider the 4th and 5th repurchases with cash on hand. We think that it is a matter of how to allocate cash on hand. As we have consistently mentioned, we pursue total returns, namely maximizing DPU and NAV. In

this respect, more focus will be placed on repurchasing our own investment units if the investment unit price is trending downward. On the other hand, we acquired CROSS MUKOGAOKA with the sales proceeds of Ito-Yokado Tsunashima. If the yield above the implied cap rate is ensured, and unrealized gain on the acquired property is higher than the NAV discount rate, it could be more beneficial for investors to acquire the property than to choose to repurchase our own investment units. We believe it is all about comparing the repurchase of investment units based on the unit price level, and the total returns of property acquisition.

【External Growth】

- Q1. : What is your target property type in the future acquisition? As you have highlighted about the strong rent growth of urban facilities in your presentation, do you focus on the acquisition of urban facilities?
- A1. : We mainly invest in urban assets but not particularly focused on specific types of property. As we explained earlier, our first target is properties exceeding the implied cap rate level considering the capital cost. We believe that the most important point in acquiring properties is to carefully assess not only the profitability upon acquisition, but also the growth potential in the target property to drive further internal growth through management.
- Q2. : Did investors respond to the recent public offering positively or negatively? Which was the mainstream response?
- A2. : Investors reacted differently but we understand some investors asked why we launched a capital increase at a discount. On the other hand, we structured the offering to ensure a higher total return even at a discount. The yield exceeded the implied cap rate and the average NOI yield after depreciation, and unrealized gain was huge. It was an accretive offering, with the NAV growing steadily even after including dilution. We explained this point to investors and many of them seem to have reacted positively in the end. This is also reflected in the demand multiplier. Regarding the performance of investment unit price, LTP (Launch to Pricing) remained at -1.8% of the Tokyo Stock Exchange REIT index.
- Q3. : You mentioned that market value LTV will be adopted and the target LTV will be raised to the low 40% range from the current 38%. Even if the property acquired from the proceeds of public offering were acquired from loan proceeds, we could have retained LTV at around the low 40% range. Instead of choosing equity financing when the investment unit price is weighing on the NAV per unit, borrowings could have generated a higher total return. Why did you select public offering despite such perspective?
- A3. : We chose a public offering this time but still have plans to borrow at around 40% LTV. We would like to cap the LTV at a certain level for possible acquisitions in the future. The acquisition pipeline worth 30.0 billion yen will coincide around the settlement timing of the 50.0 billion yen disposition which is in detailed negotiation with the buyer. We may consider a certain amount of borrowing. In that sense, during this public offering, we decided using up the borrowing capacity of LTV40% could limit our future transactions.

As such, our acquisition was in part based on equity financing without making a full loan.

Q4. : I understand the acquisition pipeline of 30.0 billion yen exceeds the implied cap rate, and please explain whether the current unrealized gain exceeds the NAV discount rate. If so, pursuing another public offering soon could align with JMF's strategy. Is there any such possibility?

A4. : Unrealized gain of the acquisition pipeline is close to the spread of discount. In this respect, we are accumulating at a discount, excellent properties with unrealized gain which yield above the implied cap rate. However, as we mentioned earlier on the ongoing property sales at 50.0 billion yen, regarding acquisition funds, we can manage the borrowing capacity at the timing of settlement.

Q5. : You said to be confident about the property sales and its continuity. What underpins the sales probability and its continuity?

A5. : We could actively achieve gain on sales from Ito-Yokado Tsunashima. Sales can happen at a good timing when profitability is at its peak and there are many cases that a high valuation is achieved when the buyer converts the property use like the case of Ito-Yokado Tsunashima. We have gradually started such sales to maximize gain from our portfolio.

Let me decline to comment on the individual property and category. However, we think we can continually deliver high gain on sales and also the gain far exceeds the appraisal value in some cases.

【Internal Growth】

Q1. : Regarding the floor expansion of unimo chiharadai, may we expect a relatively high return from the additional investment of floor expansion amid the rising construction cost? Is there any room to change the use of current 155 tenants? Please tell us about such possibility.

A1. : We will deliberate on the floor expansion. As the property is built on a large site, we intend to minimize the construction cost to the level of a one-story building. For the tenant composition, we will assess the strengths and weaknesses, what type of industry/business suits best, and the level of rent income.

【Finance Strategy】

Q1. : You said the target LTV to be raised to 40 % to 50% from the current 38% as result of adopting the market value LTV. Are you going to take more leverage risk by raising the LTV and improving EPU or DPU? May we understand your take on leverage has changed?

A1. : As I mentioned earlier, we redefined LTV to be based on market value as a main indicator. We will track the performance against NAV under our total return strategy. A higher market value LTV will run in tandem with our strategy to improve NAV. I said the appropriate range of market value LTV was 40% to 50%. As it now stands at 38%, we are aiming for 40% as a benchmark, and we would like to control it appropriately while being conscious of the first half of 40%.

【Other】

Q1. : Let me confirm the definition of urban retail properties once again. For instance, unimo chiharadai is being acquired as an urban retail property, but is it not a suburban shopping center? What makes you define it as an urban retail facility? I would like to confirm the attributes of urban retail properties.

A1. : We have captured the category and area of retail facilities even since the time of the Japan Retail Fund, and our investment target has basically not changed since then. More specifically, we originally covered high street retail properties in the prime areas, such as urban retail properties mainly in front of major stations and residential stations. Even after being renamed the Japan Metropolitan Fund, residential station is a category of urban properties.

Unimo chiharadai is defined as a retail facility near a residential station. Our concept of suburban retail facilities excludes properties that are not accessible from the main road, as they are becoming less accessible or less competitive than e-commerce, and consider them outside of our investment scope. On the other hand, such properties are adjacent to residential areas with growing population and becoming competitive. Facilities within easy access from a station will remain our investment target.

• This document may contain information such as data on future performance, plans, management targets, and strategies. Such descriptions with regard to the future are based on current hypotheses and assumptions about future events and trends in the business environment, but these hypotheses and assumptions are not necessarily correct. As such, actual results may vary significantly due to various factors.

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

• This document is to be used for analyzing the financial results of JMF and was not prepared for the purpose of soliciting the acquisition of JMF's investment securities or the signing of financial instruments contracts. When investing, we ask investors to invest on their own responsibility and their own judgment.

• JMF is a publicly-offered real estate investment corporation (J-REIT) investing in real estate and related assets, the prices of which may fluctuate. Unitholders of the Investment Corporation may suffer loss when unit prices decline in the market or an amount of distributions declines according to economic and interest rate circumstances, the balance of supply and demand for units, the real estate market environment, fluctuations of prices of and rent revenues from real estate properties under management, disasters, deterioration of the financial status of JMF and other reasons. For details, please see "Investment Risk" in the Securities Registration Statement (offering circular) and the Securities Report of JMF.

Asset Management Company: KJR Management

(Financial Instruments Dealer Director of Kanto Financial Bureau (Financial Instruments Dealer) Number 403, Member of The Investment Trusts Association, Japan, Member of the Japan Investment Advisers Association, Member of the Type II Financial Instruments Firms Association)