



# JAPAN RETAIL FUND

August 2015 (27<sup>th</sup>)

## Period Results

8953



US ADR(OTC): JNRFY

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<http://www.jrf-reit.com/english/>

# JAPAN RETAIL FUND

## Contents

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- 1. Portfolio Management ..... P. 2**
- 2. Implementation of Growth Strategy ..... P. 7**
- 3. Stable Distributions and Use of Reserves ... P. 23**
- 4. Financial Results and Forecasts ..... P. 25**
- 5. Sustainability Management ..... P. 31**

# JAPAN RETAIL FUND



Newly acquired property  
G-Bldg. Minami Aoyama 01 (Bldg. B)

1. Portfolio Management
2. Implementation of Growth Strategy
3. Stable Distributions and Use of Reserves
4. Financial Results and Forecasts
5. Sustainability Management

## Growth strategy for improvement of unitholders values

### ■ Growth strategy and current focused initiatives

Focus on the following 3 "Initiatives for further growth" of all growth strategies

#### External Growth Strategy

##### Initiatives for further growth

- 1 Asset size expansion**  
for the purpose of further enhancing regional and tenant diversification
- 2 Additional acquisition of prime asset and property replacement**  
for the purpose of improving portfolio quality
- 3 Securing future internal growth opportunities**  
through acquisition of properties with high potential in good location utilizing our SC Management capabilities

#### Internal Growth Strategy

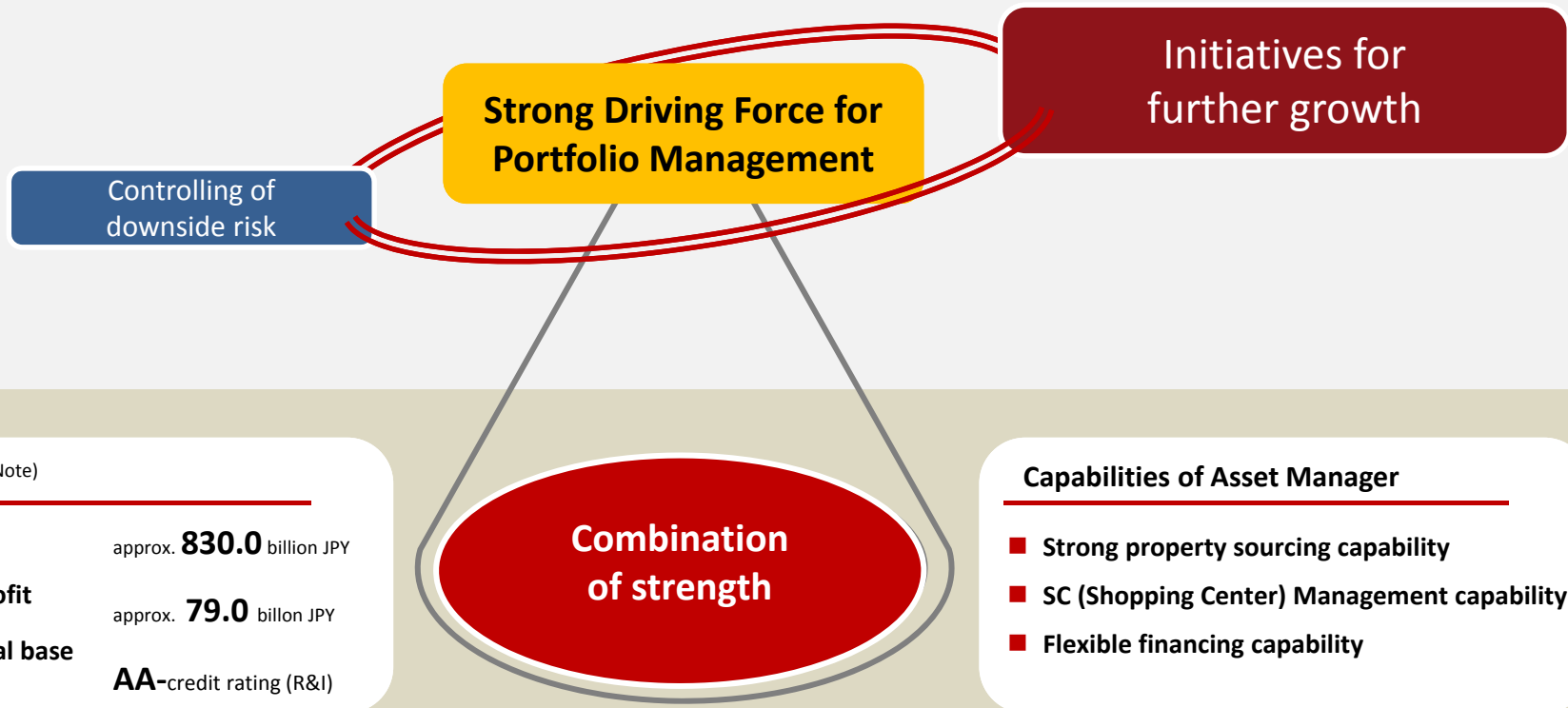
- 1 Improvement in profitability**  
through strengthening of property competitiveness
- 2 Improvement in stability**  
of our portfolio by reducing potential risks through continuous dialogue with major tenants:
  - Suggestion of competitiveness improvement measures
  - Introduction of stable lease terms

#### Financial Strategy

- 1 Continued financing stability**  
by diversifying maturity periods, lengthening borrowing periods, improving fixed interest rate ratio, and securing emergency funding sources
- 2 Diversification of funding sources**  
through introduction of new lenders and issuance of corporate bonds

## Drive active portfolio management by combining our strength

### ■ Illustration of portfolio management



(Note) As of Oct. 16, 2015



## Steadily executing initiatives aimed at growing unitholder value in the mid- to long-term

### ■ Initiative for further growth and recent actions

#### External Growth Strategy

For the purpose of further enhancing regional and tenant diversification

#### Asset size expansion

<Recent action>

Acquisition of new properties consisting mainly of urban retail properties

**8** properties<sup>(Note)</sup> approx. **42.1** billion JPY

#### Capital raising of over JPY20.0billion through PO

**Offering type:**  
Global Offering (Reg.S+144A)

Asset	Debt
Acquisition of 8 properties (42.1 billion JPY) (Completion of all properties)	19.5billion JPY <sup>(Note)</sup>
	Equity
	Issuance of 122,000 units (23.9billion JPY)

#### External Growth Strategy

For the purpose of improving portfolio quality

#### Asset replacements

<Recent action>

Future acquisition capacity generated through disposition of suburban GMS properties

**5** properties approx. **68.5** billion JPY

#### Disposition of suburban GMS properties at price above book value

- Disposition at price above book value by leveraging current highly liquid real estate market
- Proceeds from disposition to be appropriated for debt repayment, temporarily lowering LTV for future acquisitions of mainly urban prime properties



#### Internal Growth Strategy

Leveraging SC management capability

#### Asset value enhancement initiatives

<Recent action>

Implementation of action plans for facilities competitiveness improvement

Completed **2** properties  
Being implemented **3** properties

#### Renewal opening of mozo wonder city

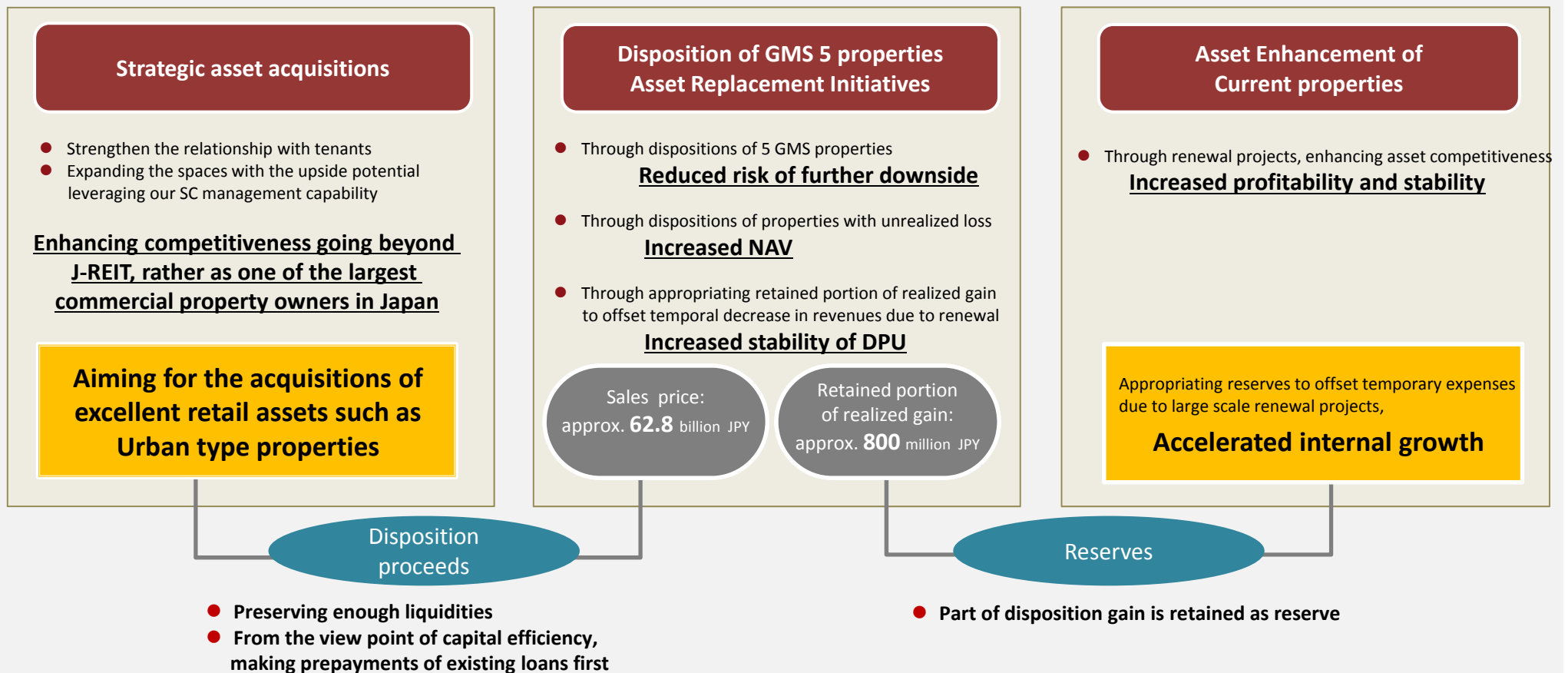
Large-scale renewal project targeted at strengthening competitiveness  
Renewal opening on Sep. 18, 2015



(Note) 8 acquired properties include G-Bldg. Ueno 01 which we acquired on Jul. 28, 2015. The debt raised in connection with PO includes the JPY3.0billion borrowings for the acquisition of G-Bldg. Ueno 01.

## Multiple strategies evolving in our portfolio management

### ■ A case of portfolio management



# JAPAN RETAIL FUND



Newly acquired property  
G-Bldg. Akihabara 01

1. Portfolio Management
- 2. Implementation of Growth Strategy**
3. Stable Distributions and Use of Reserves
4. Financial Results and Forecasts
5. Sustainability Management

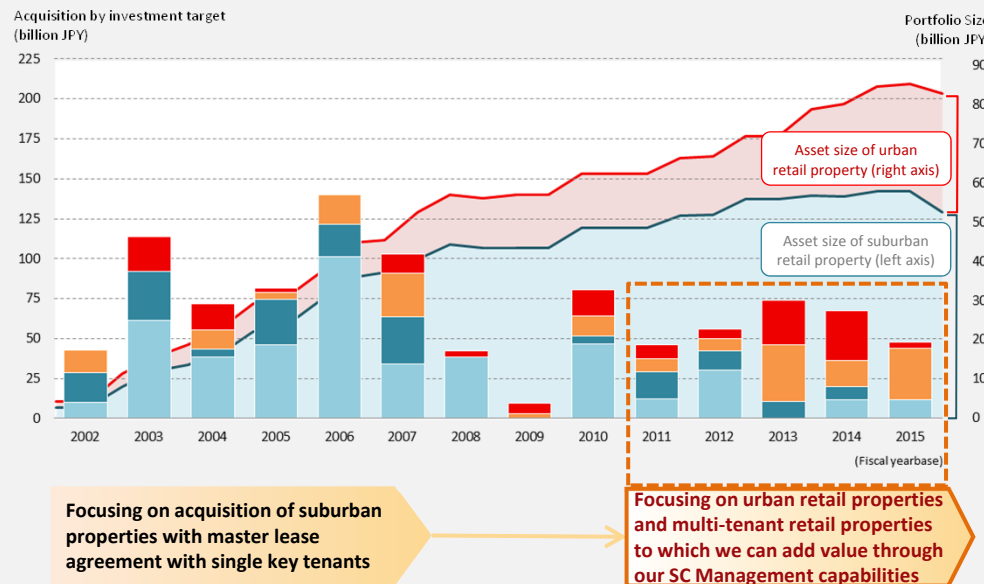


## Strategic property acquisition aimed at asset size expansion and profitability improvement

### Historical trends of property acquisition and portfolio profitability

#### Acquisition track record by investor type and asset size (As of Oct. 16, 2015)

Strategic property acquisition at each growth stage

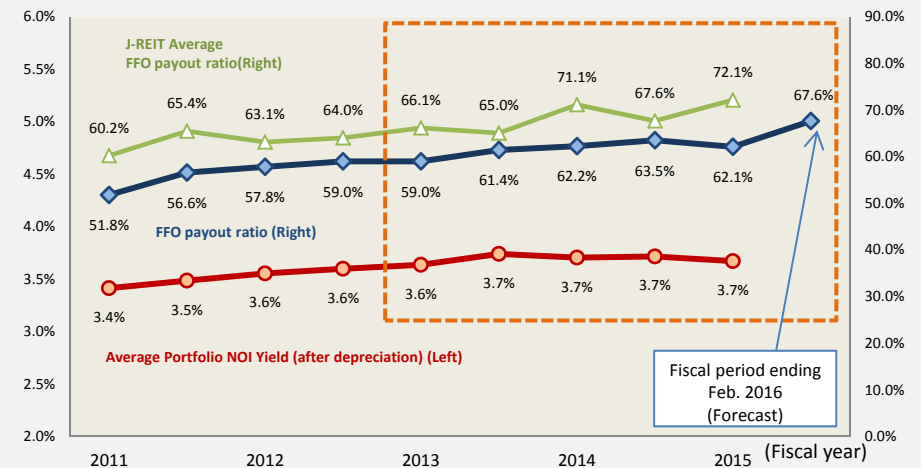


Suburban Properties	Urban Properties
A Large-scale retail properties, the largest class in the relevant area	C Retail properties in favorable locations adjacent major stations
B Retail properties in densely-populated areas	D Retail properties in prime urban shopping districts

(Note) Fiscal year based on JRF's fiscal year end (March to February). Excludes property extension and non-core assets.

#### NOI yield (after depreciation) and FFO payout ratio (As of Oct. 16, 2015)

Improved payout ratio by disposing suburban properties while maintaining profitability



(Note) "J-REIT average FFO payout ratio"

- Total distributions / (Net income + Depreciation - Gain on sales of property + Loss on sales of property + impairment loss)
- A simple average of all listed J-REITs as of each data point, excluding J-REITs that have recently listed and not yet reported their financial data.
- Excludes negative value for the calculation of average FFO payout ratio.
- Compiled by the Asset Management company based on publicly available data.

"FFO payout ratio"

- Total distributions / (Net income + Loss on sales of property - Gain on sales of property + Depreciation + other real estate related depreciation)
- Net income used in calculation of FFO does not include income taxes.

"Portfolio NOI yield after depreciation"

- (Rental revenues - Rental expenses) / Acquisition price

Strengthened our stable earning base by acquiring prime properties using our abundant deals sources

### ■ Acquisition of new properties consisting mainly of urban retail properties

Newly acquired properties in 2015 (11 properties, JPY 51.9 billion)



Urban-type  
G-Bldg. Kichijoji 01  
(additional acquisition of a 50% co-ownership interest)



Urban-type  
EDION Kyobashi (Land with leasehold interest)



Urban-type  
PO in 2015  
G-Bldg. Minami Aoyama 01 (Bldg. B)



Urban-type  
PO in 2015  
G-Bldg. Ueno 01



Urban-type  
PO in 2015  
G-Bldg. Akihabara 01



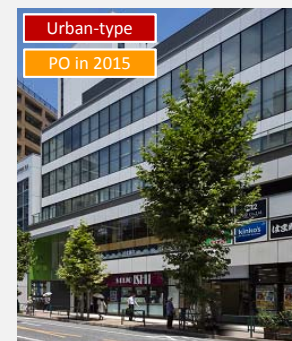
Urban-type  
PO in 2015  
G-Bldg. Akihabara 02



Suburban-type  
PO in 2015  
mozo wonder city (additional acquisition of a 20% co-ownership interest)



Urban-type  
PO in 2015  
G-Bldg. Umeda 01



Urban-type  
PO in 2015  
Takadanobaba (Land with leasehold interest)  
(60% co-ownership interest)



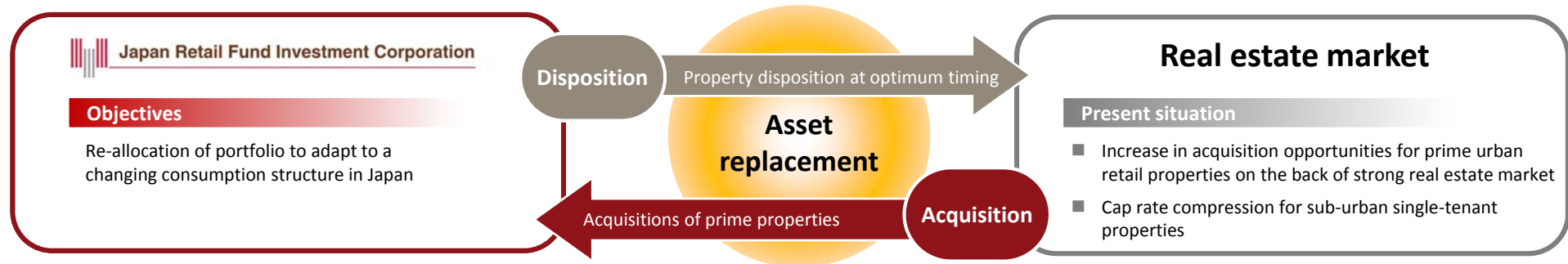
Urban-type  
PO in 2015  
G-Bldg. Abeno 01



Urban-type  
G-Bldg. Shinsaibashi 04

### Property disposition at optimum timing and future acquisitions

#### ■ Concept of asset replacement



#### Key points of disposition

- 1 Portfolio optimization**  
Improvement balance of urban/suburban properties and concentration on major tenants
- 2 Disposition at optimum timing and securing future acquisition capacity**  
Secure acquisition capacity of over several billions of JPY through disposition of all 5 properties at price above book value
- 3 Strengthening portfolio profitability/stability**  
Disposition of properties with limited prospect of improvement in competitiveness even if we implement large-scale renewals in the future  
Increase in unrealized profits in our portfolio and NAV per unit through disposition of properties with unrealized losses
- 4 Stable distributions through the use of reserves**  
Gain on disposition to be partially appropriated for internal reserve, which is intended to be used for future internal growth strategy

#### Aiming for future acquisitions at optimum timing

##### Acquisition of prime properties consisting mainly of urban retail properties

- ✓ Retail properties located in urban prime location in 3 major metropolitan areas
- ✓ Prime retail properties adjacent to major terminal stations
- ✓ Retail properties with revenue enhancement potential by using our SC Management capabilities

##### Securing future acquisition capacity

- Secure cash-on-hand
- Debt repayment and temporary LTV reduction from the perspective of efficient capital use

## Disposed suburban GMS properties all at the price above book value

### ■ Disposition of 5 properties (Suburban-type, GMS) approx. JPY 68.5billion

Policies on selecting properties to be replaced

- ✓ Properties of which replacement would further diversify our portfolio
- ✓ Properties which are likely less competitive in the future or has limited revenue contribution to our portfolio

#### Disposition

Sub-urban type

Master leasing

GMS



AEON MALL Yachiyo Midorigaoka



AEON Ueda



AEON Nishi-Otsu



AEON Omiya



AEON MALL Kashiihama

#### List of disposition properties

Property name	Acquisition price	Disposition price	Book value	Disposition price — Book value	Appraisal value	Appraisal value — Book value	NOI yield (before depreciation) (Note 2)	NOI yield (after depreciation) (Note 2)	Disposition date
AEON MALL Yachiyo Midorigaoka	30,789	28,015	28,011	+3	23,700	-4,311	3.8%	2.4%	Oct. 15, 2015 (28 <sup>th</sup> period)
AEON Ueda	9,500	8,050	8,033	+16	7,970	-63	5.5%	3.3%	Oct. 15, 2015 (28 <sup>th</sup> period)
AEON Nishi-Otsu	13,100	12,230	12,148	+81	11,200	-948	5.1%	3.8%	Oct. 15, 2015 (28 <sup>th</sup> period)
AEON Omiya	6,133	5,772	5,758	+13	5,600	-158	4.6%	2.9%	Oct. 15, 2015 (28 <sup>th</sup> period)
AEON MALL Kashiihama	13,300	14,500	11,749	+2,750	14,500	+2,750	6.2%	5.0%	30%: Oct. 15, 2015 (28 <sup>th</sup> period) 19%: The end of Aug, 2016 (29 <sup>th</sup> period) 51%: The end of Sep, 2016 (30 <sup>th</sup> period)
<b>Total: 5 properties</b>	<b>72,822</b>	<b>68,567</b>	<b>65,701</b>	<b>+2,865</b>	<b>62,970</b>	<b>-2,731</b>	<b>4.8%</b>	<b>3.3%</b>	

(Note 1) Million JPY unless otherwise noted.

(Note 2) NOI is annualized based on the actual NOI of fiscal period ended Aug 2015 (27<sup>th</sup> fiscal period)  
NOI Yield is calculated by dividing NOI with Acquisition price.

Disposition price exceeded book value

Decrease in unrealized loss = improved NAV

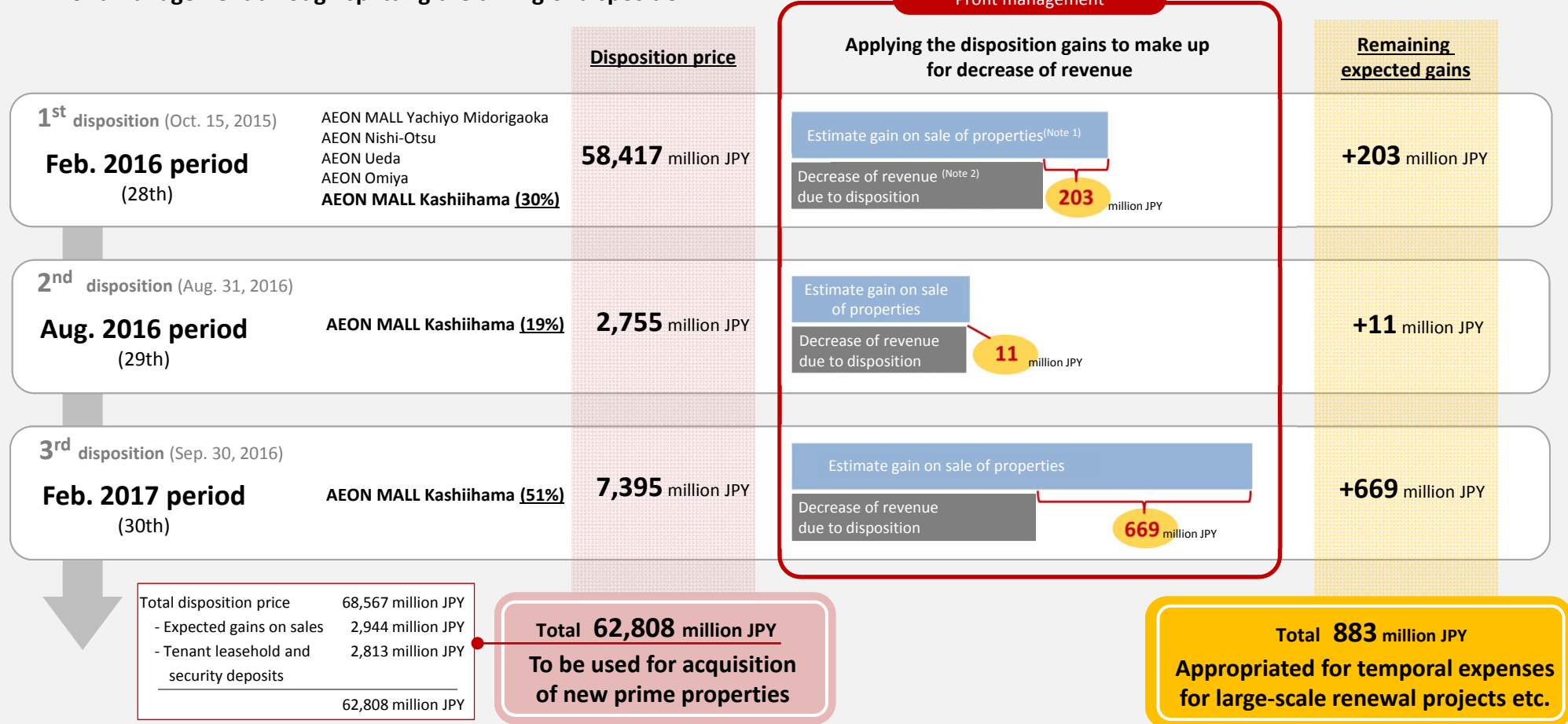
Profitability enhanced



## External Growth Strategy -- Asset Replacements (3)

### Stabilizing distribution level by utilizing gains on property disposition

#### ■ Profit management through splitting the timing of disposition



(Note 1) Estimate gain on sale of properties is calculated as the contracted sales price less book value of each properties as of disposition date.

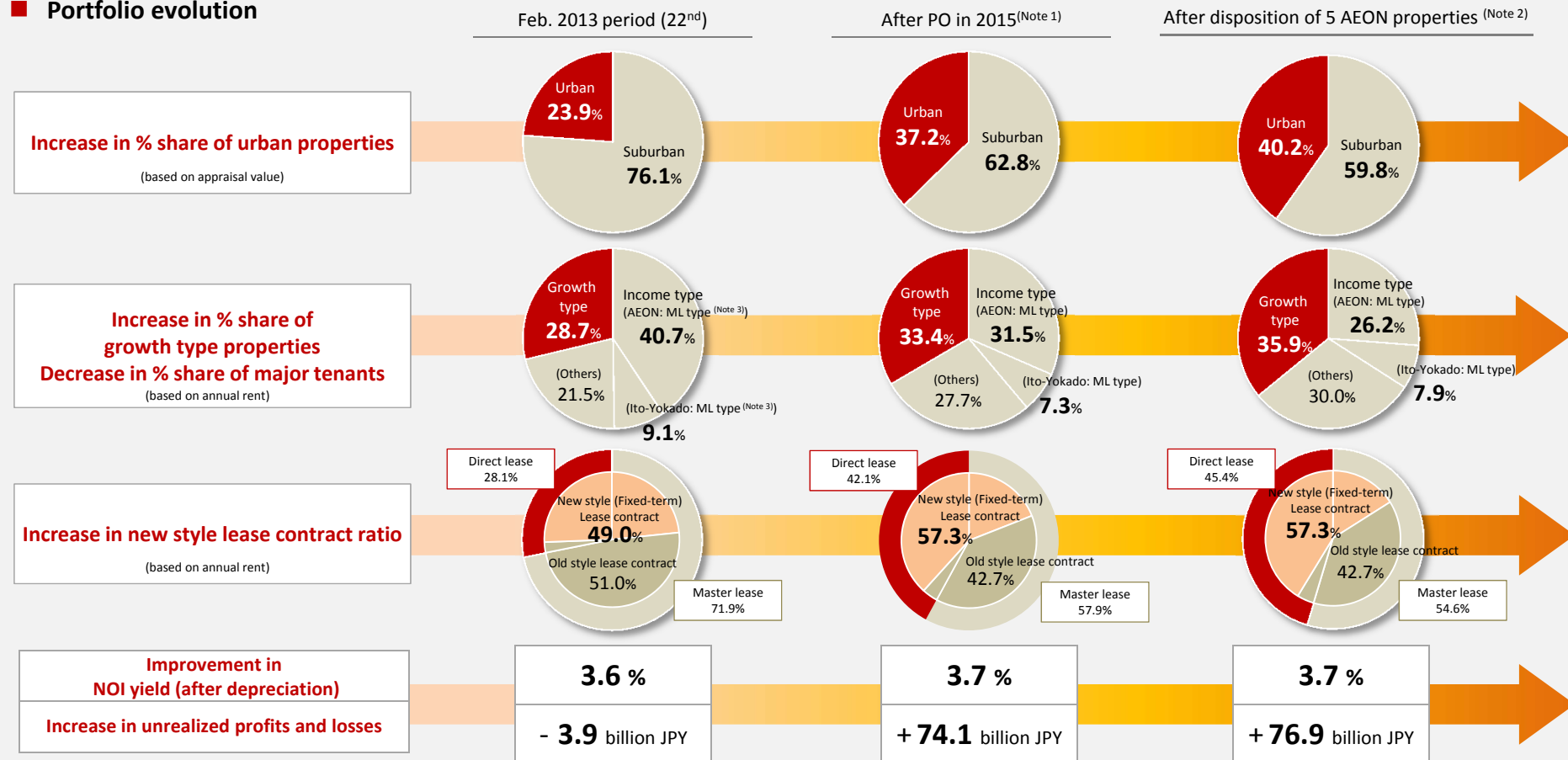
(Note 2) Decrease of revenue due to disposition is calculated as the NOI after depreciation of disposed properties less the decrease in general administrative expenses and non-operating expenses including interest expenses assuming that all of the disposition proceed is allocated to the prepayment of outstanding borrowings.



# Portfolio Evolution

## Portfolio metrics constantly improving through our persistent efforts

### Portfolio evolution



(Note 1) Based on existing 95 properties we own as of Oct. 14, 2015.

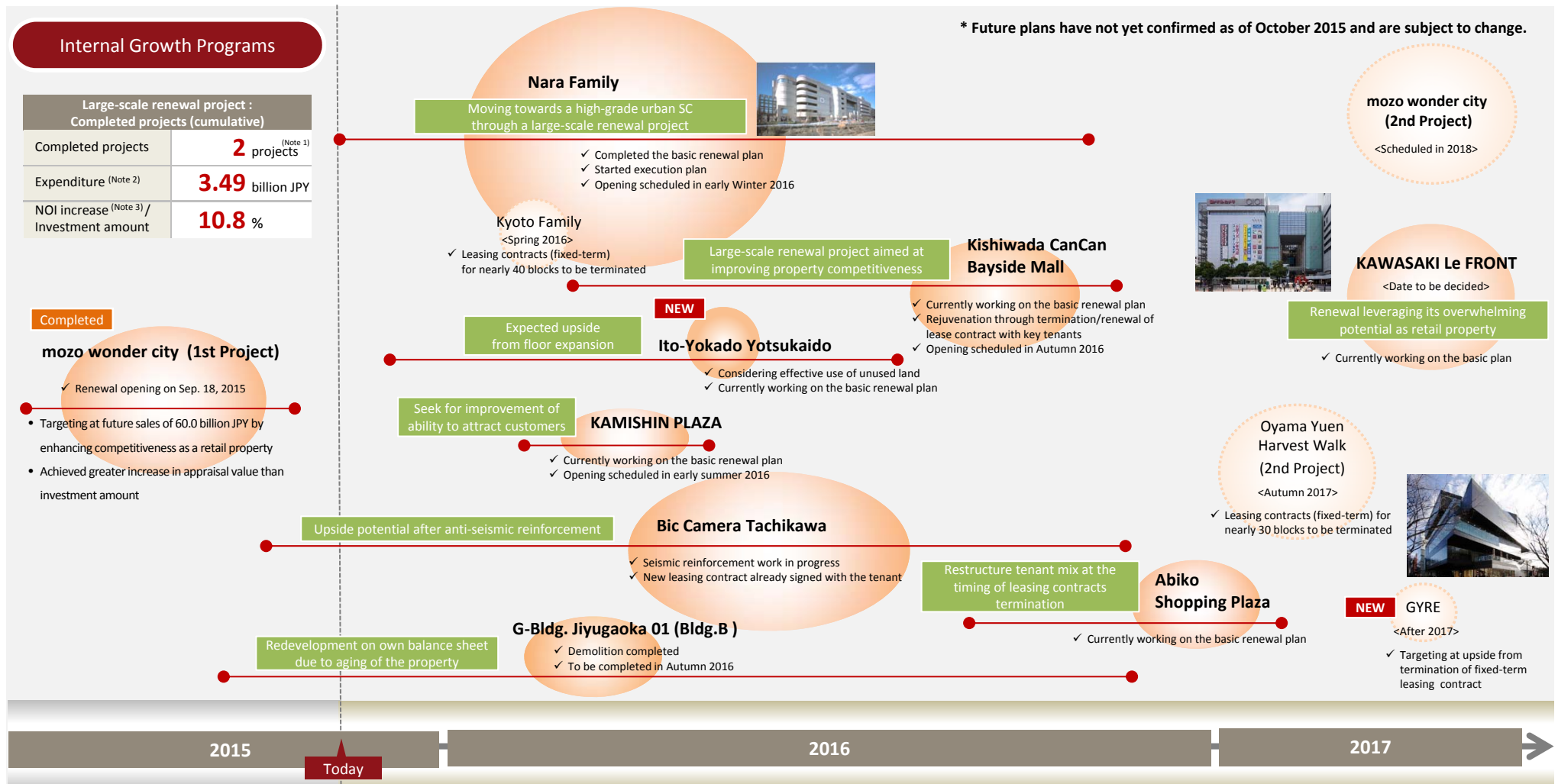
(Note 2) Based on 91 properties (Existing 95 properties we own as of Oct. 14, 2015 – 5 AEON properties which we announced to dispose on Oct. 14, 2015 + G-Bldg. Shinsaibashi 04 which we acquired on Oct. 16, 2015)

(Note 3) "AEON: ML type" refers to the total annual rent of AEON Retail, AEON MALL, AEON Kyushu, AEON Ryukyu and AEON TOWN which lease our properties as a master lease tenant in Income properties.

"Ito-Yokado: ML type" refers to the total annual rent of Ito-Yokado which leases our properties as a master lease tenant in Income properties.

# Internal Growth Strategy -- List of Action Plans

## Implement internal growth strategy by leveraging our SC management capability



(Note 1) Oyama Yuen Harvest Walk (1st Project), mozo wonder city (1st Project).

(Note 2) Approximate estimate used for the projects if investment amount is not fixed.

(note 3) NOI increase = (NOI after renewal project) – (NOI before renewal project). For NOI after renewal project, actual result is used if the property is operating at normalized base otherwise annual NOI estimate is used.

## Internal Growth Strategy -- mozo wonder city (1)

### Renewal opening on Sep. 18, 2015 with 100% occupancy rate (Note)

#### Overview of renewal project

##### Objective

To lay a foundation for future target annual sales of 60 billion JPY for the purpose of further differentiation from surrounding competing properties

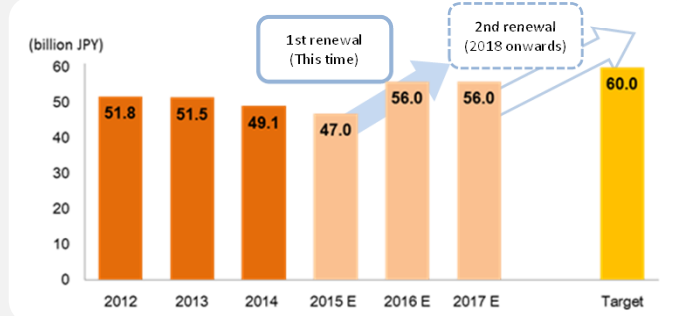
#### Effect on renewal projects on the whole property

Estimated total expenditure	<b>2.17</b> billion JPY
Estimated increase in NOI	<b>0.23</b> billion JPY / year
Annual NOI Increase / Total expenditure	<b>10.9</b> %

#### Visitors/Sales after renewal project

	Sep. 18 – Oct. 12, 2015 <small>(compared to the same period in the previous year, adjusted for holiday)</small>	
Visitors	approx. <b>1.63</b> million	( +26% )
Sales	approx. <b>4.7</b> billion yen	( +39% )
Specialty store	approx. <b>3.6</b> billion yen	( +42% )
AEON	approx. <b>1.1</b> billion yen	( +30% )

#### Historical annual sales and future target (based on fiscal year)



#### Overview of new tenants

- Attracted a large number of stores including boutique shops, apparel, cosmetic and interior stores that are either new in the region or new in the suburban shopping center in the region
- 75% of all 215 stores, or 163 stores, went through renewal
- 82 new stores (69 stores are newly attracted and 13 stores went through business model change) and 81 stores remodeled / transferred

<b>FASHION</b>	Concentration of domestic boutique stores with high awareness of leading trends Expansion of international brands	New store in the region <b>11</b> stores New stores <b>35</b> stores
<b>FASHION ACCESSORIES</b>	Popular stores that complement fashion	New store in the region <b>2</b> stores New stores <b>11</b> stores
<b>LIFE STYLE ITEMS</b>	Various stores that handle life style items and store opening of hot international brands	New store in the region <b>3</b> stores New stores <b>13</b> stores
<b>FOODS &amp; CAFÉ, RESTAURANT &amp; SERVICE</b>	Selection of popular F&B tenants offering a wide variety of food	New store in the region <b>10</b> stores New stores <b>23</b> stores

(Note) Based on contracts as of the end of October 2015.

# Achieved increases in # of visitors and annual sales by providing user-friendly facilities

## ■ Renewal concept “mozo park”

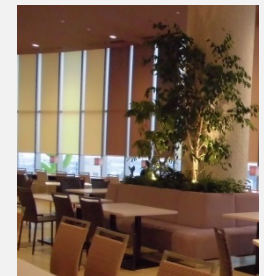
### Creation of “mozo park”

- Installation of “mozo tree” in open ceiling space and green carpeting
- Installation of hanging chair and playground equipment in kids area



### Refurbishment of Food Court Area

- Increased seating capacity from 800 to 1,000 seats through optimized table layout, creating comfortable atmosphere



### Introduction of friendly service leveraging our knowhow



#### ● Measures for energy conservation

Introduction of LED lighting in common areas and air conditioning inverter



#### ● Introduction of parking control system

Reduction of traffic jam through introduction of parking control system



#### ● Renewal of membership card, installation of Free Wi-Fi

Improved user-friendliness through renewal of membership card, installation of Free Wi-Fi



## Action plans by leveraging our SC management capabilities

### 1 | G-Bldg. Jiyugaoka 01 (Bldg. A and Bldg. B)

**Enhance property competitiveness by simultaneously implementing action plans in neighboring buildings**

■ Effect (Note 1)(only Bldg. B)

Estimated total expenditure	<b>0.58</b>	billion JPY
Estimated increase in NOI	<b>37</b>	million JPY / year
Annual NOI Increase / Total expenditure	<b>6.4</b>	%

**Bldg. A** Introduction of a competitive tenant without any down-time



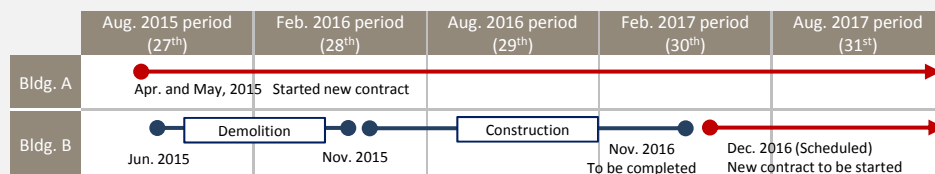
- ✓ Opening of "Maison IENA" flagship store, a new store operated by BAYCREW's, in Aug. 2015
- ✓ Offers boulangerie (first store opening in Japan), fashion and interior stores

**Bldg. B** Currently rebuilding on our balance sheet



- ✓ Signed leasing contract with new tenants
- ✓ Publicity effect on wooden construction (Nikkei BP "Forum on wood use 2015" etc.)

<Schedule>



(Note 1) Refer to press release announced on Jun. 25, 2015 and Jul. 31, 2015 for preconditions.

(Note 2) These are indicative renderings and may differ from the actual development.

### 2 | Bic Camera Tachikawa

**Renewal of leasing contract with existing tenant (20-year, fixed-term contract) and seismic reinforcement work**

■ Effect (Note 1)

Estimated total expenditure	<b>2.91</b>	billion JPY
Estimated increase in NOI	<b>443</b>	million JPY / year
Annual NOI Increase / Total expenditure	<b>15.3</b>	%

Before

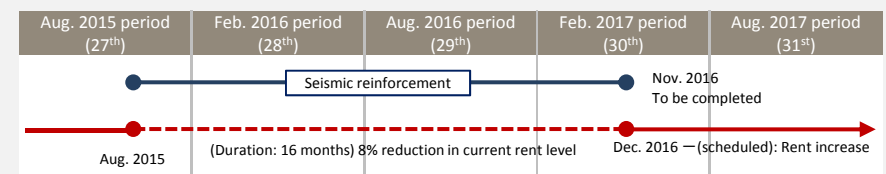


After (Note 2)



- ✓ Pre-agreed with an existing tenant on new rent level after the renewal work (20-year fixed-term leasing contract)
- ✓ Secure rental income during reinforcement work by enabling operation of the stores
- ✓ Strengthened property competitive by improving both building/seismic performance

<Schedule>





## Large-scale renewal project — Shift towards high quality retail property

### Overview of renewal projects

#### Objective

Further strengthen the position as a No.1 retail facility in Nara by transforming to high quality retail property, focusing on continuity with department store in order to maximize its potential

#### Renewal plan

- Drastic review of tenant line-up focusing on continuity with department store
- Substantial expansion of specialty store zone
- Renovation of facility to be better suited for high quality retail property

#### Background

**Nara Family: Retail property consists of 2 key tenants (Kintetsu department store and AEON) and approx. 120 specialty stores**

#### Rich trade area with high purchasing power

- ✓ Rich trade area 5km: approx. 330,000 10km: approx. 680,000
- ✓ Nara-shi boasts one of the highest saving / consumption expenditure in the nation
- ✓ Kintetsu Saidaiji Sta.: Terminal station with direct access to Kyoto, Osaka and Sannomiya (Kobe)

➔ Bring back quality customers who are assumed to have been flown out to other major cities (Osaka/Kyoto) and neighboring suburban shopping mall in recent years

#### Savings<sup>(Note 1)</sup>

	(Thousand yen)
1 Tokyo	2,515
2 Nara-shi	2,330
3 Chiba-shi	2,167
4 Yokohama-shi	2,150
5 Kawasaki-shi	2,121
6 Saitama-shi	2,077
7 Utsunomiya-shi	2,067
8 Sagami-hara-shi	2,053
9 Shizuoka-shi	2,023
10 Fukuji-shi	2,018
National ave.	1,798

#### Consumption expenditure<sup>(Note 2)</sup>

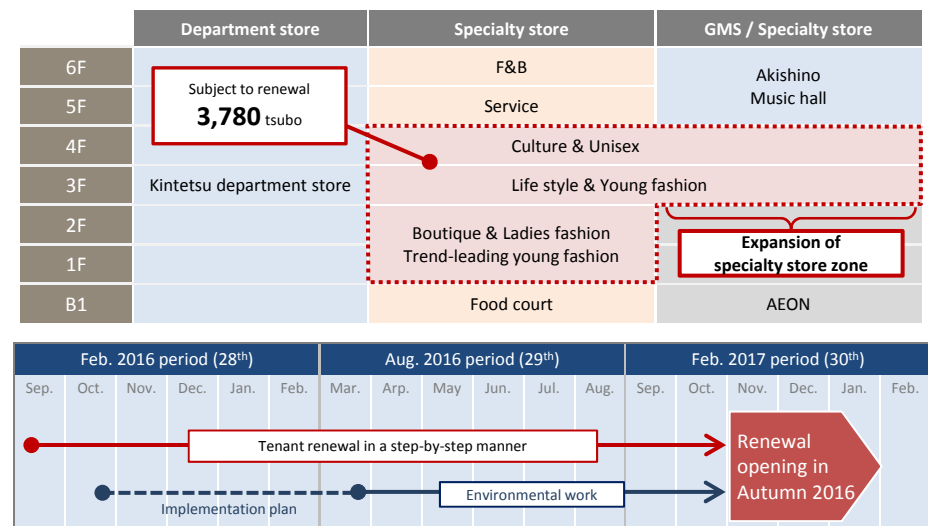
	(Yen)
1 Toyama-shi	339,622
2 Kanazawa-shi	335,861
3 Kawasaki-shi	331,689
4 Saitama-shi	329,448
5 Utsunomiya-shi	329,193
6 Tokyo (23 wards)	324,999
7 Nara-shi	324,605
8 Tokushima-shi	320,073
9 Kochi-shi	319,466
10 Hamamatsu-shi	311,903
National ave.	291,194

#### Taxable income<sup>(Note 3)</sup>

	(Thousand yen)
1 Minato-ku, Tokyo	12,667
...	...
43 Ikoma-shi, Nara	3,962
...	...
60 Seika-cho, Kyoto	3,750
...	...
75 Nara-shi, Nara	3,649
...	...
127 Kizugawa-shi, Kyoto	3,437
...	...
National ave.	3,274

#### Floor concept and schedule

- 3,780 tsubo out of total leasable area 25,700 tsubo (end of Aug. 2015) scheduled to be subject to renewal
- Plan to attract various large-scale tenant in the expanded specialty tenant zone



(Note 1) The Ministry of International Affairs and Communications, Statistics Bureau, Survey of Household Economy, Amounts of Savings and Liabilities Held per Household for City Groups, Districts and Cities with Prefectural Governments (Two-or-more-person Households)

(Note 2) The Ministry of International Affairs and Communications, Statistics Bureau, Survey of Household Economy, Monthly Receipts and Disbursements per Household for City Groups, Districts and Cities with Prefectural Governments (Two-or-more-person Households)

(Note 3) Compiled by the asset management company based on data released by The Ministry of International Affairs and Communications, Local Tax Bureau

## 2. Implementation of Growth Strategy

# Internal Growth Strategy -- Nara Family (2)

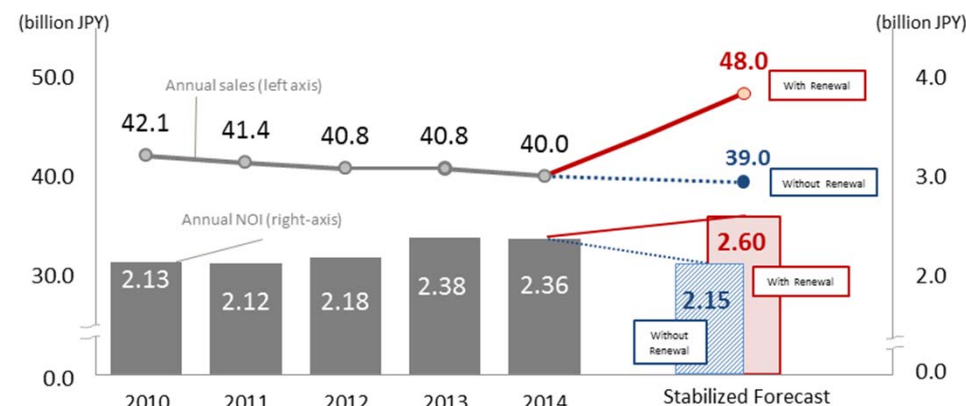
### Effect of renewal project on the whole property

Estimated total expenditure (Note 1)	Estimated increase in NOI		Annual NOI Increase / Total expenditure
5.5 billion JPY	(NOI with RN) — (NOI without RN)	0.45 billion JPY/year (Note 2)	8.2%
	(NOI with RN) — (Actual NOI, FY2014)	0.24 billion JPY/year (Note 3)	4.2%

(Note 1) Expenditure is the sum of construction cost, design cost, facility renewal cost, ancillary cost and furniture transfer/removal cost and so on.

(Note 2) Indicates the difference between an estimated annual NOI for FY2017 after renewal project (normalized base) and an estimated annual NOI for FY2017 without renewal project. The estimate annual sales in case of no renewal project is assumed at 39.0 billion JPY taking into account historical sales trends when tenant composition remain unchanged, macro data released by Japan Chain Stores Association and Japan Department Stores Association, and third party report. The NOI in case of no renewal project is assumed at 2.15 billion JPY based on the assumed annual sales, taking into account renewal of lease contract with existing tenants and partial tenant replacement.

(Note 3) Indicates the difference between an estimated annual NOI for FY2017 after renewal project (normalized base) and actual NOI (the sum of Aug. 2014 and Feb. 2015 periods).



## Image of renewal project

### Open ceiling common space / Common passage in a uniform manner for each floor

After (Note)



- ✓ Renovate open ceiling space into common space, attracting customers
- ✓ Set a theme and install façade in a uniform design for each floor



Before



(Note) These are indicative renderings and may differ from the actual development.

## Achieved rent increase by leveraging our SC Management capabilities

Urban properties subject to lease renewal (fixed term) due to lease termination through Mar. 2015 and Aug. 2016

Rent increased in **13**, stayed same in **8**, and reduced in **2** out of the signed **23** blocks <sup>(Note 1)</sup>

### Examples of Rent Increase

#### G-Bldg. Jingumae 02



Agreed on upward rent revision with existing tenants at expiry of lease contract

- Leasing activity mainly targeted at service-type tenants, taking into account its superior location, a street behind Omotesando
- Agreed on upward rent revision with the existing tenants, following careful selection among various potential tenants

	Floor area	(Note 2) Rent growth
Expiration of lease contracts (2 tenants)	<b>84</b> tsubo	<b>+7.9%</b>

#### G-Bldg. Shinsaibashi 01



Achieved rent increase by attracting a competitive tenant that is capable of capturing inbound demand leveraging the location

- Tenant replacement without any down-time at expiry of fixed-term lease contract
- New opening of Laox, a mass electronic retailer, in Sep. 2015

	Floor area	(Note 2) Rent growth
Tenant replacement (1 tenant)	<b>236</b> tsubo	<b>+24.3%</b>

### Blocks at expiry of fixed term lease contract (urban properties)

Aim to improve profitability and stability by strengthening property competitiveness using SC Management capabilities

	Feb. 2016 period (28 <sup>th</sup> )	Aug. 2016 period (29 <sup>th</sup> )
Properties subject to lease renewal	<b>11</b> properties	<b>6</b> properties
Major properties	<ul style="list-style-type: none"> <li>G-Bldg. Sangenjaya 01</li> <li>KAWASAKI Le FRONT</li> <li>La Porte Aoyama etc.</li> </ul>	<ul style="list-style-type: none"> <li>KAWASAKI Le FRONT</li> <li>G-Bldg. Umeda01 etc.</li> </ul>
# of blocks subject to lease renewal (# of signed lease contract)	<b>23</b> blocks (5 blocks)	<b>18</b> blocks ( -- )
Area subject to lease renewal	approx. <b>2,600</b> tsubo	approx. <b>1,800</b> tsubo
% share of annual portfolio revenue	<b>1.4%</b>	<b>0.8%</b>

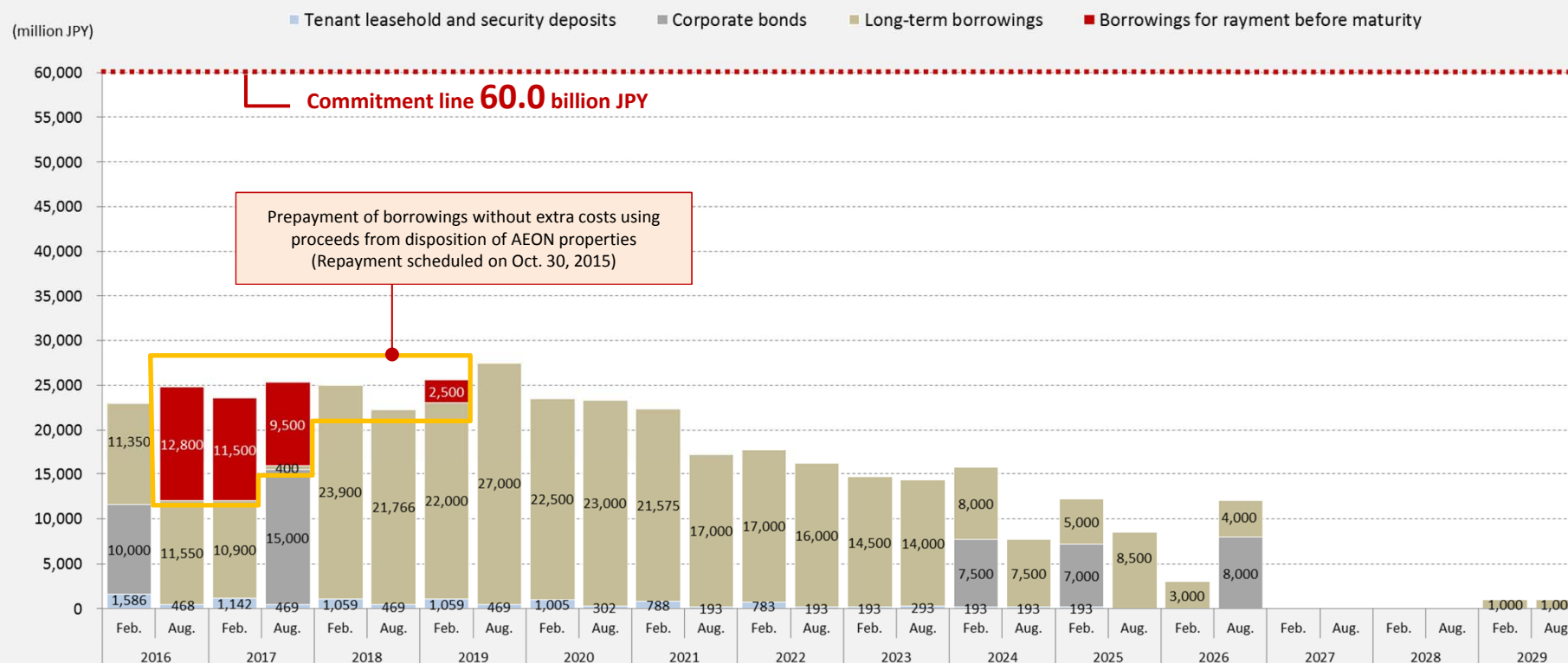
(Note 1) Figures are based on lease contracts signed as of October 5, 2015, excluding certain blocks whose rent level cannot be compared before and after lease renewal. Bic Camera Tachikawa is excluded as the rent level goes down during the seismic reinforcement work yet goes up after such work.

(Note 2) Rent growth is a comparison of rental conditions before and after tenant replacement (a total of monthly rent and common area charges).

(Note 3) 1 tsubo is approximately 3.3 m<sup>2</sup>.

## Diversification of maturity dates and leveling of repayment amount

### ■ Maturity ladder (as of Oct. 15, 2015)

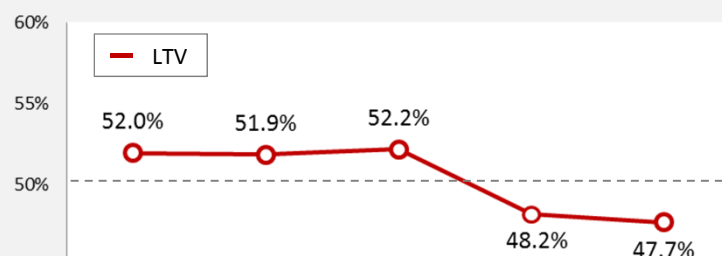


## Persistent efforts for further strengthening financial stability

### ■ LTV management stable financial base

- ✓ LTV benchmark: 45% - 55%
- ✓ Proceeds from disposition of AEON properties to be appropriated for debt prepayment first, temporarily lowering LTV from the perspective of efficient capital use
- ✓ Aim to strengthen stable financial base while carefully focusing on debt cost control

#### Financial indices



	Aug. 2014 period (25th)	Feb. 2015 period (26th)	Aug. 2015 period (27th)	Feb. 2016 period (28th) (Forecast)	After the disposition of 5 AEON properties (Note 1)(estimate)
Long-term borrowings ratio	100.0%	100.0%	99.2%	100.0%	(Reference)
Fixed interest rate ratio	73.7%	92.8%	95.5%	98.0%	Acquisition Capacity From LTV 47.7%
Avg. Loan term remaining until maturity	4.7yr	4.8yr	4.7yr	4.5Yr	LTV 50%: 37.0 bn JPY 55%: 130.0 bn JPY
Avg. Debt Cost	1.40%	1.36%	1.29%	1.31%	

(Note 1) 2<sup>nd</sup> and 3<sup>rd</sup> settlement of disposition regarding AEON Mall Kashiihama is expected at the end of Aug. 2016 and Sep. 2016 respectively.

(Note 2) The different treatment under Japanese JGAAP and Japanese tax law typically occurs when the accounting profit is larger than taxable income and it is defined in Article 2-2-29 of Ordinance on Accountings of Investment Corporations

(Note 3) As of Oct. 15, 2015 when the distribution statements in the financial statements of fiscal period ended Aug. 2015 was approved by the JRF's Board of Directors.

### ■ Use of negative goodwill and reserve for reduction entry of property for stable distributions

- ✓ 2015 Tax Reform offered a method to avoid the occurrence of additional taxable income that resulted from the different treatment under Japanese JGAAP and Japanese tax law<sup>(Note 2)</sup> by introducing new taxation systems such as allowance for temporary difference adjustments (ATDA) and reserve for temporary difference adjustments (RTDA)
- ✓ JRF aims for greater freedom on distribution policy by reviewing basic policy on the use of previous reserves including reserve for reduction entry and reserve for dividends
- ✓ Reserve for dividends is scheduled to be transferred to RTDA by Feb. 2017 period. The reserve will be drawn down within 50 years starting from the next fiscal period in a pre-determined manner

#### Policies for the use of negative goodwill and reserve for reduction entry of property

Utilize for stable distributions

- Reserve for dividend (negative goodwill) 2,944 million JPY (Note 3)
- Reserve for reduction entry of property 502 million JPY (Note 3)

Total reserve 3,446 million JPY

Reserve per unit: 1,351 yen (Note 3)

#### Specific uses of reserve

- Additional tax expense originating from the tax-accounting mismatches
- Temporary expenses related to renewal and reconstruction of existing assets
- Dilution of distributions from issuance of new investment units
- Other temporary expenses



# JAPAN RETAIL FUND



Newly acquired property  
G-Bldg. Umeda 01

1. Portfolio Management
2. Implementation of Growth Strategy
- 3. Stable Distributions and Use of Reserves**
4. Financial Results and Forecasts
5. Sustainability Management

## Seek stable distributions in the medium- to long term

### Implementation of action plans for mid- to long-term growth of unitholder value

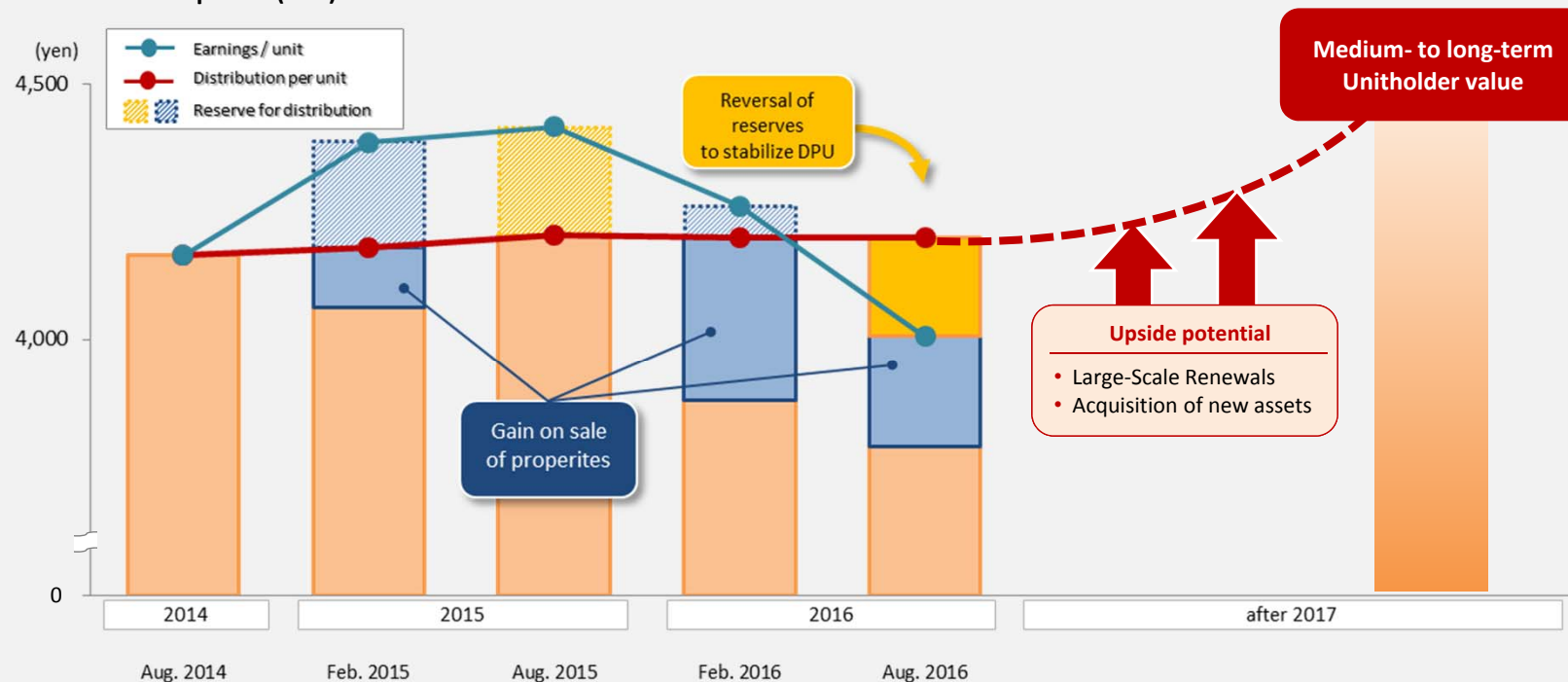
- Aiming at future distribution growth while controlling fluctuations caused by temporary expenses for internal growth initiatives and decrease of revenue from asset disposition

Implementation of action plans



Distribution management

#### Future DPU after Feb. 2016 period (28<sup>th</sup>)



(Note) Net income per unit is calculated by dividing net income by a number of units outstanding as of the end of each fiscal period and is not identical to net income per unit defined in The Summary of Financial Results and Asset Management Report (net income per unit / average number of units outstanding)

# JAPAN RETAIL FUND



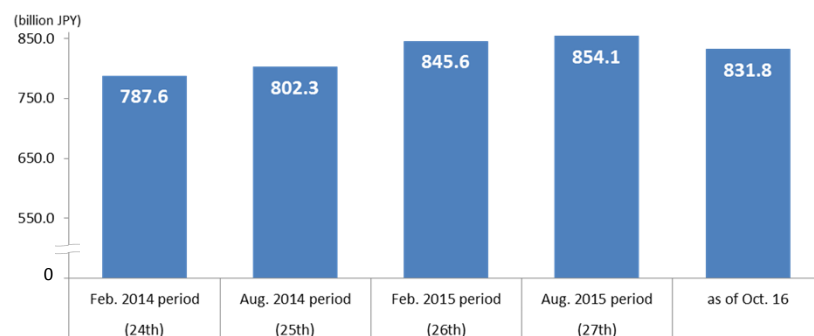
Newly acquired property  
G-Bldg. Abeno 01

1. Portfolio Management
2. Implementation of Growth Strategy
3. Stable Distributions and Use of Reserve
- 4. Financial Results and Forecasts**
5. Sustainability Management

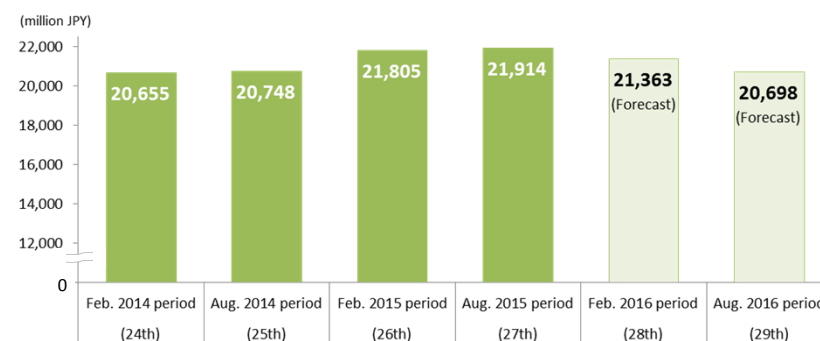
## Business Results

## Steady increase in unitholder value (DPU and NAV per unit)

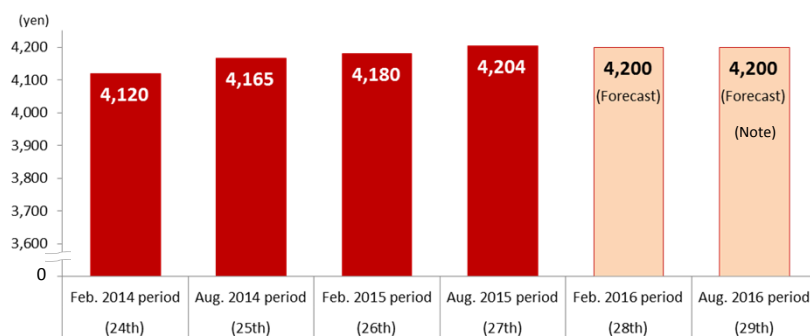
## Asset size



## Rent NOI (excluding profit of sales)

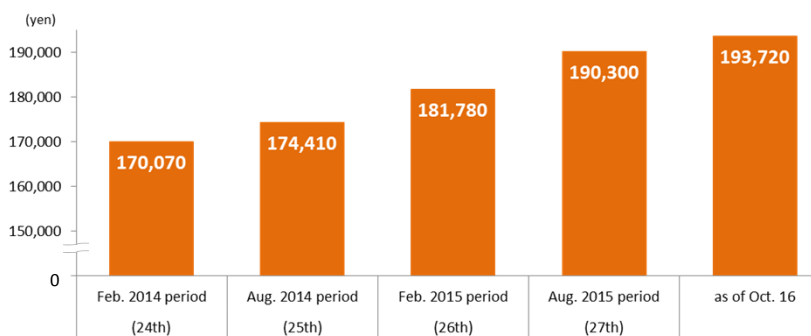


## Distributions per unit (Note)



(Note) Distribution per unit (estimate) is calculated as Net income plus appropriated reserves divided by the number of outstanding units as of each period end

## NAV per unit



Unrealized profits and losses (billion JPY)

+36.7    +38.8    +50.8    +70.9    +78.9

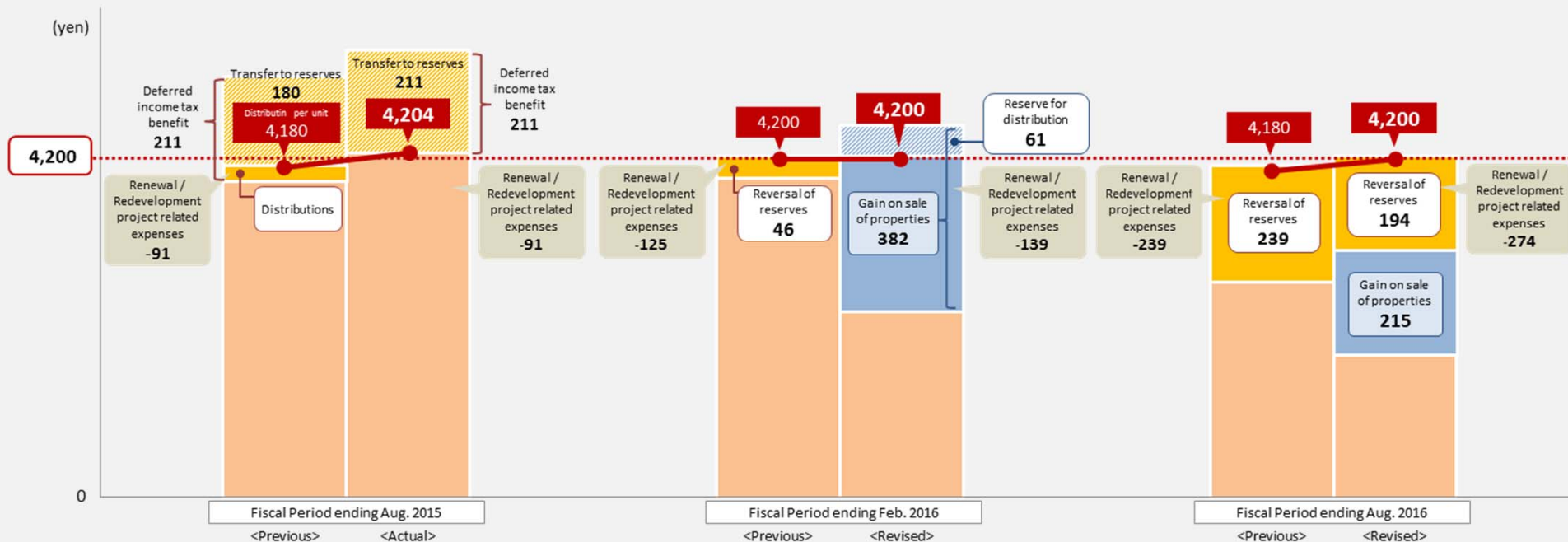
Period-end NAV:

(Net asset value + unrealized profits and losses of the properties in our portfolio, as of the end of each fiscal period) / the number of units outstanding as of the end of each fiscal period

NAV as of Oct. 16, 2015: (Net asset value as of the end of Aug. 2015 + net proceeds from PO in 2015 + unrealized profits and losses of the properties in our portfolio, as of the end of Aug. 2015 period + unrealized profits and losses of 8 newly acquired properties in Sep. and Oct. 2015 - unrealized profits and losses of disposed 4 AEON properties and AEON MALL Kashiwajima (30%)) / (the number of units outstanding as of Oct. 16, 2015)

# Summary of Results and Forecasts

## ■ Illustration of the forecast for distribution per unit (Comparison between the forecast at Aug 2015 and the latest forecast)



### Aug. 2015 period (27<sup>th</sup>)

Actual: **4,204** yen  
compared to revised forecast: **+24** yen

#### Key points on distributions result

- Upward revision from the previous forecast (announced on Aug. 20, 2015) due to increased revenue of existing properties and so on
- The reversal of deferred tax liabilities (deferred income tax benefit) resulting from the 2015 Tax Reform is all appropriated to reserve for dividends

### Feb. 2016 period (28<sup>th</sup>)

Forecast: **4,200** yen  
compared to revised forecast: **No change**

#### Key points on revision to distributions forecast

- Reported gain on sales of properties
- Gain on sales of properties appropriated partially to revenue loss from dispositions of AEON properties and temporary expenses associated with large-scale renewal projects
- The remaining gain is allocated to reserve for dividends

### Aug. 2016 period (29<sup>th</sup>)

Forecast: **4,200** yen  
compared to revised forecast: **+20** yen

#### Key points on distributions forecast

- Reported gain on sales of properties
- Gain on sales of properties appropriated partially to revenue loss from dispositions of AEON properties and temporary expenses associated with large-scale renewal projects
- Reserve for dividends will be reversed and partially appropriated to temporary expenses associated with large-scale renewal projects
- DPU forecast revised upward to 4,200 yen, the same level as 28<sup>th</sup> period



#### 4. Financial Results and Forecasts

### August 2015 period (27th) P/L Performance

	Feb. 2015 Period (26th) (Actual)	Aug. 2015 Period (27th) (Actual)	Change	Aug. 20, 2015 (Revisions of forecast)	Change
Operating revenue	31,399	30,962	- 437	30,844	+ 118
Operating expenses	17,707	18,146	+ 439	—	—
(Rent NOI)	21,805	21,914	+ 109	—	—
Operating income	13,692	12,816	- 876	12,682	+ 133
Non-operating revenue	6	8	+ 2	—	—
Non-operating expenses	2,637	2,607	- 30	—	—
Ordinary income	11,061	10,217	- 843	10,082	+ 134
Net income	10,658	10,731	+ 72	10,596	+ 134
Allocation to reserve	502	(Note 1) 514	+ 11	438	+ 76
Reversal of reserve	—	—	—	—	—
Total distribution	10,158	10,216	+ 58	—	—
Units outstanding	2,430,198 units	2,430,198 units	—	2,430,198 units	—
DPU	4,180 yen	4,204 yen	+ 24 yen	4,180 yen	+ 24 yen
FFO per unit (Note2)	6,582 yen	6,770 yen	+ 188 yen	6,667 yen	+ 103 yen
FFO pay out ratio	63.5 %	62.1 %	—	62.7 %	—
Capital expenditures	2,377	2,312	- 65	2,442	- 129
Repair expenses	194	214	+ 19	228	- 14
Total	2,572	2,527	- 45	2,671	- 144
Depreciation	6,097	6,236	+ 139	6,120	+ 115

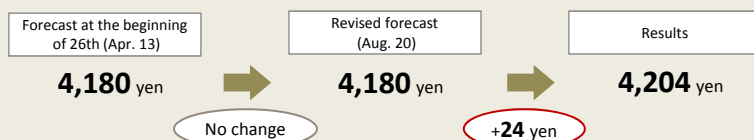
(Note 1) Balance of allocation to reserve after approval of distributions at the JRF board directors meeting on Oct. 15, 2015.

(Note 2) (Net income + loss on sale of real estate, etc. - gain on sale of real estate, etc. + depreciation + other real estate related depreciation) / total units outstanding

Net income used in calculation of FFO for the Feb. 2015 period (26th) and Aug. 2015 period (27th) does not include income taxes.

(Note 3) Million JPY unless otherwise noted.

#### Change in DPU forecast for Aug. 2015 period (27th)



#### Major factors behind change during Aug 2015 (27th) period (compared to previous period)

	(million JPY)
Operating Revenues	- 437
✓ Contribution, in full, of rent revenue of properties acquired through PO in 2014	+ 211
✓ Contribution, in full, of property replacement implemented during 26 <sup>th</sup> period	- 20
✓ Acquisition of G-Bldg. Ueno 01	+ 14
✓ Existing properties (adjustment due to lease renewal -17, impact due to renewal -46, utility charges received +61, leasing of vacant space +58, acquisition of EDION Kyobashi (Land with leasehold interest) +151 and other revenues -56)	+ 143
✓ Absence of gains on disposition of AEON MALL Kobe Kita	- 785
Operating Expenses	+ 439
✓ Contribution, in full, of properties acquired through PO in 2014 (of which, fixed asset tax and urban planning tax expensed +108)	+ 208
✓ Contribution, in full, of property replacement implemented during 26 <sup>th</sup> period	- 53
✓ Existing properties (utility charges +105, PM fees -87, depreciation +120, tax and public dues +17)	+ 162
✓ Repair expenses +19, Loss on disposals of fixed assets (G-Bldg. Jiyugaoka01 (Bldg.B), etc) +39	+ 59
✓ Asset management fee, etc	+ 60
Operating Income	- 876
✓ Increase in interest expense, decrease in interest on investment corporation bonds, etc	- 30
Ordinary Income	- 843
✓ Absence of extraordinary loss (settlement package for reaching accommodation with tenant)	- 375
✓ Change in income taxes	- 541
Net Income	+72

#### Major factors behind change during Aug 2015 (27th) period (compared to the revised forecast as of Aug. 20)

	(million JPY)
Operating Revenues	+ 118
✓ Increase in revenue-based rent	+ 50
✓ Increase in other revenues	+ 67
Operating Expenses	- 15
✓ Decrease in repair expenses	- 14
✓ Decrease in utility payments	- 45
✓ Increase in PM expenses	+ 49
Operating income	+ 133
Ordinary income	+ 134
Net income	+ 134

# August 2015 period (27th) B/S Performance

	Feb. 2015 Period (26th) (Actual)	Aug. 2015 Period (27th) (Actual)	Change
Total assets (1)	834,687	842,568	+ 7,881
Total liabilities	443,759	451,009	+ 7,250
Interest-bearing liability (2)	372,301	380,091	+ 7,790
Tenant leasehold and security deposits (3)	60,684	59,758	- 925
Net assets	390,928	391,559	+ 631
LTV ((2)+(3)) / (1)	51.9 %	52.2 %	+ 0.3 points
LTV (2) / (1)	44.6 %	45.1 %	+ 0.5 points
Long-term borrowings ratio	100.0 %	99.3 %	- 0.7 points
Fixed interest rate ratio	92.8 %	95.5 %	+ 2.7 points
Average debt cost	1.36 %	1.29 %	- 0.07 points
Number of properties	88 properties	90 properties	+ 2 properties
Aggregate acquisition price	845,646	854,133	+ 8,486
Unrealized profits and losses	+ 50,843	+ 70,911	+ 20,067
Book value	796,765	803,103	+ 6,338
Appraisal value	847,609	874,015	+ 26,406

## <Reference: Balance of reserve> \* Balance of reserve after approval of distributions at the JRF board directors meeting for each period

Balance of reserve	2,932	3,446	+ 514
Reserve for dividends (Negative goodwill)	2,430	2,944	+ 514
Reserve for reduction entry of property	502	502	—

(Note) Million JPY unless otherwise noted.

## ■ Major factors behind change during Aug. 2015 (27th) period (compared to previous period)

(million JPY)

Total assets	+7,881
✓ Acquisition of new properties	+9,214
✓ Increase in cash and bank deposits	+2,402
✓ Depreciation, loss on disposal of fixed assets	- 6,334
✓ Capital expenditures	+2,312
Total liabilities	+7,250
✓ Increase in short-term borrowings associated with property acquisition	+3,000
✓ Increase in long-term borrowings associated with property acquisition	+5,500
✓ Repayment of borrowings	- 710
✓ Repayment of tenant leasehold and security deposits	- 925
✓ Decrease in deferred tax liabilities	- 514
✓ Consumption tax payable	+1,122
Net assets	+631
✓ Increase in voluntary reserve	+502
✓ Deferred gains and losses on hedges	+58
✓ Net income	+72

#### 4. Financial Results and Forecasts

### Forecasts for the Coming Two Periods

	Aug. 2015 Period (27th) (Actual)	Feb. 2016 Period (28th) (Forecast)	Change	Aug. 2016 Period (29th) (Forecast)	Change
Operating revenue	30,962	31,905	+ 943	31,108	- 797
Gain on sale of properties	—	975	+ 975	549	- 426
(Rent NOI:excluding on sale)	21,914	21,363	- 550	20,698	- 664
Operating income	12,816	13,428	+ 612	12,594	- 834
Ordinary income	10,217	10,876	+ 658	10,224	- 652
Net income	10,731	10,875	+ 144	10,223	- 652
Allocation to reserve	514	157	- 357	—	- 157
Reversal of reserve	—	—	—	495	+ 495
Balance of reserve <sup>(Note 2)</sup>	3,446	3,603	—	3,108	—
Total distribution	10,216	10,719	+ 502	10,719	—
Units outstanding	2,430,198 units	2,552,198 units	+ 122,000 units	2,552,198 units	—
DPU	4,204 yen	4,200 yen	- 4 yen	4,200 yen	—
FFO per unit <sup>(Note 3)</sup>	6,770 yen	6,211 yen	- 559 yen	6,069 yen	- 142 yen
FFO pay out ratio	62.1 %	67.6 %	—	69.2 %	—
Capital expenditures	2,312	4,019	+ 1,706	4,481	+ 462
Repair expenses	214	412	+ 198	519	+ 106
Total	2,527	4,431	+ 1,904	5,000	+ 568
Depreciation	6,236	5,952	- 284	5,816	- 135

(Note 1) The maximum amount of the reversal of reserve will be following temporary expense in connection with renewal projects

	Feb. 2016 period (28 <sup>th</sup> )	Property	Aug. 2016 period (29 <sup>th</sup> )	Property
Temporary expenses in connection with renewal projects	356 million JPY	mozo, Nara Family, Kyoto Family, Kamisin, Jagaoka	700 million JPY	Nara Family, Kishiwada, Kyoto Family
Demolition costs, compensation costs, etc.	153 million JPY		470 million JPY	
Loss on disposals of fixed assets	203 million JPY		229 million JPY	

(Note 2) Balance of reserve after approval of distributions at the JRF board directors meeting for each period

(Note 3) (Net income + loss on sale of real estate, etc. - gain on sale of real estate, etc. + depreciation + other real estate related depreciation) / total units outstanding  
Net income used in calculation of FFO for the Aug. 2015 period (27th) does not include income taxes.

(Note 4) Million JPY unless otherwise noted.

#### Change in distribution forecast for Feb. 2016 period (28th)

Revised forecast (Aug. 20)	➡	Revised forecast (Oct. 15)
4,200 yen	No change	4,200 yen
<b>Major factor</b>		
✓ Increase in rental business profit of existing properties	+ 31 million JPY	
✓ Acquired G-Bldg. Shinsaibashi 04	+ 38 million JPY	
✓ Effects of disposition of 5 AEON properties	+ 203 million JPY	

#### Change in distribution forecast for Aug. 2016 period (29th)

Revised forecast (Aug. 20)	➡	Revised forecast (Oct. 15)
4,180 yen	+20 yen	4,200 yen
<b>Major factor</b>		
✓ Increase in rental business profit of existing properties (penalty charges, etc.)	+ 136 million JPY	
✓ Acquired G-Bldg. Shinsaibashi 04	+ 43 million JPY	
✓ Effects of disposition of 5 AEON properties	+ 11 million JPY	

#### Major factors behind change during Feb 2016 (28th) period (compared to actual results of Aug 2015 (27th) period)

(million JPY)

Operating Revenues	+ 943
✓ Rent revenue of properties acquired through PO in 2015	+ 1,265
✓ Acquisition of G-Bldg Shinsaibashi 04	+ 52
✓ Decrease in rent revenue due to disposition of 5 AEON properties	- 1,291
✓ Gains on disposition of 5 AEON properties	+ 975
✓ Existing properties (impact due to renewal +29, utility charges received -45, adjustment due to lease renewal -20, leasing of vacant space +52, downtime due to tenant replacement -36 and other revenues -46)	- 58
Operating Expenses	+ 330
✓ Expenses associated with properties acquired through PO in 2015	+ 523
✓ Acquisition of G-Bldg Shinsaibashi 04	+ 14
✓ Decrease in expenses due to disposition of 5 AEON properties	- 443
✓ Existing properties (impact due to renewal +13, utility charges -116, repair expenses +192, promotion expenses +48)	+ 139
✓ Non-deductible consumption tax, etc.	+ 97
Operating Income	+ 612
✓ Decrease in interest payments due to debt repayment	- 52
Ordinary Income	+ 658
✓ Decrease in income taxes (profit)	+ 514
Net Income	+ 144

#### Major factors behind change during Aug 2016 (29th) period (compared to forecast for Feb 2016 (28th) period)

(million JPY)

Operating Revenues	- 797
✓ Contribution, in full, of rent revenue of properties acquired through PO in 2015	+ 156
✓ Decrease in rent revenue due to disposition of 5 AEON properties	- 415
✓ Absence of disposition gains and disposition gains on AEON MALL Kashiwhama	- 426
✓ Other existing properties (impact due to renewal -144, adjustment due to lease renewal -55, leasing of vacant space +43, utility charges received +73 and other revenues -13)	- 112
Operating Expenses	+ 37
✓ Contribution, in full, of rent revenue of properties acquired through PO in 2015 (of which, fixed asset tax expensed +88)	+ 102
✓ Decrease in expenses due to disposition of 5 AEON properties	- 295
✓ Existing properties (impact due to renewal +90, utility charges +172, repair expense +119, decrease in land lease expense due to acquisition of DFS' underlying land -16)	+ 351
✓ Decrease in non-deductible consumption tax, etc.	- 121
Operating Income	- 834
✓ Decrease in interest payment due to debt repayment	- 182
Ordinary Income	- 652
Net Income	- 652

# JAPAN RETAIL FUND



AEON MALL Itami

1. Portfolio Management
2. Implementation of Growth Strategy
3. Stable Distributions and Use of Reserve
4. Financial Results and Forecasts
5. **Sustainability Management**

## Proactively engage in various measures for building a sustainable society and environment as a whole

### Basic policy

JRF shares the same concept of sustainability with the Asset Manager and implement various measures together. We established new policies and measures for sustainability in June 2013 and signed declarations adopting the following two principles.

- United Nation's Principles for Responsible Investment (PRI)



- The Principles for Financial Action towards a Sustainable Society endorsed by Japanese Ministry of Environment (Principles for Financial Action for the 21st Century)



Also, the Asset Manager has become the first J-REIT asset manager to sign Montreal Carbon Pledge<sup>(Note)</sup> in September 2015.



(Note) Montreal Carbon Pledge was launched on September 25, 2014 at PRI in Person in Montreal, and is supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI). The Montreal Carbon Pledge commits investors to measure, disclose and reduce their carbon footprints.

### Environmental Certifications

JRF acquired various environmental certificate through sustainability management

#### ■ DBJ Green Building Certification

Certification rank	Property name
Properties with exceptionally high environmental & social awareness	<ul style="list-style-type: none"> <li>• Nara Family</li> <li>• mozo wonder city</li> <li>• Abiko Shopping Plaza</li> </ul>
Properties with excellent environmental & social awareness	<ul style="list-style-type: none"> <li>• Oyama Yuen Harvest Walk</li> <li>• KAWASAKI Le FRONT</li> </ul>
Properties with high environmental & social awareness	<ul style="list-style-type: none"> <li>• GYRE</li> </ul>

#### ■ "CASBEE for Building" Certifications

Certification rank	Property name
Rank S	 <ul style="list-style-type: none"> <li>• AEON MALL Musashi Murayama</li> <li>• AEON MALL Tsurumi Ryokuchi</li> <li>• Higashi-Totsuka Aurora City</li> </ul>
Rank A	 <ul style="list-style-type: none"> <li>• AEON MALL Itami</li> </ul>

### Recognition from third parties

JRF received **"Green Star" the highest ranking of the four categories in the GRESB** (Global Real Estate Sustainability Benchmark) Survey in 2015



#### ■ GRESB Innovation Case Study

Our following initiatives at existing properties are showcased as one of world innovative measures in GRESB Innovation Case Study

- "Oyama Yuen Harvest Walk Renovation"
- "Emergency stockpile for the potential natural disaster"

#### Initiatives



"Oyama Yuen Harvest Walk Renovation"



"Emergency stockpile for the potential natural disaster"





Implemented at growth-type properties  
(Picture: KAWASAKI Le FRONT)



## Our ESG (Environmental, Social, Governance) initiatives

### Environment

#### ● FY2014 energy consumption (for properties where we possess energy control authority)

	 Electricity (million kwh)	 Gas (thousand m <sup>3</sup> )	 Water (thousand m <sup>3</sup> )	 CO2 emission (Thousand tCO2) (Note)
FY2012	50	1,401	963	26
FY2013	68	1,555	1,207	30
FY2014	71	2,241	1,299	34

(Note) The sum of electricity and gas consumption based on Energy Conservation Law notification and water usage calculated using coefficient specified under Tokyo municipal ordinance.

#### ● Energy-saving measures

JRF pushes forward measures for energy conservation by implementing energy-saving/energy efficiency initiatives at existing properties

	Current status (already introduced)	Our policy
Introduction of LED	51 properties	Consider implementation at times of facility replacement, re-tenant, renewal
Solar panel	4 properties	
Inverter control	34 properties	
Use of well water	14 properties	
Water-saving toilet	24 properties	
Greening/planting maintenance	27 properties	
Other	<ul style="list-style-type: none"> <li>Electric vehicle charging station</li> <li>Waste water control system</li> <li>Heat shield film</li> <li>Use of eco-friendly materials etc.</li> </ul>	 <p>Narupark (wall greening)</p>

### Governance

#### ● Establishment of corporate philosophy

In June 2015, Mitsubishi Corp.-UBS Realty Inc., the asset management company of JRF, established corporate philosophy based on a bottom-up style discussion among all employees after 15 years from foundation

##### Mission

"Always create new values, for people, the community and the world"  
Through real estate investment management, we create new demands in our society and new values that exceed people's expectations.

##### Vision

We strive to be the leading group of professionals, trusted by people, the community and the world

### Social

#### ● Tenant / Customer

Growth-type properties: 13 properties	Measures
Emergency stockpile	Stockpiled emergency supplies at 12 growth-type properties
Installation of emergency wireless phone	Preparing for emergency by installing the phone at 8 growth-type properties as well as HQ of the building management company

#### ● Employee (Asset Management Company)

	Measures
Employee consciousness survey	Reflecting the survey result to create open, pleasant working environment
Compliance program	e-learning program targeted at improving each one of employees' consciousness
Equal and fair organization without any discrimination	Established company regulation that attempts to create fair, equal and transparent working environment without any discrimination and recruiting activity



## Japan Retail Fund Investment Corporation

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