

FRI's Investment Policy

Frontier Real Estate Investment Corporation

1. Basic Policy

With the aim of securing stable earnings over the medium to long term, Frontier Real Estate Investment Corporation ("FRI") shall primarily invest in real estate and other specified assets (the asset types described under "Investment Targets 1. Types of Assets That Fall under Investment Targets").

2. Investment Stance

FRI adheres to the following investment stance in undertaking asset management.

(1) Primary investment target

The real estate and underlying assets of the securities backed by real estate that FRI invests in shall primarily be those used as suburban retail facilities and urban retail buildings.

(2) Geographic diversity

In order to reduce risks related to rent revenue associated with regional economic deterioration that may result from concentrating investment properties in specific areas as well as risks related to earthquakes and other disasters, FRI shall conduct geographically diverse investment in an aim to stabilize cash flow. In other words, FRI will invest in real estate in various areas of Japan as well as in trust beneficiary interests in such types of real estate.

(3) Investment in development properties

In principle, investment target real estate and real estate associated with trust beneficiary interests are occupied leasing properties as of the time of purchase, and unoccupied properties shall not be considered as investment targets. However, investment may be carried out in unoccupied properties, properties planned for construction, or properties under construction when stable earnings can be projected after the property is occupied or the building construction is completed.

(4) Investment criteria

In principle, FRI shall consider as investment targets real estate that actually produces or that is projected to produce leasing business revenues or other similar revenues as well as trust beneficiary interests in such real estate. Furthermore, in selecting properties for investment, FRI shall conduct a comprehensive evaluation of current and future profitability, the potential and stability of the area where the property is located, the current state of physical repair, upgrades, and other measures taken against obsolescence, tenant characteristics (composition of finances, business conditions, future prospects of the relevant industry, etc.), content of leasing contracts, and other factors. After

thus having determined its investment value, FRI will decide whether to make an investment.

(5) Acquisition prices

Acquisition prices are determined based on appraisal value as well as consideration of each property's characteristics and impact on the profitability of the overall portfolio. FRI shall not acquire properties at prices in excess of appraisal value from related parties.

3. Management Policy

In an aim to secure stable earnings over the medium to long term, FRI shall manage its assets with the goal of constructing a portfolio primarily composed of real estate that has a medium- to long-term leasing period and whose major tenants have a generally high creditworthiness as well as trust beneficiary interests in such types of real estate (hereinafter, "assets producing stable earnings"). Furthermore, FRI will, in principle, manage assets producing stable earnings, but may include as investment targets real estate whose earnings and asset value can be raised by replacing tenants or through good operations, and trust beneficiary interests in such types of real estate.

The aforementioned portfolio shall be constructed by adhering to the following:

(1) Acquisition criteria

In selecting individual real estate and real estate associated with trust beneficiary interests, FRI shall place a high priority on properties that demonstrate superiority and stable profitability over the medium to long term after sufficient consideration of planned acquisition price, projected earnings, characteristics of the property's area, the environment, future potential, scale of facilities, condition of the building and facilities, earthquake resistance, rights issues, creditworthiness of tenants, performance of shops, content of leasing contracts, and status of building management, among other factors. In principle, the minimum investment amount (excluding taxes, acquisition costs, etc.) shall be ¥1 billion per investment property. However, this shall not apply to cases of investing in properties which come as incidental to other investment properties.

(2) Selection procedure of investment properties

When selecting real estate and real estate associated with trust beneficiary interests, FRI shall exercise detailed due diligence for each individual property. After thus having determined the value of said property, FRI shall conduct a comprehensive evaluation of its impact on the entire portfolio and degree of contribution to increasing the portfolio's value and decide whether to make an investment.

With regard to due diligence, FRI shall ask lawyers, certified public accountants, real estate appraisers, first-class architects, professionals at trade area research companies, and other specialists to conduct investigations. By doing so, FRI will conduct detailed investigations from multiple perspectives.

(3) Holding period

FRI shall, in principle, acquire real estate and trust beneficiary interests in real estate on the assumption that these will be held for medium- to long-term periods and shall not acquire assets with the initial goal of selling them after a short while. Medium term means approximately five to ten years, and long term means more than ten years. Moreover, even after acquiring real estate or trust beneficiary interests in real estate, FRI will monitor the creditworthiness of tenants by executing credit checks and other measures, as needed.

(4) Structure of support from Mitsui Fudosan

Mitsui Fudosan Frontier REIT Management Inc. (the “Asset Management Company”) helps FRI maximize unitholder value by entering into advisory contracts related to real estate and other matters with Mitsui Fudosan and by providing the Mitsui Fudosan Group’s expertise on the operation and management of retail facilities.

In addition, to build a portfolio with ample consideration given to both stability and growth potential, FRI shall actively utilize the Mitsui Fudosan Group’s property acquisition expertise and network via such means as advisory contracts regarding real estate when further expanding its asset size.

In order to leverage the Mitsui Fudosan Group’s expertise in operating and managing retail facilities, FRI enters into shopping center management contracts* for properties it owns, with the exception of such properties as those in which it owns only the land interest.

* Mitsui Fudosan re-commissions certain shopping center management business operations to Frontier REIT SC Management Co., Ltd., a Mitsui Fudosan Group company that specializes in shopping center management

(5) Insurance policy for protection against damage

a. Property insurance

In order to cover damage to buildings and other property as well as compensation for damages paid to third parties due to disasters, accidents, or other reasons, FRI shall obtain fire insurance and liability insurance for owned real estate and real estate in trust associated with trust beneficiary interests. Moreover, in order to avoid a loss of income arising from disasters, accidents, or similar events, FRI shall obtain income protection insurance.

b. Earthquake insurance

FRI shall determine whether to obtain earthquake insurance by comparing and considering the impact from a disaster, the property insurance premium, and related variables based on the PML* for the entire portfolio due to an earthquake. Moreover, if there is a property whose PML exceeds 20 percent, FRI will consider obtaining earthquake insurance for the individual property.

* Probable maximum loss (PML) is the maximum loss expected due to an earthquake. PML is calculated for each property individually and for the portfolio as a whole. While there is no widely recognized standard definition of PML, in this report, PML indicates the expected damage from the assumed greatest earthquake that could occur (a major earthquake that occurs once in 475 years, with an approximately 10% chance of occurring in a given 50-year period) during a property's assumed period of use (50 years, a typical length of use for a building), expressed as the repair costs expected to be incurred due to said earthquake as a percentage of the property's replacement cost.

(6) Disposition policy

In principle, FRI shall hold real estate and trust beneficiary interests in real estate on a medium- to long-term basis and shall not sell them in the short term. However, if FRI judges that the property must be sold based on a comprehensive perspective encompassing a property's projected revenue and expenditure going forward, the increase of expenditures caused by the building's deterioration, or its impact on the entire portfolio, FRI may consider selling real estate or trust beneficiary interests in real estate in the short term.

(7) Financing policy

a. Loans and issuance of investment corporation bonds

- i. FRI may procure loans and issue investment corporation bonds with the aim of ensuring stable earnings and achieving steady growth of assets under management. Moreover, it shall only procure loans from qualified institutional investors prescribed by Article 2-3-1 of the Financial Instruments and Exchange Law. These will further be limited to institutional investors prescribed by Article 67-15 of the Special Taxation Measures Law (hereinafter, "qualified institutional investors") (Articles of Incorporation, Article 35-1).
- ii. Cash procured from loans and investment corporation bonds pursuant to i., above, will be used for the acquisition of assets, repairs, payment of distributions, FRI's operational funds, debt repayment (including refunds of leasehold and security deposits as well as the repayment of loans and investment corporation bonds), and similar purposes. Funds procured by issuing short-term investment corporation bonds may only be used for purposes permitted by law (Articles of Incorporation, Article 35-2).
- iii. In the event of procuring loans pursuant to i., above, FRI may at times pledge assets under management as collateral (Articles of Incorporation, Article 35-3).
- iv. The maximum amount of loans and issuance of investment corporation bonds shall be ¥1 trillion each and their total shall not exceed ¥1 trillion (Articles of Incorporation, Article 35-4).
- v. In the event of procuring loans pursuant to i., above, FRI shall determine the various conditions, including the terms of the loans (long term or short term) and fixed or floating interest, after giving comprehensive consideration to their impact on the composition of FRI's capital and on investors while keeping an eye on the market environment, including interest rate trends.

vi. In an aim to flexibly procure funds necessary for additionally acquiring specified assets or for refunding leasehold and security deposits, FRI may establish preliminary loan frameworks such as agreements for established lines of credit or commitment line agreements, or it may conclude preliminary contracts for loans, as needed.

vii. The total amount of loans, investment corporation bonds issued and outstanding, leasehold and security deposits that FRI has received from tenants and other such liabilities shall not comprise more than 60 percent of FRI's total assets (hereinafter, "LTV ratio"). However, the LTV ratio may temporarily exceed 60 percent in accordance with the acquisition of new specified assets and other developments.

b. Additional issuance of investment units

i. For financing purposes, FRI may solicit investment unit recipients upon the approval of the Board of Directors.

ii. In the event of a solicitation of investment unit recipients, FRI shall give due consideration to the dilution of investment units.

(8) Operation and management policy

FRI shall carry out the real estate operation and management business by adhering to the following policy:

a. Asset maintenance and management business

In an effort to carry out stable management over the medium to long term, FRI shall implement regular repairs and renovations of real estate it owns and real estate associated with trust beneficiary interests it owns and implement initiatives to renew said real estate, such as changing the construction to improve or expand the facilities. By doing so, FRI shall work to maintain or expand its asset value, competitiveness, and earnings, aiming to increase its asset value over the medium to long term. When implementing said repairs or renovations, FRI shall strive to reduce not only initial expenses, but also expenses from a long-term and comprehensive perspective, giving due consideration to energy conservation measures, useful life, and other aspects.

b. Tenant management business

When revising rents with a lessee (excluding cases in which rent is fixed by a fixed-term lease contract), FRI shall strive to conduct negotiations with the lessee so that rents after the revision may be maintained or increased, taking into consideration such factors as the market rent for other properties of similar type and scale and for properties in the same area, the tenant's sales, the lessee's ability to bear additional rent, and the economic climate to determine a suitable level of rent. When renewing contracts, FRI shall conduct negotiations on the terms and conditions of the contract (contract period, rent, etc.) based on comprehensive consideration of the appropriate

level of rent it has determined as well as the sustainability of the retail facility. Furthermore, FRI shall monitor the creditworthiness of lessees by executing credit checks and other measures as needed.

c. Real estate operation and management business

Where permitted by law, real estate operation and management shall be conducted by the Asset Management Company or outsourced to another real estate operation and management company selected by FRI (hereinafter, "property management company").

d. Real estate operation and management contractor selection policy

When selecting a property management company or other operation and management contractor, FRI will target professional companies with a proven track record in the market and with high creditworthiness, giving due consideration to track record and outsourcing fees. When outsourcing comprehensive management (encompassing asset maintenance/management and tenant management in addition to real estate operation and management), the contractor's business execution capabilities shall be comprehensively taken into account in addition to the abovementioned factors.

FRI shall periodically evaluate the quality of services provided and cost effectiveness of the real estate operation and management contractor and shall not renew contracts with contractors that receive poor evaluations.

(9) Disclosure policy

a. Asset management

With regard to asset management, FRI shall strive to make expedient and accurate information disclosure in order to gain understanding from unitholders and investors.

b. Information disclosure

Information disclosure shall be conducted in accordance with the Investment Trust and Investment Corporation Act (the "Investment Trust Act") and Financial Instruments and Exchange Law as well as the respective content and format requirements prescribed by the Tokyo Stock Exchange, the Investment Trusts Association, Japan, and similar bodies. At the same time, besides legally stipulated disclosure items, FRI shall strive to disclose other material and useful information to unitholders and investors.

c. Transparency

In order to ensure the transparency of transactions involving related parties, FRI shall disclose transactions conducted with related parties.

(10) Green Finance Framework

a. Green Finance Framework formulation and third-party evaluation

FRI formulated the Green Finance Framework for the purpose of carrying out green financing, including the issuance of green bonds. The Green Finance Framework is aligned with the Green Bond Principles 2021, Green Bond Guidelines (2020 version), Green Loan Principles 2021 and Green Loan and Sustainability Linked Loan Guidelines (2020 version). FRI obtained a third-party evaluation from Japan Credit Rating Agency, Ltd. (JCR), namely, a Green 1 (F) rating, the highest rating, in the JCR Green Finance Framework Evaluation.

b. Criteria for eligibility

Funds raised with green bonds or green loans are used to acquire green buildings that meet the following eligibility criteria, make qualifying renovations, or refinance loans taken for such acquisitions or renovations.

i. Green buildings

Properties that have acquired or plan to acquire any of the certifications i. to iv., below, from third-party institutions

- (i) 3 to 5 stars in the DBJ Green Building Certification
- (ii) B+ to S rank in the Certification for Comprehensive Assessment System for Built Environment Efficiency (CASBEE) for Real Estate
- (iii) 3 to 5 stars in the Building-Housing Energy-efficiency Labeling System (BELS) Evaluation
- (iv) Silver to Platinum in the Leadership in Energy and Environmental Design (LEED) Rating System

ii. Renovations

Any of the following renovations

- Renovations carried out to improve by one rank or more under any of the above certifications i. to iv., or to renew or acquire environmental certification
- Renovations aimed at making improvements that benefit the environment, such as improving energy efficiency or water consumption (resulting in a 30% or greater improvement)