

STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Product name: Frontier Real Estate Investment Corporation

The following is the adverse sustainability impact statement of Frontier Real Estate Investment Corporation (“FRI”) pursuant to Regulation (EU) 2019/2088 (“SFDR”). FRI has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan and rely on Mitsui Fudosan Frontier REIT Management Inc. (the “Asset Manager”), to manage and operate the properties in our portfolio. FRI and the Asset Manager are hereinafter referred to collectively as “we,” “us” or “our.” References to “fiscal year” or “FY” are to the 12 months that began or beginning April 1 of the year specified in line with the fiscal year of the Asset Manager, unless noted otherwise.

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 of the principal adverse impacts on sustainability factors (“PAI”). The statement covers the reference period from January 1, 2022 to December 31, 2022. The statement will be reviewed at least once during every year.

We believe that our sustainability initiatives are essential for our sustainable growth. We improve long-term returns of investors and contribute to the realization of sustainable society and urban development by implementing initiatives that address social issues. Under our sustainability policies and framework, we, in collaboration with the Asset Manager, take actions on climate change, including energy conservation, and being resilient in times of disasters.

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 our 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

Principal adverse sustainability impacts statement

We do not invest in investee companies, but invest in real estate. As adverse sustainability indicators 1-16 as contained in Table 1 of Annex 1 of the draft 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 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	We do 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 December 31, 2022, 16.6% of our properties were not “Eligible Green Assets” based on total gross floor area.	As of December 31, 2021, 16.6% of our properties were not “Eligible Green Assets” based on total gross floor area.	To track the environmental performance of our properties, we rely on certifications issued by third-party organizations, such as the green building certification of the Development Bank of Japan (“DBJ”), Comprehensive Assessment System for Built Environment Efficiency	We implement as appropriate measures to reduce their environmental impact following acquisition, including by obtaining environmental certifications such as DBJ green building certification or CASBEE for Real Estate certification, installing LED lighting

					(“CASBEE”) certification, and other equivalent certifications. We call our properties that has acquired one of (i) DBJ Green Building Certification, (ii) CASBEE for Real Estate certification, (iii) Building Energy-efficiency Labeling System (“BELS”) certification and Leadership in Energy & Environmental Design (LEED) “Eligible Green Assets”.	and introducing renewable energy.
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Table 2

Additional climate and other environment-related indicators

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

Data for prior years in this Table are given for the periods from April to March (i.e., FY) due to difficulties in obtaining data. These data are sufficiently compatible with, and show results that do not materially differ from, those that would be produced using the calendar year-based data noted in the SFDR Delegated Regulation.

Adverse sustainability impact	Adverse sustainability impact (qualitative or quantitative)	Metric
Indicators applicable to investments in real estate assets		
Greenhouse gas emissions	18. GHG emissions	Scope 1 GHG emissions generated by real estate assets

	<p>Scope 1 GHG emissions generated by properties were 410 t-CO₂ (in FY2020), 415 t-CO₂ (in FY2021) and 435t-CO₂ (in 2022).</p> <p>Scope 2 GHG emissions generated by properties were 1,325 t-CO₂ (in FY2020), 1,324 t-CO₂ (in FY2021) and 1,383 t-CO₂ (in 2022).</p> <p>Scope 3 GHG emissions generated by properties were 75,408 t-CO₂ (in FY2020), 77,180 t-CO₂ (in FY2021) and 75,865 t-CO₂ (in 2022).</p> <p>Per-unit GHG emissions generated by properties were 0.070 t-CO₂/m² (in FY2020), 0.071 t-CO₂/m² (in FY2021) 0.069 t-CO₂/ m² (in 2022).</p> <p>We have established as a target reduction of GHG emissions achieve 30% reduction in 2030 compared with the base year (FY2019) for GHG emitted as part of the operations of shopping centers (SC) owned (total of scopes 1-3; per-unit basis).</p>	<p>Scope 2 GHG emissions generated by real estate assets</p> <p>From 1 January 2023, Scope 3 GHG emissions generated by real estate assets</p> <p>Total GHG emissions generated by real estate assets</p>
Energy consumption	<p>19. Energy consumption intensity</p> <p>Energy consumption at our properties was 221,695,055 kWh (in FY2020), 228,360,069 kWh (in FY2021) 223,244,104 kWh (in 2022).</p>	Energy consumption in kWh of owned real estate assets
Waste	<p>20. Waste production in operations</p> <p>The recycling rate at our properties was 54.1% (in FY2020), 45.6% (in FY2021) and 37.2% (in 2022).</p> <p>Data coverage at our properties was 88.0% (in FY2020) and 89.5% (in 2021) and 86.2% (in 2022). based on floor area.</p>	Share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract

Table 3

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

FRI 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 our 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 our portfolio, to the extent available.

SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Adverse sustainability impact	Adverse sustainability impact (qualitative or quantitative)	Metric

Indicators applicable to investments to the Asset Manager or tenants

<p>Social and employee matters</p>	<p>5. Lack of grievance/complaints handling mechanism related to employee matters</p> <p>The Asset Manager has a system in place to allow its executives and employees who witness bribery, corruption, harassment or other compliance violations to directly contact the Compliance Division General Manager or consult with a service provider outside the company.</p> <p>Both the Compliance Division General Manager and the outside service provider will strictly protect the confidentiality of any person who seeks consultation. Depending on the matter, the Compliance Division General Manager and the outside service provider will work together to investigate the facts of the case, may report to the President or relevant executive or to the Compliance Committee, or may take whatever other action deemed appropriate, and follow up with such person with the results of their efforts. Such person is protected by under the Whistleblower Protection Act of Japan and cannot be treated unfairly by the Asset Manager based on the matter raised by such person.</p>	<p>Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters</p> <p>All executives and employees of the Asset Manager have access to its grievance/complaints handling mechanism related to employee matters.</p>
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	<p>7. Incidents of discrimination</p> <p>The Asset Manager respects human rights and discloses our policy including such things on our website, and does not tolerate discrimination based on gender, age, birthplace, nationality, ethnicity, race, creed, religion, health or disability. The Asset Manager has established a work environment where personnel of diverse backgrounds can make contributions. The Asset Manager regularly conducts training related to various types of harassment, discrimination and LGBT awareness.</p>	<p>Number of incidents of discrimination leading to sanctions in investee companies expressed as a weighted average</p> <p>There has been no incident of discrimination at the Asset Manager.</p>
Human Rights	<p>9. Lack of a human rights policy</p> <p>The Asset Manager respects human rights and has established and discloses its human rights policy on its website. The Asset Manager does not tolerate discrimination based on gender, age, birthplace, nationality, ethnicity, race, creed, religion, health or disability. The Asset Manager has established a work environment where personnel of diverse backgrounds can make a contribution.</p> <p>The Asset Manager regularly conducts training related to various types of harassment, discrimination and LGBT awareness.</p>	<p>Share of investments in entities without a human rights policy</p> <p>The Asset Manager has established a human rights policy that covers all of its executives and employees.</p>
Anti-corruption and anti-bribery	<p>15. Lack of anti-corruption and anti-bribery policies</p> <p>The Asset Manager ensures that its relationships with related parties and business partners are socially</p>	<p>Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations</p>

	<p>acceptable, and that it does not have a relationship that may raise suspicion or distrust from society.</p> <p>The Asset Manager has established a code of conduct concerning the elimination of antisocial forces, prevention of money laundering, appropriate management of conflicts of interest and prohibition of insider trading, and has strict compliance rules to prevent corruption.</p> <p>Before entering into a lease agreement with a tenant, we review if the tenant has any relations with criminal organizations or other anti-social forces.</p>	<p>Convention against Corruption</p> <p>To the Asset Manager's best knowledge, all of our tenants have policies that prohibit relations with criminal organizations or other anti-social forces.</p>
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For descriptions of actions which FRI takes and will take with respect to the PAI indicators, please refer to our ESG website with respect to FRI: <https://www.frontier-reit.co.jp/en/csr/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 ESG due diligence, which includes selected PAI indicators. The due diligence findings related to selected PAI indicators are reported and reviewed prior to the investment decision.

In September 2021, we strengthened our funding base through the establishment of a Green Finance Framework, which allows us to expand our investor base to include those interested in ESG investment and financing and further promote our sustainability. We issued our first green bond on October 29, 2021 and our first green loan on June 23, 2022 under this framework, which is subject to the following requirements.

- *Eligibility criteria.* The proceeds are allocated towards the acquisition of or repair work on “Eligible Green Assets” (which meet the following eligible green project criteria) and towards refinancing of those funds.
 - *Eligible green project criteria.* Assets that have received or are expected to receive any of the following certifications from a third-party certification program.
 - DBJ Green Building Certification: 3 stars or higher (top 3 certification levels)
 - CASBEE Certification: B+ or higher (top 3 certification levels)
 - BELS Certification: 3 or more (top 3 certification levels)
 - LEED Certification: Silver, Gold or Platinum (top 3 certification levels)

- *Repair work.* Any of following repair work:
 - Repair work carried out to improve the rank in certifications above by one rank or more and to renew or acquire environmental certification
 - Repair work to facilities and other aimed at making beneficial improvements for the environment, such as improving energy efficiency and water consumption performance (work resulting in a 30% or more improvement in performance)

For further information, please refer to our ESG website: <https://www.frontier-reit.co.jp/en/csr/index.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 environment assessment and evaluation of risks related to building safety, natural disasters, future prospects, and location. As a result of due diligence review, if there is a risk of a negative environmental impact, such as due to soil contaminants or other harmful substances or noncompliance with law aimed at reducing energy consumption or greenhouse gas emissions, we will take measures to avoid or mitigate the risk by postponing the acquisition of the property or requiring the seller to undertake improvement.

To ensure the efficacy of its sustainability initiatives, the Asset Manager has established a Sustainability Committee as well as a Sustainability Secretariat to examine sustainability matters prior to their consideration by the committee. The Sustainability Committee is chaired by the Chief Executive Officer and Representative Director, and its other members are general managers of the Investment Division, the Finance Division, and the Planning and Administration Division. The Sustainability Secretariat is composed of the Secretariat Manager, who is appointed by the committee, and at least one person from each division (Investment Division, Finance Division and Planning and Administrative Division).

In addition, we monitor and track energy consumption, greenhouse gas emissions, water usage and waste amounts at our properties. As to adverse impacts of climate change, the Sustainability Secretariat, generally once a year under the direction of the Sustainability Committee, reviews and proposes measures to reduce significant climate-related risks and capitalize on related opportunities, and reviews climate-related risks that are important for business and financial planning under the company-wide risk management program. In its efforts to mitigate risks or capitalize on related opportunities, the Sustainability Committee establishes key performance indicators as appropriate, and establishes other targets to track. Also, we establish and disclose on our website the material issues we have identified with respect to which the Sustainability Secretariat tracks progress and reports to the Sustainability Committee.

Engagement

In addition to the selection criteria such as quality, price, creditworthiness and services, we also consider the sustainability initiatives of service providers (e.g., market researchers, engineering firms, real estate appraisers and service control managers) as one of the selection criteria.

We consider the following sustainability factors in particular:

- Environmental policy
 - Establishment of an environmental policy (sustainability policy);
 - Establishment of environmental targets;
 - Establishment of a framework to achieve the targets (e.g., introduction of an environmental management system);
 - Training for employees on environmental considerations; and
 - Sustainability considerations in the selection of subcontractors.
- Initiatives for stakeholders
 - Establishment of an appropriate working environment that respects the safety and health of employees, including appropriate management of working hours;
 - Respect for the human rights of employees and promoting diversity initiatives for diversity and work-life balance;
 - Establishment of a framework and policies related to corporate ethics, including prevention of fraud and corruption; and
 - Prohibition of business that may harm, or contribute to harming, the health, welfare or safety of the local community.
- Environmental disclosure
 - Proactive website disclosure of environmental policies and approaches.

The Asset Manager regularly monitors each service provider's compliance with the above criteria.

We disclose non-financial information, including ESG-related information, in addition to financial information in a timely and adequate manner. We also disclose any ESG-related certification received from third-party evaluators and ESG reports on our website.

5. References to international standards

The Mitsui Fudosan Group, which includes the Asset Manager, supports the UN Global Compact comprising 10 principles relating to human rights, labor, the environment, and anti-corruption advocated by the UN. We signed the compact in December 2018, and participate in the Global Compact Network

Japan. Also, Mitsui Fudosan Group is a member of RE100, a global initiative committed to utilizing 100% renewable energy. Furthermore, Mitsui Fudosan Group and the Asset Manager agree with the disclosure of the associated risks and opportunities regarding climate change proposed by the Task Force on Climate-related Financial Disclosures (TCFD). The Mitsui Fudosan Group has obtained SBTi Certification regarding the targets of reduction of GHG.

6. Historical comparison

See above.