

PRINCIPAL ADVERSE IMPACT STATEMENT

Product Name: Advance Residence Investment Corporation

The following is the adverse sustainability impact statement of Advance Residence Investment Corporation (“ADR”) pursuant to Regulation (EU) 2019/2088 (“SFDR”). ADR 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 ITOCHU REIT Management Co., Ltd. (the “Asset Manager”), to manage and operate the properties in ADR’s portfolio. ADR and the Asset Manager are hereinafter referred to collectively as “we,” “us” or “our”, unless noted otherwise. References to “fiscal year” or “FY” are to the 12 months 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

Pursuant to Article 4 of the Delegated Regulation C(2022)1931 supplementing SFDR (the “SFDR Delegated Regulation”), ADR is required to publish on its website the information referred to therein covering the period of one calendar year. The Asset Manager does not operate based on a calendar year, but operates based on fiscal year ending in March of every year. A recalculation and translation of the data into the reference period of one calendar year would most likely lead to inaccuracies and would therefore provide a potentially less accurate overview of the required information than using the approved and validated data for the period from April 1, 2023 to March 31, 2024. This reference period is sufficiently compatible with, and shows results that do not materially differ from, those that would be produced using the calendar year-based reference period noted in the SFDR Delegated Regulation.

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 April 1, 2023 to March 31, 2024. The statement will be reviewed at least once during every six months.

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 ADR’s 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
Description of the principal adverse impacts on sustainability factors

ADR does not invest in investee companies, but invests in real estate. As adverse sustainability indicators 1-16 as contained in Table 1 of Annex 1 of the SFDR 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 2023	Impact in 2022	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	ADR does 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 January 31, 2024, 68.6% of ADR's properties were not "Eligible Green Assets" (as defined to the right) based on total gross floor area.	As of January 31, 2023, 71.4% of ADR's properties were not "Eligible Green Assets" (as defined to the right) based on total gross floor area.	To track the environmental performance of ADR's 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 ("CASBEE") certification,	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 and implementing eco-friendly equipment such as LED lighting.

					and other equivalent certifications. We call ADR's properties that have acquired one of (i) DBJ Green Building Certification (three-stars or better), (ii) CASBEE for Real Estate certification (B+ rank or better) and (iii) BELS certification (three-stars or better) as "Eligible Green Assets."	We plan to obtain environmental certifications for 30% or more of the properties in ADR's portfolio by FY2030, based on total gross floor area.
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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 SFDR Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

Adverse sustainability impact	Adverse impact on sustainability factors (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
		Unit	FY2022	FY2021	FY2020	FY2019	
	Scope 1	(t-CO ₂)	188	230	221	239	219
	Scope 2	(t-CO ₂)	0	23	6,831	7,880	7,538
	Scope 3	(t-CO ₂)	-	-	-	-	-
	Total	(t-CO ₂)	188	253	7,052	8,119	7,757
	We aim to reduce the combined amount of Scope 1 and Scope 2 GHG emissions of ADR's properties by 51% by FY2030 compared to the level in FY2018. In addition, as a long-term target, ADR aims to achieve net zero GHG emissions for ADR's properties by FY2050.						Scope 2 GHG emissions generated by real estate assets
							From 1 January 2023, Scope 3 GHG emissions generated by

		real estate assets																					
		Total GHG emissions generated by real estate assets																					
Energy consumption	19. Energy consumption intensity	Energy consumption in GWh of owned real estate assets per square meter																					
	<table border="1"> <thead> <tr> <th></th> <th>Unit</th> <th>FY2022</th> <th>FY2021</th> <th>FY2020</th> <th>FY2019</th> <th>FY2018</th> </tr> </thead> <tbody> <tr> <td>Total energy consumption</td> <td>(MWh)</td> <td>14,274</td> <td>15,266</td> <td>15,354</td> <td>15,536</td> <td>15,749</td> </tr> <tr> <td>Energy consumption intensity</td> <td>(MWh/m²)</td> <td>0.077</td> <td>0.082</td> <td>0.083</td> <td>0.086</td> <td>0.086</td> </tr> </tbody> </table>		Unit	FY2022	FY2021	FY2020	FY2019	FY2018	Total energy consumption	(MWh)	14,274	15,266	15,354	15,536	15,749	Energy consumption intensity	(MWh/m ²)	0.077	0.082	0.083	0.086	0.086	
	Unit	FY2022	FY2021	FY2020	FY2019	FY2018																	
Total energy consumption	(MWh)	14,274	15,266	15,354	15,536	15,749																	
Energy consumption intensity	(MWh/m ²)	0.077	0.082	0.083	0.086	0.086																	
	We aim to reduce energy consumption intensity at ADR's properties by 20% by FY2030 compared to the level in FY2018.																						

Table 3

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

ADR 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 ADR's 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 ADR's 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		
Social and employee matters	<p>4. Lack of a supplier code of conduct</p> <p>The Asset Manager has established a Sustainability Procurement Policy to implement procurement-related aspects of the Sustainability Policy with cooperation from its suppliers. Since 2016, at the time of entry selection of a property manager and a real estate appraisal company and thereafter annually in accordance to the Green Procurement Policy, we take into consideration their environmental and social initiatives, such as whether to respect human rights and secure appropriate work environment for employees.</p> <p>In addition, in March 2018, we established the Sustainability Procurement Guidelines, which contain key elements of the Green Procurement Policy, and we provide them to our property managers and building managers.</p>	<p>Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labor and forced labor)</p> <p>We have provided the Green Procurement Guideline to all of property managers and building managers as well as main suppliers.</p>

	<p>Moreover, we include green lease clauses concerning energy and water conservation in lease agreements with tenants to promote saving energy and water.</p>	<p>Based on surveys conducted on all of property managers and real estate appraisal companies in November 2023, we have confirmed that they have complied with laws, regulations and internal rules including employee-related and corporate ethics-related policies.</p> <p>As of January 31, 2024, 66.7% of our tenants (based on the number of rental units) have executed lease agreements with green lease clauses.</p>
Human Rights	<p>9. Lack of a human rights policy</p> <p>We established a Human Rights Policy in February 2021 and conduct measures to prevent harassment, including compliance programs and external trainings.</p> <p>In addition, the Asset Manager has established the Green Procurement Policy. Since 2016, at the time of entry selection of a property manager and a real estate appraisal company and thereafter annually in accordance to the Green Procurement Policy, we take into consideration their environmental and social initiatives, such as whether they respect human rights and have established appropriate work environment for their employees.</p> <p>In addition, in March 2018, we established the Sustainability Procurement Guidelines, and we provide them to our property managers and building managers.</p>	<p>Share of investments in entities without a human rights policy</p> <p>All of employees of the Asset Manager are protected under the Human Rights Policy of our sponsor group.</p> <p>We have provided the Sustainability Procurement Guidelines to all of property managers and building managers as well as main suppliers.</p> <p>Based on surveys conducted on all of property managers and real estate appraisal companies in November 2023, we have confirmed that they have complied with laws, regulations and internal rules, including human rights-related policies, and have promoted diversity and work-life balance.</p>
Anti-corruption and anti-bribery	<p>13. Operations and suppliers at significant risk of incidents of forced or compulsory labor</p>	<p>Share of the investments in investee companies exposed to operations</p>

	<p>We established the Human Rights Policy in February 2021, and support international standards such as Universal Declaration of Human Rights and promote measures to promote human rights. We strictly comply with labor-related laws and regulations to ensure that our work environment is appropriate for all of the Asset Manager’s employees.</p> <p>In addition, the Asset Manager has established the Sustainability Procurement Policy. Since 2016, at the time of entry selection of a property manager and a real estate appraisal company and thereafter annually in accordance to the Sustainability Procurement Policy, we take into consideration their environmental and social initiatives, such as whether they respect human rights and have established appropriate work environment for their employees.</p> <p>In addition, in March 2018, we established the Green Procurement Guidelines, and we provide them to our property managers and building managers.</p>	<p>and suppliers at significant risk of incidents of forced or compulsory labor in terms of geographic areas and/or the type of operation</p> <p>In FY2023, there was no breach of labor-related laws, regulations or standards within the Asset Manager.</p> <p>Based on surveys conducted on all of property managers and real estate appraisal companies in November 2023, we have confirmed that they have complied with laws, regulations and internal rules including labor-related policies, and have found no forced or compulsory labor.</p>
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For descriptions of actions which ADR takes and will take with respect to the PAI indicators, please refer to our ESG website with respect to ADR: <https://www.adr-reit.com/en/sustain/>

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.

ADR has sometimes established a green finance framework to provide investors with investment opportunities of environmental significance. Funds raised through green bonds or green loans will be used to acquire properties that are classified as Eligible Green Assets or that meet the following eligible criteria: eligible renovation work includes (i) construction work and equipment renovation work contributing to energy conservation and environmental improvement, or (ii) renovation works aim to reduce energy consumption, CO2 emissions or water consumption by 10% or more.

For further information, please refer to our ESG website: <https://www.adr-reit.com/en/sustain/>

4. Engagement policies

Due diligence and screening

Prior to our investment in a property, we conduct due diligence on the property, including environment assessment such as land pollution and evaluation of earthquake resistance and PML. Furthermore, we review each property’s Green Building certification at the time of acquisition to confirm the status of acquiring the certificates.

The Asset Manager's investment decision-making process involves assessment of material ESG-related risks identified through due diligence review, including legal compliance, land pollution, environmental risks and other factors. With each acquisition opportunity, we review these ESG-related due diligence findings and risk assessment. These findings and assessment are required to be considered by the Asset Manager's Investment Committee before a final decision is made on the investment by ADR's Board of Directors.

In addition, we monitor and track energy consumption, greenhouse gas emissions, water usage and waste amounts at the properties in ADR's portfolio.

Engagement

We have executed lease agreements, which include clauses concerning energy and water conservation and requiring tenants to collaborate. In addition, we have inserted green lease clause in a management services contract (including renewal one) with a property manager.

To create sustainable society through asset management, the Asset Manager has established a Sustainability Procurement Policy to implement procurement-related aspects of the Sustainability Policy with cooperation from its suppliers. Since FY2016, major suppliers, including all property managers that the Asset Manager uses, have been evaluated at the time of entry into a contract with the Asset Manager and thereafter annually in accordance to the Sustainability Procurement Policy, on how they address sustainability issues. The Asset Manager considers suppliers' engagement in sustainability when it selects a supplier in addition to its quality, price, credibility and services offered. In addition, we includes a criterion concerning initiatives taken on environment when we select a property manager.

5. References to international standards

The Asset Manager became a signatory as a supporter to the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") established by the Financial Stability Board and joined the Japan TCFD Consortium in March 2020. Moreover, the Asset Manager supports international norms on human rights, such as the Universal Declaration of Human Rights, Declaration on Basic Principles and Rights in Labor declared by the International Labor Organization (ILO) and the United Nations Global Compact. In addition, the Asset Manager will respect human rights based on the Guiding Principles on Business and Human Rights established by the United Nations.

6. Historical comparison

See Table 1 and Table 2 above.