

STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Product name: Kenedix Office Investment Corporation
Legal entity identifier: 353800FFT483NCIHFY42

Product name: Kenedix Residential Next Investment Corporation
Legal entity identifier: 353800CYD58GUMFQME07

Product name: Kenedix Retail REIT Corporation
Legal entity identifier: 353800IOH9ONLGE3AQ55

The following is the adverse sustainability impact statement of Kenedix Office Investment Corporation (“KDO”), Kenedix Residential Next Investment Corporation (“KDR”) and Kenedix Retail REIT Corporation (“KRR”) pursuant to Regulation (EU) 2019/2088 (“SFDR”). These entities have no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan and rely on Kenedix Real Estate Fund Management, Inc. (the “Asset Manager”), to manage and operate the properties in our portfolio. KDO, KDR, KRR and the Asset Manager are hereinafter referred to collectively as “we”, “us” or “our”. References to “fiscal year” 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

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 take actions on climate change, including energy conservation, use of renewable energy, 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

KDO, KDR and KRR do not invest in investee companies, but invest in real estate. As adverse sustainability indicators 1-16 as contained in the Table 1 of Annex 1 of the draft of the Delegated Regulation C (2022)1931 supplementing SFDR (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 2022	Impact in 2021	Explanation	Actions taken
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, 50.0% of our properties (by leasable area) had not obtained any of the DBJ Certification, the BELS Certification	As of December 31, 2021, 54.1% of our properties (by leasable area) had not obtained any of the DBJ Certification, the BELS Certification	To track the environmental performance of our properties, we use certifications issued by third-party organizations such as the Development Bank of Japan’s Green Building	Following acquisition, we implement as appropriate measures to reduce the properties' environmental impact, including by obtaining environmental certifications

			or CASBEE Certification.	or CASBEE Certification.	Certification (“DBJ Certification”), the Building-Housing Energy-efficiency Labeling System certification (“BELS Certification”) and the Comprehensive Assessment System for Built Environment Efficiency certification (“CASBEE Certification”).	such as DBJ Certification, the BELS Certification or CASBEE Certification. We also implement measures to reduce environmental impact caused by our properties, such as installation of LED lighting, solar panels (in relation to KRR’s properties only), a water-saving toilet (in relation to KDR’s properties only), and electricity rate plans using electricity generated from renewable energy (in relation to KDO’s properties only).
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Table 2

Additional climate and other environment-related indicators

KDO, KDR and KRR do not invest in investee companies, but invest in real estate. As additional climate and other environment-related indicators 1-17 as contained in Table 2 of Annex 1 of the draft 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 sustainability impact (qualitative or quantitative)	Metric
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Indicators applicable to investments in real estate assets		
Energy consumption	<p>19. Energy consumption intensity</p> <p>Energy consumption of owned real estate assets were as follows:</p> <ul style="list-style-type: none"> - KDO: 0.114GJ/m² (in 2020), 0.114GJ/ m² (in 2021) and 0.112 GJ/m² (in 2022) - KDR: 0.036GJ/m² (in 2020), 0.045 GJ/m² (in 2021) and 0.046 GJ/m² (in 2022) - KRR: 1.835GJ/m² (in 2020), 1.799GJ/m² (in 2021) and 1.696 GJ/m² (in 2022) <p>Our target is (i) to reduce energy consumption by an annual average rate of 1% (5% over five years) for KDR’s residential facilities from fiscal year 2019 through 2023, (ii) to keep reducing energy consumption in the most recent five years on a rolling basis by an annual average rate of 1% for KDO’s properties, and (iii) to reduce energy consumption by an annual average rate of 1% over five years for KRR’s retail facilities. We aim to reduce energy consumption by installing energy saving equipment such as LED lighting and solar panels (in relation to KRR’s properties only).</p>	Energy consumption in GWh of owned real estate assets per square meter

Table 3

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

KDO, KDR and KRR have no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan, and rely 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		
Social and employee matters	<p>5. Lack of grievance/complaints handling mechanism related to employee matters</p> <p><u>Attracting and retaining talent and developing their careers:</u> The Kenedix Group, including the Asset Manager, is promoting initiatives to develop employees’ capabilities by providing training and educational programs that maximize individual productivity. Once a year, the Asset Manager confirms with its employees whether they are satisfied with their jobs and career</p>	<p>Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters</p> <p>The Asset Manager has grievance/complaints</p>

	<p>planning, and this process is used to improve operational efficiency and staffing effectiveness.</p> <p><u>Evaluation system to encourage employee's career development:</u> The Asset Manager evaluates each employee's performance based on goals set by them at the end of each fiscal year. Managers hold interviews with each employee to discuss their performance and career development. The supervisor also evaluates the performance of each employee in terms of contribution made to the company according to each employee's grade, and the results are provided to the employee after reflecting the assessment by the Personnel Evaluation Committee.</p> <p><u>Employee satisfaction surveys:</u> In 2022, the Kenedix Group, including the Asset Manager, retained a third party to conduct an employee satisfaction survey for all employees. We plan to periodically conduct similar employee satisfaction surveys in the future.</p> <p><u>Tenant satisfaction survey</u> We conduct a satisfaction survey for tenants in our properties (i.e., residents, the persons in charge of general affairs and employees of the tenants) about building facilities and operational services on a regular basis. These continuous surveys enable us to respond to the tenants' needs by renewal of facilities or refurbishment, which results in the tenants' strong intention to renewal of lease of same properties.</p>	<p>handling mechanisms available to all of its officers and employees as well as to all of its tenants.</p>
	<p>6. Insufficient whistleblower protection</p> <p><u>Whistle-blowing system:</u> Employees of the Asset Manager are obliged to submit a report as provided in the Rules Concerning the Internal Reporting System of the Asset Manager if they find a violation or suspect a violation of any law or regulation (including a violation of the Code of Conduct of the Asset Manager) and it is impossible or extremely difficult to remedy the violation through ordinary courses. Individuals who submit a report, cooperate with the submission of a report or otherwise proactively participates in investigation based on the report are protected by law and the internal reporting system. Any mistreatment of such individuals involved with internal reports are strictly prohibited.</p>	<p>Share of investments in entities without policies on the protection of whistleblowers</p> <p>All of the Asset Manager's officers and employees are provided whistleblower protection.</p>
<p>Human Rights</p>	<p>9. Lack of a human rights policy</p> <p><u>Respect for human rights, prevention of discrimination and harassment:</u> We have included in our Compliance Manual policies regarding respect for human rights and prohibition on discrimination and harassment, and provided employees with compliance training to raise awareness. In addition, managers are trained on how to deal with harassment.</p>	<p>Share of investments in entities without a human rights policy</p> <p>The Asset Manager has a human rights policy applicable to all of its officers and employees.</p>

<p>Anti-corruption and anti-bribery</p>	<p>15. Lack of anti-corruption and anti-bribery policies</p> <p><u>Compliance with ethics and anti-corruption:</u> Pursuant to its Employment Regulations and Compliance Manual, the Asset Manager explicitly prohibits money laundering, embezzling, fraud, theft and other criminal activity. In addition, the Asset Manager has established strict prohibition against employees' acceptance of bribes or other improper activities for their own interest or the interest of a third party in connection with performance of their duties. If any activity above is discovered, disciplinary action will be taken based on the Employment Regulations.</p> <p>Furthermore, the Asset Manager has established rules concerning business entertainment, whether the employee is on the receiving or giving end, to prevent entertainment and gifts that go beyond normal social standards. To prevent such improper activities, employees are required to receive approval before treating others to meals or providing them with other entertainment. The implementation of these rules is subject to internal audit, which was most recently conducted in fiscal year 2022.</p> <p><u>Response to anti-social forces</u> When executing a lease agreement, the Asset Manager confirms that each tenant is not anti-social forces and other matters pursuant to the Act on Prevention of Transfer of Criminal Proceeds. In addition, the Asset Manager requires all lease agreements to include the provisions refusing to deal with anti-social forces.</p>	<p>Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption</p> <p>The Asset Manager has compliance policies addressing anti-corruption and anti-bribery that apply to all of its officers and employees. In addition, to the best of our knowledge, none of our tenants have any relation with anti-social forces.</p>
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For descriptions of actions which the Asset Manager takes and will take with respect to the PAI indicators, please refer to our ESG website with respect to:

- KDR: <https://www.kdr-reit.com/en/sustainability/>
- KDO: <https://www.kdo-reit.com/en/sustainability/sustainability.html>
- KRR: <https://www.krr-reit.com/en/esg/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, the Asset Manager conducts due diligence review of the property, including ESG-related 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.

KDO and KRR have established green finance frameworks, and KDR has established a social finance framework to exercise corporate social responsibility and contribute to sustainable society. As for KDO, funds raised through green bonds and green finance will be (i) used to acquire properties that receive (a) three stars or higher of DBJ Certification, (b) B+ or higher of CASBEE

Certification or (c) three stars or higher of BELS Certification, (ii) used for construction or repair work that (a) reduces energy consumption, water consumption, or usage or emissions of other substance (which reduction is an environmentally beneficial improvement) by 30% or more at the property where the construction or repair work is performed or (b) leads to improvements of one or more step change in the rating levels in DBJ, CASBEE and/or BELS Certifications or, (iii) used for the installation or acquisition of facilities related to renewable energy. As for KRR, funds raised through green bonds and green finance will be (i) used to acquire properties that receive (a) three stars or higher of DBJ Certification, (b) B+ or higher of CASBEE Certification or, (c) three stars or higher of BELS Certification or (ii) used for construction or repair work that reduces energy consumption, water consumption, or usage or emissions of other substance (which reduction is an environmentally beneficial improvement) by 10% or more at the property where the construction or repair work is performed. As for KDR, funds raised through social bonds will be used to acquire senior living facilities and medical facilities.

For further information, please refer to our ESG website:

KDR: <https://www.kdr-reit.com/en/sustainability/>

KDO: <https://www.kdo-reit.com/en/sustainability/sustainability.html>

KRR: <https://www.krr-reit.com/en/esg/index.html>

4. Engagement policies

Due diligence and screening

The Asset Manager's investment decision-making process involves assessment of material ESG factors. The Asset Manager's Asset Management Committee considers positive due diligence findings on ESG factors as plus factors along with other economic and operational considerations when making a final decision to invest in a property.

We also consider the environment and nature of the soil when investing in properties. We do not consider investing in properties that do not meet the thresholds for soil contamination and other environmental contamination in accordance with the Air Pollution Control Act and the Soil Contamination Countermeasures Act of Japan and other environmental laws and ordinances.

In addition, we monitor and track energy consumption, greenhouse gas emissions and water usage at the properties in our portfolio.

Engagement

We have executed lease agreements which include clauses requiring the property owner and tenant to cooperate on reducing the environmental impact of the property. We have installed LED lighting and achieved decreases in the tenants' electricity expenses and increases in rent under lease agreements that require the tenants to return to us a portion of the savings captured from LED lighting. In addition, the Asset Manager has required certain property managers to observe our philosophy of contributing to sustainable society, including our sustainability policy. We require our property managers, for example, to encourage tenants to cooperate with us in energy conservation efforts.

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 October 2021. Moreover, Kenedix, Inc., the parent company of the Asset Manager has become a signatory to Principles for Responsible Investment (PRI).

6. Historical comparison

See Table 1, Table 2 and Table 3 above.