

Social Bond / Social Bond Programme

External Review Form

Section 1. Basic Information

Issuer name:

Kenedix Residential NEXT Investment Corporation

Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: *[specify as appropriate]*

Social Finance Framework

Independent External Review provider's name:

Japan Credit Rating Agency, Ltd.

Completion date of this form:

November 26, 2019

Publication date of review publication: *[where appropriate, specify if it is an update and add reference to earlier relevant review]*

November 26, 2019

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- | | |
|---|--|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other <i>(please specify):</i> | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Kenedix Residential Next Investment Corporation (the "Investment Corporation") was established in November 2011 and was listed on the Tokyo Stock Exchange (REIT) in April 2012. On March 1, 2018, the company merged with Japan Senior Living Investment Corporation (JSL) as the absorbed corporation, where the Investment Corporation is the surviving entity. Through the merger, the Investment Corporation aims to evolve into a REIT that pursues stable earnings and sustainable growth through broad investments in "spaces where people live and stay," such as healthcare facilities and accommodations, while focusing on residential facilities, and changed its name from Kenedix Residential Investment Corporation to Kenedix Residential Next Investment Corporation. The portfolio of the Investment Corporation before the merger was 115 properties with a total acquisition price of JPY 164.1 billion. Through the merger, the company acquired 14 health care facilities worth JPY28.9bn from JSL, and subsequently expanded its portfolio to 145 properties worth JPY 235.1 billion.

The sponsor of Kenedix Real Estate Fund Management, Inc. (the "Asset Management Company"), the asset management company of the Investment Corporation, is Kenedix. In April 1995, the company established Kennedy Wilson, Inc. as a base for the real estate investment advisory business in Japan. Since then, the company has entered the asset management business since 1999. As of September 2019, AUM, including REIT, has reached about JPY 2.3 trillion.

The Investment Corporation's basic philosophy is to secure stable earnings and pursue sustainable growth by investing in a wide range of spaces where people live and stay. Based on this philosophy, it has designated healthcare-related facilities as one of its main investment targets, which are the social infrastructure for connecting capital markets and the healthcare industry. It aims to maximize unit holders' value through stable investment.

The subject of evaluation is a social finance framework established of the Investment Corporation (the "Framework") to limit the use of proceeds of the investment corporation bonds or borrowings, etc. to the projects which have higher social benefits. JCR shall assess whether the Framework is in line with the Social Bond Principles (SBP) (2018 edition) and SDGs targets. SBP is the "principles" voluntarily published by the International Capital Markets Association (ICMA) and are not regulations, and therefore are not binding, but are widely referenced globally at this time. Therefore, JCR confirms their conformity with these principles. In addition, SBP emphasize the use of proceeds and their impacts, as well as the alignment of international sustainability objectives and national policies. Therefore, the SDGs and social project categorization mappings developed by the society are used as reference indicators for evaluations.¹

In the Framework, the proceeds shall be used for financing and refinancing to the acquisition costs of living facilities for elderlies and medical facilities. The improvement of health care facilities for the elderly is becoming a social issue in Japan's rapidly aging society and are of great importance as social infrastructures to provide useful solutions mainly towards (1) a shortage of medical and nursing care facilities due to an increase in the number of single-person elderly households, etc., and (2) a shortage of workers due to an increase in the number of people leaving their jobs for nursing care, as a result, causes of a delay in women's social advancement, etc. Therefore, the expansion of these facilities has an urgent necessity for Japan. In addition, living facilities for elderlies contributes to solve the social issues including single elderly's solitary death. Based on the above, JCR evaluates that the projects is to contribute to the provision of "access to essential services (health care)" for the elder persons and "socioeconomic improvement and empowerment" for women among the classifications of the Social Bond Principles. In addition, JCR evaluates that these social projects will contribute to Goal 3 "Health and Welfare for All"; Goal 5 "Achieve Gender Equality"; and Goal 8 "Employment and Economic Growth" among the SDGs Objectives. In the "Specific Measures for Achieving SDGs" established by the Government of Japan, JCR confirmed that the proceeds are consistent with the "Realization of a Society in which promoting dynamic engagement of all citizens: Social Security Leading to Peace of Mind," one of the policies closely related to SDGs 3, etc.

JCR confirmed that the Investment Corporation addresses the social issues related to living and healthcare facilities for elderlies as a material issue and prescribes selection criteria of eligible social assets and risk management method appropriately. JCR also confirms that responsible departments and managements are

¹ ICMA(International Capital Market Association) Social Bond Principles 2018.

appropriately involved in selection process and tracking method of the proceeds is clearly stipulated. Reporting is also expected to include a selection and disclosure of funding availability and appropriate key impact indicators. Based on the above, JCR evaluates that the management system is appropriate and the proceeds based on the Framework has high transparency.

As a result, based on JCR Social Finance Evaluation Methodology, JCR assigned "s1(F)" for the "Social Impact Evaluation (Use of Proceeds)" and "m1(F)" for the "Management, Operation and Transparency Evaluation." Consequently, JCR assigned "Social 1(F)." for overall "JCR Social Finance Framework Evaluation." Detailed evaluation results are discussed in the next chapter. The Framework also fully meets the standards for the requirements of the Social Bond Principles and is consistent with the SDGs Objectives and concrete measures for the SDGs Goals of the Government.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable):*

The proceeds are scheduled to be allocated to residential facilities and nursing care facilities for the elderly, hospitals, and other medical facilities that contribute to the improvement of problems caused by the rapidly aging society, which is a serious social problem in Japan. Each of these contributes to specific measures relating to Japan's own SDGs targets and targets in the Japan 100 million activity plan, and they have social benefits.

Use of proceeds categories as per SBP:

- | | |
|--|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other <i>(please specify):</i> |

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable):*

JCR recognizes that healthcare issues in an aging society are important social issues, and in order to contribute to resolve these issues, the Investment Corporation acquires housing and nursing care facilities for the elderly and medical facilities, and appropriately identifies the roles that the Investment Corporation

should play in the market. This objective is consistent with the implementation of each social project chosen as the purpose of financing, and JCR evaluates it as an appropriate goal setting.
JCR evaluates that all of the selection criteria indicated in Phase 1 are social projects with high social benefits.
JCR evaluates that the selection criteria are operated appropriately because the roles of the Asset Management Company and the Investment Corporation are clearly defined, the responsibilities of each department are clear, and the decisions are made by important committees, including the management team.
These selection criteria and the process of selection and evaluation will be published to investors in this report.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

JCR considers that the management of proceeds is appropriately planned given that fund procurement to be carried out in the future is expected to be allocated for social projects, that fund procurement is managed in an appropriate manner within the Asset Management Company, that an internal control system is in place, and that there are no particular concerns about the management of unallocated funds.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Social Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other <i>(please specify)</i> : |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input checked="" type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |

Disclosure of portfolio balance of unallocated proceeds

Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

a. Reporting on the proceeds allocation

KDR plans to disclose the funding status once a year on its website. Specifically, the following items are included.

- Outstanding of social finance
- Allocated amount
- Outstanding of unallocated funds (in cases where unallocated funds are available)
- Total acquisition price of social-grade assets

Even after the allocation has been completed, as long as social finance remains, KDR plans to disclose any significant changes in the allocation status.

b. Reporting on society improvement effects

<Output Indicators>

- i. Summary of Buildings and Leases
- ii. Status of Tenants and Outline of Facilities (Number of Tenants, Capacity, Number of Tenants, Occupancy Rate, etc.)
- iii. Profit and Loss of Properties Owned (Details of Property Leasing Expenses, NOI)
- iv. Operator Summary
- v. Real Estate Appraisal Value at the End of the Period

If the consent of the operator is unavailable, no disclosure will be made.

<Outcome Indicator>

- i. J-REIT's assets and the proportion of healthcare facilities
- ii. KDR's investment in healthcare facilities
- iii. Summary of incentives for investors (to promote understanding and use of healthcare facilities through incentives for investors)

<Impact (qualitative targets)>

By linking capital market needs with healthcare facility operators' needs, it will promote the supply of quality healthcare facilities and contribute to the promotion of investment in socially beneficial funds.

Use of proceeds reporting:

Project-by-project

On a project portfolio basis

Linkage to individual bond(s)

Other (please specify):

Information reported:

Allocated amounts

Social Bond financed share of total investment

Other (please specify):

Frequency:

Annual

Semi-annual

Other (please specify):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Information reported (expected or ex-post):

- Number of beneficiaries
- Target populations
- Other ESG indicators (please specify):

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify):
Information published in annual integrated report
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): Use of Proceeds, reporting and overall alignment with ICMA's social bond principle

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Kenedix Residential NEXT Investment Corporation's Website about CSR efforts
<https://www.kdr-reit.com/en/feature/sustainability.html>

JCR's Social Finance Evaluation Methodology
<https://www.jcr.co.jp/en/greenfinance/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Second Party Opinion
- Certification
- Verification
- Scoring/Rating
- Other (please specify):

Review provider(s):

Date of publication:

Japan Credit Rating Agency, Ltd.

November 26, 2019

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

1. **Second Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
3. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.