

———— JCR Social Finance Framework Evaluation by Japan Credit Rating Agency, Ltd. ————

Japan Credit Rating Agency, Ltd. (JCR) announces the following Social Finance Framework Evaluation Results.

JCR Assigned Social 1(F) to the Social Finance Framework of Kenedix Residential Next Investment Corporation

Subject : Social Finance Framework of Kenedix Residential Next Investment Corporation

<Social Finance Framework Evaluation Results>

Overall Evaluation	Social 1(F)
Social Impact Evaluation (Use of Proceeds)	s1(F)
Management, Operation and Transparency Evaluation	m1(F)

Chapter 1: Evaluation Overview

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 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.

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

Chapter 2: Current Status of the project on each evaluation factor and JCR's evaluations

Evaluation Phase 1: Social Impact Evaluation

JCR assigns "s1(F)", the highest grade, to "Evaluation Phase 1: Social Impact Evaluation".

Rationale: 100% of the proceeds are eligible as social projects.

(1) JCR's key consideration in this factor

In this section, JCR first confirms that the proceeds are used for social projects that have clear social improvement effects. Next, JCR assesses whether an internal department/division which is exclusively in charge of environment issues or a third party agency prove it sufficiently and have taken necessary work around or mitigation measures, in case of possibility on use of proceeds have negative social and environment impact. Finally, JCR confirms consistency with the Sustainable Development Goals (SDGs).

(2) Current status of evaluation targets and JCR's evaluation

<Framework for the Use of Proceeds>

Kenedix Residential Next Investment Corporation ("the Investment Corporation" or "KDR") will use funds procured through social finance to fund the acquisition of assets that meet the following eligible criteria (hereinafter, "Socially Eligible Assets") or to repay borrowings or redeem investment corporation bonds (including refinancing thereof).

<Eligible Projects>

(1) Senior living facility	<ul style="list-style-type: none"> • Nursing homes • Housing for the elderly with services • Condominiums for seniors • Group Homes for the Elderly with Dementia • Small-scale multi-functional facilities • Day service facilities, etc.
(2) Medical facilities	<ul style="list-style-type: none"> • Hospital • Clinics • Medical mall • Nursing care facilities for the elderly, etc.

<Eligibility Criteria >

(1) Senior living facility

Ⓞ Nursing homes

Facilities (excluding welfare facilities for the elderly) providing necessary services for daily life, such as nursing care, food, laundry, and health care, such as private nursing homes for the elderly (hereinafter referred to as "specified living nursing homes"), private nursing homes for the elderly that have not been designated as specified living nursing homes, and private nursing homes for the elderly that have not been designated as specified living nursing homes (hereinafter referred to as "specified living nursing homes"), and private nursing homes for the elderly that have not been designated as specified living

nursing homes (hereinafter referred to as "specified living nursing homes"). The term refers collectively or individually (excluding housing for the elderly with services).

② Housing for the elderly with services

Rental housing or fee-charging senior citizen homes registered in the prefecture that satisfy the standards for housing (area, facilities, and structure), services for tenants, and contracts with tenants as stipulated in the Act on Stable Housing of the Elderly, etc.

③ Condominiums for seniors

Housing designed to be barrier-free and provision by facility operators that does not fall under the category of service-charging senior housing or serviced senior housing

④ Group Homes for the Elderly with Dementia

Buildings established as condominiums in which "joint-based nursing care for dementia" is to be carried out in accordance with the provisions of the Long-term Care Insurance Law (Law No. 123 of 1997; including subsequent revisions; hereinafter referred to as the Long-term Care Insurance Law).

⑤ Small-scale multi-functional facilities

A facility that provides care for people in need of care at home, visiting, or staying for a short period of time, such as bathing, waste disposal, meals, etc., and other daily life care and functional training according to the methodology requested by the person in need of care.

⑥ Day service facilities

Facilities where care takers living at home can take care of their daily lives and receive functional training, such as bathing, waste disposal, meals, etc.

(2) Medical facilities

① Hospital

Hospitals provided for in the Medical Care Act (Act No. 205 of 1948, including subsequent revisions; hereinafter referred to as the Medical Care Act)

② Clinics

Clinics stipulated in the medical law

③ Medical mall

Integrated facilities consist of multiple hospitals, clinics, pharmacies, etc.

④ Care and health services facilities for the aged

A facility that has been authorized by the prefectural governor as a facility for providing nursing, medical care under medical management, functional training, and other necessary medical care and daily life care to a person requiring long-term care based on an institutional service plan.

<JCR's Evaluation of the Framework>

a. Social Benefits of the Projects

- i. 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.**

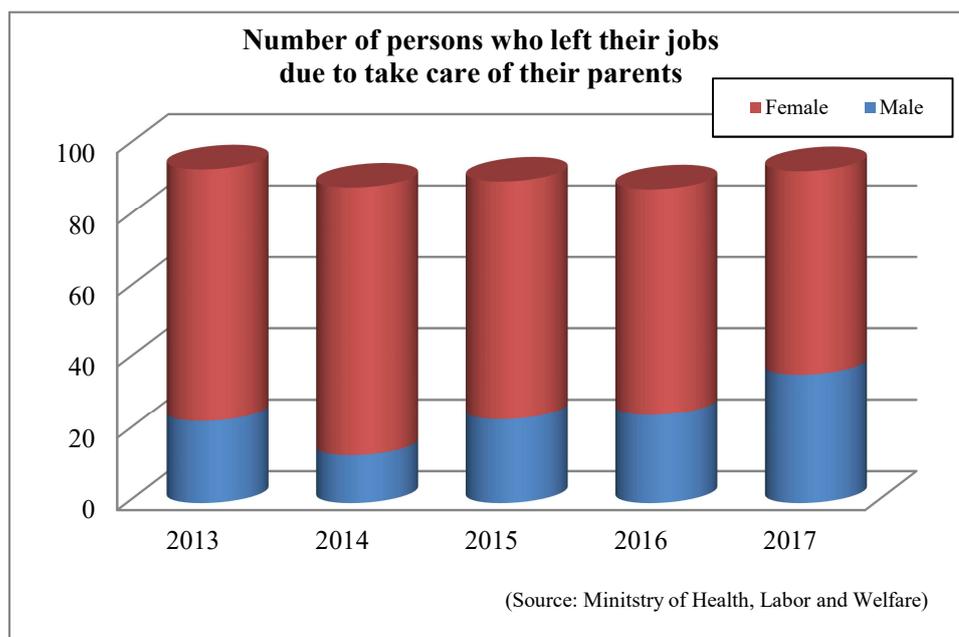
Social Challenge 1: Increase in the number of people waiting for a special facility home

Japan is now faced with the problem of a declining birthrate and an aging population. Furthermore, as a unique problem in Japan, the number of single-person elderly is increasing, and while demand for nursing care facilities continues to increase, supply has not kept pace. According to a report by the Ministry of Health,

Labor and Welfare in March 2017, there were 123,000 people waiting at home for nursing care, which accounts for approximately 41.7% of the total number of applicants for nursing care facilities.

Social Challenge 2: Increase in the number of career separations and high percentage of female employees

In Japan, the number of elderly people leaving the company for care and nursing of the elderly has been hovering around 90,000. The following graph shows trends in the number of people leaving long-term care that are published in the survey on Employment Trends by the Ministry of Health, Labor and Welfare. Looking at the turnover by gender, women account for 70% to 80% (down to 60% in 2017) of the total, indicating that care burden is one of the impediments to promoting women's participation in society.

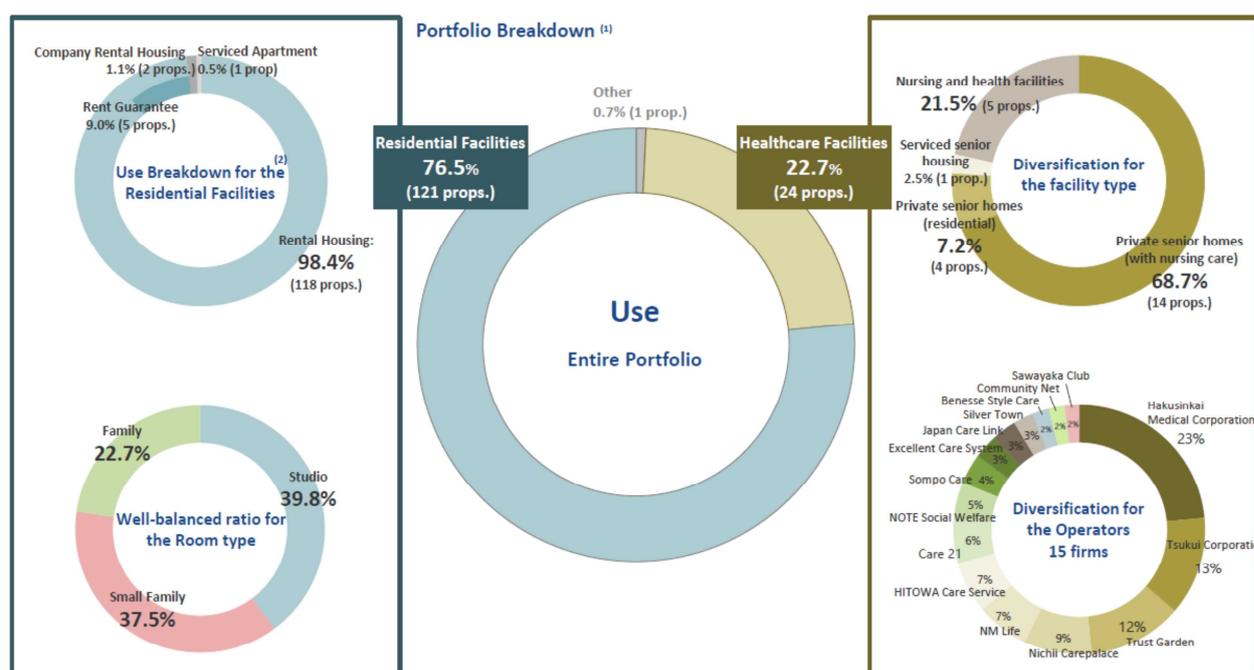


Social Challenge 3: Increase in the number of single-person elderly people

According to the Population Projection by the National Institute of Population and Social Security Research in April 2017, the population aged 75 or older was approximately 21.8 million in 2025, with one in every five elderly nationwide aged 75 or older. The population aged 65 or older, which was 26% of the total population as of 2015, is projected to reach 30% of the total population, 36.77 million nationwide, and 3.32 million in Tokyo as of 2025. According to the National Institute of Population and Social Security Research's estimated number of households in April 2017, the total number of households with a head age of 65 or older will increase from 19.18 million in 2015 to 22.42 million in 2040, an increase of 3.24 million. The number of households with a head of household aged 75 or older will increase from 8.88 million in 2015 to 12.17 million in 2040, an increase of 3.29 million. As of 2015, 37.9% of households aged 75 or older were single-person households due to unmarried, divorced, apartment, or bereaved households. By 2040, however, it is anticipated that nearly half of these households will be single-person households, accounting for 42.1%. Even among elderly single-person households with no need for long-term care and able to live independently, from the viewpoint of support systems in an emergency and prevention of isolated deaths, it is important for the super-aged society in the future to develop housing facilities attached to 24-hour management systems and services such as cooperation with external nursing care and medical facilities as necessary.

<Expansion of housing, nursing care, and related facilities for the elderly to address the above social issues>

The Investment Corporation plans to allocate funds raised under the Framework into two broad categories. First, the provision of "senior living facilities" plays an important role in the rapidly aging society that Japan faces. In the "Plan of promoting dynamic engagement of all citizens" approved by the Cabinet in 2018, in the new third arrow, a clear goal of "zero turnover in long-term care" was set in order to secure "social security that leads to peace of mind" for the working generation, and the development of long-term care facilities, including housings for the elderly with services, has been raised as a priority issue to be tackled. In addition, in the Basic Plan for Housing (national plan), the government has set a performance indicator to raise the sufficiency rate of housing for the elderly from 2.1% in 2014 to 4% in 2025. JCR considers that the Investment Corporation's active investment in elderly housing and long-term ownership will support the stable management of these facilities and contribute to the promotion of new investment. Of the Investment Corporation's total assets of JPY238.0 billion, it owns a total of 24 properties worth JPY 54.1 billion as social-grade assets. Breaking this down, there are 14 property nursing homes with long-term care, 4 residential-type service-paying nursing homes, 1 serviced elderly housing, and 5 nursing health facilities for the elderly. The operators of these facilities are distributed and efforts are made to reduce the risk. The Investment Corporation expects demand for housing and nursing care facilities for the elderly to continue to grow even in light of demographic trends, and plans to actively acquire assets that meet the eligibility criteria in order to promote the sound development of these markets.²



Note 1: Including the ratio of the to-be acquired assets by March 2020, which are already scheduled for as of the date of this material. the same shall apply hereinafter.
 Note 2: "Rent guarantee" is contract with rent guarantee structure in part of whole residence.

ii. The use of proceeds falls under "essential services (healthcare)" for "seniors" and "socio-economic improvement and empowerment" for "women" within the eligible social-bond project categories of Social Bonds Principles.

² Figures include assets to be acquired as of March 2020 as of September 13, 2019, when the financial results briefing materials were released.

b. Consistency with SDGs goals and Targets

Referring to ICMA's SDGs mappings, JCRs assessed the projects as contributing to the following SDGs objectives and targets:



Goal 3: Good Health and Well-Being

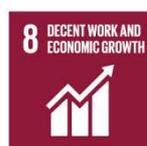
Target 3.8. Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all



Goal 5: Gender Equality

Target 5.4. Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate

Target 5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life



Goal 8: Decent Work and Economic Growth

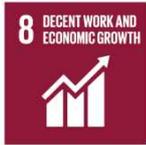
Target 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors

Target 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

In addition, JCR confirmed that these social projects are consistent with the following items among the "The actual measures to achieve SDGs" set by the Government of Japan in order to achieve Japan's SDGs goals.³

³ Specific measures for the Guidelines for the Implementation of the Sustainable Development Goals (SDGs) established by the Headquarters for the Promotion of the Sustainable Development Goals (SDGs), consisting of the National Ministers of State.

Implementation Guideline 2: Promotion of health and longevity

SDGs: 3 (Health), etc., which is considered to be particularly relevant			
Domestic measures			
Outline of Measures		Target	Indicator
Realization of a society in which promoting dynamic engagement of all citizens: social security leading to peace of mind	With the clear goal of "zero nursing care separation," which allows employees to continue working while caring for family members, we will promote reforms to a social security system that secures the "security" of the working generation, thereby creating a society in which people can use the desired nursing services, engage in nursing care without anxiety, balance nursing care and work, and live with peace of mind by, for example, maintaining their health for a long time.	  	<p>Index of the "Society in which promoting dynamic engagement of all citizens Plan"</p> <p>i. by the early 2020s Development of nursing care for elderly infrastructure Expansion: 500,000 or more (including approximately 20,000 serviced houses for the elderly)</p> <p>ii. by the early 2020s Eliminate leaving one's job for nursing care of elderly due to the shortage and unavailability of nursing care facilities and services. Eliminate the waiting list of elderly people with three or more degree of requiring long-term care in the facility</p>

c. Response to Environmental and Social Risks

<The Framework for Environmental and social risks>

<p>(1) Risks Related to Operators</p> <ul style="list-style-type: none"> When acquiring healthcare facilities, the Investment Company places emphasis on the operational capabilities and creditworthiness of the tenant operators and carefully checks the quality and type of services and long-term creditworthiness of the tenants through due diligence. However, there is no guarantee that the operators will be able to achieve the expected operating results. The Investment Company's policy is to conclude long-term lease agreements with its healthcare facilities, which are primarily for operators to pay fixed rents. However, if operators do not properly operate and manage healthcare facilities, or even if operators do not provide sufficient services, the Investment Company may not be able to terminate lease agreements with operators in a timely manner. As a result, the reputation of such facilities and the Investment Company may be damaged and the profitability and asset value of such facilities may be adversely affected. With regard to healthcare facilities, the number of potential eligible operators is limited due to various legal requirements, such as regulatory requirements, know-how, and financial structure. In addition, administrative procedures are required for changing operators, and the cooperation of existing operators is required for such procedures. Accordingly, even in case that a lease agreement with a tenant operator is terminated or that any events which cause to terminate the lease agreement happen, the Investment Corporation may be unable to change the operators at the desired time, require large expenses to change the operators, or reduce rents, thereby adversely affecting the Investment Corporation's earnings.
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- The Investment Company has entered into a support agreement or an agreement on the backup of operations that provides that the management of the sites owned by the Investment Corporation will be seriously considered at the request of the Investment Corporation if the operator or its subsidiaries or affiliates become a backup operator and the lease agreement with the operator has expired or is expected to expire regardless of the reason. However, neither of these agreements has the obligation to respond to the request of the Investment Corporation, nor does it guarantee that the support services requested by the Investment Corporation will always be provided in a timely and appropriate manner, and that the management of the facilities will be succeeded smoothly.
- The profitability and asset value of healthcare facilities depend largely on the creditworthiness, management capability, experience and know-how of the operators, as well as the maintenance and improvement of the satisfaction of users of the healthcare facilities owned by the Investment Corporation. However, there is no guarantee that the operators will be able to maintain the human and financial fundamentals necessary for the execution of their duties.
- Regardless of whether or not the Investment Company's healthcare facilities are owned by it, if the Investment Company defaults or other obligations are violated, or there is an incident such as food poisoning or outbreak of mass infection, an incident involving a falling user, leakage of user information, abuse of users by employees, medical accidents or other problems arise, or if information or rumors disadvantageous to operators or facilities flow, or if such operators are subject to business suspension or other administrative sanctions, there may be a significant disruption to the operation of the healthcare facilities managed by the Investment Corporation, which may have a material adverse effect on the profitability and investment value of healthcare facilities and, in turn, its earnings.

(2) Risks Related to Medical Facilities Operators

- In the event of a medical incident or scandal involving a medical doctor or other incident at a medical facility, a decline in reputation could have a material adverse effect on the profitability of the operator. Furthermore, in the event that an operator receives cancellation of licenses and approvals for the operation of a medical facility, it is impossible or extremely difficult for the operator to continue business at the medical facility. As a result of these events, the value of the medical facility may decline, and the Investment Corporation and investments may incur losses.
- In the medical facilities where the medical business operates, the medical corporation, which is the main operator, is prohibited from distributing surplus (Article 54 of Medical Care Act (Act No. 205 of 1948, including subsequent amendments)) and is expected to be a non-profit corporation, so the management base of the medical corporation is not necessarily robust. Therefore, in many cases, medical corporations raise funds by supplementing their creditworthiness with personal guarantees from the head of the hospital or other entity. In such cases, the creditworthiness of medical corporations depends greatly on the individual in question. In such cases, if the individual who is the guarantor dies, the creditworthiness of the individual or other such corporations deteriorates significantly and the management of medical corporations deteriorates, which in turn may adversely affect the earnings, etc. of the Investment Corporation.
- In addition, even in the event that a lease agreement with an operator who is a tenant of a medical facility is terminated, the Investment Corporation may not be able to secure new operators on timely and appropriate terms due to the specific laws and regulations applicable to the operation of the medical facility and the special nature of the medical facility and its operation, which may adversely affect the Investment Corporation's earnings, etc.

(3) Risks Related to Hazardous Substances

- When the Investment Corporation acquires land, etc., there is a possibility that hazardous materials such as industrial waste and radioactive materials have been stored or exist on or in the land, which may adversely affect the value of the land and buildings.
- When the Investment Corporation acquires buildings, etc., if asbestos and other harmful substances are used or may be used as materials of the building, or if PCBs are stored, the price of such buildings may fall.

2. Risk mitigation measures

- In selecting operators of healthcare facilities, the Investment Corporation will comprehensively consider the following matters concerning operators and operations in response to such risks. In addition, the Investment Corporation will reduce the risk of reliance on operators by installing backup operators or building relationships with candidates for backup operators.

(1) Items for Checking Operators

Items	Survey Method
Management Philosophy	Research by the Asset Management Company, investigation of information disclosed by sellers and operators, and acquisition of market reports
Managers	
History of the Business	
Achievements	
Reputations of the Industry	
Financial Condition	
Management System	
Compliance System	
Risk Management System	
Education System	
Growth potential	
Outlook of the Business	

(2) Items for Checking Operations

Items	Survey Method
Rent Burden	Research by the Asset Management Company, investigation of information disclosed by sellers and operators, and acquisition of market reports
Occupancy Rate	
Income and Expenditure	
Dependence on Social Security System	
Rent Level	
Occupancy Rate Level	
Operation System	
Service Quality	
Sales Method	
Market Environment	
Staffing Status	
Risk Management System	
Reputation from Their Users and Third Parties	
Outlook of the Business	

- At the due diligence process prior to the acquisition of the property, the Investment Corporation acquires an engineering report and invests in real estate where no problems have been pointed out regarding the use and management of hazardous substances and where there is no risk of soil contamination. However, even if these conditions are not met, investment may be made in cases where response work can satisfy these conditions, or where the impact on the surrounding environment, human and economic impact are judged to be low based on expert opinions, including response methods, and where it is judged to contribute to the stability of the portfolio's earnings.
- The Investment Corporation monitors the status of facility management and the creditworthiness of operators even after the acquisition.
- With regard to the operation status of the facilities, the person in charge in the Asset Management Company will conduct investigations and assessments, taking into account such factors as the operation status of the facilities and the surrounding environment through interviews with the heads of the facilities. Based on the results of these assessments, the person in charge will propose renovations and repairs for buildings and facilities, propose operation methods and sales methods, and work with operators to stabilize facility operations by consulting with the management of the operators as necessary. Furthermore, the Asset Management Company will consider replacing operators in the event that these responses do not resolve problems in facility operation or that there is a serious disruption to the continuity of operations, such as violations of laws and regulations.
- With regard to the creditworthiness of operators, the person in charge in the Asset Management Company will evaluate and assess the operational management performance of the operators, and based on the results, the Asset Management Company will work with the operators to stabilize facility management by proposing and discussing the renovation and repair of buildings and facilities, as well as the operation and sales methods. Furthermore, we will consider replacing operators in the event that these responses do not resolve problems in facility operation or that there is a serious disruption to the continuity of operations, such as violations of laws and regulations.

<JCR's Evaluation of the Framework>

The Asset Management Company considers that, when acquiring healthcare facilities, in addition to location and building specifications, the operational capabilities of operators and management stability are indispensable for maintaining and improving the sustainability of the target facility and asset value. For this reason, as stipulated in the Framework, in addition to complying with various laws and regulations, the Asset Management Company ensures a system to appropriately avoid, mitigate and improve risks that may arise at healthcare facilities and medical facilities by carefully conducting examinations in accordance with its own screening items. JCR confirmed through interviews with the Asset Management Company that in the event of a problem, the relevant department of the Asset Management Company would immediately communicate with the operator and encourage appropriate investigations and measures to prevent a recurrence. As a result, JCR evaluates that environmental and social risks are appropriately avoided.

Evaluation Phase 2: Management, Operation and Transparency Evaluation

JCR evaluated the social finance based on the current situation described below and JCR's evaluation on each item. JCR evaluated that the management and operation systems were well established, and that the implementation of the planned projects and the appropriation of funds to be procured would be sufficient.

As results, JCR concluded that the evaluation phase 2: Management, Operation and Transparency Evaluation were designated as "m1(F)", which is the highest level of this phase.

1. Appropriateness and Transparency concerning selection standard and processes of the use of proceeds

(1) JCR's key consideration in this factor

In this section, JCR confirms that the objectives to be achieved through the social finance, the criteria for selecting social projects, the appropriateness of the process, and the series of processes are appropriately disclosed to investors.

(2) Current status of evaluation targets and JCR's evaluation

a. Goal

<The Framework Concerning Goals to Be Realized through Social Projects>

Positioning of Healthcare Facilities in the Kenedix Group's Sustainability Policy

<Basic Concept>

Japan's total population peaked in 2008 and then began to decline. Against the backdrop of the trend toward late marriages and the increasing use of nuclear families, Japan's population is projected to continue declining and the population is aging with a declining birthrate. Japan has already entered a super-aging society, and Kenedix Group recognizes that a shortage of healthcare facilities is a social issue.

It identifies responding to the declining birthrate and aging society as one of its material issues, and is working for responding to the aging of society by investing in and managing healthcare facilities.

<Operation of healthcare facilities>

Kenedix Residential NEXT Investment Corporation, based on its basic philosophy of securing stable earnings and pursuing sustainable growth by investing in a wide range of spaces in which people live and stay, has designated healthcare-related facilities as one of its main investments as a leader linking the capital market and the healthcare industry, and aims to maximize investor's value by conducting stable investment.

It aims to meet the social needs of buyers and operators of healthcare facilities by operating healthcare facilities, which social needs are increasing, and to continue acquiring healthcare facilities in the future. In addition, healthcare facilities are an asset class with a particular important social significance among real estate properties. It believes that it can be a receiver of funds for ESG investments, which have been expanding significantly in recent years by investing in and managing healthcare facilities.

In acquisition of healthcare facilities, it takes active steps, such as acquiring the J-REIT's first nursing care facility for the elderly, in addition to acquiring fee-paying nursing homes and serviced homes for the elderly.

It aims to grow together with operators by mutually understanding the operators' management

philosophy, status of business operations and operation of facilities, while the operators mutually understand the Investment Corporation's investment philosophy and management policies, building relationships of trust with business partners that transcend the boundaries of the relationship between landowners and tenants, and providing optimal solutions to operators' issues and needs regarding business operations and facility management.

<Policy on Addressing Healthcare and Social Issues in the Investment Corporation's Sustainability Policy>

Contribution to diverse society

Contribute to the realization of diverse societies by considering the impact of properties under management on society. We will strive to ensure the safety and security of tenants and local communities, health and comfort, and diversity.

<JCR's Evaluation of the Framework>

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.

b. Selection Criteria

As discussed in Phase 1, JCR evaluated that all of the selection criteria indicated in Phase 1 are social projects with high social benefits.

c. Process

<The Framework for Selection process>

1. Project selection process

Investment management decision-making process of KDR asset management

- The Asset Management Company shall, who has been entrusted with asset management by the Investment Corporation, prepare the Residential REIT Department Investment Guidelines ("Investment Guidelines") in relation to the asset management of the Investment Corporation, and set forth basic concepts concerning investment management, such as investment policies, exchange rules with stakeholders, allocation policies, and disclosure policies.
- In addition, the Asset Management Company shall prepare an Asset Management Plan, etc. (including an asset management plan, a medium-term management plan and an annual management plan, and the same shall apply hereinafter) in accordance with the Investment Guidelines, select investment properties, and decide to acquire them in accordance with the investment policies set forth in the Investment Guidelines and the rules on transactions with interested parties, in relation to asset management of the Investment Corporation.

<Decision making on investment policy>

- The Investment Guidelines are drafted by the Residential REIT Department Asset Investment Division under the direction of the Director of the Asset Investment Division and are submitted to the Compliance Officer. If the Compliance Officer determines that there are no problems in light of laws and regulations, the rules established by the Investment Trusts Association, the Investment Corporation's businesses of incorporation, and the Company's internal rules, the

Compliance Committee will deliberate and resolve them. Thereafter, it is discussed and resolved by the KDR Managements Committee and revised. If the Investment Guidelines are revised, the Head of Residential REIT Department will report to the board of Directors without delay. The Investment Guidelines will be revised as necessary in light of the investment environment and the Investment Corporation's investment policy.

- The eligibility criteria for eligible social assets to be invested in are set out in the Investment Guidelines.

<Decisions on acquisition of assets and borrowing of funds>

- In acquiring assets, the Residential REIT Department of Asset Investment Division will select the investment assets for each asset in accordance with the prescribed procedures.
- Residential REIT Department Asset Investment Division submits a proposal to the Compliance Officer for the acquisition of investment assets. After the Compliance Officer reviews the laws and regulations and determines that there are no problems, the results are submitted to the KDR Management Committee and resolved after deliberation.
- However, transactions deemed necessary by the Compliance Officer and all transactions that are permitted under the terms and conditions of the Investment Guidelines or transactions that fall outside the provisions of the Investment Guidelines are deliberated and resolved by the Compliance Committee prior to the deliberation and resolution of the KDR Management Committee.
- The Compliance Committee can obtain opinions from outside experts as necessary, and the opinions obtained are submitted to the KDR Management Committee as a part of the decision-making process. Instead of obtaining external opinions, persons who have qualifications as attorneys, certified public accountants, or real estate appraisers may attend the Compliance Committee and hear their opinions as appropriate.
- The Finance and Accounting Department will draft a contract for a social loan for the borrowing of funds. Similar to the decision-making process described above, it is submitted to the Compliance Officer and reviewed by the Compliance Officer, which is then deliberated and resolved by the KDR Management Committee. It is deliberated and resolved in advance by the Compliance Committee as necessary.
- Issuance of investment corporate bonds is planned by the Planning Division of the Residential REIT Department and the issuance of social bonds is proposed. Similar to the decision-making process described above, it is submitted to the Compliance Officer and reviewed by the Compliance Officer, which is then deliberated and resolved by the KDR Management Committee. It is deliberated and resolved in advance by the Compliance Committee as necessary.

In each of the above decisions, when implementing social finance, it is discussed in the decision-making process that it conforms to eligible criteria for social finance.

<JCR's Evaluation of the Framework>

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.

2. Appropriateness and Transparency of management of the proceeds

(1) JCR's key consideration in this factor

While it is usually assumed that management of proceeds methods vary widely by issuers, JCR confirms that the proceeds are used for social projects and whether mechanisms and internal systems are in place to enable easy tracking and management of the allocation of funds.

JCR also attaches importance to assessing whether the proceeds are expected to be used for social projects at an early stage and how funds are managed.

(2) Current status of evaluation targets and JCR's evaluation

<The Framework for Management of the Proceeds>

- Funds procured through social finance will be allocated after confirming that they are linked to the acquisition of social eligible assets or the refinancing of borrowings and/or investment corporation bonds required for them. The total amount of the acquisition price of social eligible assets multiplied by the total assets LTV is the amount of social eligible liabilities, and the upper limit for social finance is set. The Asset Management Company manages social finance balances so that they do not exceed the outstanding of social eligible liabilities. In the event of a surplus, the amount equivalent to the unallocated funds shall be managed in cash or cash equivalents.
- Since the proceeds from social finance are scheduled to be used to acquire social eligible assets, to repay the loans required for them, or to redeem the investment corporation bonds (including refinancing), basically it is assumed that the proceeds will be allocated in a lump sum to the due date for the acquisition of properties, the repayment date of the borrowings, or the redemption date of the investment corporation bonds, and therefore no tracking management is required.
- If there is a significant change in the target assets and unallocated funds arise, the Asset Management Company will disclose and report this to investors and lenders. In principle, unallocated funds will be re-allocated to the acquisition or refinancing of assets that meet the eligible criteria, and will be managed in cash or cash equivalents until they are allocated to such acquisition or refinancing funds.
- Funds raised through social finance are tracked and managed by the Planning Department.
- When appropriated for funds for the acquisition and refinancing of assets, the Finance and Accounting Department shall report the completion of payment, report the completion of the disbursement to the Planning Department Manager, and record the amount of disbursement in an internal file.
- The accounting books of the Investment Corporation are prepared by the Administrative Trustee and audited by the Accounting Auditor.
- In the event of unallocated funds arising from the initial or full allocation of funds, such as the sale of properties subject to the use of proceeds, the Asset Management Company will promptly use these funds to acquire alternative properties or to refinance funds procured for the acquisition of properties.
- Such unallocated funds will be invested in cash or cash equivalents until the re-allocation is determined.

<JCR's Evaluation of the Framework>

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.

3. Reporting

(1) JCR's key consideration in this factor

In this section, JCR evaluates whether the reporting system to investors before and after the issuance is planned in a detailed and effective manner at the time of the issuance of social finance.

(2) Current status of evaluation targets and JCR's evaluation

<The Framework for Reporting>

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.

<JCR's Evaluation of the Framework>

JCR highly appreciates that the Investment Corporation has set sufficient indicators to indicate the social contribution effects of the current use of proceeds, that it examines the effects in three stages: output and outcome impact, and that it quantifies the outcomes to the extent possible and plans to disclose them. The anticipated impact is the social mission of the Investment Corporation and is consistent with the use of the proceeds procured under the Framework.

4. Organization's environmental activities

(1) JCR's key consideration in this factor

In this section, JCR evaluates whether the management of the issuer regards social issues as a high priority issue for management, whether the issuer's issuing policies and processes for corporate bonds and criteria for the selection of social projects are clearly positioned by establishing a department specializing in environmental issues or collaborating with external organizations, and so on.

(2) Current status of evaluation targets and JCR's evaluation

<The Investment Corporation's Sustainability Policy>

1. Contributing to a Sustainable Environment

Responding to the social mission of improving the environmental performance of properties under management, we will contribute to environmental sustainability by reducing environmental impact through ongoing reductions in the environmental impact of properties under management, such as energy consumption, CO₂ emissions, water consumption and waste emissions, as well as through reductions and appropriate management of hazardous substances.

2. Contribution to a Diverse Society

Contributing to the realization of diverse societies by considering the impact of properties under management on society. The Company will strive to ensure the safety and security of tenants and local communities, health and comfort, and diversity.

3. Responsible to Stakeholders

It aims to conduct responsible investment management as a real estate asset management company by emphasizing dialogue with various stakeholders related to asset management properties and funds, including PM companies, investors, tenants, business partners, and local communities.

4. Create an Attractive Workplace

It aims to create attractive and comfortable workplaces through initiatives that support the success of employees and the development of workplace environments. It will strive to maximize the capabilities of our employees by enhancing training and other training and awareness-raising activities.

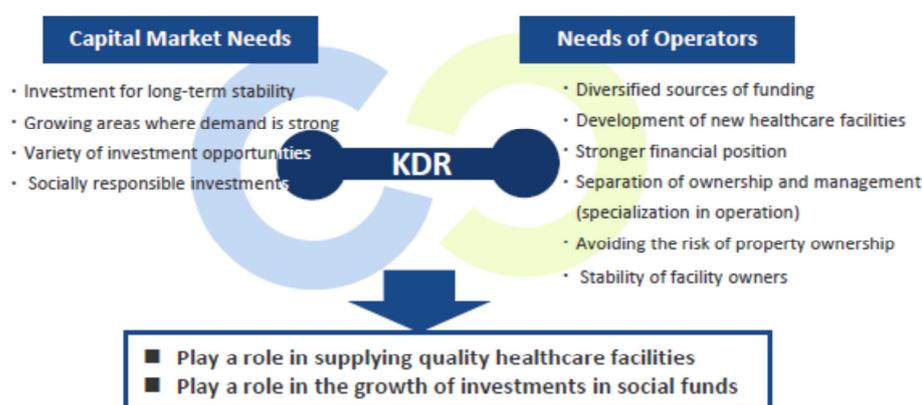
5. Establishment of a Disciplined Organizational Structure

It will ensure thorough compliance and risk management. By committing to international ESG initiatives and actively disclosing information on ESG, we aim to manage disciplined real estate investments through disciplined organizations.

The Investment Corporation considers the lack of healthcare facilities to be a social issue in Japan, which faces a super-aged society, and believes that social needs for the existence of investment corporations as buyers and operators of healthcare facilities are increasing. It aims to meet such needs by continuing acquiring healthcare facilities. The company also believes that expanding ESG investments will provide an opportunity to attract new investment funds for investment corporations that invest in health-care facilities.

JCR confirmed through interviews with the Asset Management Company that the Investment Corporation's senior healthcare and medical facilities account for approximately 25% of its assets, and that the securitization of real estate in this field is expected to increase in the future, and that the management is also taking initiatives to address this as a high-priority issue. JCR also confirmed through interviews that the Investment Corporation has in-house healthcare facility experts. JCR believes that the basic philosophy and efforts of the Investment Corporation and the Asset Management Company for healthcare facilities and medical facilities contribute greatly

to resolve issues specific to Japan, such as the rapid aging society, an increase in the number of single-person elderly people, a shortage of workers due to care leaves, and a delay in women's participation in society.



■ Evaluation 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." The Framework meets the standards for the requirements of the Social Bond Principles and the SDGs Objectives and specific measures for the SDGs Goals of the Government.

[JCR Social Finance Framework Evaluation Matrix]

		Management, operation, and transparency				
		m1(F)	m2(F)	m3(F)	m4(F)	m5(F)
Social impact evaluation	s1(F)	Social 1(F)	Social 2(F)	Social 3(F)	Social 4(F)	Social 5(F)
	s2(F)	Social 2(F)	Social 2(F)	Social 3(F)	Social 4(F)	Social 5(F)
	s3(F)	Social 3(F)	Social 3(F)	Social 4(F)	Social 5(F)	Not qualified
	s4(F)	Social 4(F)	Social 4(F)	Social 5(F)	Not qualified	Not qualified
	s5(F)	Social 5(F)	Social 5(F)	Not qualified	Not qualified	Not qualified

■ Scope of Evaluation

Issuer: Kenedix Residential Next Investment Corporation (Security Code: 3278)

[Assignment]

Target	Evaluation
Social Finance Framework	JCR Social Finance Evaluation :Social 1(F)
	Social Impact Evaluation :s1(F)
	Evaluation on Management, Operation, and Transparency :m1(F)

(Responsible analysts for this evaluation) Atsuko Kajiwara and Rieko Kikuchi

Important explanation of Social Finance Framework Evaluation

1. Assumptions, Significance, and Limitations of JCR Social Finance Framework Evaluation

JCR Social Finance Framework Evaluation provided by the Japan Credit Rating Agency, Ltd. (JCR) evaluates the policies set out in the social finance framework and presents JCR's overall opinion at this time on the suitability of social projects as defined by JCR and the extent of efforts to ensure management, operation, and transparency regarding the use of funds. Therefore, it is not intended to evaluate the specific degree of social contribution, management and operational system, and transparency of the use of funds for individual bonds or borrows, etc. implemented based on the policy. If social finance evaluations are granted for individual bonds or individual borrowings based on the framework, they need to be evaluated separately. The JCR Social Finance Framework Evaluation does not demonstrate the improvement effect on society of individual bonds or borrows, etc. implemented under this framework, and does not assume responsibility for the improvement effect on society. In principle, JCR does not directly measure the impact of social frameworks funded funding on society, although JCR confirms quantitative and qualitative measures by the issuer or a third party requested by the issuer.

2. Methods used in the conduct of the evaluation

The methodology used to implement this evaluation is listed in the Sustainable Finance ESG section of JCR's website (<https://www.jcr.co.jp/>) under the JCR Social Finance Evaluation Method.

3. Relationship with Acts Related to Credit Rating Business

JCR Social Finance Framework Evaluation is determined and provided by JCR as a related business, which is different from the activities related to the credit rating business.

4. Relationship with Credit Ratings

The evaluation differs from the Credit Rating and does not promise to provide or make available for inspection a predetermined Credit Rating.

5. Independence in Evaluation of JCR Social Finance Framework

There is no conflict of interest related to capital or human resources relationships between the subject of this evaluation and JCR.

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■Glossary

JCR Social Finance Framework Evaluation assesses the extent to which funds procured under this framework will be used for social projects as defined by JCR, and the extent to which such funds will be used for management, operation, and transparency. The evaluations are graded on a five-point scale and are displayed using the Social1(F), Social2(F), Social3(F), Social4(F), and Social5(F) rating symbols in order of rank.

■Sustainable finance of registration as an external assessor of green finance

- Registration of Green Bond Issuance Supporters by the Ministry of the Environment
- ICMA (Registration as an observer of the International Capital Markets Association)

■Status of registration as a credit rating agency, etc.

- Credit Rating Agency: the Commissioner of the Financial Services Agency (Rating) No.1
- EU Certified Credit Rating Agency
- NRSRO: JCR has registered with the following four of the five credit rating classes of the Securities and Exchange Commission's NRSRO(Nationally Recognized Statistical Rating Organization. (1)Financial institutions, broker dealers, (2) insurance companies, (3) general business corporations, and (4) government and local governments. If the disclosure is subject to Section 17 g-7(a) of the Securities and Exchange Commission Rule, such disclosure is attached to the news releases posted on the JCR website (<https://www.jcr.co.jp/en>).

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