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# Industrial & Infrastructure Fund Investment Corporation

January 9, 2019

## Investment Corporation

Industrial & Infrastructure Fund Investment Corporation  
(Tokyo Stock Exchange Company Code: 3249)  
Representative: Yasuyuki Kuratsu, Executive Director

## Asset Management Company

Mitsubishi Corp.-UBS Realty Inc.  
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## Supplementary Materials Concerning Press Release Dated January 9, 2019

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“Notice Concerning Asset Acquisition (Equity Investment in a Silent Partnership)”

(OTA Techno Core)



Securities Code

# 3249

# Securing future acquisition opportunities and high profitability over the medium term

## Key Points

1. The SPC established by funds from IIF and other investors invites the Development Bank of Japan Inc. as the senior lender and is going to acquire a rental factory (shared factory) of which Ota-ku is the tenant.
2. A preferential negotiation right will be given to IIF to acquire the trust beneficiary right at the price lower than the acquisition price of the SPC, and securing both future acquisition opportunities and high profitability over the medium term.
3. PRE development and ESG measures will be undertaken on a continuous basis.

## SPC Scheme

Trust beneficiary right in real estate etc. (Note 1) (Note 2)	Non-recourse debt (senior) <b>2,200</b> million yen Development Bank of Japan Inc.
	Non-recourse debt (mezzanine) <b>1,200</b> million yen IBJ Leasing Company, Ltd.
	Equity interest in Tokumei Kumiai etc. (Note 3) <b>1,650</b> million yen

**5,050** million yen  
Owner: the SPC  
Tenant: Ota-ku

IIF  
Investment Amount : **100** million yen

Domestic investors with high degrees of public nature such as non-profit organizations including a mutual aid enterprise and educational institutions

## Summary of Equity Interest in Tokumei Kumiai

Investment Amount	<b>100</b> million yen (6.06% of total investment amount in Tokumei Kumiai)
Expected dividend payout	<b>7.6%</b> (Note 4)
Investment Horizon	<b>5</b> years (February 28, 2019 – February 29, 2024)
Special notes	IIF to secure preferential negotiation right for the trust beneficiary right (Note 5)
Tenant	Ota-ku
Lease type	Fixed-term leasehold agreement
Agreement term (remaining period)	20.0 years (13.2 years) * As of today
Cancellation before expiration/Rent revision	In principle not permitted/negotiable

## Schedule

2019	● January: Execution of Tokumei Kumiai Contract
	● February: Implementation of investment in Tokumei Kumiai
2024	● March: Acquisition of trust beneficiary right by SPC
	● February: Expiration of Tokumei Kumiai Contract

IIF will secure preferential negotiation right for acquisition of the trust beneficiary right from March 1, 2019 to the last day of February 2024

**IIF will flexibly consider its measures after the expiration of Tokumei Kumiai investment period according to the environment**

## Main Options for the Future

Acquisition of the trust beneficiary right	Exercise preferential negotiation right to acquire the trust beneficiary right from SPC
Maintain equity investment in Tokumei Kumiai	Extend the investment horizon of Tokumei Kumiai and continue to receive dividends
Redemption in conjunction with external sale	Sell the trust beneficiary right to external player and receive a redemption of the investment using the sale proceeds

# The project based on the Principles for Positive Impact Finance will contribute to the realization of SDGs

## Measures based on the Sustainable Development Goals (SDGs) set by Mitsubishi Corp.-UBS Realty Inc., the Asset Manager of IIF, and the Principles for Positive Impact Finance

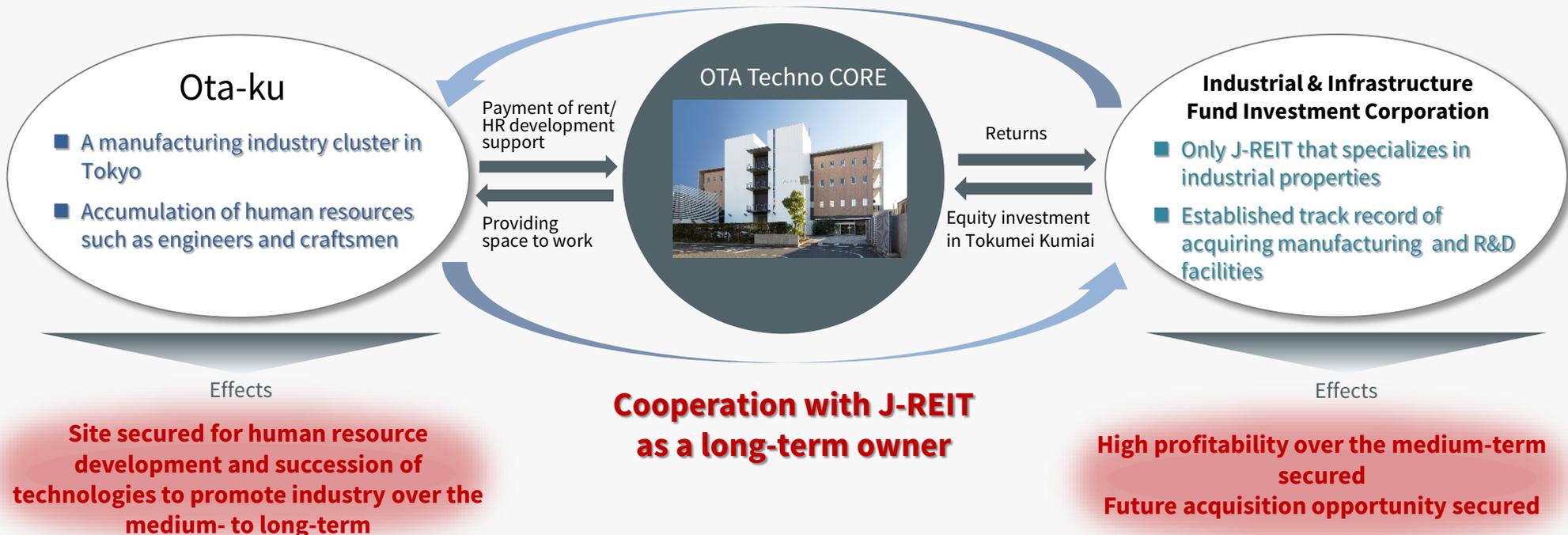
- The equity investment in the Tokumei Kumiai is in line with SDGs<sup>(Note 6)</sup> materiality emphasized by the Asset Manager and will contribute to the creation of a sustainable society.
- Furthermore, a third-party opinion<sup>(Note 7)</sup> has been obtained stating that the project is in accordance with the Principles for Positive Impact<sup>(Note 8)</sup> of the United Nations Environment Programme Finance Initiative (UNEP FI).

**SUSTAINABLE DEVELOPMENT GOALS**



## Image of measures for the creation of a sustainable society

### Measures in Support of Regional Economic Development from the Perspective of Real Estate Investment (PRE)



# Third party opinion regarding the compatibility with the Principles for Positive Impact Finance (summary)

## Third-party Opinion on Impact Investment Project by Industrial & Infrastructure Fund Investment Corporation

CSR Design Green Investment Advisory, Co., Ltd.

### Summary

This written statement was prepared for CSR Design Green Investment Advisory, Co., Ltd. (hereinafter called "we/our/us") to express an opinion from a third party standpoint regarding whether the impact investment project (hereinafter called "this PJ") for "OTA Techno CORE" announced on January 9, 2019 by Industrial & Infrastructure Fund Investment Corporation (hereinafter called "IIF") together with its asset management company, Mitsubishi Corp. - UBS Realty Inc. (hereinafter called "MCUBS"), is aligned with the concept of "the Principles for Positive Impact Finance" (hereinafter called "PI Principles") advocated by UNEP Finance Initiative (hereinafter called "UNEP FI") and "Positive Impact Real Estate Investment Framework" (hereinafter called "PI Framework") based on them.

For preparation of this written statement, we reviewed publicly available information about the organization and performance related to the sustainability of IIF and MCUBS, and conducted interviews of the MCUBS project team.

We are of the opinion that the investment process executed and commitment expressed by IIF and MCUBS for this PJ are aligned with the PI Principles and the PI Framework.

Upon expressing this opinion, we considered the following points:

1. We consider that MCUBS and IIF have established a robust governance system for sustainability. MCUBS has set the Environment Charter and the basic policy and basic strategy on Responsible Property Investment (RPI) and makes decisions about the issues of sustainability at the Sustainability Committee whose chairperson is the representative director. Investment judgment of this PJ is also made based on RPI, and the ESG performance following investment is to be monitored by the Sustainability Committee.
2. We confirmed the alignment of this PJ with the "Four Investment Objectives" as defined in the PI Framework as follows.
  - (1) **Clarity of Impact:** MCUBS considered and identified both of the potential positive and negative impacts of this PJ. MCUBS considered "development of human resources for mid- and long-term industrial development and securing the places for technology succession" by this PJ as the main theme of impacts, set KPIs for its pursuit and expressed its plan to monitor them continuously. In addition, the impacts MCUBS focuses in this PJ contribute to achievement of the Goal 8 "Decent work and economic growth," 9 "Industry, Innovation and Infrastructure," 11 "Sustainable cities and communities," 17 "Partnerships for the goals," of SDGs etc.
  - (2) **Market and sustainable return:** This PJ secures sustainable market-level returns by a long-term contract of about 20 years with Ota City as the direct tenant and the mechanism of securing a preferential negotiation right to acquire the whole property at the future price lower than its acquisition price of the SPC.
  - (3) **Measurement of impact:** IIF and MCUBS set appropriate methods and indicators to evaluate the impacts achieved before and after execution of the investment in this PJ and expressed their commitment to measure and announce KPIs.
  - (4) **Additional finance and/or impact flows:** Investment in public real estate (PRE) by a J-REIT assuming long-term holding is considered to be an investment strategy corresponding to the social needs for sustainable developments. This PJ is positioned as one of the pioneer cases of PRE investments by a J-REIT and considered to be a project with additionality in this sense.
3. We also confirmed that this PJ is aligned with the "Four Principles" of the PI Principles (i.e., "Definition," "Frameworks," "Transparency," and "Assessment") in the process of confirmation of alignment of this PJ with the "Four Investment Objectives" of the above-mentioned PI Framework.

For the details of the report, please refer the link. <http://www.iif-reit.com/english/structure/pdf/Report.pdf>

# Notes

- P1 (Note 1) The SPC is scheduled to acquire the trust beneficiary right on March 1, 2019. Furthermore, the above-mentioned amount includes acquisition costs of the trust beneficiary right and the cost of establishing the Tokumei Kumiai (rounded down to the nearest million yen).
- (Note2) The acquisition price of the trust beneficiary right is 4,770 million yen. As of September 30, 2018, the appraisal value of the trust beneficiary right is 5,030 million yen.
- (Note 3) IIF intends to invest 100 million yen or 6.06% of total funds invested in the Tokumei Kumiai. Such equity interest in which IIF plans to invest is valued at 103 million yen as of September 30, 2018. The research value for the equity interest is based on the figure shown on the research report prepared by the Japan Real Estate Institute. The investment amount has been determined based on the appraisal value of the property as well as other factors that could affect the pricing. The other planned investors in the Tokumei Kumiai are domestic investors with high degrees of a public nature such as non-profit organizations including a mutual aid enterprise and educational institutions.
- (Note 4) The expected dividend payout from investment in the Tokumei Kumiai is calculated by dividing (A) the product of (a) the simulated Tokumei Kumiai interest dividend, which is calculated by deducting (i) simulated expenses such as operating expense of the SPC and the interest of debt from (ii) the first year net revenue with the DCF method as described in the real estate appraisal report prepared by the Japan Real Estate Institute with September 30, 2018 as the appraisal date (if special circumstances are expected in the first year, the second or later year net revenue is used), and (b) IIF's investment ratio to total Tokumei Kumiai interest amount (6.06%), by (B) the Tokumei Kumiai interest investment amount. The owner of the property will receive subsidies from Ota-ku until 2021, and the expected dividend payout is calculated using the net operating income in the first year in which the effects from those subsidies are not present. Further, the anticipated amounts of expenses are reference values calculated by the Asset Manager, and the actual dividend payout may differ greatly from the reference values or dividends may not be paid at all.
- (Note 5) IIF has not decided to acquire the trust beneficiary right and not scheduled to acquire the trust beneficiary right as of today. IIF cannot assure that IIF will be able to acquire the trust beneficiary right in the future.
- P2 (Note 6) The Sustainable Development Goals (SDGs) are the core of the 2030 Agenda for Sustainable Development adopted at the United Nations summit in September 2015. The Asset Manager has investigated its vision and targets for sustainability and taken measures to carry them out until now, but with rising interest in ESG, it has engaged in dialogue and taken action with stakeholders, identified material issues relating to sustainability, and adopted SDGs with a high degree of relevancy. Details can be found on the IIF's web site. <http://www.iif-reit.com/english/structure/pdf/ESGReport.pdf>
- (Note 7) The summary of the report can be found on P3.
- (Note 8) Principles adopted in January 2017 by members of the United Nations Environment Programme Finance Initiative (UNEP FI), namely financial institutions, to achieve sustainable development and the SDGs as a series of shared principles for financing that will lead to efforts to maximization of the positive impact on the economy, society, and the environment while addressing any negative impacts on these same three items. A request has been made to the UNEP FI Positive Impact Steering Group for an opinion regarding compliance of the equity investment in the Tokumei Kumiai.

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## Industrial & Infrastructure Fund Investment Corporation

- This document may contain information such as data on future performance, plans, management targets, and strategies. These forward-looking statements are based on current hypotheses and assumptions about future events and trends in the business environment, but these hypotheses and assumptions are not necessarily correct. As such, actual results may vary significantly due to various factors.
- Unless otherwise noted, this document is prepared based on Japanese accounting principles.
- This document relates to the press release entitled “Notice Concerning Asset Acquisition (Equity Investment in a Silent Partnership)” dated January 9, 2019 and is not prepared for the purpose of soliciting acquisition of IIF investment securities or the signing of financial instruments contracts. When investing, investors are requested to invest under their own responsibility and based on their own judgment.
- IIF is a publicly-offered real estate investment corporation (J-REIT) investing in real estate and related assets, the prices of which may fluctuate. Unitholders of the Investment Corporation may incur losses when unit prices decline in the market or when the amounts of distributions decline according to economic and interest rate circumstances, the balance of supply and demand for units, the real estate market environment, fluctuations in prices of and rent revenues from real estate properties under management, disaster, deterioration of the financial status of IIF, and other factors. For details, please see “Investment Risks” in the IIF Securities Report.

Asset Management Company: Mitsubishi Corp.-UBS Realty Inc.

(Financial Instruments Dealer, Director of Kanto Financial Bureau (Financial Instruments Dealer) Number 403;

Member of The Investment Trusts Association, Japan)