

CODE 3468



May 10, 2019

Real Estate Investment Trust Securities Issuer
Star Asia Investment Corporation
Representative: Atsushi Kato, Executive Director
(Code: 3468)

Asset Management Company
Star Asia Investment Management Co., Ltd.
Representative : Atsushi Kato, President and CEO
Contact : Akiko Kanno, Director and CFO
TEL: +81-3-5425-1340

Supplementary Explanatory Material Regarding Today's Timely Disclosure (2)

~Explanatory Material to all unitholders of Star Asia Investment Corporation ~

<Today's Timely Disclosure >

- 「Notice Concerning Proposal for Merger between Sakura Sogo REIT Investment Corporation and Star Asia Investment Corporation」
- 「Supplementary Explanatory Material Regarding Today's Timely Disclosure (1) ~Proposal Material from the Star Asia Group to all unitholders of Sakura Sogo REIT Investment Corporation ~」

This document was drafted by Star Asia Investment Corporation and Star Asia Investment Management and presented to the unitholders of Star Asia Investment Corporation. Refer to today's Supplementary Explanatory Material 1 regarding the "Notice Regarding the Proposal for Merger of Star Asia Investment Corporation and Sakura Sogo REIT Investment Corporation by the Star Asia Group" and the relevant press release for the material drafted by Lion Partners GK and presented to unitholders of Sakura Sogo REIT Investment Corporation

Unitholders of Star Asia Investment Corporation

Description of “Proposal for Merger of Sakura Sogo REIT Investment Corporation and Star Asia Investment Corporation” by the Star Asia Group

May 10, 2019



Star Asia Investment Corporation
Star Asia Investment Management

A Message to Unitholders of Star Asia Investment Corporation



Proposal of a merger with Star Asia Investment Corporation to Sakura Sogo REIT Investment Corporation from Star Asia Group

S T A R A S I A
Investment Corporation

- ◆ On May 10, 2019, Star Asia Group, sponsor of Star Asia Investment Corporation, proposed a merger with Star Asia Investment Corporation to Sakura Sogo REIT Investment Corporation and its unitholders
- ◆ Star Asia Investment Management, asset manager for Star Asia Investment Corporation, will work with Star Asia Group aiming for the merger with Sakura Sogo REIT Investment Corporation
- ◆ We are confident that the proposed merger will benefit all of SAR's unitholders

Star Asia Investment Corporation
Representative : Atsushi Kato, Executive Director

(signature) 加藤 篤志

Star Asia Investment Management Co., Ltd.
Representative : Atsushi Kato President and CEO

(signature) 加藤 篤志

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1. How a Merger will Benefit SAR's Unitholders

~ Advantages of Merger with SAR ~

Advantages of Merger with SAR (1)

We, Star Asia Investment Corporation, share an understanding with Star Asia Group, the proposer of the merger with Sakura Sogo REIT Investment Corporation, that the merger will be beneficial to the unitholders of Star Asia Investment Corporation, and plan to provide the necessary cooperation to achieve the merger. We aim to improve market valuation and target sustainable growth by leveraging the increase in AUM due to the merger.

Diversified REIT

AUM: ¥102.3bn

Number of properties: 34

Target properties: offices, retail properties, residences, logistics facilities, hotels, and student accommodations



Diversified REIT

AUM: ¥56bn

Number of properties: 17

Target properties: offices, retail properties, residences, and others



Post Merger REIT, Pipeline Support and Asset Management

AUM:
158.4bn

Number of properties:
51

Target properties: offices, retail properties, residences, logistics facilities, hotels, student accommodations, and others

Pipeline Support from Star Asia Group

- Provides pipeline support for external growth
- Provides warehousing function
- Provides experience to generate internal growth

Asset Management by Star Asia Investment Management

- Continues to execute active management strategy to maximize unitholder value




**Accelerate
Growth to
Maximize
Unitholder
Value**

Advantages of Merger with SAR (2)

Higher DPU · Expansion of Market Cap / AUM

► Why a Merger with SAR?



Common Features of SSR and SAR

1. Diversified REIT

- Post-merger growth strategies can be implemented without significantly changing investment strategies as SSR and SAR have highly-compatible, diversified portfolios of mid-sized properties

2. Same level of AUM within the J-REIT sector

- Among 63 J-REITs, SSR's and SAR's AUM are relatively on the same level. With Merger, DPU can be increased, as AUM will increase through a merger with SAR
- Unitholders of both SSR and SAR can enjoy benefits from a merger as both REITs are similar in valuation (DPU yield)



Advantages of Merger with SAR

Higher/Stabilized DPU

- ✓ Higher DPU as a result of improved operational efficiencies and lower management costs by leveraging economies of scale
- ✓ Increased flexibility in investments taking the market environment into consideration and being strategic investors (active management)

Expansion of Market Cap / AUM

- ✓ Operating revenue and distribution payments stabilized through expanded AUM and a diversified portfolio
- ✓ The boost in market cap will increase the liquidity of investment units and aid in the stabilization of unit price
- ✓ Acquisition of credit rating
- ✓ More likely to be included in major REIT indices
- ✓ Increased visibility in the institutional investor community
- ✓ Expansion of unitholder base

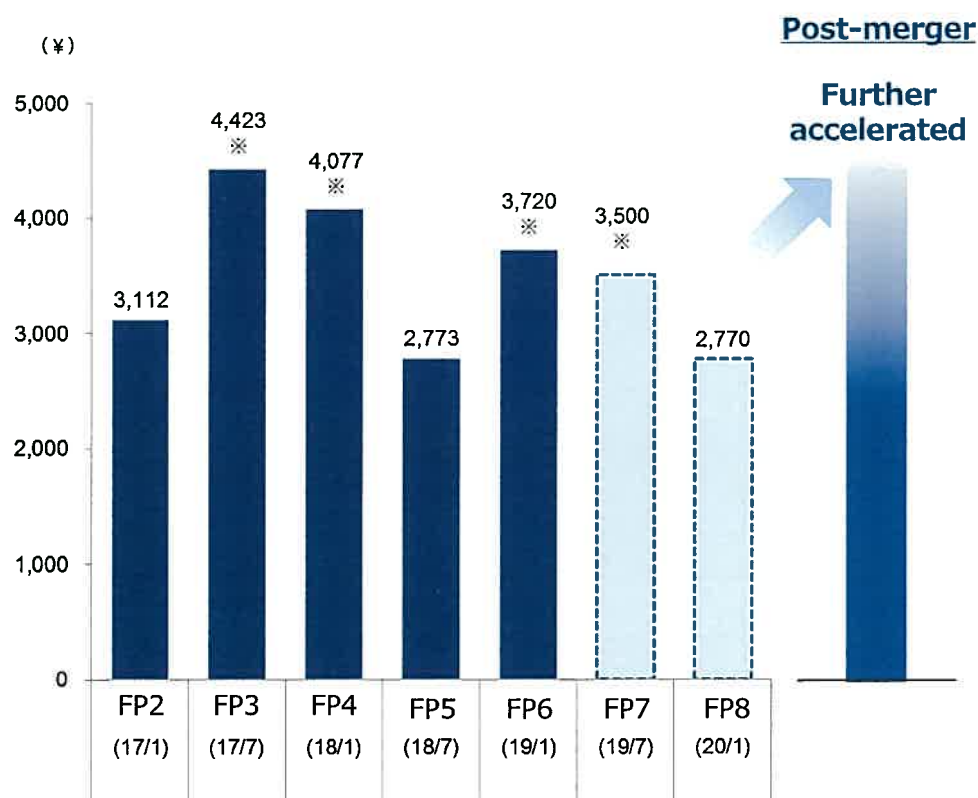
Advantages of Merger with SAR (3)

Higher DPU · Expansion of Market Cap / AUM

Higher/Stabilized DPU

Post Merger DPU

- The aim is to boost DPU by a certain amount in the short term, and further increase it over a longer term through synergies of the merger such as cost reduction

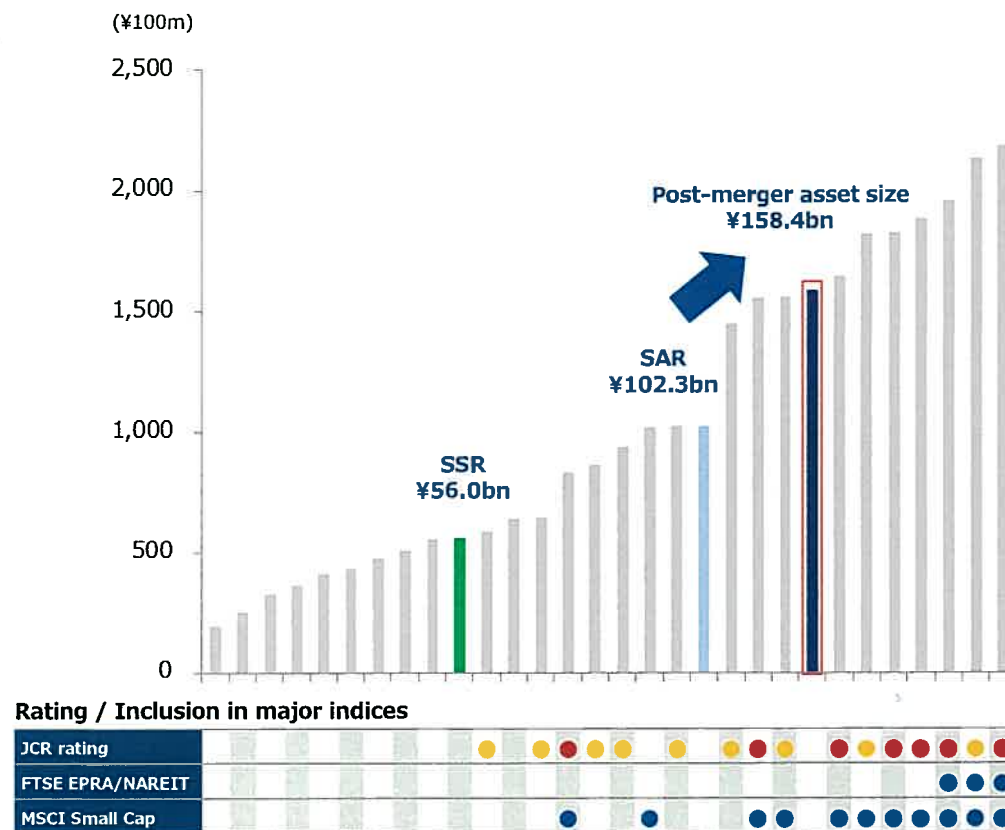


Note 1: DPUs with "*" include capital gains

Expansion of Market Cap / AUM

An expanded AUM will improve SSR's position in the J-REIT market

- Post-merger, the total AUM will be ¥158.4bn (increase by around 1.5x), and enhancement of the market position can be expected



● represents a JCR rating of AA-, and ● represents a JCR rating of A-, A or A+

Note 2: As of May 29, 2019 (Based on acquisition prices)

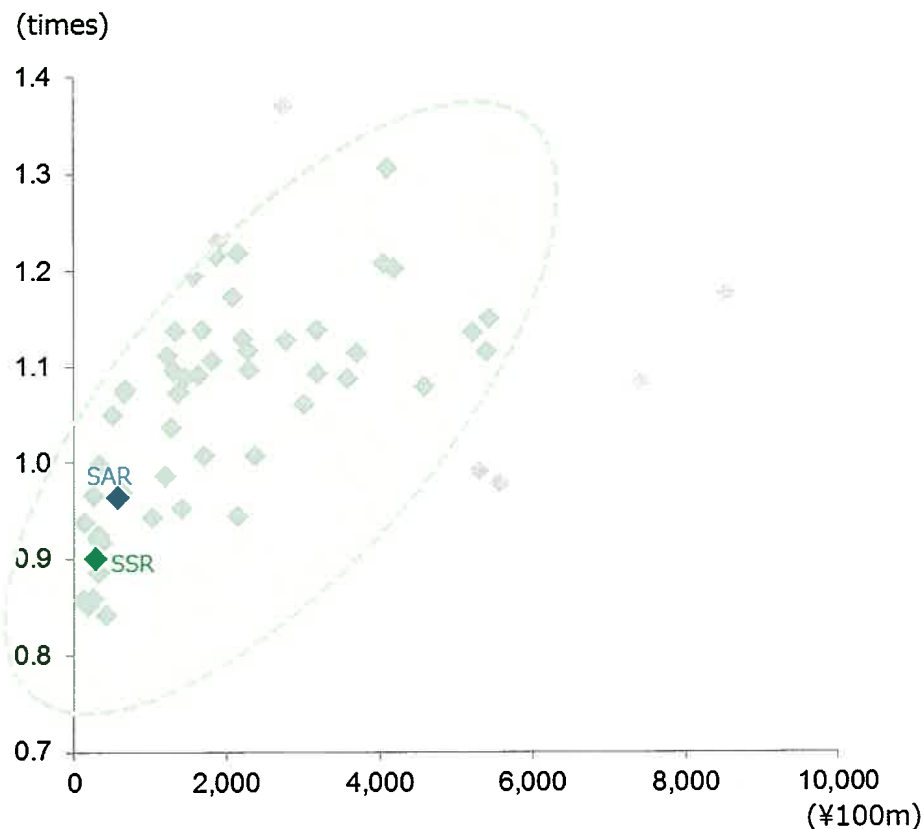
Note 3: 29 REITs with AUM of less than ¥220bn are displayed in the above graph

(Reference) Benefits of Merger (1)

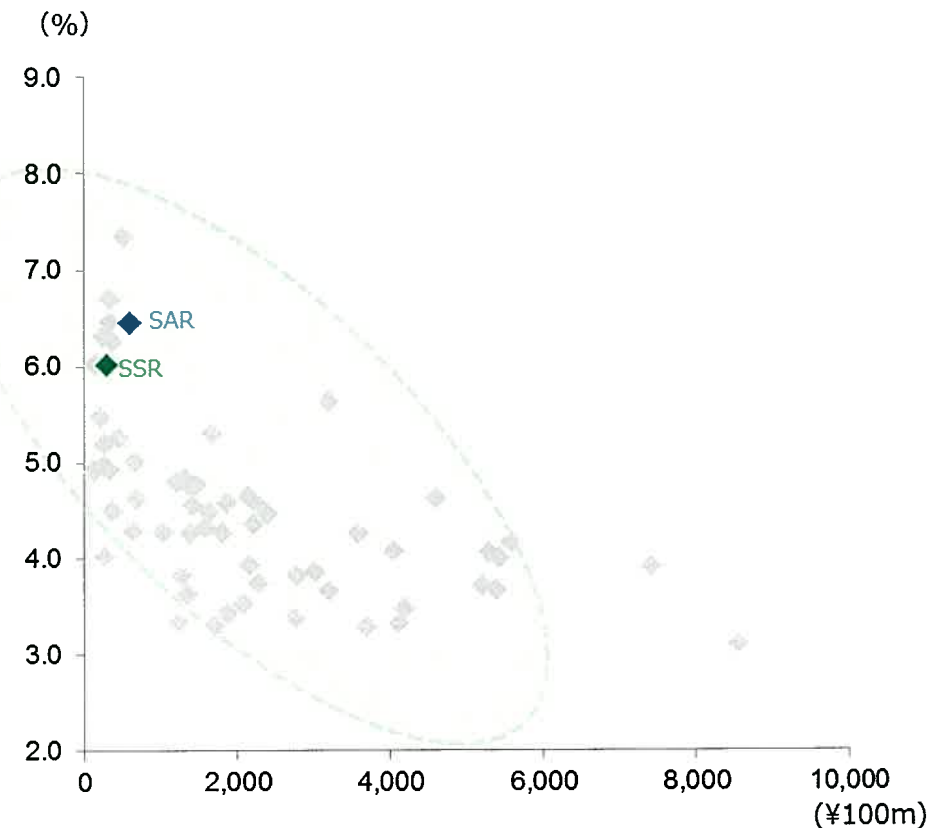
Improving Valuation from Market Cap Increase

A certain correlation is observed between market cap and Market valuations
When the market cap increases with a merger, then market valuations are expected to improve

Distribution of P/NAV and market cap of 63 J-REITs



Distribution of DPU yield and market cap of 63 J-REITs



Source: QUICK data

Note: Market cap and DPU yields in the above charts are as of the end of April 2019, and NAV figures used in the calculation of P/NAV are as of the end of March 2019

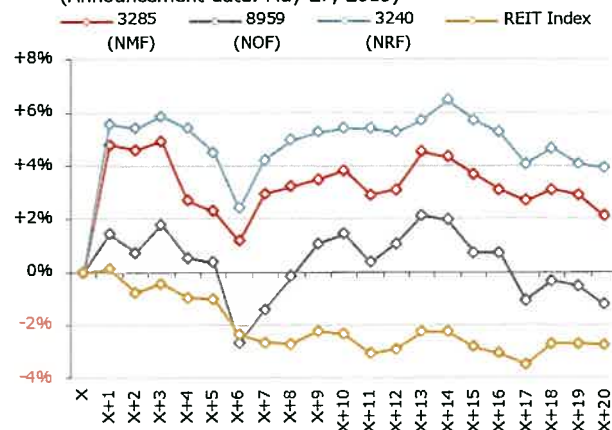
(Reference) Benefits of Merger (2)

Impact of the Merger on Unit Price

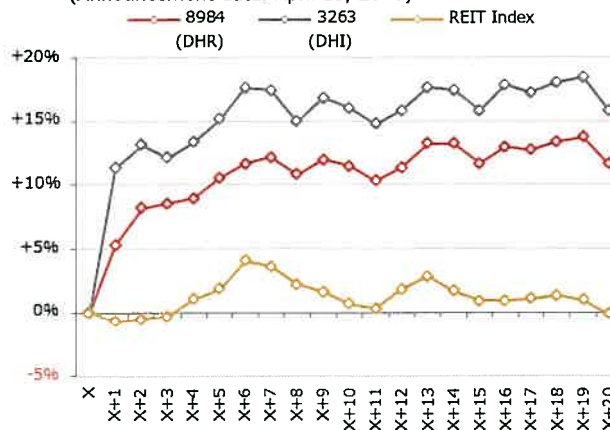
In the five most recent mergers, the merging REITs received solid investor support and experienced a surge in unit price on the day following the announcement of the merger

Unit price performance in five most recent M&A deals (20 business days after the announcement)

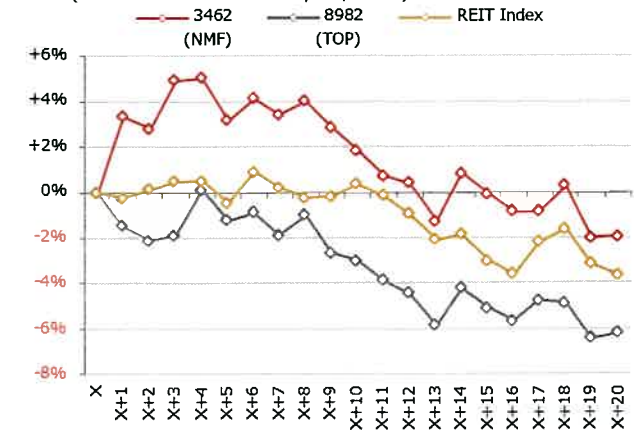
(1) Nomura Real Estate Group's three REIT
(Announcement date: May 27, 2015)



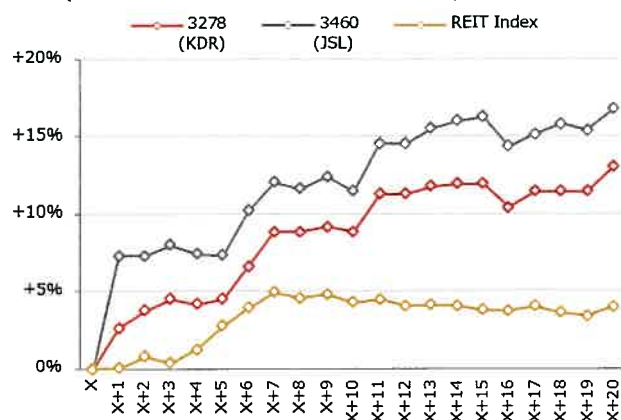
(2) Daiwa House Group's two REITs
(Announcement date: April 15, 2016)



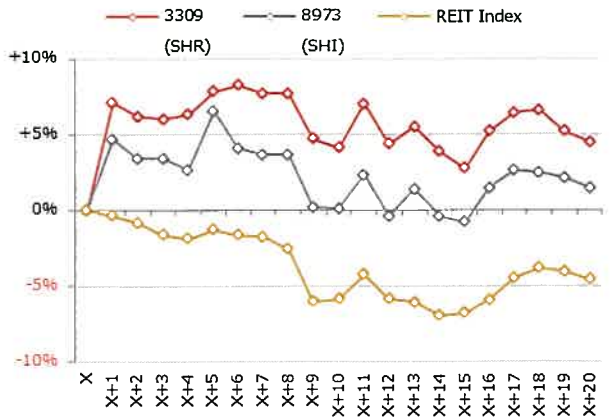
(3) Nomura Real Estate Master Fund and Top REIT
(Announcement date: May 26, 2016)



(4) Kenedix Residential Next and Japan Senior Living
(Announcement date: November 10, 2017)



(5) Sekisui House Group's two REITs
(Announcement date: January 24, 2018)



Note: Indexed unit prices with X being the announcement date

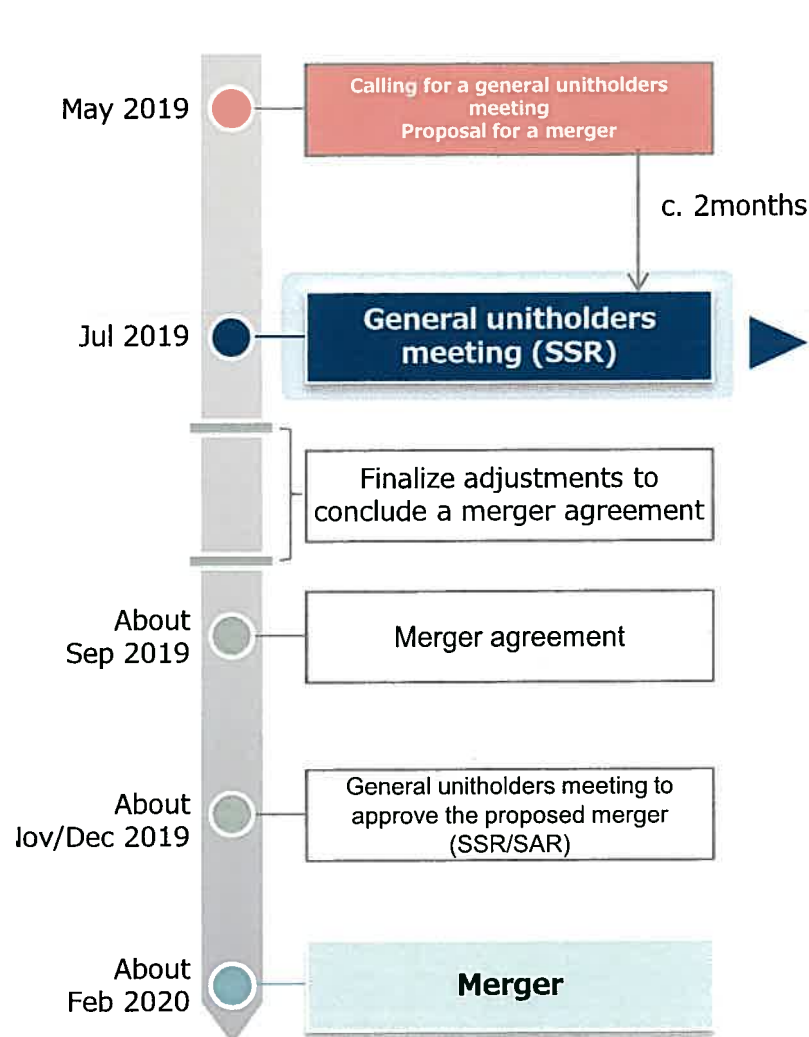
2. Proposal of a merger by the Star Asia Group

~Overview of Merger Process (Reference) ~

Proposal for Merger (1)

Request for the convening of a general unitholders meeting

- **Lion Partners GK, a Star Asia Group Company, called for an SSR general unitholders meeting on May 10, 2019 to deliver our proposal to replace the current Executive Director and Asset Manager as an interim step towards the ultimate goal of a merger between SSR and SAR**



To unitholders of Star Asia Investment Corporation

We shall provide information regarding the progress of efforts towards realizing the proposed merger, including the status of the below Sakura Sogo REIT Investment Corporation general unitholders meeting, with unitholders of Star Asia Investment Corporation in a timely manner

Agenda items to be submitted to SSR's general unitholders meeting, and the rationale for each

Change of executive director

- **Agenda 1 Dismissal of the current executive director**
- **Agenda 2 Appointment of new executive director**
 - ✓ We propose the removal of the existing Executive Director and the appointment of Toru Sugihara (see page 12 for details), Representative Director of Lion Partners GK (an SSR unitholder), as the new Executive Director in order to depart from non-unitholder oriented asset management

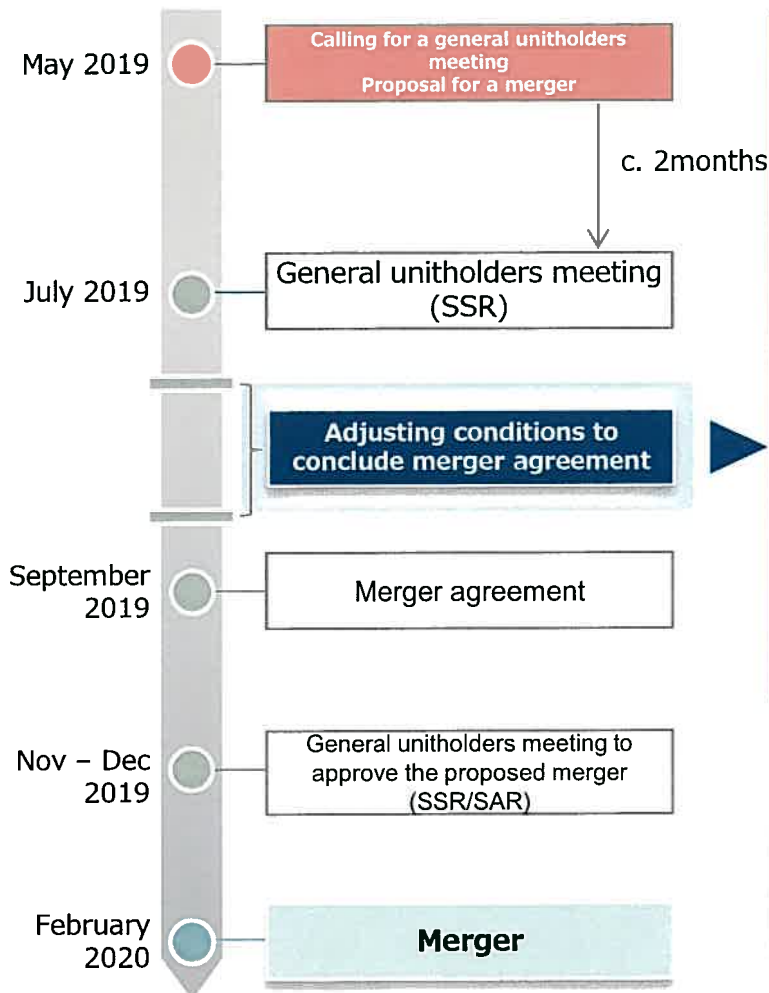
Change of asset manager

- **Agenda 3 Terminate the contract with the current asset manager**
- **Agenda 4 Enter into an agreement with a new asset manager**
 - ✓ Enter into a new agreement with Star Asia Investment Management (SAR's asset manager) which has a strong track record of delivering and maximizing unitholder's value

(Reference) Negotiation on Conditions of the Merger Agreement

~ Negotiation on optimal and fair conditions for unitholders of SSR and SAR

- Toru Sugihara was appointed as the new executive director at SSR's general unitholders meeting. If the asset management entrustment contract with Star Asia Investment Management is approved, then we will negotiate conditions to conclude a merger agreement
- SSR and SAR shall independently mandate advisors to negotiate the best conditions for unitholders of both SSR and SAR and to ensure fairness to all unitholders



Negotiation Regarding the Conditions of Merger Agreement

Members of SSR's board of directors meeting

- **New Executive Director (Toru Sugihara): One person**
- **Supervisory Directors (Shigeru Kaneda, Hirotaka Isayama): Two people**
 - ✓ It is necessary to receive approval from SSR's board of directors to conclude a merger agreement
 - ✓ SSR's board of directors consists of an executive director and two independent auditors and supervises the execution of duties of the executive director

Mandate of an independent advisor

- **SSR will mandate an advisor who represent SSR's unitholders**
- **SAR will do the same**
 - ✓ SSR and SAR shall independently mandate advisors to avoid one-sided merger conditions and ensure fairness to all unitholders

Ensure fairness for all unitholders of SSR and SAR

Proposal for Merger (2)

Introduction of our nominee for the new Executive Director

In light of the situation that Sakura Sogo REIT Investment Corporation is not engaging in unitholder-friendly management, Star Asia Group is proposing the replacement of the current Executive Director with Mr. Toru Sugihara, Representative Director of Lion Partners GK (a Star Asia Group company), to the unitholders of Sakura Sogo REIT Investment Corporation

Our nominee for the new Executive Director of SSR

Toru Sugihara

Representative Director of Lion Partners GK (Star Asia Group Company)
(Former Director and CFO of Star Asia Investment Corporation)

<Message for Unitholders of SSR>



Ever since the creation of the J-REIT market, I have focus on and desired its growth from the standpoint of a securities firm and as a REIT sponsor. Since June 2015, I have worked as a REIT asset manager to win the trust of investors as widely as possible through the optimal management of assets. Based on a deep understanding of the systems and history of the J-REIT market I am conducting corporate action through an unprecedented use of the unitholders' right to call for a general unitholders meeting in order to benefit the J-REIT market and its investors and to aid further market development

This proposal is a call for a general unitholders meeting, aiming for a merger for unitholders by minority unitholders, which would be a first for the J-REIT market, and it is my strong conviction that the proposal will undoubtedly benefit all unitholders

Bio

April 1991	Joined Nomura Securities Co., Ltd.	Involved in ECM, DCM, and investment trust sales activities for retail and corporate investors in the Shin-Urayasu and Ueno branch offices In 2000, became responsible for the real estate sector, and was involved in IPOs/POs of companies and J-REITs, securitization of real estate, and origination of private real estate funds
October 2006	Joined Barclays Securities Japan Limited	Provided and arranged non-recourse real estate loans as an officer responsible for the Japanese real estate sector. Involved in the origination and restructuring of CMBSs
July 2012	Joined Kenedix, Inc.	Developed investment proposals relating to real estate, real estate loans, etc. Originated bridge funds for the group's REIT
February 2015	Joined the Tokyo Branch of Star Asia Management Japan Ltd.	Joined the company as an officer responsible for planning and implementation of group strategies
June 2015	Seconded to Star Asia Investment Management Co., Ltd. as Executive Director and CFO	Seconded to Star Asia Investment Management as an officer responsible for origination of J-REITs
August 2015	Director and CFO of Star Asia Investment Management Co., Ltd.	Achieved IPO for the company as planned by negotiating with authorities, developing investment policies, and funding by way of investment corporations. After the IPO, executed three capital increases and developed proposals for mezzanine loan investments
April 2019	Representative Director of Lion Partners GK (Star Asia Group Company)	Responsible for making the proposal to promote the first merger of J-REITs by minority unitholders for unitholders

Proposal for Merger (3)

Change of asset manager

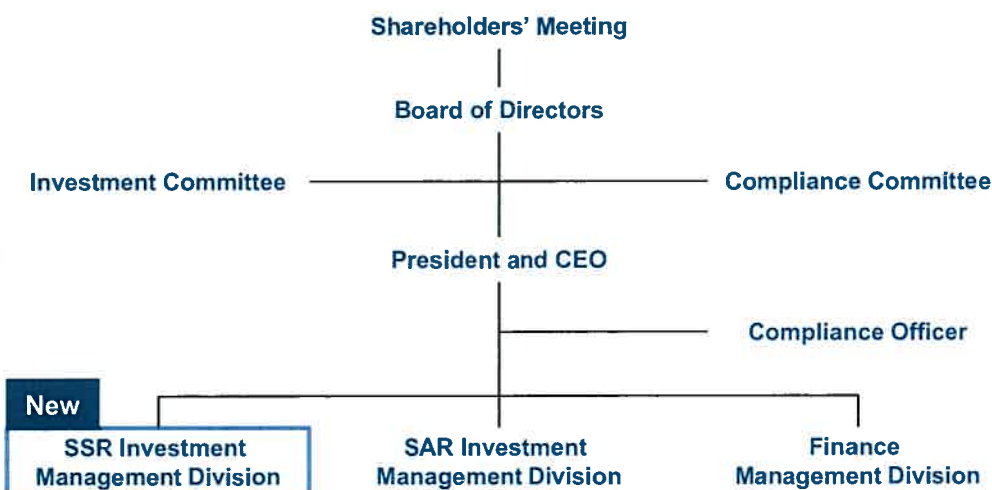
Star Asia Group is proposing the conclusion of a new asset manager agreement with Star Asia Investment Management for Sakura Sogo REIT Investment Corporation
If the replacement of the asset manager is approved at SSR's general unitholders meeting, then we would like to propose that employees of Sakura Real Estate Funds Management transfer to Star Asia Investment Management

Star Asia Group's proposal for Employees of Sakura Real Estate Funds Management

- If the above proposed agenda is approved at SSR's general unitholders meeting, we would like to propose that employees of Sakura Real Estate Funds Management transfer to Star Asia Investment Management upon replacing the asset manager in order to maintain consistency with current asset management

Organization chart of Star Asia Investment Management after the merger

- This is a draft organization of Star Asia Investment Management during the period from the effective date of the new asset management entrustment agreement to the merger



Key members of Star Asia Investment Management



Name **Atsushi Kato**
Position President and CEO
Bio After entering Nomura Real Estate Development Co., Ltd., he worked for Showa Ota Ernst & Young, and then entered Nomura Securities Co, Ltd. After being involved in the asset finance business including support in establishing J-REITs, he joined Star Asia Investment Management Co., Ltd

Name **Satoshi Obara**
Position Director and CEO
Bio After joining Nissho Iwai Corporation (current: Sojitz Corporation), he worked for Morgan Stanley Capital K.K where he engaged in acquisition and asset management of private funds. After entering Hulic Co.,Ltd, he engaged in REIT management at Hulic REIT Management Co.,Ltd



Name **Akiko Kanno**
Position Director and CFO (General Manager of the Finance Management Department)
Bio Involved in IR, legal, management planning tasks, etc. at Fujita Corporation. Thereafter, involved in startup work for an overseas base of the GMO Internet Group and oversaw management departments of several overseas bases

3. Post Merger Growth Strategy

Post Merger Growth Strategy (1)

Commitment of Sponsor Support by Star Asia Group

Star Asia Group is expanding its business operations and promises to continuously provide the various support which has been offered to SAR to the post-merger REIT

Malcolm F. MacLean IV
Managing Partner



Taro Masuyama
Managing Partner

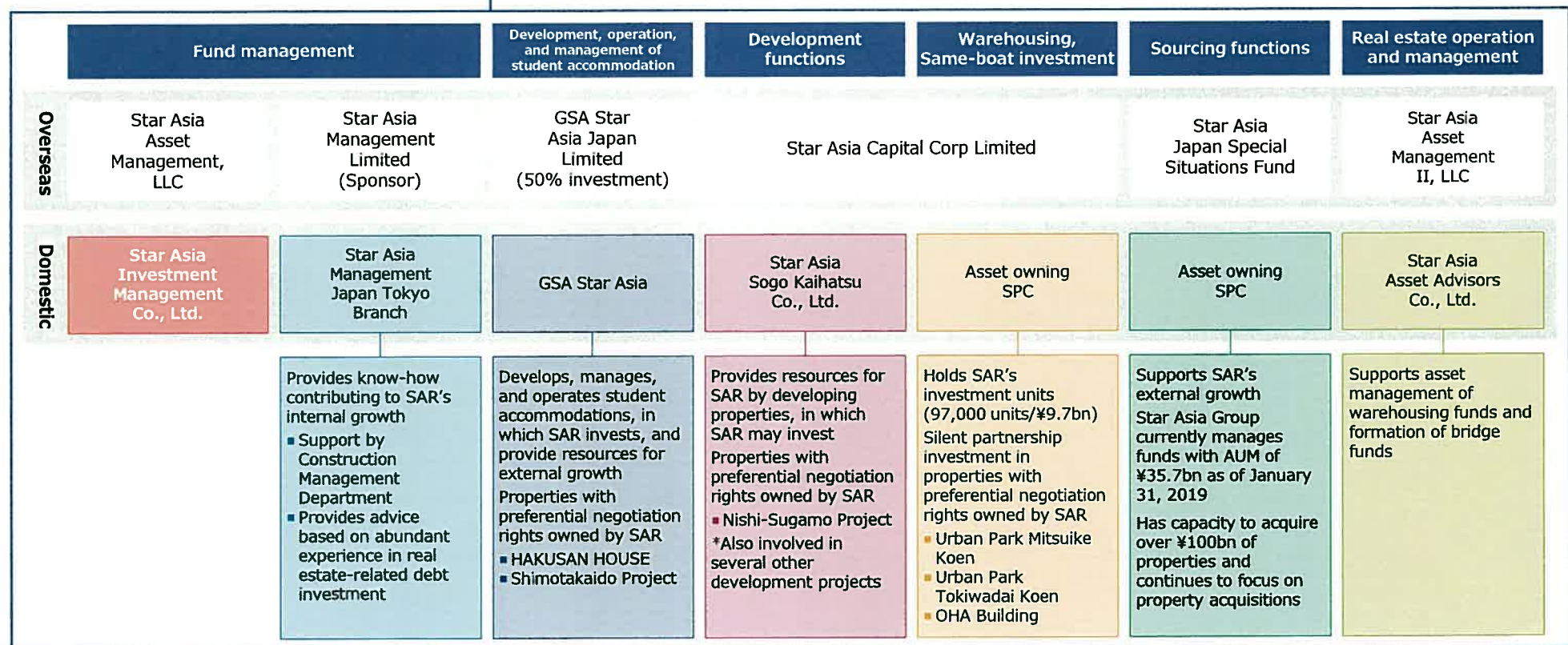


Star Asia Group, LLC

Overview of Star Asia Group

- Main Offices: Tokyo, New Jersey (US)
- Number of officers and employees: 393 people (*)
- Star Asia Management Limited is registered as an investment advisor with the US Securities and Exchange Commission

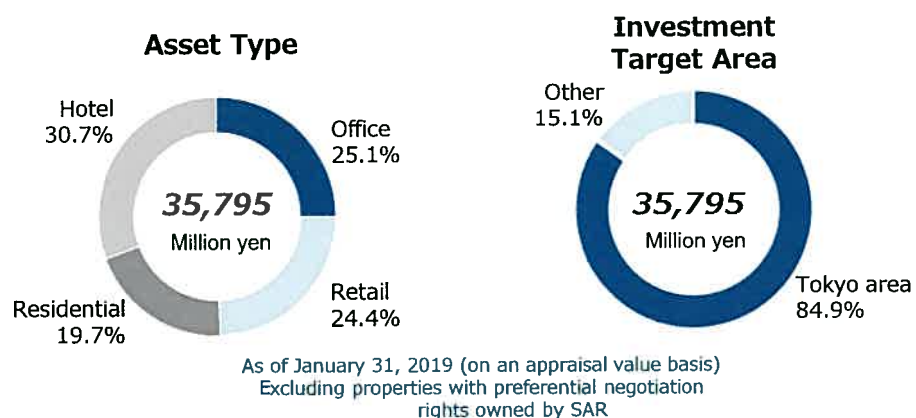
*As of March 31, 2019. Including officers and employees of the affiliated entities



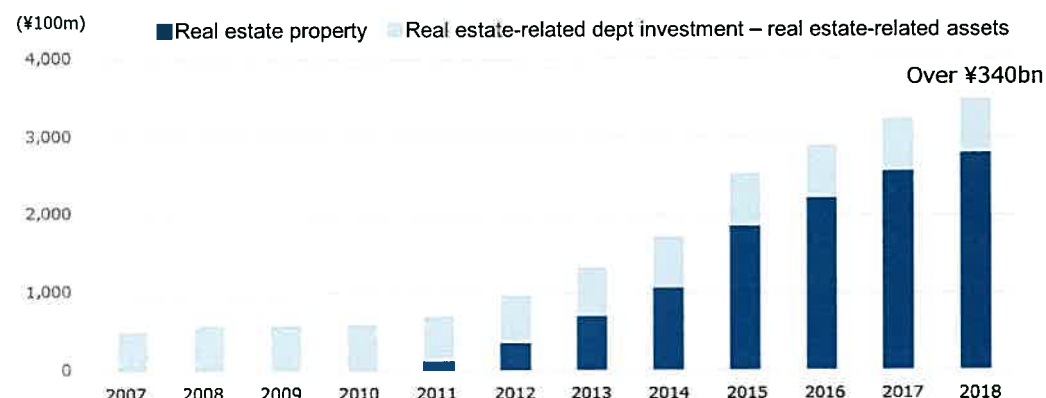
Post Merger Growth Strategy (2)

Commitment of sponsor support by Star Asia Group

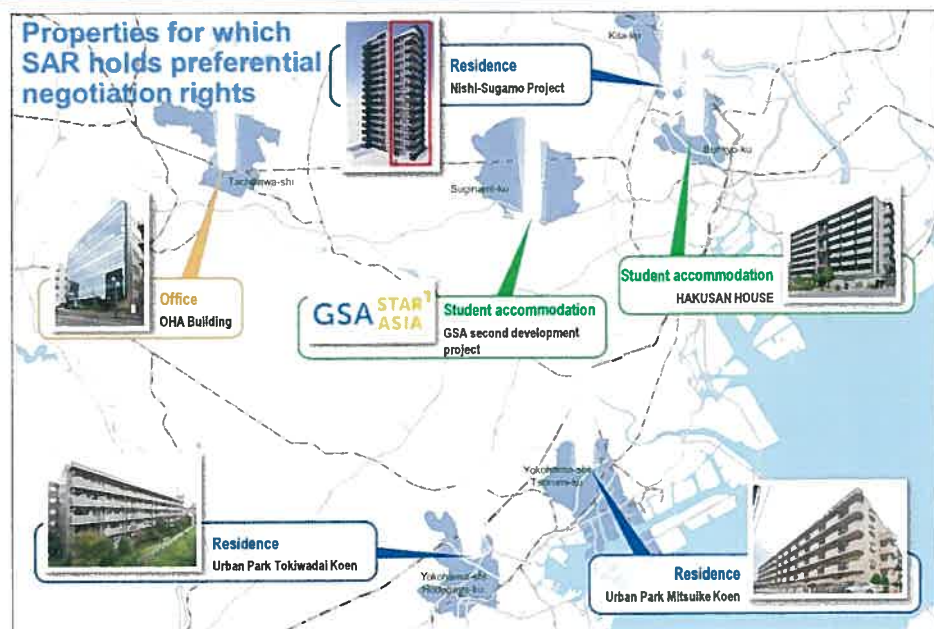
AUM of Sponsor Group



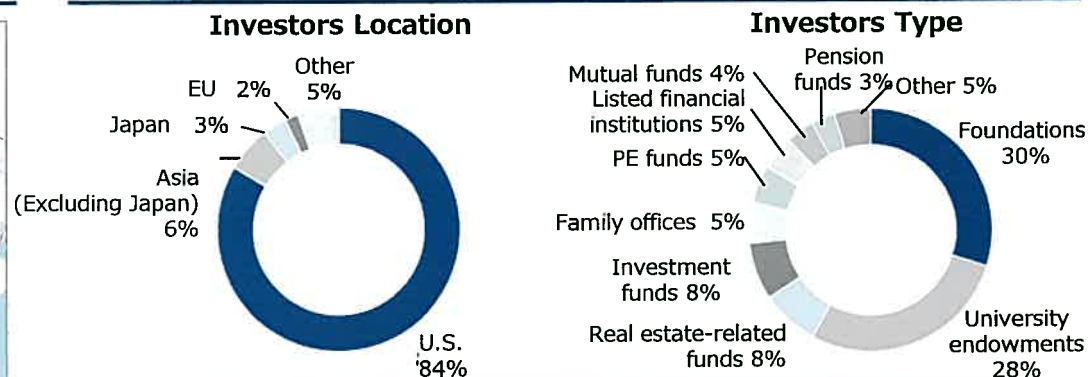
Star Asia Group's Accumulated Investment in real estate and related assets in Japan



List of Preferential Negotiation Rights



Star Asia Group's Blue-Chip Investor Base



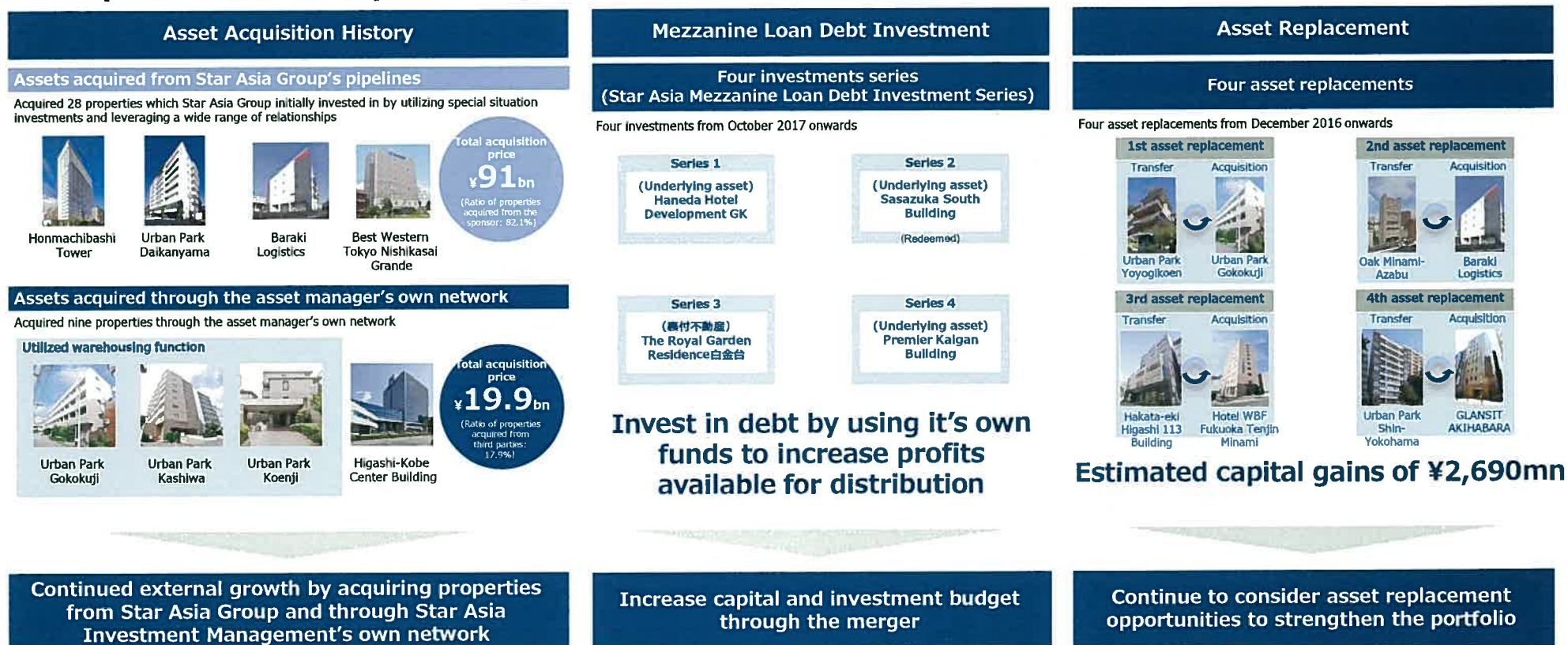
Investors	Location	Investment ratio	Total assets under management (trillion yen)
1 A. Endowment fund	U.S.	20.1%	2.2
2 B. Foundation	U.S.	10.2%	2.6
3 C. Foundation	U.S.	7.0%	6.5
4 Real estate-related fund	Asia	5.6%	1.5
5 E. Foundation	U.S.	5.4%	6.2

Post Merger Growth Strategy (3)

Star Asia Investment Management will Manage Assets to Maximize Unitholder Value

Star Asia Investment Management is implementing active management by, for example, being the first J-REIT to invest in mezzanine loan debt and replacing assets four times in three years since being listed

We promise that the post-merger REIT will manage assets to maximize unitholder value



Star Asia Investment Management will conduct active management to generate and maximize unitholder value for ALL unitholders

Post Merger Growth Strategy (4)

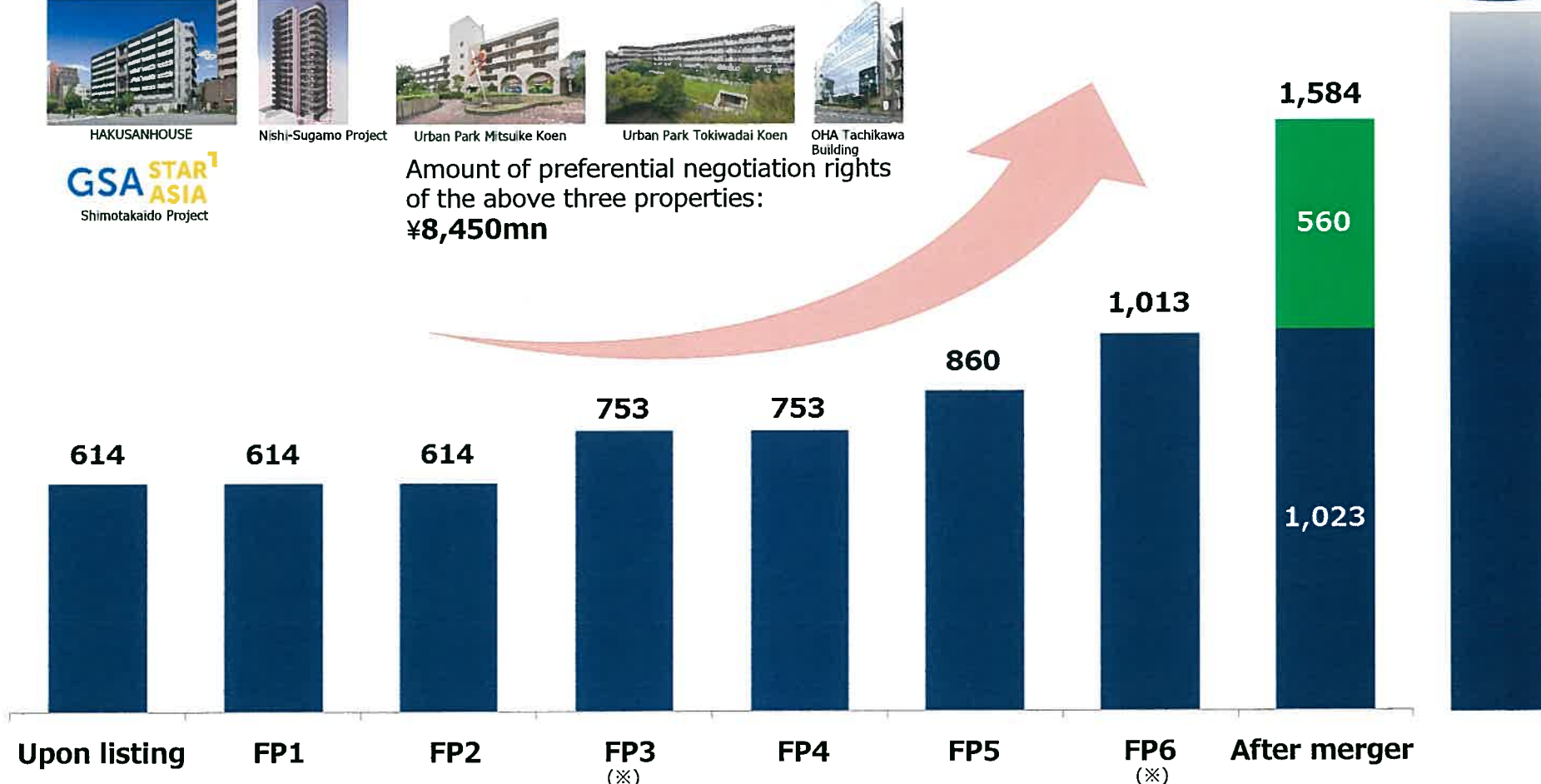
Post Merger External Growth Target

The post-merger REIT will aim to achieve ¥200bn in AUM by leveraging sponsor support from Star Asia Group and Star Asia Investment Management's ability to develop properties
We already strive to acquire properties, which will be resources for future external growth

Properties with preferential negotiation rights owned by SAR at this time



Amount of preferential negotiation rights of the above three properties:
¥8,450mn



Note: As Oak Minami Azabu (quasi co-ownership 51%) held at the end of FP3 and the Hakata Eki Higashi 113 bldg. (quasi co-ownership 51%) held at the end of FP6 were transferred at the start of the following FPs, they have been removed from the FP-end balances

<Inquiries regarding this material>

Star Asia Investment Management

TEL : 03-5425-1340

Video concerning this material :

<https://www.youtube.com/channel/UCYasJn4xrns2fhyZFKMAELw>

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