savills investment management

Investment Committee

DUE DILIGENCE SUMMARY:	ON BEHALF OF CLIENT:
Purchase of Project Saint – Healthcare Facility in Tokyo, Japan	Savills IM Asia Pacific Income & Growth Fund (“APACIG”)

<u>“Project Saint” – St Catherine’s Hospital, Tokyo</u>

Stage 2

Date of Issue: 15 February 2024, Version No. 1

Date of SIM IC meeting: 19 February 2024

7 Due diligence summary

7.1 Introduction

- *Acquisition of 100% interest in St Catherine's Hospital, a freehold modern healthcare asset in the Harumi submarket of Chuo Ward, central Tokyo, originated directly and off-market from Sumitomo Realty & Development ("Sumitomo"). The acquisition is targeted to contract on or around 29 February and complete in mid to late April.*
- *St Catherine's Hospital (established in its current form in 2006) functions under the umbrella of—and in close collaboration with—nearby St Luke's International Hospital (founded 1901), as well as serving other acute care institutions. St Luke's Foundation, the NPO affiliate to St Luke's International Hospital, acts as the master-lease guarantor for St. Catherine's Hospital.*
- *Harumi is an ideal location for an asset of this type. It is home to numerous office and commercial facilities, with a population of c.19,000 residents and a catchment of c.78,000 residents across c.40,000 households in the surrounding Tsukishima district. Its population has been growing rapidly over recent decades with numerous high-rise condominium towers developed by groups such as Mitsui Fudosan, Mitsubishi Estate and Sumitomo Realty.*
- *The population is set to expand further with the impending opening of Harumi Flag, the former Olympic Village complex with some 4,000 residential units for sale in phases. We anticipate these positive local demographics to support demand for St Catherine's Hospital, both its specialist rehabilitation services and function as a walk-in medical clinic.*
- *Vendor reasons for sale:*
    - *The subject property was originally developed by Sumitomo in 2017, which coordinated its construction and pre-leasing with Chuo Ward, which introduced St Luke's International Hospital to realize this element of Harumi's regeneration masterplan assigned for healthcare/medical facility use. Sumitomo has also developed multiple high-rise condo developments in the vicinity.*
    - *Sumitomo is seeking to trade out of non-strategic office and commercial assets held on balance sheet to recycle equity into new development projects amid rising construction and land prices. As per the Nishi Gotanda asset, the SIM Tokyo team's relationship with Sumitomo has enabled the Fund to negotiate directly, with Sumitomo seeking a reliable exit partner that will work on its timeline for the transaction.*
    - *This would be the sixth property originated from Sumitomo following Nishi Gotanda under APACIG, Omori and Toyocho under GTOF and Kiba and Kudan under the Varde program.*
    - *Additionally, our direct approach allows the mutual benefit of zero brokerage fees for the seller and minimized brokerage fee for the buyer (to facilitate the sale), fulfilling the regulatory requirement to include a licensed brokerage company in the transaction process.*
- *The Stage 1 IC was held on 5 September 2023, authorizing all due diligence expenditures. Findings from the due diligence process and updates on deal terms, IC action points and financing assumptions are included herein.*
- *The acquisition pricing has been adjusted from JPY3.30 billion to JPY 3.32 billion. Stabilized income assumptions are generally unchanged from the initial IC memo, while there are efficiencies provided by the use of the existing APAC2 TMK entity versus the Stage 1 assumptions.*

PROPERTY INFORMATION	Unit	Project Saint / St Catherine's Hospital *(closing Apr-2024)*
Property Type	-	Healthcare
Address		3-7-10 Harumi, Chuo-ku, Tokyo 104-0053
Access (mins walk)		Kachidoki Sta. / 9 min. (Toei Oedo Line)
Stories	-	6F / B1F
Structure	-	SRC
Parking units	-	10 car (mechanical)
Construction Date	-	Nov. 2017
Occupancy Rate (% PGI)	-	*100% (master-leased)*
Gross Floor Area	-	1,058 tsubo / 3,497 sqm
Net Rentable Area	-	918 tsubo / 3,034 sqm (per master-lease)
Land Area	-	221 tsubo / 731 sqm
Standard Floor Height	-	2,700mm + 100mm raised OA flooring
Purchase Price	**JPY**	**3,320,000,000**
PP per tsubo	JPY	3,617,655
Net Income Yield (NOI/NPP)	-	4.60%
Net Initial Yield (NOI/GPP)	-	4.39%

- *Rationale for purchase by the Fund: our due diligence process validates our view that the purchase price is attractive considering the quality of the asset, the fixed income profile with a credit guarantor, and the strong location in a growing and gentrifying residential submarket in the CBD.*
- *The investment fits well within the Fund target investment profile being a central-Tokyo asset that will provide stable attractive income generation and capital gains via off-market origination.*
- *Our due diligence process validates our view that the purchase price is attractive. The purchase price reflects a discount of 12.6% to the draft appraisal value provided by JLL.*
- *The asset management strategy will focus on effective maintenance and tenant relations through the hold.*
- *The asset is of modern construction and built to high standards by a top-tier developer, which will further enhance and diversify the profile of the Fund Portfolio. Through the GRESB process and in consultation with the PM, we will investigate other potential improvements in the ESG qualities to drive further efficiencies, with a focus on utilities monitoring.*
- *Tenure: freehold*
- *Exit: target buyers would be major domestic and international investors including J-REITs, motivated local companies as well as private investors. The asset will enjoy a high level of liquidity at exit due to its strong location, quality, income profile and mid-scale lot size. A targeted sales process would be conducted to identify the most motivated buyers at that time.*
- *Legal, technical and environmental/climate risk due diligence confirmed there are no material issues either with the physical structures and land.*
- *The IC previously endorsed the transaction sponsor's recommendation to authorize the completion of the due diligence, subject to the action points detailed below.*

- *The Japan team has completed its due diligence review and is preparing to close the investment into the existing APAC2 TMK facility with Aozora Bank, with the asset to be cross-collateralized with the Kitasaiwaicho and Gotanda assets.*
- *Closing schedule: Mid-to-late April 2023*

7.2 Any specific IAC Action Points

Original IAC Meeting date: 5/9/2023

- *Provide more clarity on the tenant credit and business model as a part of due diligence; to be provided in the Stage 2 memo.*

  → *Provided herein*

7.3 Professional Team

DUE DILIGENCE	COMPANY	OFFICE	LEAD CONTACT
Technical/Building Survey	Hi-Kokusai Consultant (ハイ国際コンサルタント)	Tokyo	Nobuki Kato
Environmental	Hi-Kokusai Consultant	Tokyo	Nobuki Kato
Legal	Greenberg Traurig	Tokyo	Mori Inada
Independent Valuation	JLL	Tokyo	Satoru Takeichi
Tax / Structuring	KPMG Tax	Tokyo	David Lewis

- Reports have been delivered in draft form and reviewed by the Fund team; reports will be issued and dated after lender review.

7.4 Commercial Due Diligence

Summary of Lease Particulars

- Lease term: 20 Fixed-term lease without break option (Nov-16-2017 to Nov-15-2037)
- Rent: JPY14,209,622/month (JPY15,500/tsubo GFA)
- Lease Area: 3,034 sqm
- Building management (BM): Tenant is responsible for most BM fees, most repairs, most cleaning and all utility costs i.e. lighting, air conditioning, other electrical costs, water, etc. Landlord is responsible for electrical supply equipment, automatic door maintenance, storage battery maintenance, fire protection equipment maintenance, water supply and drainage maintenance, planting/greenery maintenance and mechanical parking structure maintenance); this is conservatively underwritten as c.22% of total OPEX.
- Security Deposit: 12 months' rent (JPY170,515,000)
- Rental revision clause (every 5 years) – negotiation basis; subject to mutual agreement by tenant and landlord
- Full rental guarantee by St. Luke's Foundation (see Section 7.13.2 for Tenant Credit Risk analysis).
- Green lease clauses: the lease does not include a green lease clause; however, we expect that the tenant would be cooperative regarding monitoring of energy and utility usage and costs.

ISSUE / ADVISOR COMMENT	ACTIONS / TIMESCALE / COST
Commercial diligence was conducted by JLL as part of the valuation process. Draft evaluation of PGI and NCF vs. our UW stabilized PGI and NCF assumptions for the asset was:	Our commercial due diligence validates our pricing and indicates our assumptions are reasonable, and operating cost assumptions are conservative. Market vacancy assumptions:

Asset	*PGI*	*NCF*
PJ Saint	*+0.0%*	*-3.3%*

Asset	*Appraisal*	*UW*
PJ Saint	*0%*	*0%*

CONCLUSION
The commercial due diligence is supportive of our underwritten assumptions.

7.5 Legal Due Diligence Summary

ISSUE / ADVISOR COMMENT	ACTIONS / TIMESCALE / COST
Title	
No issues with title.	N/A
Occupational Leases	
Lease term: 20 Fixed-term lease without break option (Nov-16-2017 to Nov-15-2037) Rent guarantee agreement in place with St Luke's Foundation for duration of the lease.	Draft PM agreements have been reviewed by our legal team and are in satisfactory form for execution.
Warranty Package	
All standard warranties are obtained from the seller; the warranties are succeeded to buyer's SPC and trustee.	Warranty period is 10 years for the structure from construction.
Sale Contract	

Standard terms with conditions precedent relating to due diligence confirmation.	N/A
Other	
N/A	

CONCLUSION
The asset is designed to and built to a high standard; the engineering report confirmed construction is compliant with building plans and regulatory requirements. There are no unusual elements, either relating to the contracts or the deal structure.

7.6 Financial Crime Prevention Summary

CUSTOMER DUE DILIGENCE OVERVIEW	
Status of customer due diligence	Completed
Risk rating of customer	Low
Level of due diligence determined	A full AML/KYC review of the seller was completed ahead of the Nishi Gotanda acquisition and risk rating was deemed low. Therefore CDD is still valid (for 3 years since completion) and no new CDD/face-to-face verification needed as there are no changes to key personnel who have been previously verified face-to-face.
Financial crime-related red flags identified	None

Confirmation statement from the responsible country CDD Team	- Kollect Partners Law Office (Kollect) in Japan, have been engaged by SIMAL to conduct all due diligence relating to each transaction. APAC Compliance have attributed a low risk assessment to the completed CDD. - Lewis Loo (through Kollect)
Name of the responsible country CDD case handler	Yoshinori Taniguchi
Date of confirmation	Ongoing

7.7 Building / Construction Due Diligence Summary

ISSUE / ADVISOR COMMENT	ACTIONS / TIMESCALE / COST
The Engineering Report (ER) provider worked closely with the Japan team to identify any issues with the properties and propose remedies as conditions precedent.	No material compliance points were identified.
<u>Fire Risk:</u> The ER and Structure calculation review reports confirmed compliance with relevant fire risk legislation. **Design and construction:**	**Management and practices:**

The property has been constructed in accordance with the Fire Prevention Law and Building Standard Law. The Fire Prevention Law in conjunction with Building Standard Law dictates requirements to ensure unobstructed evacuation routes, including the width of passages and location of exits, vents and machinery. The local Fire authority have checked and qualified the properties. Moreover, the time required for evacuation is strictly controlled and the building designs are in accordance with regulations based on the property type. Compliance is checked by the fire authorities and assigned regulators at the time of completion, as well as annually thereafter. The Building Standard Law includes strict monitoring of building material specifications; developers must utilize pre-approved fire-retardant materials with acceptable tolerance levels. Also, section planning/subdivision with fire-doors of preapproved fire resistant materials is a critical point to get the building approval from the regulatory board. Checks are conducted at the design and construction phases, while construction firms and BM/PM must undertake periodic training. Smoke circulation and exhaust systems are strictly regulated to avoid CO_2 accumulation; evacuation passages must be located safely away from smoke-risk areas and exhaust vents. – Fire alarm system is installed. – Emergency evacuation routes include emergency staircase. – Sprinklers	– BM/PM company is required to ensure fire extinguishers are located in common areas and are well maintained. – Regular checks must be conducted to ensure there are no barriers to evacuation routes and avoid malfunction of safety equipment. BM companies do periodic inspections of fire safety equipment installed in the buildings; it is a legal requirement that these are carried out at 6-month intervals and a written report provided to the local Fire Department. Inspections include common and private areas, incorporating (where applicable) fire alarm systems, automatic sprinklers, intercoms (emergency buttons), fire extinguishers, and balconies (examined to see that evacuation routes are free from obstacles).
CONCLUSION	
No material issues were identified in the inspections for the properties.	

7.8 Site Environmental Due Diligence Summary

ISSUE / ADVISOR COMMENT	ACTIONS / TIMESCALE / COST
Do building materials have a negative environmental impact?	*The building is a steel reinforced concrete structure, standard for buildings of this size and use. No asbestos or other hazardous potentially harmful usage of PCBs were used in the building materials to construct the asset.* *The Fund strategy does not incorporate redevelopment of the asset during the hold period, limiting the release of embodied CO_2.*
What opportunities have been identified to improve the building fabric?	*No improvements currently required*

7.9 Local Energy Regulations

QUESTION	RESPONSE
Does the asset sit within a jurisdiction that has specific regulation that could prevent it from generating income or increase liability due to a sustainability-related minimum threshold? What action(s) will be taken to ensure compliance with respective requirements?	*No such regulations exist within the asset location.*

7.9.1 Residual physical climate risk

	Near (2030)		Mid-Term (2050)	
Parameter	Intermediate 4.5 RCP	High 8.5 RCP	Intermediate 4.5 RCP	High 8.5 RCP
Drought	1	1	1	1
Fire	2	2	2	2
Heat Stress	3	4	4	4
Precipitation	5	5	5	5
River Flood (Defended)	1	1	1	1
River Flood (Undefended)	1	1	1	1
Sea Level Rise	0	0	0	0
Tropical Cyclone	2	2	2	2

Natural hazard:	Score:
Earthquake	5
Winterstorm	2
Hailstorm	3
Lightning	2
Tornado	2
TropicalCyclone	2
Volcano	1
Wildfire	1
FlashFlood	3
RiverFlood	1
CoastalFlood	0
Tsunami	0

CONSIDERATION	FINDINGS / MITIGATION	RESIDUAL RATING
Seismic Risk	*Japan is a seismically active country and has some of the most rigorous earthquake building standards in the world.* *Although building codes are updated regularly, a major change to the building standards act occurred in 1981: all buildings built to the new earthquake code ("shin-taishin") are designed to withstand magnitude 7 or higher. The Fund only acquires properties compliant with the new code.* *When acquiring buildings, the team mandates third-party structural checks and a PML (possible maximum loss) study to assess the structural integrity of the building.* *Risks mitigated by the assets' high seismic resilience.* – *PML: <15%* *For properties of this profile, lenders do not require earthquake insurance, which is prohibitive in terms of cost relative to the limited coverage it provides. The relative susceptibility of Japan to earthquakes is offset by the high quality of construction and resiliency built into the properties.*	Low (1-2)
Tropical Cyclone	*Japan experiences tropical cyclones, with its typhoon season ranging from May to October, peaking in August and September. Japan's building standards act also incorporates structural safety standards to resist the strong winds of typhoons under worst-case scenarios and the possibility of landslides when planning for construction on a slope.* *The asset complies with building regulations designed to ensure resilience to typhoon-force winds and rain.*	Low (1-2)

	The asset is constructed to a high-standard with steel reinforced concrete, mitigating risk of significant structural damage to the building or harm to the tenants.	
River Flood & Precipitation	*Based on analysis of Japanese government issued water hazard maps in extreme rainfall, typhoon, or tsunami scenarios, as well as in-place mitigations described below, the specific location of the asset poses minimal flood risk.* *As future mitigants against climate risk, the following infrastructures are also incorporated as measures against flooding:* – *Government flood prevention infrastructure including a series of high-standard embankments, detention basins, dams, reservoirs, and underground water drainage basins. The drainage basins are a last-resort measure and not frequently utilized. Examples of such drainage basins are:* – *<u>Additional infrastructure</u>: In response to climate change and rising water levels, the Japanese government is developing and expanding further detention basins, as well as strengthening first line of defense alongside coastline and rivers. A further two detention basins are currently under construction to prevent flooding in the Arakawa River and is due to complete by 2030. Indeed, flood damage relating to the Arakawa River and its branches has not been recorded since 1982.* – *<u>River Infrastructure Development Project:</u> Construction of super-levees via deepening of the riverbed and widening of the cross-section in the major rivers makes it possible for larger volumes of water to be discharged into the Tokyo Bay with less risk of overflow. Embankments have been reinforced and heightened as well to further fortify the river and prevent overflow or infiltration of water into the neighborhoods alongside the river.* – *<u>Upstream River Dams, Reservoirs & Weirs:</u> The major rivers and tributaries have several dams and reservoirs strategically located to control water flow and reduce flood risk. Flow-through dam and weir facilities have been constructed upstream within larger lakes to hold and moderate water flow into the downstream rivers, particularly during torrential rain. Rain-water flows are controlled in dams and released gradually to ensure drainage capacity is not exceeded.* – *<u>Disaster preparedness:</u> The Tokyo government has established emergency response systems to deal with flooding and other disasters. The system includes evacuation plans, emergency shelters, and communication networks to alert residents in case of a flood.* *https://www.ktr.mlit.go.jp/ktr_content/content/000812778.pdf* *https://www.ktr.mlit.go.jp/araike/pdf/koho/pamphlet_1-1.pdf*	Low (1-2)
Heat Stress	*Climate change in Japan, as in other areas around the world is a risk. There is a risk of an increase in temperature on hot days throughout the year, resulting in an increased demand*	Low (1-2)

	for cooling. The following measures are taken to minimize heat stress risk: – *Designed to optimize sustainable cooling mechanisms such as natural ventilation to reduce air conditioning load* – *High thermal insulation exterior wall and roof* – *High efficiency inverter air conditioning meeting government energy-saving standards* – *Double glazing windows with airtight window sash. All external windows use low-e glass with UV protective film / heat reflective film.* *The asset complies with building regulations focused on heat gain control and heat dissipation within the buildings to improve indoor thermal comfort with low energy consumption, reduce internal humidity and reduce the heat island effect.*	

	1	2	3	4	5
No Score	Low				High

7.9.2 Net zero

QUESTION	EXPLANATION
Describe what fuel source powers and heats the building. If the building is powered by fossil fuels, has capex been outlined to transition the asset to a low carbon position?	*Given on-going regulation challenges and shut-downs of the nuclear power plants due to the Great East Japan Earthquake in March-2011, there are currently limited opportunity or viable alternatives to switch to a clean energy provider.* *We will continue to investigate opportunities over time to a clean energy provider when there are alternatives available, steering away from providers reliant on fossil fuels and towards providers utilizing cleaner energy sources such as nuclear, thermal, hydro, and other renewable energies.*
What is the whole building's annual energy use? This should be reported as **a) an energy total (kWh) AND** **b) intensity (kWh/m^2)**	*Given the property is leased to a single tenant who are contracted directly with the utilities provider, energy usage data was not available during the due diligence process, however, we plan to request for the data post-acquisition in order to submit to the Fund's GRESB assessment. As the tenant is a hospital operator, there may be challenges in collecting the data due to sensitivities, however, we will explore various avenues where possible to secure.*

If the EPC is below A/ building otherwise identified as having lower energy efficiency, what actions will be taken to improve the energy efficiency, and have these costs been factored into the capex budget?	*EPC or other similar energy efficiency credentials are not market practice and unavailable for the asset. The property is a recently constructed, high-quality building developed by a top-tier developer, and therefore anticipate for the base-building to perform well in energy efficiency. Given the tenant is a hospital operator, they may have a higher energy usage than a standard office tenant, however, post-acquisition, the asset will be participating in the portfolio-wide GRESB assessment that includes energy usage monitoring and goal-setting as well as considerations in green building certifications where applicable to better understand this.* *The asset represents an attractive opportunity to enhance the sustainability profile of the Fund portfolio.*
Has a net zero audit already been undertaken by the previous owner? What were the key findings?	*No*
What stranding year was identified by the CRREM analysis? Did this analysis use actual energy consumption or benchmarked data? What potential opportunities have been identified to mitigate stranding risk?	*As mentioned above, we do not have visibility in the tenant's energy utilization data making CRREM analysis prior to acquisition difficult. We may conduct a CRREM study post-acquisition as required, if are able to secure the utilities data from the tenant.* *Further asset management initiatives to improve energy efficiency and carbon output will be reviewed and implemented as additional technological advancements are made during the hold period.*
Does the building have smart meters/ devices? Do these provide whole building coverage? If not, has capex been identified to roll out installation?	*No, given the operator is a single-tenant and directly contracted to the utilities company, we will require consent from the tenant for data disclosure.*
Are there onsite renewables?	*The asset does not provide on-site renewable energy, however, the Fund is currently exploring opportunities to partner with a renewable energy provider for the common areas or potentially install solar panels through direct capex investment or a partnership with a renewable energy vendor.*
Does the occupier have a green lease?	*There is currently no green lease clause in the existing lease agreement, however, implementation of a green lease clause will be requested post-acquisition.* *Green lease clauses include tenant acknowledgement in efforts to reduce energy consumption and recycling, as well as agreement to disclose energy consumption data.*

7.10 People

7.10.1 Health and wellbeing

QUESTION	EXPLANATION
Does the building have a Health & Wellbeing ("H&WB") rating?	*The asset does not have a Health & Wellbeing rating as such ratings or certifications are unavailable in the market; however, given the property is a community-serving hospital, we anticipate it be supportive of achieving a strong H&WB rating if the Fund were to pursue.*
What H&WB facilities and amenities does the building offer?	*N/A*
Does the building have an air quality rating? What enhancements could be made to improve the air quality?	*The asset does not have an air quality rating as this is not market standard, however, due to Japan's hot and humid climate, Japan's building code includes strict regulations relating to air circulation, moisture control and ventilation. These mitigate against risks such as mold-related problems. Contemporary construction relies on structural and mechanical ventilation that adds significantly to the cost and complexity of buildings*
Is the building near a public transport hub to reduce reliance on cars?	*The asset provides convenient access to public transport, which is an attractive feature for tenants and mitigates reliance on private cars, as does the limited on-site parking.*
Is there electric vehicle charging capacity? How many spaces?	*The asset currently does not have electric vehicle charging capacity. Installation of electric vehicle charging ports for public usage will be challenging due to the facility being mechanical parking.*
Is there bicycle storage on site? How many spaces?	*The asset provides ample bicycle parking available for tenant and patient use.*

7.10.2 Social and community benefits

QUESTION	EXPLANATION
What social benefits does the building provide in relation to the below criteria:	
• **Local affordable amenity provisions:**	*The hospital is accessible to everyone and accepts health insurance.*
• **Community outreach:**	*Provided above*
• **Diversity and inclusion:**	-
What enhancements will be made to support social and community outcomes?	*Provided above*

7.11 Nature

7.11.1 Biodiversity and green space

QUESTION	EXPLANATION
Is this site in an area of nature conservation or built on greenfield land with high biodiversity value?	*The site is not an area of nature conservation, greenfield land with high biodiversity value, or a historic landmark.*
Does the building have nature-based solutions/ green areas?	*The property has greenery surrounding the property where available and abides to local law/ The Fund will look to implement greenery/shrubbery enhancement where possible.*
What are the opportunities for additional measures?	*Further enhancements to greenery will be done where applicable.* *As a mitigant against heat stress, the Fund may use greenery as a form of shade, to minimize the heat impact and use of HVAC systems during the peak heat season.*

7.11.2 Waste reduction

QUESTION	EXPLANATION
What waste reduction initiatives are currently in place? Are there waste sorting facilities on site?	*Tenant is required to separate waste and use the recycling facilities provided for items including paper, cardboard, PET bottles, cans, plastics, food waste, small metal items, light bulbs and batteries.* *Large items such as furniture and electrical appliances are subject to ad-hoc collection for recycling, at the cost of the tenant.*

7.11.3 Water saving

QUESTION	EXPLANATION
What water saving initiatives are currently in place? What enhancements have been proposed within the capex schedule?	*The property is built to a modern spec and has water-saving bathroom fixtures, including combo cistern-sink toilets.* *No further enhancement currently under consideration in the given existing highly efficient water-saving devices installed.*

7.12 Property Management Review

ISSUE / ADVISOR COMMENT	ACTIONS / TIMESCALE / COST
Rental Payment History	
N/A	No history of delinquency. St Catherine's tenant credit is supported by its corporate sponsor and guarantor.
Service Charge (Shortfall / Arrears)	
N/A	
Irrecoverable Expenditure (Forecast NOI)	
Utilities, building and property management fees, minor repairs, insurance, property tax: JPY23.4mm	
Insurance	
Standard coverages for the properties will be obtained in accordance with trustee and lender requirements. Insurance costs are not directly recoverable from the tenant. Standard insurance coverage comprises: ▪ Fire Insurance, comprising comprehensive Property Damage and Business Interruption coverage (all risks including flood (including typhoon-related), electrical & mechanical breakdown and glass breakage; with standard exclusions including certain natural disasters and terrorism); ▪ Comprehensive General Liability Insurance inclusive of natural disasters with standard exclusions such as asbestos and nuclear energy liability; ▪ Pollution Legal Liability including remediation costs and legal defence expenses, with standard exclusions. Insurance will be arranged via Marsh. Considering the limited risk profile of the subject assets, we do not anticipate any material changes in insurance costs or related lender requirements over the foreseeable future. When acquiring buildings, the team mandates third-party structural checks and a PML (possible maximum loss) study to assess the structural integrity of the building. For properties of this profile, lenders do not require	

ISSUE / ADVISOR COMMENT	ACTIONS / TIMESCALE / COST
earthquake insurance; the relative susceptibility of Japan to earthquakes is offset by the high quality of construction and resiliency built into the properties.	

CONCLUSION
There were no significant issues with the historical management of the building from either a maintenance or tenant management perspective. On balance of cost and quality, we plan to mandate Sun Frontier for PM/BM with a limited work scope appropriate to the in-place master-lease.

7.13 Risk management

The key risk assessment presented to the IAC in the initial memo is unchanged.

7.13.1 Key risk considerations

RISK CATEGORY	IDENTIFIED RISK	EXPLANATION
Market Risk	*Currency Risk*	• *The Fund does not have any requirement to put currency hedging in place, however we would aim to follow group central policy of fully hedging this exposure.* • *The Fund is a EUR and USD denominated fund focusing on real estate assets in Asia Pacific* • *This investment will cause the Fund to have exposure to the Japanese Yen ("JPY")* • *Foreign currency swaps between EUR and JPY, as well as USD and JPY, are expected to be implemented to hedge 100% of the equity for the 4-year hold period.* • *FX hedging costs/benefits are conservatively underwritten at 0.0% p.a (4 years).* • *Currently, 4-year FX benefit of hedging EURJPY is +2.47% p.a. (+3.51% in Y1), while USDJPY is +4.10% p.a. (+5.15% in Y1). The hedges will be traded at the Fund level.*
Market Risk	*Debt Finance Risk*	• *The Fund's leverage restriction to the aggregate appraisal value (LTV) is 60%.* • *We have been speaking with lenders with whom we have recently transacted in this asset class, including Aozora Bank and Mizuho Trust Bank. The investment will be put into the existing APAC2 TMK debt facility with Aozora Bank, cross-collateralized with Kitasaiwaicho and Nishi-Gotanda.* • *While the underwritten loan to purchase price (LTP) of 65.0% (subject to change) is above this limit, due to the material discount to market value going in, the expected LTV is below the upper fund threshold (56.8% versus draft valuation from JLL).* • *Debt will be non-recourse with standard covenants and security requirements in line with previous deals in our Japan funds.* • *Associated execution risk is mitigated by our track record with Aozora Bank, the quality of the asset and relatively low LTV. Moreover, given the time lag between contract and close, the PSA for Project Saint will include a finance clause.* •

Market Risk	*Interest Rate Risk – Debt*	• Real estate investments are sensitive to interest rate risk; the hedging of interest rates, including the decision of whether to hedge, is at the discretion of the fund manager. • Per the terms provided by Aozora Bank, the debt for this transaction will be 5-year fixed rate, which enables the fund to avoid interest volatility risk during the hold period. A prepayment penalty is not payable, however breakage costs would apply. • *See Appendix for downside scenario with 30bps added to the base-case debt cost assumption.*
Market Risk	*Interest Rate Risk – Inflation Outlook*	• The lease is fixed until Nov. 2037 with no break option. It includes a rent revision clause every 5 years – this is on a negotiation basis and subject to mutual agreement by tenant and landlord, therefore the application is limited. • Japan's core inflation peaked at 4.2% in January 2023 but has since trended down to 2.3% as at December 2023. Core-core inflation (CPI excluding food and energy prices) remains high at 3.7%. That said, inflation is declining in line with the BoJ's projections on inflation. The BoJ further forecasts the core-core inflation to come in at 1.9% for fiscal 2024 and 2025, which would take some pressure off the central bank to exit its years of ultra-loose monetary policy. • The recent earthquake in the Noto Peninsula may further push back the timeline for policy changes. • There is a cost to moving too aggressively on interest rates. Notably, the Japan Finance ministry and Bank of Japan (BOJ) are the biggest owners of JGBs. If rates move up too quickly (if they do at all), there is a massive paper loss on the balance sheet for the Japanese people. Moreover, floating-rate loans account for the majority (c.70%) of Japanese household mortgages are predominantly floating rate and interest rate rises would have an adverse effect on domestic demand. • Floating rates will not immediately rise if the BOJ ends its negative rate policy. The rates are generally based on short-term prime lending rates that banks charge blue-chip companies. But if the BOJ's policy rate moves into positive territory, a rise in the prime rate will likely impose upward pressure on floating rates. • Our house view is that any shift in monetary policy will be gradual, steering the economy to a gentle landing as inflation eases. By extension, the property market will have sufficient time to adjust, and this will be on the back of a stronger occupier performance, which we are already seeing. The relative disparity in interest rates between Japan and the rest of the world will not change overnight. That continues to be supportive of pricing and accretive financing in the Japan property market. *See Appendix for House Views on Japan's monetary policy.*
Real Estate Investment Risk	*Environmental Risk*	• *No hazardous contamination has been identified on the site area .* • *Climate change risk assessment confirmed flood risk is low. Flood risk will additionally be mitigated by standard insurance coverage.*
Real Estate Investment Risk	*Liquidity Risk*	• *Liquidity risk is mitigated by a) attractive entry price via off-market negotiations; b) the depth of the buyer market; and*

		c) the quality of the building and micro location, d) broad expectations that the Japan market will remain a comparatively low inflation/low cost of debt environment for the foreseeable future.
Real Estate Investment Risk	*Exit liquidity*	*A risk to the forecast performance is exit liquidity. We consider this risk to be mitigated by:* - *The discounted entry price derived from the seller's special situation, with the entry NOI yield is over 80 bps above where the market trades today.* - *The depth of the buyer market for quality income assets in central Tokyo from institutional investors, both domestic and international, motivated local companies and private investors/family offices.* - *Rising land values and replacement costs, the latter driven by significant labour shortages in the construction sector.*

Please see Appendix for a matrix of existing fund assets and pipeline investments under contract.

7.13.2 Tenant credit risk

Credit rating and analysis
According to rating agency Teikoku Databank (TBD) as of 8 Feb 2024:

***St Catherine's Hospital** has an overall credit score of 41/100.*
It is categorised in the lower-mid credit tier (36-50 points), which mainly comprises small to mid-sized companies and start-up companies.

The TBD scoring system has a maximum score of 100, with most Japanese businesses falling into the 40-60 point range. For privately held companies, public credit ratings are not available.

Within the "Bedded Clinics" category - Ranked 59/144 within Tokyo prefecture and 961/3,600 within Japan.

St Catherine's works under the umbrella of and in collaboration with St Luke's International Hospital and was founded in 1955. It was established in its current form in 2006 and has JPY30 million in paid-in capital and 50 staff.

The sole representative and single shareholder with 100% ownership is an individual, Nobuyuki Komiyama. He is the head doctor of the cardiovascular department of St. Luke's International Hospital.

***St Luke's International Hospital** has an overall credit score of 61/100.*
St Luke's is categorised in the upper range of the medium tier (51-65 points), which denotes average creditability; companies with fair business foundations and overall stable management conditions.

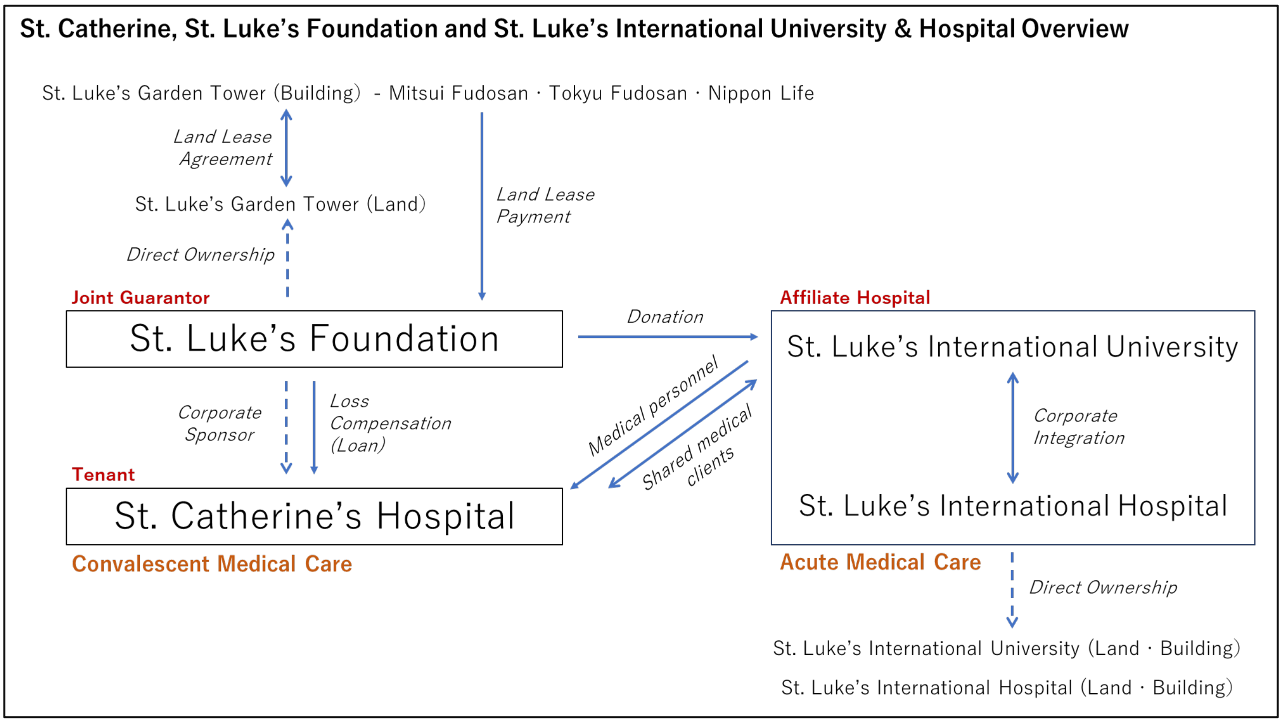
St Luke is a major university hospital in Chuo-Ward, founded in 1901. It was established in its current form in 1954 and has JPY71.6 billion in paid-in capital and 2,133 staff. Along with Tokyo University hospital it consistently holds the highest ranking of hospitals in Japan.

***St Luke's Foundation**, the master-lease guarantor to St. Catherine is an NPO affiliate to St Luke's International Hospital. It does not have a TDB score due to its status as an NPO, however, records show their close affiliation to the hospital entity, with the Foundation typically active in large asset transactions. Land registry records show that ownership of the land and building of St Luke's International Hospital & University was owned by St Luke's Foundation for 20 years before being transferred to them in 2014. Currently, the Foundation is the landowner to St Luke's Garden Tower, an office and residential development neighbouring the hospital. These are valuable large tracts of centrally located land in Chuo Ward near Ginza; an inspection of the property records shows that the land is not used to secure any debt and has no liens.*

Historical record of St Luke's Foundation:

- *1936 - St. Luke's International Medical Center established*
- *1943 - Name changed to Daitoa Idoin Foundation*
- *1945 - Name changed to St. Luke's International Hospital Foundation*
- *2013 - Transitioned to a general incorporated foundation and changed its name to St. Luke's International Medical Center.*
- *2014 - Transferred hospital business to St. Luke's International University*
- *2015 - Name changed to St. Luke's Foundation*

Relationship and Overview between St. Catherine's and St. Luke's Foundation



The corporate sponsorship of St. Catherine Hospital by St. Luke's Foundation was primarily influenced by the mutual interests of Chuo Ward and St. Luke's International Hospital. Around 2014, the Kurita Association, which was the previous entity for St. Catherine Hospital, was put up for sale, offering a total of 41 beds. The Chuo-ward government wanted to retain these beds within the ward to support the development of the Olympic athletes' village and to meet the expected increase in demand following the construction of condominiums in the Harumi and Kachidoki areas. Concurrently, St. Luke's International Hospital was looking to develop a convalescent care facility, and utilized this opportunity to expand its operation. During the planning of the wider Sumitomo Fudosan Harumi residential development, Sumitomo had spare land which was suggested by Chuo-ward as St. Catherine's new site. With the intentions of all parties aligned, the St. Luke's Foundation established the St. Catherine's Hospital in Harumi.

St. Luke's Foundation provides strong financial support to St. Catherine's Hospital as well as to St. Luke's International University & Hospital. Its financial structure relies on rental income received from the land lease agreement of St. Luke's Garden Tower, let to Mitsui Fudosan, Tokyu Fudosan and Nippon Life who own and operate the building entity. St. Luke's Foundation provides St. Catherine's with loans that includes a provision of doubtful debts that accounts for 50% of the loan amount (as detailed in the balance sheet below). Additional to this loan, St. Luke's Foundation covers St. Catherine's deposit guarantees and substitute payments on debt obligations to Mitsubishi UFJ Bank. Additionally, St. Luke's International University receives donations from St. Luke's Foundation, as Japan tax law permits donations to universities as tax-deductible.

St. Catherine's Hospital and St. Luke's International Hospital also work in close tandem, with human resources support and clientele for St. Catherine's Hospital being provided by St. Luke's International Hospital. St. Luke's International Hospital utilize the facility to provide convalescent medical care services to their client's post-acute care. The operations between the two hospitals are closely related, with physicians and staff working under the same employment conditions as those at St. Luke's International Hospital and ensuring that the medical services at St. Catherine Hospital are maintained at a consistent standard.

<u>Financial information – St. Luke's Foundation Balance Sheet:</u>

番号	Line Item	2021 Fiscal Year	2022 Fiscal Year	Difference	Comments
		①	②	②−①	
1	Total Assets	6,215	6,008	▲ 207	
2	Liquid Assets	1,441	1,067	▲ 374	
3	Cash & Deposits (incl. St. Catherine's deposit collateral for borrowing guarantee)	1,436 (810)	1,061 (675)	▲ 375 (▲135)	St. Catherine's debt drawdown to MUFG
4	Other	5	6	1	
5	Fixed Assets	4,774	4,941	167	
6	Hospital Construction Project Fund	3,618	3,619	0	Originally for St. Luke's Hospital major repairs, but currently used as separate reserve cash
7	Subsidiaries	63	63	-	St. Luke's Corp (62.5m), St. Catherine's (0.01m)
8	Loan Receivables	1,690	2,025	335	Total loan amount to St. Catherine's
9	Allowance for doubtful accounts	▲ 845	▲ 1,013	▲ 168	50% of St. Catherine's loan amount
10	Security Deposit	171	171	-	St. Catherine's tenant security deposit
11	Land	60	60	-	
12	Other	17	16	▲ 1	
13	Total Debt	25	26	1	
14	Liquid Debt	2	2	▲ 0	
15	Accounts Payable	1	0	▲ 1	
16	Other	1	1	0	
17	Fixed Debt	23	24	1	
18	Retirement Severance Fund	23	24	1	
19	Net Assets	6,190	5,982	▲ 208	
	St. Catherine's Support Amount	2,671	2,871	200	

**Unit: JPY million*

<u>Credit Rating Review</u>

In addition to its credit ratings, TDB provides another index of risk management, "Bankruptcy Prediction Value". TDB uses quantitative and qualitative data analysis methods to predict the probability that a company will go bankrupt within a year, based on the corporate information database accumulated through its own credit bureau and information coverage network. It is quantified as "predicted value" (0 to 100%) and 10 levels from G1 to G10, with G10 is the highest risk grade.

As of 12 August 2023, TDB's Bankruptcy Prediction Value (BPV) for St Luke's International Hospital was 0.04%, equating to Level G1, the lowest risk level. A BPV is not available for St Catherine's Hospital or St Luke's Foundation.

Financial information – St Catherine's:

	Sales (JPY mm)		業績6期 Net income (JPY '000s)
決算期	売上高（百万円）		当期純利益（千円）
平成29年 9月	9.2017	50	3, 964
平成30年 9月	9.2018	131	-484, 036
令和 1年 9月	9.2019	502	-554, 555
令和 2年 3月	3.2020	309	-152, 918
令和 3年 3月	3.2021	519	-301, 002
令和 4年 3月	3.2022	469	-352, 038
令和 5年 3月	3.2023	470	

St. Catherine was also heavily impacted by the pandemic due to its function as a rehabilitation hospital and people avoiding close contact during the pandemic as well as the delayed opening of the Harumi Flag complex. While the delayed opening of the Olympic athletes' village and reduced patient revenue during the pandemic have led to lower income than expected, St. Catherine's operations are maintained through the robust revenue structure and financial coverage of St. Luke's Foundation.
We expect their business to improve particularly in the standard medical care in the post-pandemic era as well as demand from the Harumi Flag (ex-Olympic village) tenants populating the neighbouring developments.

As the tenant is under a fixed-term lease, they do not have the ability to terminate the lease mid-term and are liable for the remainder of the rent until expiration with St. Luke's Foundation acting as a rental guarantor in case of default.

Credit risk mitigations:
- *Rent guarantee from St Luke's Foundation, an asset-rich counterparty that sponsors the operations of St Catherine's as part of the St Luke's Hospital ecosystem.*
- *Security deposit (12 months' rent), which could be used to cover the reinstatement of the existing fit-out in the unlikely case of tenant and guarantor default.*
- *St Catherine's patients can pay for treatment via the Japanese healthcare system, meaning that the majority of the patient's costs are covered by insurance (typically 70% depending on age and other criteria). While this is not directly related to the St Catherine's rent obligations, we can take comfort that the tenant's income stream predominantly comes from reliable, credit sources.*

<u>Potential to re-tenant/reposition the asset (downside scenario):</u>

The risk of credit default by both the tenant and its guarantor is deemed limited and highly unlikely. However, the impact of such an event on the investment returns is mitigated to a large extent by the ability to re-lease or reposition the property.
- *The property could be re-leased in its entirety to an alternative hospital tenant. St Luke's and its guarantor are obligated to pay full reinstatement costs. Nonetheless, capex relating to reinstatement is not expected to exceed the 12-month rental deposit. Moreover, a replacement tenant may elect to retain some or all of the existing fit-out to achieve material cost savings. An alternative operator may be another St Luke's affiliate, or an operator introduced by them, given their position as guarantor.*
- *The property could be repositioned as a multi-tenant property. The property is currently zoned under healthcare/medical use, therefore our downside assumption is that the tenant base would be predominantly clinics (i.e. a 'medical mall'), with some office use allowable under existing zoning rules. Related capex is not expected to exceed the 12-month rental deposit. Please see Appendix for indicative downside scenario returns.*
- *Change of use to full office use may be permitted by Chuo Ward upon application. However, this is uncertain and is not an assumption within our downside scenario.*

7.13.3 Investor & Non Exec. Advisor issues

No updates from the original IC based on the outcome of due diligence.

7.13.4 Other risks

-

7.14 Asset Plan

ASSET MANAGEMENT INITIATIVES	APPROVAL / TIMESCALE / COST
➢ The property is fully leased to a single tenant, with rental income fixed well beyond the 48-month hold period. ➢ Asset management will therefore be focused on tenant relations and efficient maintenance. ➢ The Fund will also investigate potential improvement in the ESG qualities of the asset to drive further efficiencies, with a focus on utilities monitoring. ➢ Exit Strategy: Sale of the asset individually or collectively with other Fund assets to institutional investors, domestic corporates, local real estate companies or private investors. A targeted sales process would be conducted to identify the most motivated buyers at that time.	

CONCLUSION
Asset plan is unchanged from initial IC memo.

7.15 Finance

Per the Stage 2 IAC memo, the transaction will be cross-collateralized with fixed interest rate debt funding from Aozora Bank via APAC 2 TMK, which will allow for a tax/cost-efficient add-on investment.

ISSUE / ADVISOR COMMENT	ACTIONS / TIMESCALE / COST
Debt	
- 65.0% LTP / 56.8% LTV - Loan amount: JPY 2,158 mm - 5.0-year term with 2.0-year tail period - 1.15% spread over base rate: TONA swap rate with floor at 0% – for reference, 5-year TONA Swap priced at 52bps as of 8 Feb. 2024, 5-year forward starting TONA Swap from 30 April 2024 currently 56bps UW base-case conservatively assumes base rate of 60bps. - Upfront fee: 1.0% - Amortization: 2.50% per annum in 4-5 year. - Release price: 110% - DSCR test: 2024.10~: 2.73x - LTV test: Before Harumi acquisition: 64.0%	The LTV will not exceed the 60% leverage limitation. Aozora Bank has internal credit approval to proceed based on the proposed closing schedule. The base rate will be fixed two business days prior to closing. Standard covenants with no forced sale clause. A breach of DSCR/LTV test would result in cash trap, and then sweep after 2nd consecutive DSCR test breach or LTV test breach. From Jan 2026 onwards, a breach of 4th consecutive DSCR test would require a mandatory prepayment of JPY200mm. This would be a one-off pay down; there would be no obligation to top up again in the case of any subsequent DSCR breach. There is no Event of Default for a DSCR breach even if continuous. Pay-down would not be required if equivalent release pricing has been redeemed through the sale of Kitasaiwacho or the Harumi properties.

After Harumi acquisition: TBD	
Debt exit costs	
Under the fixed base rate assumption, breakage fee will apply if exiting the deal prior to maturity of the loan.	Breakage fee cost methodology: → BFC= Loan Amount x (Base Rate - Lender's investment yield at prepayment) x Remaining Period Example: Loan Amount： 2,145mm Maturity： 5Y Holding Period： 4Y (Remaining Period: 1Y) Base Rate： 0.52%* (TONA 5Y) Lender's yield at prepayment： 0.91%** (TONA 4Y) →BFC: 2,145mm×(0.55%-0.91%)×1Y = -8.4mm BFC not payable as floor at zero applies. **5-year forward starting TONA Swap from April 2024* ***1-year forward starting TONA Swap from April 2028*
Interest rate hedge	
N/A	Fixed rate debt
Currency hedge	
EUR and USD equity to be fully hedged against JPY using FX forwards. Benefit of hedging prudently assumed to be 0% per annum in underwriting.	FX hedging quotes from SEB to be benchmarked using Bloomberg and BARX trading platform.
Best Execution	
We have discussed with various lenders with whom we have recently transacted in this asset class, including Aozora, Mizuho Trust Bank, MUFG, PGIM, and Tokyo Star Bank. We have proceeded with Aozora due to their favourable terms, execution reliability and cost efficiencies provided by the existing TMK structure.	
CONCLUSION	
The debt terms are generally in line with the assumptions outlined in the Stage 1 memo.	

Given that APACIG is structured with Shari'a compliant Feeder Fund (currently not established), the Fund and its investments will need to make reasonable endeavours for the investments to comply with the approved FATWA, including a 33% limit cap on conventional third party debt and where possible to use Shari'a debt if it is not too materially more expensive than conventional third party debt (refer to section 3.1 Investment Restrictions for details).

Because Shari'a compliant debt is generally not available in Japan, and that time is restricted to conduct the required survey of potential lenders of Shari'a debt, we are pursuing conventional debt for this transaction.

7.16 Acquisition Structure and Tax

We have taken advice from KPMG with regards to the eligibility of the Trust Beneficiary Interests (TBIs) and TK interests for the German real estate quota. The advice has confirmed the assumptions set out in the Stage 1 IAC paper except for the matter highlighted below.

- In the previous IC paper, the specific TMK to invest in was not yet determined
- It is now known that APACIG will invest into APAC 2 TMK which is the same TMK that invests in the Trust Beneficial Interests for Project Yokohama-Kitasaiwai and Project Nishi-Gotanda.

See appendix for structure chart.

7.17 Confirmation of Forecast Returns and Sensitivity

	FINAL FORECAST	COMMENT
Hold Period	48 months	Base-case assumption
Leverage	JPY2,158mm 65.0% LTP 56.8% LTV	Total; Debt from Aozora; valuation from JLL
Equity Funding	JPY1,264mm	Total
Asset level Hold period total return	16.92%	Net, levered; Inclusive of C-tax recovery, before on-shore AM fees
Fund level Hold period total return	15.85%	Net, levered; Inclusive of C-tax recovery (pre-promote)
Fund level Hold period equity multiple	1.74x	Net, levered; Inclusive of C-tax recovery (pre-promote)
Avg. Fund level net levered yield (4 yrs)	6.16%	Net, post tax and fees (pre-promote)
Net Initial Yield	4.39%	NOI/GPP, Day 1
Going-in NOI Cap Rate	4.60%	NOI/NPP, Stabilized basis
Exit NOI Cap Rate	3.80%	
OTHER		
Please see appendix for sensitivities. Key performance factors are broadly unchanged from the initial IAC memo assumptions, with the return profile improved by cost efficiencies through use of the existing APAC2 TMK structure.		

7.18 Independent Valuation Summary

	VALUATION	PURCHASE PRICE	PP vs. VALUATION	COMMENT
Project Saint / St Catherine's Hospital	3,800,000,000	3,320,000,000	-12.6%	Draft valuation by JLL
CONCLUSION				
Reflecting the off-market nature of the deal origination, the 3rd party valuation indicates that the purchase price is at a discount to market value, based on a ten-year discounted cash-flows.				

Conclusion and Final Recommendation

TRANSACTION SPONSOR (FUND MANAGER)	TRANSACTION MANAGER	FUND FINANCE MANAGER
Greg Lapham	Will Johnson Takaaki Watanabe	Ken Shimamura

Stage 2 Appendices

1) Sensitivities (stand-alone basis)

(i) UW Scenarios – Sensitivity Tables

Base case scenario – Fund-level returns (post tax, post-fees)

Cap Rate Stress	Hold Period (quarters)		
15.85% / 1.74x	-4	0	4
-0.25%	24.30% / 1.87x	19.13% / 1.93x	16.14% / 2.00x
-0.20%	23.35% / 1.83x	18.46% / 1.89x	15.62% / 1.95x
-0.15%	22.41% / 1.79x	17.80% / 1.85x	15.12% / 1.91x
-0.10%	21.49% / 1.75x	17.15% / 1.81x	14.62% / 1.87x
-0.05%	20.57% / 1.71x	16.50% / 1.77x	14.12% / 1.84x
0.00%	19.65% / 1.67x	15.85% / 1.74x	13.63% / 1.80x
0.05%	18.75% / 1.64x	15.21% / 1.70x	13.14% / 1.76x
0.10%	17.86% / 1.60x	14.58% / 1.66x	12.65% / 1.73x
0.15%	16.97% / 1.57x	13.94% / 1.63x	12.17% / 1.69x
0.20%	16.10% / 1.53x	13.32% / 1.60x	11.69% / 1.66x
0.25%	15.24% / 1.50x	12.71% / 1.56x	11.22% / 1.62x

Downside scenario 1: +30bps on base rate – Fund-level returns (post tax, post-fees)

Cap Rate Stress	Hold Period (quarters)		
15.44% / 1.72x	-4	0	4
-0.25%	23.90% / 1.86x	18.74% / 1.92x	15.75% / 1.97x
-0.20%	22.94% / 1.82x	18.06% / 1.87x	15.23% / 1.93x
-0.15%	22.00% / 1.78x	17.40% / 1.83x	14.72% / 1.89x
-0.10%	21.07% / 1.74x	16.74% / 1.79x	14.22% / 1.85x
-0.05%	20.15% / 1.70x	16.09% / 1.76x	13.73% / 1.81x
0.00%	19.23% / 1.66x	15.44% / 1.72x	13.23% / 1.77x
0.05%	18.33% / 1.62x	14.80% / 1.68x	12.74% / 1.74x
0.10%	17.44% / 1.59x	14.16% / 1.65x	12.25% / 1.70x
0.15%	16.55% / 1.55x	13.53% / 1.61x	11.76% / 1.67x
0.20%	15.68% / 1.52x	12.91% / 1.58x	11.28% / 1.63x
0.25%	14.81% / 1.49x	12.29% / 1.54x	10.80% / 1.60x

Downside scenario 2: worst-case; re-tenanting

As the tenant is under a fixed-term lease we do not anticipate for an early mid-term termination; moreover, there lease is backed by a full-term rental guarantee with a credit entity. However, we have constructed a downside, worst-case scenario assuming:

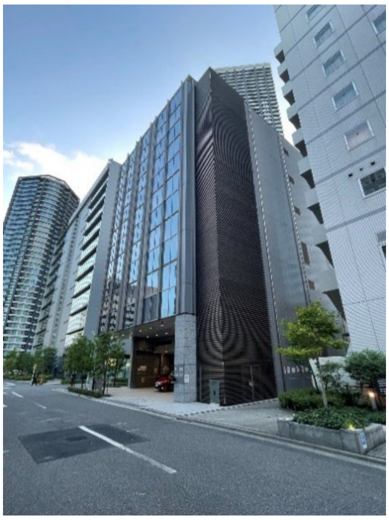
- *Tenant vacating the premises mid-lease (Year 3)*
- *Excludes rent coverage from master-lease guarantor during downtime*
- *12 month downtime to re-lease property - multi-tenanted with medical and office tenants*
- *Medical and office tenant rent levels in-line with market (JPY16,500/tsubo & 16,000/tsubo)*
- *Usage of tenant security deposit to facilitate tenant reinstatement and partial office conversion*
- *Additional cap rate compression on exit cap of 30bps as a result of single tenant risk mitigation*
- *Conservative leasing incentives budgeted to cover re-tenanting*

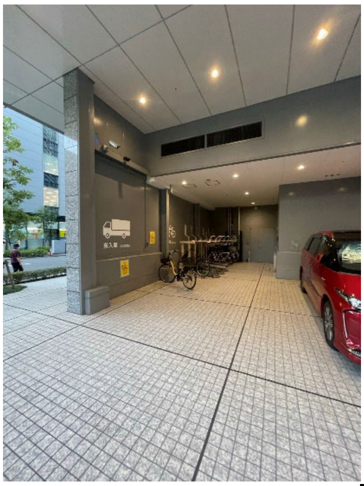
Worst-case scenario sensitivity – Fund-level returns (post tax, post-fees)

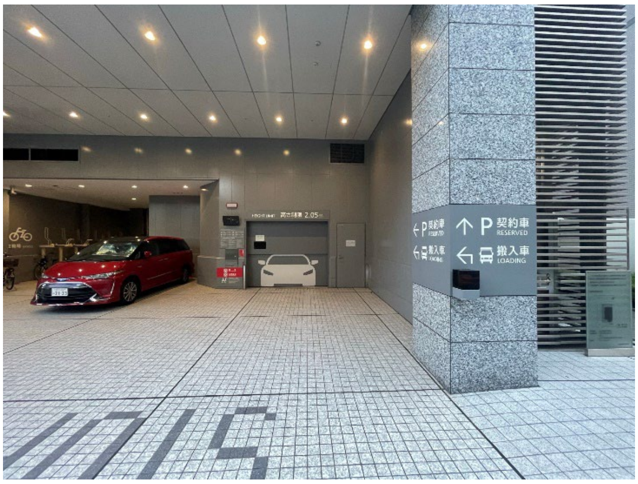
Cap Rate Stress	Hold Period: 9.32% / 1.40x	12	**16**	20
	-0.25%	18.82% / 1.64x	13.23% / 1.60x	11.30% / 1.65x
	-0.20%	17.76% / 1.60x	12.45% / 1.56x	10.70% / 1.61x
	-0.15%	16.70% / 1.56x	11.66% / 1.51x	10.10% / 1.57x
	-0.10%	15.65% / 1.52x	10.87% / 1.47x	9.50% / 1.53x
	-0.05%	14.62% / 1.48x	10.10% / 1.44x	8.90% / 1.49x
	0.00%	13.59% / 1.44x	9.32% / 1.40x	8.31% / 1.45x
	0.05%	12.57% / 1.40x	8.56% / 1.36x	7.72% / 1.41x
	0.10%	11.58% / 1.37x	7.80% / 1.33x	7.14% / 1.38x
	0.15%	10.58% / 1.33x	7.05% / 1.29x	6.56% / 1.34x
	0.20%	9.61% / 1.30x	6.31% / 1.26x	5.99% / 1.31x
	0.25%	8.62% / 1.27x	5.55% / 1.22x	5.41% / 1.28x

(ii) Photographs

<u>*External*</u>



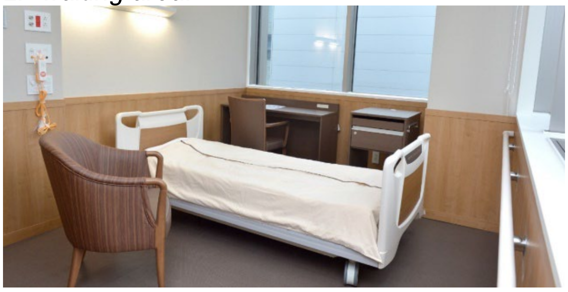




<u>*Internal*</u>

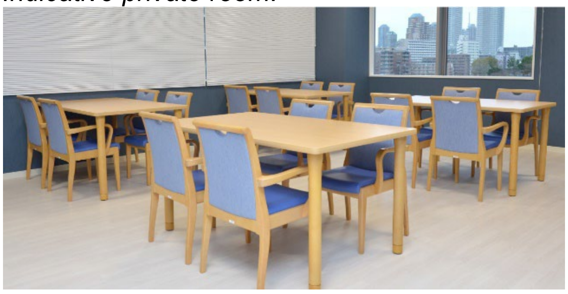
1F reception area:

2F waiting area:



4F semi-private room:

Indicative private room:



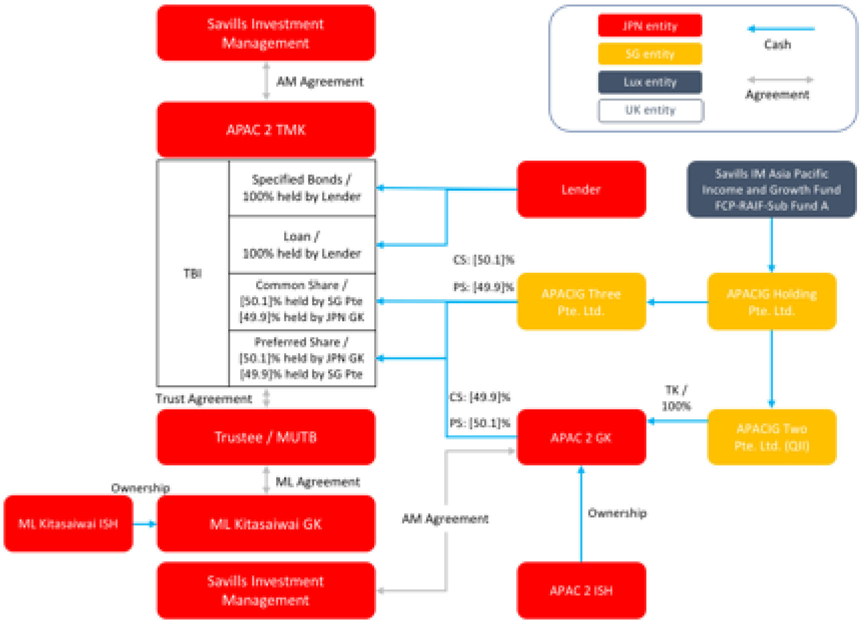
Indicative private toilet:

Indicative day room:

3) Structure Chart

Private and confidential – not for distribution

PJ Saint / APACIG Structure Chart



4) House Views on Japan's monetary policy.

Adjustment of YCC

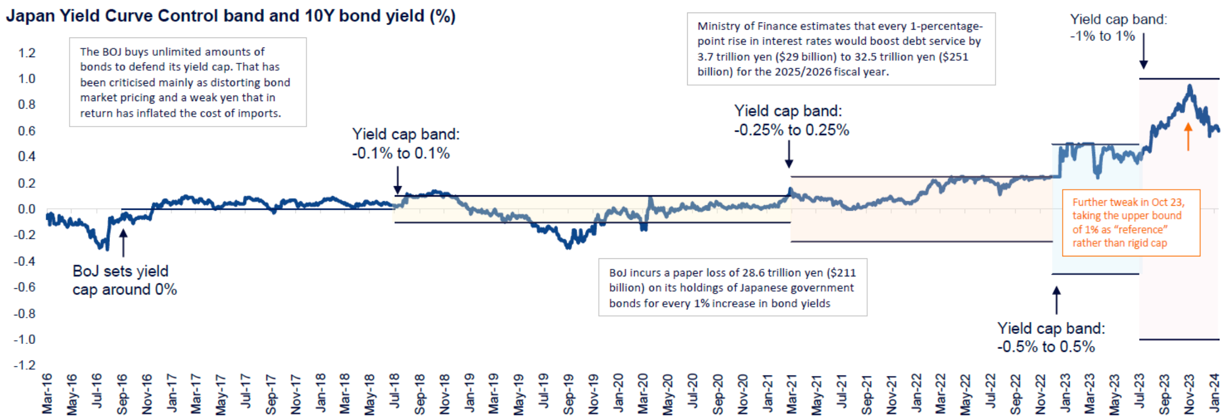
At the conclusion of the policy meeting on 28 July 2023, the Bank of Japan (BoJ) introduced greater flexibility to its yield curve control policy (YCC) and eased its stance on maintaining a cap on long-term interest rates. In October 2023, BoJ further tweaked the policy to make 1% a reference point, and no longer a cap.

Summary of BoJ actions so far:

- Under its "yield-curve control policy," (YCC) introduced in 2016, the BoJ buys Japanese government bonds, without limit, to guide 10-year government bond yields to zero and short-term rates to minus 0.1%.
- In March 2021, the BoJ already widened the band from 0.2% to 0.25%, in a bid to ensure its fight against inflation is sustainable. In December 2022, it doubled the width of the yield band to 0.5%.
- 28 July 2023: The BOJ kept unchanged its short-term interest rate target at -0.1% and that for the 10-year government bond yield around 0%. It also maintained guidance allowing the 10-year yield to move 0.5% around the 0% target, but said those would now be "references" rather than "rigid limits".
  The BOJ further said it would offer to buy 10-year Japanese government bonds (JGB) at 1.0% in fixed-rate operations, instead of the previous rate of 0.5%. This suggests a newfound tolerance for the 10-year yield to escalate to a maximum of 1.0%.
- In October 2023, the BoJ introduced greater flexibility to it monetary policy. The BoJ said the 10Y bond yield target level will still be held at 0% but will take the upper bound of 1% "as a reference" rather than a rigid cap.

Is Japan making a U-turn on its monetary policy?

The BoJ remains committed towards the long-term bond yield target at 0%. Gradual changes are more likely than not.



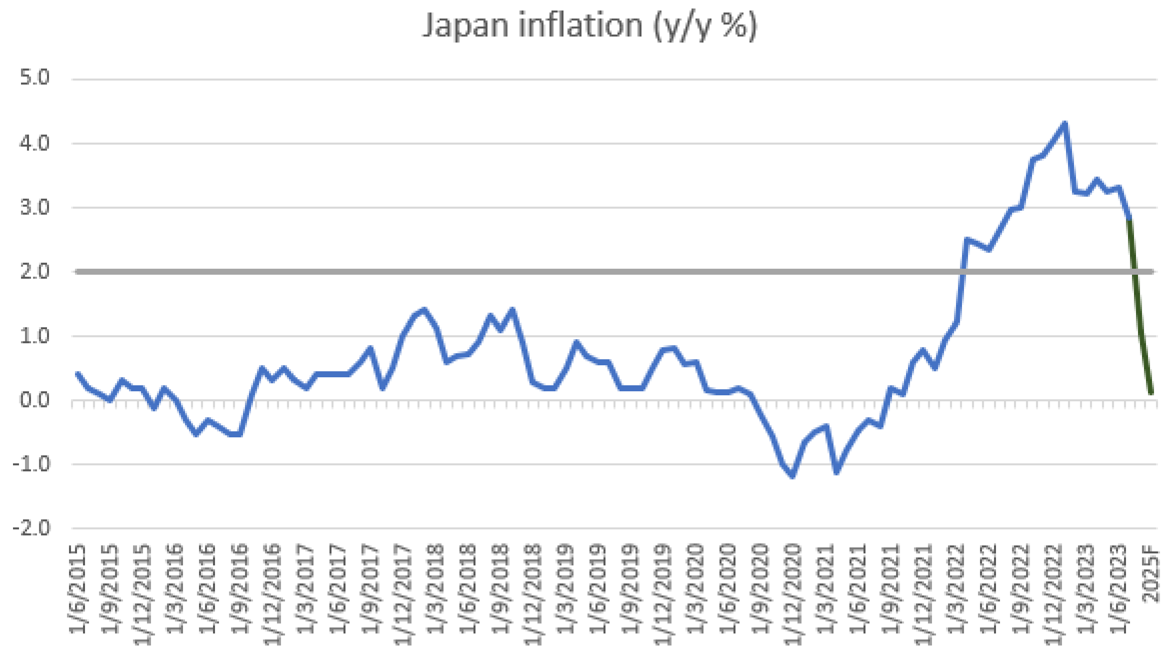
Source: BoJ, Oxford Economics (as at 12 January 2024)

The context

(1) We think the BoJ found it necessary to adjust its YCC policy due to a surge in inflation and increasing market pressures.
The BOJ's decision came after the Federal Reserve's decision to raise interest rates, a move that further widens the interest rate gap between the United States and Japan, and hence the value of the yen. Also, inflation continues to stay above the BoJ's 2% target, not helped by the weak yen, that has prompted some motivation to tighten monetary policy.

(2) As global inflation continues to rear its ugly head, the sustainability of the current monetary policy is being challenged. Hence, we first saw the band widen in March 2021 and December 2022. With the yen trading at near historical levels, price pressures on the Japanese economy are intense.
The BOJ buys unlimited amounts of bonds to defend its yield cap. That has been criticised mainly as distorting bond market pricing and a weak yen that in return has inflated the cost of imports.

(3) At the same time, it is essential for the BoJ to manage the market's anticipations of future monetary policy shifts and avoid a sudden spike in market yields.
The BOJ has to subtly make the adjustment without any pre-announcement. A pre-emptive statement might trigger an onslaught of sell-orders in the market, leaving the BOJ with no alternative but to absorb a massive quantity of bonds until the adjustment in the cap is fully implemented.



Source: Macrobond, Oxford Economics

Impact and views

(1) Importantly, the YCC adjustment is **NOT** a rate hike yet. The BoJ remains committed towards the long term bond yield target at 0%.

(2) The BoJ statement continued to strike a neutral tone, forecasting on-target inflation in fiscal years 2024 and 2025.
The BOJ will likely adopt a gradual approach, gauging the effectiveness of its YCC policy. Going forward, the timing of BoJ's next move will depend on whether the currently observed cost-push inflation transitions into demand driven inflation, which is highly precipitated on the Shunto wage negotiation outcome in March. The market consensus is that, should the annual spring wage negotiations confirm a trend of meaningful wage increases, the BOJ could make more concrete adjustments to the interest rate regime. On the other hand, the Noto Peninsular earthquake on 1 January 2024, may lead to a more careful deliberation around the actual timing of any monetary policy normalization.

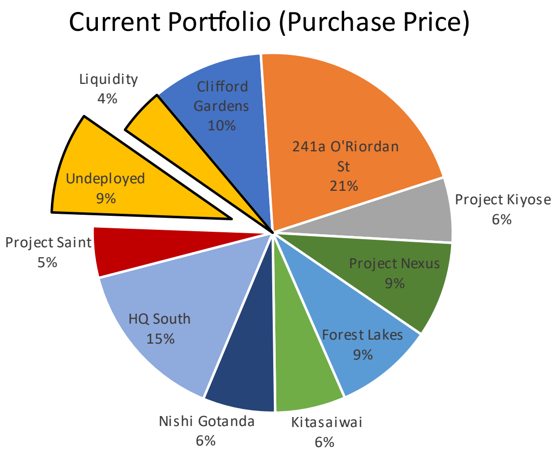
(3) For practical purposes, we believe the BoJ will continue to calibrate its policy to relieve JPY pressures, but will not turn overtly hawkish.
The Ministry of Finance estimates that every 1-percentage-point rise in interest rates would boost debt service by 3.7 trillion yen ($29 billion) to 32.5 trillion yen ($251 billion) for the 2025/2026 fiscal year.
Also, the BoJ incurs a paper loss of 28.6 trillion yen ($211 billion) on its holdings of Japanese government bonds for every 1% increase in bond yields. So it is unlikely to guide the market towards a rapid monetary tightening.

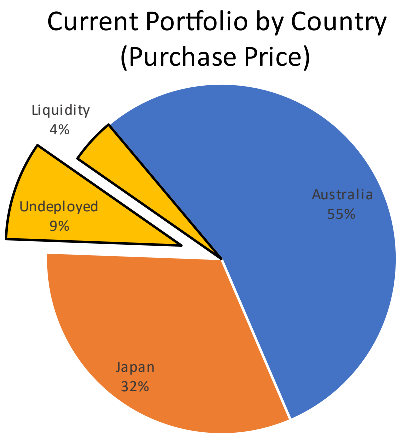
Our house view is that any shift in monetary policy will be gradual, steering the economy to a gentle landing as inflation eases. By extension, the property market will have sufficient time to adjust, and this will be on the back of a stronger occupier performance, which we are already seeing. The relative disparity in interest rates between Japan and the rest of the world will not change overnight. That continues to be supportive of pricing and accretive financing in the Japan property market.

5) Portfolio Composition

Existing portfolio, plus Project Saint

Country	Transaction	Sector	Status	Source	Exch/Settle	Equity (EUR)	Purchase Price (EUR)	Dist. Net	IRR Net1	LTV
Australia	Clifford Gardens	Convenience Retail	Current AUM	Off	29-Jun-21	EUR 27.6	EUR 46.1	7.5%	11.2%	50.0%
Australia	241a O'Riordan St	Office	Current AUM	On	30-Jun-21	EUR 53.9[3]	EUR 96.5	3.1%	5.7%	59.9%[3]
Japan	Project Kiyose	Residential	Current AUM	Off	30-Jun-22	EUR 11.9	EUR 27.0	4.2%	9.2%	60.0%
Japan	Project Nexus	Residential	Current AUM	Off	30-Jun-22	EUR 17.5	EUR 39.7	6.1%	9.8%	60.0%
Australia	Forest Lakes	Convenience Retail	Current AUM	Off	30-Sep-22	EUR 28.0	EUR 40.8	4.2%	9.2%	50.0%
Japan	Kitasaiwai	Office	Current AUM	Off	31-Oct-22	EUR 11.7	EUR 29.0	3.3%	11.9%	60.0%
Japan	Nishi Gotanda	Office	Current AUM	Off	31-Jan-23	EUR 12.1	EUR 29.9	0.6%	12.7%	60.0%
Australia	HQ South	Office	Current AUM	On/Off	31-Jan-23	EUR 32.5	EUR 67.2	3.6%	9.2%	52.5%
Japan	Project Saint	Healthcare	In excl. DD	Off	30-Apr-24	EUR 8.0	EUR 21.2	6.2%	15.9%	56.8%
	Portfolio					**EUR 216.0**	**EUR 397.3**	**4.0%**	**8.7%**	**52.6%**
					Undeployed[1]	**EUR 20.9**	**EUR 41.7[2]**			
					Liquidity	**EUR 19.2**	**EUR 19.2**			
					Total[3]	**EUR 256.1**	**EUR 458.3**			





Existing portfolio, plus Project Saint & Thailand (50%)

Country	Transaction	Sector	Status	Source	Exch/Settle	Equity (EUR)	Purchase Price (EUR)	Dist. Net	IRR Net[1]	LTV
Australia	Clifford Gardens	Convenience Retail	Current AUM	Off	29-Jun-21	EUR 27.6	EUR 46.1	7.5%	11.2%	50.0%
Australia	241a O'Riordan St	Office	Current AUM	On	30-Jun-21	EUR 53.9[3]	EUR 96.5	3.1%	5.7%	59.9%[3]
Japan	Project Kiyose	Residential	Current AUM	Off	30-Jun-22	EUR 11.9	EUR 27.0	4.2%	9.2%	60.0%
Japan	Project Nexus	Residential	Current AUM	Off	30-Jun-22	EUR 17.5	EUR 39.7	6.1%	9.8%	60.0%
Australia	Forest Lakes	Convenience Retail	Current AUM	Off	30-Sep-22	EUR 28.0	EUR 40.8	4.2%	9.2%	50.0%
Japan	Kitasaiwai	Office	Current AUM	Off	31-Oct-22	EUR 11.7	EUR 29.0	3.3%	11.9%	60.0%
Japan	Nishi Gotanda	Office	Current AUM	Off	31-Jan-23	EUR 12.1	EUR 29.9	0.6%	12.7%	60.0%
Australia	HQ South	Office	Current AUM	On/Off	31-Jan-23	EUR 32.5	EUR 67.2	3.6%	9.2%	52.5%
Thailand	Thai Logistics	Industrial/Logistics	In excl. DD	Off	30-Apr-24	EUR 15.0	EUR 26.9	21.1%	37.0%	60.0%
Japan	Project Saint	Healthcare	In excl. DD	Off	30-Apr-24	EUR 8.0	EUR 21.2	6.2%	15.9%	56.8%
	Portfolio					**EUR 231.0**	**EUR 424.3**	**5.1%**	**10.5%**	**53.1%**
					Undeployed[1]	**EUR 5.9**	**EUR 11.7[2]**			
					Liquidity	**EUR 19.2**	**EUR 19.2**			
					Total[3]	**EUR 256.1**	**EUR 455.2**			

1. *Undeployed capital includes allowance of 7.5% of committed equity for liquidity*
2. *Undeployed equity assumed to be geared at 50% (to allow for acquisitions costs)*
3. *Inclusive of 1Q24 debt reduction at 241a O'Riordan St (EUR 7.7m)*