

PRINCIPAL ADVERSE IMPACT STATEMENT

The following is the adverse sustainability impact statement of Activia Properties Inc. (“API”) and Comforia Residential REIT, Inc. (“CRR”) pursuant to Regulation (EU) 2019/2088 (“SFDR”). We have no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan and rely on TLC REIT Management Inc. (the “Asset Manager”), to manage and operate the properties in our portfolio. API, CRR and the Asset Manager are hereinafter referred to collectively as “we”, “us” or “our”.

1. Summary

We consider principal adverse impacts of our investment decisions on sustainability factors. The present statement is our consolidated statement of the principal adverse impacts on sustainability factors (“PAI”). The statement covers the reference period from January 1, 2022 to December 31, 2022. The statement will be reviewed at least once during every year.

We believe that our sustainability initiatives are essential for our sustainable growth. We improve long-term returns of investors and contribute to the realization of sustainable society and urban development by implementing initiatives that address social issues. Under our sustainability policies and framework, we, in collaboration with the Asset Manager, take actions on climate change, including energy conservation, use of renewable energy, and being resilient in times of disasters.

We use the definition of PAI as described in Recital 20 of SFDR being “those impacts of investment decisions and advice that result in negative effects on sustainability factors”, with sustainability factors referring to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters as defined in article 2 (24) of SFDR.

We believe that investment decisions that negatively affect climate or other environment-related resources, or have negative implications for society, can have a significant impact to risk and value creation for our unitholders. To this end, we consider PAI of our investment decisions throughout all major steps of the investment decision and property management process throughout the lifecycle of the properties in our portfolio.

Please note that SFDR requirements, including the scope of their application to issuers outside the European Economic Area, continue to evolve. We are therefore taking a principles-based approach to compliance with the SFDR disclosure standards, which are subject to change.

2. Description of principal adverse sustainability impacts

Nearly all types of economic activity have the potential to impact various PAI indicators, both positively and adversely. We aim to manage the risk connected to PAI from our investment decisions in several ways, including general screening criteria, due diligence and our ESG initiatives. Some of the PAI indicators listed below are currently already being monitored and reported. As the availability of data improves, it is our intention that more indicators will be added.

Table 1

Principal adverse sustainability impacts statement
Indicators applicable to investments in real estate assets

Adverse sustainability indicator		Metric	Impact in 2022	Impact in 2021	Explanation	Actions taken
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	N/A	N/A	We do not invest in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels.	N/A
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	As of November 30, 2022, approximately 28% of the properties in API's portfolio based on gross floor area were not green-certified. As of January 31, 2023, approximately 76.8% of the properties in CRR's portfolio based on gross floor area were not green-certified.	As of November 30, 2021, approximately 35% of the properties in API's portfolio based on gross floor area were not green-certified. As of January 31, 2022, approximately 80.8% of the properties in CRR's portfolio based on gross floor area were not green-certified.	We use Building Energy-efficiency Labeling System ("BELS"), Comprehensive Assessment System for Built Environment Efficiency ("CASBEE"), or Development Bank of Japan ("DBJ") Green Building Certification for the environmental certification of the properties in our portfolio. We also track and monitor these property-level environmental certifications to assess the environmental performance of our portfolio. We consider a property as "green-certified" if it, receives one or more	We implement as appropriate measures to reduce their environmental impact following acquisition, including by obtaining environmental certifications such as BELS ranking system, the CASBEE ranking

					stars in the BELS ranking system, receives one or more stars in the CASBEE ranking system or receives one or more stars in the DBJ Green Building Certification ranking system.	system or the DBJ Green Building Certification ranking system, installing LED lighting and introducing renewable energy.
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Table 2

Additional climate and other environment-related indicators

Adverse sustainability impact	Adverse sustainability impact (qualitative or quantitative)	Metric
Indicators applicable to investments in real estate assets¹		
Climate change	<p>18. GHG emissions</p> <p>Total GHG emissions intensity generated by our properties was as follows:</p> <ul style="list-style-type: none"> - API: 0.089 t-CO₂/m² (in FY2018), 0.083 t-CO₂/m² (in FY2019), 0.07 t-CO₂/m² (in FY2020), 0.07 t-CO₂/m² (in FY2021). - CRR: 0.043 t-CO₂/m² (in FY2018), 0.047 t-CO₂/m² (in FY2019), 0.036 t-CO₂/m² (in FY2020), 0.036 t-CO₂/m² (in FY2021). <p>API and CRR both track and monitor GHG emissions intensity, calculated in accordance with the GHG Emissions Accounting, Reporting and Disclosure System established by the Ministry of the Environment of Japan. API aims to complete the procurement of renewable electricity and achieve 100% reduction of CO₂ emissions generated by electricity by the end of March 2026 compared to the level in FY2015. CRR aims to reduce the CO₂ emissions intensity of the properties in CRR's portfolio by 40% by FY2030 compared to the level in FY2020, as announced in CRR's Sustainability Report 2022.</p>	Scope 1 GHG emissions generated by real estate assets
		Scope 2 GHG emissions generated by real estate assets
		From 1 January 2023, Scope 3 GHG emissions generated by real estate assets
		Total GHG emissions generated by real estate assets

¹ Total GHG emissions intensity and energy consumption intensity are calculated over a one-year period from April to the following March for API and from February to the following January for CRR.

Climate change	<p>19. Energy consumption intensity</p> <p>Energy consumption intensity of our properties was as follows:</p> <ul style="list-style-type: none"> - API: 0.22 MWh/m² (in FY2018), 0.21 MWh/m² (in FY2019), 0.20 MWh/m² (in FY2020), 0.19 MWh/m² (in FY2021). - CRR: 0.102 MWh/m² (in FY2018), 0.113 MWh/m² (in FY2019), 0.091 MWh/m² (in FY2020), 0.092 MWh/m² (in FY2021). <p>API and CRR both track and monitor energy use and energy use intensity, and each aim to achieve a medium- to long-term target of 1% average annual reduction in energy use intensity in their portfolios.</p>	Energy consumption in GWh of owned real estate assets per square meter
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Table 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Adverse sustainability impact	Adverse sustainability impact (qualitative or quantitative)	Metric
Indicators applicable to investments to the Asset Manager or tenants		
Social and employee matters	<p>4. Lack of a supplier code of conduct</p> <p>As part of the Tokyu Fudosan Holdings Group, the Asset Manager has adopted the Group’s sustainable procurement policy that requires suppliers to carry out environment-friendly procurement, with various standards applicable not only to biodiversity protection, resource usage, and waste treatment, but also to social aspects including human rights protection and labor conditions.</p>	<p>Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labor and forced labor)</p> <p>The Asset Manager has adopted a supplier code of conduct of the Tokyu Fudosan Holdings Group which includes policies against unsafe working conditions, precarious work, child labor and forced labor.</p>
	<p>5. Lack of grievance/complaints handling mechanism related to employee matters</p> <p>The Asset Manager makes effort to maintain and improve tenant satisfaction. We regularly conduct tenant surveys to understand their needs and complaints regarding property management and operation.</p>	<p>Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters</p>

	<p>It also conducts periodic employee satisfaction survey to track progress made against annual targets and the medium- to long-term vision, to create a highly productive organization where all employees are satisfied with their jobs and maximize their abilities for organizational execution, and to deepen the mutual understanding between the company and employees.</p>	<p>The Asset Manager has grievance/complaints handling mechanisms available to some of its tenants and all of its employees.</p>
	<p>6. Insufficient whistleblower protection</p> <p>The Asset Manager has established the Compliance Helpline Counter that all officers and employees can use to report and consult on compliance matters including harassment and bullying; the counter allows them to directly report to the General Manager of the Compliance Department of the Company, General Manager of Legal Affairs Department, Tokyu Land Corporation, General Manager of Group Legal Affairs Department, Tokyu Fudosan Holdings Group, or outside counsel.</p>	<p>Share of investments in entities without policies on the protection of whistleblowers</p> <p>All of the Asset Manager's officers and employees are provided whistleblower protection.</p>
Human Rights	<p>9. Lack of a human rights policy</p> <p>The Tokyu Fudosan Holdings Group recognizes that respecting the human rights of employees and all stakeholders involved in its businesses is an essential requirement for a company with global operations and what is expected from all companies. In December 2019, the Tokyu Fudosan Holdings Group established a human rights policy consistent with the Universal Declaration of Human Rights and other international human rights doctrines and works with its suppliers to conduct business activities that fully respect human rights.</p> <p>In 2016, the Tokyu Fudosan Holdings Group signed to join the Global Compact, an organization that works voluntarily with the United Nations and private companies and organizations to build a healthy global society and create a global framework for sustainable growth. The Tokyu Fudosan Holdings Group aims to solve social problems and contribute to building a sustainable society in accordance with the Global Compact's 10 principles in four areas related to human rights, labor, environment, and anti-corruption.</p> <p>The Asset Manager complies with both the human rights policy and the Global Compact's principles.</p>	<p>Share of investments in entities without a human rights policy</p> <p>The Asset Manager has adopted the human rights policy of Tokyu Fudosan Holdings Group.</p>

For descriptions of actions which the Asset Manager takes and will take with respect to the PAI indicators, please refer to our ESG website with respect to:

API: <https://www.activia-reit.co.jp/en/sustainability/index.html>

CRR: <https://www.comforia-reit.co.jp/en/sustainability/index.html>

3. Description of policies to identify and prioritize principal adverse sustainability impacts

Subject to data availability, we monitor the selected PAI indicators for the existing properties in our portfolio.

Prior to our investment in a property, we conduct due diligence review of the property, including ESG due diligence, which includes selected PAI indicators. The due diligence findings related to selected PAI indicators are reported and reviewed prior to the investment decision.

We have established the Sustainability Promotion Council, which holds quarterly meetings to deliberate and decide upon matters concerning the promotion of ESG such as passing resolutions for basic ESG policies, annual plans for ESG promotion, annual activities planning and reporting, and initiatives for various ESG measures under our portfolio management strategy. At these meetings, the Sustainability Department will make proposals on specific steps toward implementing and achieving ESG goals to the members of the Council, which includes directors (excluding part-time directors), chief division officers of all the divisions, general managers of the Environmental Engineering Department and Sustainability Department, and the compliance officer. President & CEO of the Asset Manager serves as the Chief Sustainability Officer as well as the Chairman of the Sustainability Promotion Council and has the authority to make final decisions on such proposals.

From time to time, we issue investment corporation bonds earmarked for use in certain projects serving as countermeasures against global warming or providing environmental benefits under our green bond framework, which is generally aligned with the Green Bond Principles, a voluntary guideline of International Capital Market Association. Our green bond framework requires the proceeds from our green bonds to be allocated to funds for (i) acquisition of the “Eligible Green Projects” or (ii) refurbishments fulfilling certain “Eligibility Criteria”, or (iii) refinancing the existing loans/investment corporation bonds which have been allocated to acquire Eligible Green Projects or refurbishments meeting Eligibility Criteria.

For further information, please refer to our ESG website:

API: <https://www.activia-reit.co.jp/en/sustainability/index.html>

CRR: <https://www.comforia-reit.co.jp/en/sustainability/index.html>

4. Engagement policies

Due diligence and screening

Prior to our investment in a property, the Asset Manager conducts due diligence review of the property, including environment assessment and evaluation of risks related to building safety, future prospects, and location. As a result of due diligence review, if there is a risk of a negative environmental impact, such as due to soil contaminants or other harmful substances or noncompliance with law aimed at reducing energy consumption or greenhouse gas emissions, we will take measures to avoid or mitigate the risk.

In addition, we monitor and track energy consumption, greenhouse gas emissions, water usage and waste amounts at our properties.

Engagement

We have established green procurement standards and require our suppliers to work with us to ensure that the financing is environmentally responsible, including with respect to energy conservation, reduction of pollutants, and preservation of biodiversity.

We have also adopted the sustainable procurement policy of Tokyu Fudosan Holdings Group and are seeking to work with stakeholders such as design companies, construction companies and customers, to seek their understanding of our sustainability efforts.

In addition, we include certain information-sharing and cooperation clauses in the lease contracts with our tenants in order to monitor energy consumption, respond to environmental regulations, and obtain and improve ESG certifications for properties in our portfolio.

5. References to international standards

The Asset Manager has decided to support the recommendations of the Task Force on Climate related Financial Disclosures (“TCFD”) and also joined the TCFD Consortium, a group of domestic companies that supports TCFD recommendations in January 2022. The Asset Manager signed the PRI, which is six principles proposed in 2006 by then Secretary General of the United Nations as a guide for members of the financial sector, and the international network of investors working toward the fulfillment of the principles.