

PRINCIPAL ADVERSE IMPACT STATEMENT

The following is the adverse sustainability impact statement of Japan Hotel REIT Investment Corporation (“JHR”) 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 Japan Hotel REIT Advisors (the “Asset Manager”) to manage and operate the properties in our portfolio. JHR 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, 2021 to December 31, 2021. The statement will be reviewed at least once during every six months.

We and the Asset Manager are making efforts to enhance the sustainability of our business through consideration of ESG (Environment, Social & Governance) issues, on the belief that sound management, which enables us to co-exist in harmony with society and our environment, will improve unitholder value over the medium to long term. The Asset Manager established a Sustainability Policy in December 2017 and is pursuing a series of ESG measures, including reduction of our environmental impact in consideration of all of our stakeholders. In December 2021, in order to further enhance our ESG initiatives, we identified the issues that we consider to be most material and are promoting measures to address those issues.

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 2021	Impact in 2020	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 December 31, 2021, 82.8% of our properties were not “Eligible Green Projects” (as defined to the right) based on gross floor area.	As of December 31, 2020, 85.3% of our properties were not “Eligible Green Projects” (as defined to the right) based on gross floor area.	To track the environmental performance of our properties, we rely on certifications issued by third-party organizations, such as the Comprehensive Assessment System for Built Environment Efficiency (“CASBEE”) for Buildings and Building-Housing Energy-efficiency Labeling System (“BELS”) Evaluation, and other equivalent certifications. We call our property that receives any such certifications a “Green Certified Asset”. With respect to CASBEE, we consider a	We implement as appropriate measures to reduce the environmental impact of our properties following acquisition, including by obtaining environmental certifications such as CASBEE or BELS.

					property to have sufficient environmental certification if it received B+ Rank or higher out of the CASBEE ranking system featuring Rank S (excellent), Rank A (very good), Rank B+ (good), Rank B- (slightly inferior) and Rank C (inferior). With respect to BELS certifications, we consider a property to have sufficient environmental certification if it received 2 stars or higher out of BELS' five-star ranking system.	
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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 assets		
Climate change	18. GHG emissions Total GHG emissions generated by properties leased to HMJ Group hotels were 47,633 t-CO2 (in 2018), 51,547 t-CO2 (in 2019) and 36,185 t-CO2 (in 2020).	Scope 1 GHG emissions generated by real estate assets
		Scope 2 GHG emissions generated by real estate assets

	We aim to reduce GHG emissions annually by 1% or more on average for our entire portfolio as well as for our individual properties in 5 years from fiscal year 2018.	From 1 January 2023, Scope 3 GHG emissions generated by real estate assets
	Note 1: The above amounts are calculated over the period from April 1, 2018 to March 31, 2021. Note 2: The properties leased to HMJ Group hotels were 16 properties, equal to 60.5% of our portfolio based on gross floor area, as of December 31, 2021.	Total GHG emissions generated by real estate assets

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>5. Lack of grievance/complaints handling mechanism related to employee matters</p> <p>The Asset Manager has established whistleblower rules and a whistleblowing hotline that allows its officers and employees (including contract and temporary employees) to report or consult about potential harassment, fraud or other inappropriate acts. In accordance with the Whistleblower Protection Act of Japan, the rules protect whistleblowers by prohibiting mistreatment upon whistleblowing, allowing anonymous reports and keeping whistleblowers' reports confidential, and stipulate procedures to find and correct reported acts, including investigation methods and disciplinary actions for those who are found to have engaged in inappropriate behavior. In addition to an in-house contact, a whistleblower may consult an outside attorney who has no business relationship with the Asset Manager.</p>	<p>Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters</p> <p>All of the Asset Manager's officers and employees are provided whistleblower protection</p>
Anti-corruption and anti-bribery	<p>15. Lack of anti-corruption and anti-bribery policies</p> <p>The Asset Manager stipulates in its Code of Compliance and Compliance Manual that all of its officers and employees are prohibited from providing favors or benefits to civil servants of Japan or other countries or persons deemed as such, in accordance with Japanese and international laws. Furthermore, provision or acceptance of favors or benefits that exceed the</p>	<p>Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption</p>

	<p>scope of courtesy that would be ordinary course based on socially accepted conventions is prohibited whether any business-related transaction takes place as a result.</p> <p>Based on internal audits and other reviews that it has conducted to date, the Asset Manager has not found any favors or gifts that contravene relevant laws. Moreover, there have been no violations of corruption-related laws or administrative sanctions.</p>	<p>The Asset Manager has compliance policies addressing anti-corruption and anti-bribery that apply to all of its officers and employees.</p>
	<p>17. Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws</p> <p>Please see the item 15 above for the Asset Manager.</p> <p>For tenants of our hotel properties, we conduct due diligence review when entering into lease agreements and reject those found to have been fined for violations of anti-corruption and anti-bribery laws.</p>	<p>Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws by investee companies</p> <p>None of the tenants of our hotel properties have, to the best of our knowledge, been convicted of or fined for violations of anti-corruption and anti-bribery laws.</p>

For descriptions of actions which JHR takes and will take with respect to the PAI indicators, please refer to our ESG website: <https://www.jhrth.co.jp/en/esg/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.

The Asset Manager tracks and monitors the property-level environmental performance indicators of our properties leased to HMJ Group (60.5% of our portfolio based on gross floor area) including the Green-certified Assets, to assess the environmental performance of our portfolio. The Asset Manager's ESG Promotion Committee, which generally meets at least once every quarter, uses the data to assess progress made against targets, and deliberates on necessary action plans in order to implement initiatives continuously and systematically based on our Sustainability Policy. The ESG Promotion Committee consists of the Asset Manager's management and officers and employees chosen from various groups involved in promoting ESG, with the President & CEO acting as the chair and the Director & Head of Finance and Planning acting as the operating officer.

For further information, please refer to our ESG website: <https://www.jhrth.co.jp/en/esg/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 the assessment of compliance with applicable environmental laws and ordinances, environmental performance and environmental and disaster risks, as well as investigation into hazardous substances and soil contamination. We do not consider investing in properties that do not meet the standards for soil contamination and other environmental contamination in accordance with the Air Pollution Control Act and the Soil Contamination Countermeasures Act of Japan and other environmental laws and ordinances. However, from time to time we acquire properties not meeting the standards as long as they are deemed fixable promptly after acquisition.

Engagement

We implement, in collaboration with tenants and property managers, various environmental measures, including energy conservation at some of our properties. We have included in our leases with HMJ Group hotels Green Lease provisions that require our tenants to collect energy consumption data and provide them to us (16 properties, equal to 60.5% of our portfolio based on gross floor area, as of December 31, 2021). We analyze the data provided by our tenants and consider renovation options to improve environmental performance and optimize facilities management.

Hotel Nikko Alivila participates in Churaumi clean-up activities every year in Yomitan, hosted by Yomitan Village in Okinawa. Nirai Beach is located in front of Hotel Nikko Alivila, which is famous for having one of the most beautiful ocean waterfronts on Okinawa's main island. The hotel staff cleans the beach every morning and conducts beach preservation activities, and as a result, visitors are able to observe sea turtles laying eggs and eggs hatching on the beach. Hotel Nikko Alivila is a member of the Sea Turtle Association of Japan.

5. References to international standards

The Task Force on Climate-related Financial Disclosures ("TCFD") was established by the Financial Stability Board (FSB) to develop recommendations for more effective climate-related disclosures. In November 2021, the Asset Manager expressed support for the TCFD recommendations, which are designed to help companies provide better information to support informed capital allocation, and joined the TCFD Consortium, an organization comprised of Japanese companies that support the recommendations and discuss initiatives aimed at effective information disclosure by companies and linking of disclosed information to appropriate investment decisions by financial institutions.