



# **Financial Summary**

## **for the December 2019 Fiscal Period**

**(from July 1, 2019 to December 31, 2019)**

**February 20, 2020**

Name	: Invincible Investment Corporation ("INV")
Representative	: Naoki Fukuda, Executive Director
Stock Listing	: Tokyo Stock Exchange
Securities Code	: 8963
URL	: <a href="https://www.invincible-inv.co.jp/en/">https://www.invincible-inv.co.jp/en/</a>
Contact	: Consonant Investment Management Co., Ltd. (Asset Manager of INV) Jun Komo, General Manager of Planning Department Tel. +81-3-5411-2731
Start date for dividend distribution	: March 23, 2020

This English language notice is a translation of the Japanese-language notice released on February 20, 2020 and was prepared solely for the convenience of, and reference by, non-Japanese investors. It is not intended as an inducement or solicitation for investment. We caution readers to undertake investment decisions based on their own investigation and responsibility. This translation of the original Japanese-language notice is provided for informational purposes only, and no warranties or assurances are given regarding the accuracy or completeness of this English translation. Readers are advised to read the original Japanese-language notice. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail in all respects.

(Figures are rounded down to the nearest JPY million)

1. Financial Results for the Fiscal Period ended December 31, 2019 (from July 1, 2019 to December 31, 2019)

(1) Operating Results

(Percentages indicate percentage change from the preceding period)

	Operating Revenues		Operating Income		Ordinary Income		Net Income	
	JPY million	%	JPY million	%	JPY million	%	JPY million	%
Fiscal period ended December 31, 2019	18,587	(32.0)	12,858	(42.0)	11,639	(45.2)	11,638	(45.2)
Fiscal period ended June 30, 2019	27,339	89.2	22,185	133.2	21,240	153.3	21,239	153.3

	Net Income per Unit	Net Income / Unitholders' Equity	Ordinary Income / Total Assets	Ordinary Income / Operating Revenues
	JPY	%	%	%
Fiscal period ended December 31, 2019	1,910	4.7	2.4	62.6
Fiscal period ended June 30, 2019	3,748	9.3	4.6	77.7

(Note) "Net Income per Unit" in the table above is calculated based on the average number of investment units during the relevant period and is rounded to the nearest yen. Net income per unit for the fiscal period ended December 31, 2019 is JPY 1,909, if calculated based on the number of investment units issued and outstanding at the end of fiscal period ended December 31, 2019 (6,096,840 units) and rounded down to the nearest yen.

(2) Distributions

	Distribution (Excluding excess profit distribution)		Excess Profit Distribution		Dividend Payout Ratio	Distribution / Net Assets
	Per Unit	Total	Per Unit	Total		
	JPY	JPY million	JPY	JPY million	%	%
Fiscal period ended December 31, 2019	1,725	10,517	0	0	90.4	4.1
Fiscal period ended June 30, 2019	1,656	9,384	0	0	44.2	4.1

(Note 1) Distribution (excluding excess profit distribution) differs from net income for the fiscal period ended December 31, 2019, since INV reserved JPY 1,121 million of net income as internal reserve for the purpose of stabilizing the distribution level for the next and subsequent periods.

(Note 2) Distribution (excluding excess profit distribution) differs from net income for the fiscal period ended June 30, 2019, since INV reserved JPY 11,855 million of net income as internal reserve for the purpose of stabilizing the distribution level for the next and subsequent periods.

(Note 3) Dividend Payout Ratio is calculated in accordance with the following formula and is rounded to the nearest one decimal place:

$$\text{Dividend Payout Ratio} = \text{Distribution Amount (Excluding excess profit distribution)} \div \text{Net Income} \times 100$$

Dividend payout ratio for the fiscal period ended June 30, 2019 is 44.2% since INV reserved a portion of net income as internal reserve, and distribution (excluding excess profit distribution) differs from net income for the fiscal period as mentioned in (Note 2) above.

(Note 4) Distribution / Net Assets is calculated based on the figures excluding excess profit distribution.

(3) Financial Position

	Total Assets	Net Assets	Net Assets / Total	Net Assets per Unit
	JPY million	JPY million	%	JPY
Fiscal period ended December 31, 2019	522,431	259,730	49.7	42,601
Fiscal period ended June 30, 2019	467,931	233,046	49.8	41,125

(Note) Net Assets per Unit is calculated based on the number of investment units issued and outstanding at the end of each fiscal period, and is rounded to the nearest yen.

(4) Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investment Activities	Cash Flows from Financing Activities	Closing Balance of Cash and Cash Equivalents
	JPY million	JPY million	JPY million	JPY million
Fiscal period ended December 31, 2019	12,971	(84,512)	44,729	28,787
Fiscal period ended June 30, 2019	55,810	(726)	(10,548)	55,599

2. Forecasts for the Fiscal Periods ending June 30, 2020 (from January 1, 2020 to June 30, 2020) and December 31, 2020 (from July 1, 2020 to December 31, 2020)

(Percentages indicate percentage change from the preceding period)

	Operating Revenues		Operating Income		Ordinary Income		Net Income		Distribution per Unit (excluding excess profit distribution)	Excess Profit Distribution per Unit
	JPY million	%	JPY million	%	JPY million	%	JPY million	%	JPY	JPY
Fiscal Period ending June 30, 2020	18,510	(0.4)	12,342	(4.0)	11,259	(3.3)	11,258	(3.3)	1,812	0
Fiscal Period ending December 31, 2020	17,441	(5.8)	11,112	(10.0)	10,047	(10.8)	10,047	(10.8)	1,647	0

※Others

(1) Changes in Accounting Policies, Accounting Estimates or Restatements

- (a) Changes in Accounting Policies due to Revisions to Accounting Standards and Other Regulations None
- (b) Changes in Accounting Policies due to Other Reasons None
- (c) Changes in Accounting Estimates None
- (d) Restatements None

(2) Number of Investment Units Issued and Outstanding

- (a) Number of Units Issued and Outstanding December 31, 2019 6,096,840 June 30, 2019 5,666,840  
as of the End of the Fiscal Period (Including Treasury Units)
- (b) Number of Treasury Units as of the End of the Fiscal Period December 31, 2019 0 June 30, 2019 0

(Note) Please refer to “Notes Related to Per Unit Information” regarding the number of investment units which is the basis for the calculation of net income per unit.

- Financial Summary report is not subject to audit procedure by certified public accountants or audit corporations.
- Special Consideration

(Other Matters of Special Consideration)

The forward-looking statements contained in this financial summary report are based on the information currently available to us and certain assumptions which we believe are reasonable. Actual operating performance may differ significantly due to factors we cannot predict as of this date, including gains or losses from the disposition of properties, repayment of borrowings, decreases in rents and changes in operating conditions. Further, there is no guarantee of the payment of the forecast distribution amount.

Please refer to “Assumptions Underlying the Forecast of Financial Results and Distribution for the Fiscal Periods ending June 30, 2020 and December 31, 2020” on page 19 for assumptions used in the forecasts and precautions regarding the use of such forecasts.

Unless otherwise specified herein, amounts less than JPY 1 are rounded down, and ratios are rounded to the nearest one decimal place.

## 1. Operating Conditions

### (1) Operating Conditions

#### a Overview of the Fiscal Period Ended December 31, 2019

##### (a) Main Trends of INV

INV was established in January 2002 in accordance with the Investment Trust and Investment Corporation Act (Act No. 198 of 1951, as amended; the “Investment Trust Act”). In May 2004, INV was listed on the Osaka Securities Exchange (application for delisting was made in August 2007), and in August 2006 was listed on the Real Estate Investment and Trust Securities Section of the Tokyo Stock Exchange (Ticker Code: 8963).

After the absorption-type merger with LCP Investment Corporation (“LCP”) was implemented on February 1, 2010, INV issued new investment units through a third-party allotment on July 29, 2011 and refinanced its debt. Calliope Godo Kaisha (“Calliope”), an affiliate of the Fortress Investment Group LLC (“FIG” and together with Calliope and other affiliates of FIG, collectively the “Fortress Group”) was the main allottee, and the sponsor changed to the Fortress Group.

FIG became a subsidiary of SoftBank Group Corp. (“SoftBank Group”), after SoftBank Group acquired FIG effective on December 27, 2017 (Note 1). Calliope, an affiliate of FIG, who owned 100% of the issued shares of Consonant Investment Management Co., Ltd., the asset manager to which INV entrusts the management of its assets (the “Asset Manager”), transferred 80.0% of issued shares of the Asset Manager to Fortress CIM Holdings L.P., a subsidiary of SoftBank Group, and 20.0% to SoftBank Group on March 29, 2018, pursuant to the basic agreement which was entered into as of September 7, 2017. Although FIG is no longer an indirect parent company of the Asset Manager, FIG continues to support INV as the sponsor.

Ever since the commencement of sponsorship from the Fortress Group (Note 2), INV has been focusing its efforts on improving the profitability of its portfolio and establishing a revenue base in order to secure stable distributions, and has strengthened the lender formation through new borrowings and the refinancing of existing bank borrowings, thereby creating a financial base for external growth. With this platform as a base, in June 2014, the Asset Manager revised the Investment Guidelines for INV, positioned hotels as a core asset class alongside residential properties with a view towards expanding investments in the hotel sector in which demand is forecasted to rise going forward, and has expanded its portfolio.

Moreover, the Asset Manager revised the Investment Guidelines as of July 17, 2018. Such revision was intended to establish an investment policy and asset management structure regarding investments in overseas assets, and also to change the investment policy regarding domestic hotels to focus on (i) Limited service hotels, which feature relatively higher profit margins and potential for revenue growth backed by increasing demand for accommodations, and (ii) Full-service and Resort hotels, which have a variety of revenue sources, including lodging, dining and sales of goods, that are expected to achieve stable growth in overall hotel revenues. Based on such change in investment policy, in July 2018, INV decided on the acquisition of TK (Japanese anonymous association (*tokumei kumiai*)) interest in two overseas hotels, “Westin Grand Cayman Seven Mile Beach Resort & SPA” and “Sunshine Suites Resort” (collectively, the “Cayman Hotels”) as underlying assets for the first time ever in J-REIT history. In September 2018, INV implemented the investment in the Cayman Hotels via a global offering of new investment units and borrowing of funds. INV intends to improve both the profitability and stability of the portfolio through such investments, including investment in the Cayman Hotels, which is expected to even out the effects of seasonality in INV’s portfolio.

In the Fiscal Period ended December 31, 2019 (“Reporting Period”), INV implemented a global offering of new investment units for the sixth consecutive year and acquired eighteen domestic hotels mainly in “prime tourism areas (Note 3)”. In addition, INV decided to sell two residential properties on December 9, 2019, completing the sale of one property on December 17, 2019. This illustrates INV’s proactive asset management and a continuation of its asset recycling initiatives, in which it sold two residential assets at a 3.4% NOI yield, and used part of the proceeds to acquire two hotels in January 2020 at a 5.8% NOI yield. As a result, INV’s portfolio at the end of Reporting Period comprised of 147 properties (84 hotels (Note 4) (Note 5), 61 residential properties and two others) with a total acquisition price of JPY 497,979 million (Note 6). The total acquisition price of the portfolio has significantly grown by 6.9 times, compared to the portfolio as of May 22, 2014, which is the date immediately prior to INV’s initial investment in hotels. Furthermore, INV’s hotel portfolio has reached

the largest asset size (Note 7) of JPY 434.3 billion (84 properties, 14,665 rooms) among all J-REIT hotel portfolios including hotel-and-inn-specific type investment corporations.

(Note 1) US Eastern Standard Time

(Note 2) As of July 2011, Calliope owned 97.35% of issued shares of the Asset Manager and the investment ratio reached 100% in October 2013. Calliope transferred 80.0% of issued shares to Fortress CIM Holdings L.P., a subsidiary of SoftBank Group and 20.0% to SoftBank Group on March 29, 2018. As of the date of this document, SoftBank Group owns 100% of issued shares of the Asset Manager directly and indirectly.

(Note 3) “Prime tourism areas” refer to an area where INV has determined that there are tourist resources in the surrounding area that have the ability to attract tourists and that demand for accommodation can be expected mainly for foreign tourists visiting Japan (inbound visitors). Hereinafter the same shall apply.

(Note 4) The preferred equity interest held by INV is counted as one property. Such preferred equity interest issued by a special purpose company (*tokutei mokuteki kaisha*) refers to 178,458 units of the preferred equity interest issued by Kingdom Special Purpose Company (the “TMK”) (equivalent to 49.0% of the total issued and outstanding preferred equity interest), which owns the trust beneficiary interest of the Sheraton Grande Tokyo Bay Hotel as an underlying asset. The property is classified as a hotel, based on the use of Sheraton Grande Tokyo Bay Hotel, the underlying asset of the preferred equity interest, and INV’s investment amount of the preferred equity interest is used as the acquisition price of the preferred equity interest, unless otherwise stated. The “underlying asset” refers to the real estate or the real estate related assets owned by a TK operator of TK interest or a TMK relating to the preferred equity interest which INV owns, thus the real estate or the real estate related assets which will be the revenue source of INV. Hereinafter the same shall apply.

(Note 5) From September 28, 2018 (Cayman Island local time; September 29, 2018 in Japan local time), INV owned 100% of the TK interest in Seven Mile Resort Holdings Ltd. (the “Cayman SPC”), a Cayman Islands special purpose company that holds leasehold interests in the Cayman Hotels and ancillary assets as underlying assets. However, INV implemented the investment structure change (the “Structure Change” in some cases hereinafter) regarding the Cayman Hotels on May 9, 2019 (Cayman Island local time; May 10, 2019 in Japan local time) and has directly held the Leasehold Interests, etc. of the Cayman Hotels thereafter. Both of the TK interest and the Cayman Hotels are counted as two properties before and after the Structure Change. In addition, the “Leasehold Interests, etc.” means leasehold interests (rights equivalent to long-term real estate leases on land and buildings under the British Cayman laws) and furniture, fixtures, equipment, ornaments, kitchen instrument, and other assets required for hotel operations. Hereinafter the same shall apply.

(Note 6) Due to the Structure Change, the book value of the leasehold interests of the Cayman Hotels recorded by the Cayman SPC as of May 9, 2019 (Cayman Island local time; May 10, 2019 in Japan local time), when INV succeeded the leasehold interests of the Cayman Hotels from the Cayman SPC via distribution in kind in connection with the termination of TK agreement, is deemed as the acquisition price of the Cayman Hotels. The book value is converted into JPY amount via exchange rate of USD 1=JPY 110.45 based on the foreign exchange forward contracts executed on July 26, 2018 and implemented on September 26, 2018 in connection with the investment in the TK interest by INV. Hereinafter the same shall apply.

(Note 7) “The largest asset size ... among all J-REIT hotel portfolios” refers to the total acquisition price of 84 hotels owned by INV as compared with the total acquisition price of hotels (including inns and other accommodation facilities) owned by listed investment corporations other than INV as of December 31, 2019.

#### (b) Operational Environment and Performance

For the December 2019 period, the portfolio NOI (Note 1) increased by 16.3% or JPY 2,124 million to JPY 15,164 million compared to the same period in the previous year (the December 2018 period). The hotel portfolio NOI increased by JPY 2,882 million, which is equivalent to the increase by 22.1% of the portfolio NOI. While the residential portfolio has been benefitting from internal growth, NOI for the residential portfolio declined

by JPY 757 million, which is equivalent to the decrease by 5.8% of the portfolio NOI, due to asset sales as part of INV's asset recycling. The portfolio continued to maintain a high average occupancy rate (Note 2) of 99.3% for the period.

Commentary on hotel and residential performance in the Reporting Period is as described below.

The NOI for the Reporting Period of the 55 domestic hotels (Note 3) owned by INV decreased by 12.2% compared to the same period in the previous year (figures exclude nine domestic hotels with fixed-rent lease agreements among the 64 domestic hotels owned by INV as at the beginning of the December 2019 Fiscal Period, including Sheraton Grande Tokyo Bay Hotel, the underlying asset of the preferred equity interest of TMK owned by INV). The 55 domestic hotels recorded an occupancy rate (Note 4) of 89.2% (-1.4 points YoY), ADR (Note 5) of JPY 10,705 (-4.8% YoY), and RevPAR (Note 6) of JPY 9,550 (-6.3% YoY). Fixed rent revenues accounted for 54.9% (JPY 6,478 million) of total hotel revenue and variable rent revenues accounted for 45.1% (JPY 5,317 million) of total hotel revenue (figures are based on the 81 domestic hotels as of the end of the December 2019 Fiscal Period, and excludes Sheraton Grande Tokyo Bay Hotel, the underlying asset of the preferred equity interest of TMK owned by INV).

Westin Grand Cayman Seven Mile Beach Resort & Spa and Sunshine Suites Resort continues to perform extremely well and recorded an average occupancy rate of 72.3% (-4.8 points YoY), ADR of USD 327 (+11.9% YoY), and RevPAR of USD 237 (+4.9% YoY).

Regarding the hotel sector in Japan, the number of inbound visitors reached a record high of 31.88 million (+2.2% YoY) for January through December 2019, and the trend is in line with the government targets of 40 million inbound visitors in 2020 and 60 million inbound visitors in 2030. Japan will host the Tokyo Olympic Games in 2020, which are anticipated to further increase attention to Japan driving further growth of inbound tourism. In the Cayman Islands, where the Cayman Hotels are located, the expansion of the Owen Roberts International Airport located in the Grand Cayman Island was completed on March 29, 2019. The airport expansion has significantly expanded its capacity and can now accommodate 2.7 million passengers annually, up from the old and overstretched capacity of 0.5 million passengers. The airport expansion will also facilitate additional airlift to the islands, increasing lodging demand. In 2019, air visitor arrivals to the Cayman Islands increased by 8.6% year-over-year.

Regarding the residential portfolio, the average occupancy rate of 62 residential properties (Note 7) for the Reporting Period was 96.3%, an increase of 0.3 points compared to the same period in the previous year. The NOI (Note 8) of the 62 residential properties for the Reporting Period increased by 0.8% compared to the same period in the previous year, due to internal growth through solid rent increases despite the sale of Winbell Kagurazaka. For the residential sector, trends for rent at city-center residential properties with small-type rooms maintained a moderate increase. Under such positive circumstances in the macro environment, INV continues to focus on its rent increase program for both new leases and renewals as well as initiatives to reduce residential leasing costs based on a detailed market analysis of each property and unit.

In the Reporting Period, INV realized a rent increase for 44.4% (based on the number of contracts) of the new residential lease contracts for an average rent increase of 0.3% compared to the previous rent across all new leases (Note 9). INV achieved a rent increase for 43.2% (based on the number of contracts) of contract renewals for an average rent increase of 1.4% compared to the previous rent across all renewal leases (Note 9), while maintaining a high contract renewal rate (Note 10) of 83.2%. Combined, new leases and renewal leases were signed at 1.0% higher than the previous leases (Note 9).

The total appraisal value of 146 properties was JPY 557,099 million (1 out of the 147 properties owned by INV at the end of the Reporting Period is excluded from the appraisal calculation: Sheraton Grande Tokyo Bay Hotel (preferred equity interest) for which appraisal value of such interest is not available). The portfolio has an unrealized gain of JPY 91,516 million (Note 11) and an unrealized gain ratio of 19.7% (Note 11). The total appraisal value of 128 properties which were owned throughout the Reporting Period increased by 1.0% from JPY 467,843 million at the end of June 2019 period to JPY 472,740 million at the end of the Reporting Period.



Key Performance Indicators of 55 Domestic Hotel Properties (Note 3)

	December 2019 fiscal period	Year-on-year change
Occupancy Rate (Note 4)	89.2%	-1.4pt
ADR (JPY) (Note 5)	10,705	-4.8%
RevPAR (JPY) (Note 6)	9,550	-6.3%
GOP (JPY million) (Note 12)	9,746	-10.8%

Key Performance Indicators of Cayman Hotels

	December 2019 fiscal period	Year-on-year change
Occupancy Rate (Note 4)	72.3%	-4.8pt
ADR (USD) (Note 5)	327	+11.9%
RevPAR (USD) (Note 6)	237	+4.9%
GOP (USD) (Note 12)	13,277,720	+2.2%

Key Performance Indicators of 62 Residential Properties (Note 7)

	December 2019 fiscal period	Year-on-year change
Occupancy Rate (Note 2)	96.3%	+0.3pt
Average Rent per Tsubo per Month (JPY) (Note 13)	9,386	+0.4%
NOI (JPY million) (Note 8)	1,804	+0.8%

(Note 1) “NOI” for the hotel properties is calculated in accordance with the following formula:

NOI = Rental Revenues - Property Related Expenses + Depreciation Expenses + Dividend on the preferred equity interest (TMK dividend) + TK distribution + (Management Contract Revenue of the Cayman Hotels - Management Contract Expense)

(Note 2) “Average Occupancy Rate” for the entire portfolio and “Occupancy Rate” for the residential properties are calculated by dividing the sum of total leased area by the sum of total leasable area at the end of each month during the relevant period.

(Note 3) Of the 64 hotels held as of the beginning of the December 2019 Fiscal Period (including the Sheraton Grande Tokyo Bay Hotel, the underlying asset of the preferred equity interest of TMK owned by INV), the following nine hotels with fixed-rent lease agreements are excluded: Super Hotel Shinbashi/Karasumoriguchi, Comfort Hotel Toyama, Super Hotel Tokyo-JR Tachikawa Kitaguchi, Super Hotel JR Ueno-iriyaguchi, Comfort Hotel Kurosaki, Comfort Hotel Maebashi, Comfort Hotel Tsubame-Sanjo, Comfort Hotel Kitami and Takamatsu Tokyu REI Hotel. In addition, the figures for the properties acquired after June 2018 are calculated on the assumption INV had acquired those properties on July 1, 2018, using the actual figures provided by the sellers of such properties for the period before the acquisition. Hereinafter the same shall apply.

(Note 4) “Occupancy rate” for the hotel properties is calculated in accordance with the following formula:

Occupancy rate = total number of occupied rooms during a certain period ÷ total number of rooms available during the same period (number of rooms x number of days)

Hereinafter the same shall apply.

(Note 5) “ADR” means average daily rate, and is calculated by dividing total room sales (excluding service fees) for a certain period by the total number of days per room for which each room was occupied during the same period. Hereinafter the same shall apply.

(Note 6) “RevPAR” means revenues per available room per day, and is calculated by dividing total room sales for a certain period by total number of rooms available (number of rooms x number of days) during the same period, and is the same as the figure obtained by multiplying ADR by occupancy rates. Hereinafter the same shall apply.

(Note 7) Based on the 62 residential properties owned as of the beginning of December 2019 fiscal period. Of



the 62 properties, Winbell Kagurazaka was sold on December 17, 2019. Therefore, for Winbell Kagurazaka, July 1, 2019 through December 16, 2019, the day immediately preceding the sale date, is deemed as the operating period for the December 2019 fiscal period, and the leased area and the leasable area as of December 16, 2019 are deemed as those as of the end of December 2019 to calculate each number. Hereinafter the same shall apply. In addition, the figures for the properties acquired after June 2018 are calculated on the assumption INV had acquired those properties on July 1, 2018, using the actual figures provided by the sellers of such properties for the period before the acquisition.

- (Note 8) For the comparison of NOI for the residential properties, one-off insurance-related revenues and expenses are excluded. NOI of Winbell Kagurazaka sold on December 17, 2019 is based on the data through December 16, 2019, the day immediately preceding the sale date. Hereinafter the same shall apply.
- (Note 9) Increase or decrease in the sum of monthly rents on new or renewal contracts, or the total of both, compared with the sum of previous rents.
- (Note 10) Renewal rate is calculated by the number of renewed contracts during the relevant period divided by the number of contracts due up for renewal during the relevant period
- (Note 11) The unrealized gain is calculated using the following formula: the appraisal value as of the end of the Reporting Period - book value as of the end of the Reporting Period.  
The unrealized gain ratio is calculated using the following formula: the unrealized gain ÷ book value as of the end of the Reporting Period.
- (Note 12) "GOP," means the gross operating profit, and is the amount remaining after deducting costs of hotel operations (the personnel, utility and advertising expenses and other expenses) and the management services fee to operators (if any) from the hotel's revenues. Hereinafter the same shall apply. Moreover, GOP for the Sheraton Grande Tokyo Bay Hotel has been multiplied by 49%, or INV's ownership ratio of the preferred equity interest. Hereinafter the same shall apply.
- (Note 13) "Average Rent per Tsubo per Month" is calculated by dividing the total rental revenue (including common area charges) for each month by the sum of total leased area (tsubo) at the end of each month during the relevant period.

(c) Overview of Fund Raising

As a result of the measures described below, INV's interest-bearing debt outstanding balance was JPY 259,174 million and the Interest-Bearing Debt ratio (Note 1) and LTV (appraisal value basis) (Note 2) were 49.1% and 44.6% respectively, as of the end of the Reporting Period, with an average interest rate (Note 3) of 0.55%.

(Note 1) Interest-Bearing Debt ratio uses the calculation formula below:

Interest-Bearing Debt ratio = total outstanding interest (excluding short-term consumption tax loan) -bearing debt/total assets x 100

(Note 2) LTV (appraisal value basis) uses the calculation formula below:

LTV = total outstanding interest (excluding short-term consumption tax loan) -bearing debt/total appraisal value (\*) x 100

(\*) Since appraisal value for Sheraton Grande Tokyo Bay Hotel (preferred equity interest) is not available, the acquisition price of the preferred equity interest (JPY 17,845 million) is deemed as appraisal value of Sheraton Grande Tokyo Bay Hotel (preferred equity interest).

(Note 3) The average interest rate (annual rate) is calculated by the weighted average based on the outstanding balance of borrowings and rounded to two decimal places.

(i) Equity Financing

INV implemented a global public offering which closed on July 18, 2019 (the number of new investment units issued: 409,524; total issue value: JPY 23,317 million) and a third party allotment which closed on August 15, 2019 (the number of new investment units issued: 20,476; total issue value: JPY 1,165 million) in order to procure

part of the funds for the acquisition of eighteen domestic hotels described in “(d) Overview of Acquisition of Assets”.

(ii) Debt Financing

a. Borrowing of Funds

INV borrowed New Syndicate Loan (L) on July 19, 2019 (total amount borrowed: JPY 27,400 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.70000%, 1-month JPY TIBOR plus 0.55000%, 1-month JPY TIBOR plus 0.50000% (by the interest swap agreement, it is fixed, in effect, at 0.57984%), 1-month JPY TIBOR plus 0.45000% (by the interest swap agreement, it is fixed, in effect, at 0.52473%), 1-month JPY TIBOR plus 0.35000% (by the interest swap agreement, it is fixed, in effect, at 0.41326%), and 1-month JPY TIBOR plus 0.20000% for durations of six, five-and-a-half, five, four-and-a-half, three-and-a-half and one year), which was arranged by Mizuho Bank, Ltd. in order to pay a portion of the acquisition price and related expenses for the acquisition of the eighteen domestic hotels described in “(d) Overview of Acquisition of Assets” with the equity financing described in the said (i).

Furthermore, INV borrowed New Syndicate Loan (M) on July 16, 2019 (total amount borrowed: JPY 28,979 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.70000%, 1-month JPY TIBOR plus 0.55000%, 1-month JPY TIBOR plus 0.50000% (by the interest swap agreement, it is fixed, in effect, at 0.56310%), 1-month JPY TIBOR plus 0.45000% (by the interest swap agreement, it is fixed, in effect, at 0.49859%) and 1-month JPY TIBOR plus 0.35000% (by the interest swap agreement, it is fixed, in effect, at 0.40000%) for durations of six, five-and-a-half, five, four-and-a-half and three-and-a-half years), which was arranged by Mizuho Bank, Ltd. in order to repay New Syndicate Loan (E) in the amount of JPY 28,979 million due on July 16, 2019. Additionally, INV borrowed Term Loan (L) on July 22, 2019 (total amount borrowed: JPY 700 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.70000% for duration of six years), which was arranged by The Tokyo Star Bank, Limited in order to repay Term Loan (E) in the amount of JPY 700 million due on July 20, 2019. This repayment deadline was a holiday (a day other than a business day) and thus the repayment date was July 22, 2019, the next business day, according to the provisions of the agreement.

Moreover, INV borrowed New Syndicate Loan (N) on August 28, 2019 (total amount borrowed: JPY 3,682 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.45000% (by the interest swap agreement, it is fixed, in effect, at 0.46219%) for duration of four-point-four years), which was arranged by Mizuho Bank, Ltd. in order to repay Term Loan (A) in the amount of JPY 3,682 million due on August 28, 2019.

In addition, INV borrowed New Syndicate Loan (O) on October 15, 2019 (total amount borrowed: JPY 3,700 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.70000%, 1-month JPY TIBOR plus 0.55000%, 1-month JPY TIBOR plus 0.45000% (by the interest swap agreement, it is fixed, in effect, at 0.48590%) for durations of six, five-and-a-half, and four-and-a-half years), which was arranged by Mizuho Bank, Ltd. in order to repay New Syndicate Loan (H) in the amount of JPY 3,700 million due on October 13, 2019. This repayment deadline was a holiday (a day other than a business day) and thus the repayment date was October 15, 2019, the next business day, according to the provisions of the agreement.

As described in “c Significant Subsequent Events (a) Debt Financing”, INV decided to borrow New Syndicate Loan (P) on December 9, 2019 and borrowed on January 6, 2020 (total amount borrowed: JPY 6,980 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.50000% (by the interest swap agreement, it is fixed, in effect, at 0.64291%), 1-month JPY TIBOR plus 0.30000% (by the interest swap agreement, it is fixed, in effect, at 0.41687%) and 1-month JPY TIBOR plus 0.20000% for durations of five, three and one year), which was arranged by Sumitomo Mitsui Trust Bank, Limited in order to pay a portion of the acquisition price and related expenses for the acquisition of the two domestic hotels described in “c Significant Subsequent Events (b) Acquisition of Assets”.

In addition, a portion of INV's existing loans from The Tokyo Star Bank, Limited of JPY 1,600 million was transferred to THE TOWA BANK, LTD. in the amount of JPY 1,000 million on December 25, 2019.

b. Issuance of Investment Corporation Bonds

INV issued its investment corporation bonds as follows for the purpose of raising a portion of funds for strategic capital expenditures to enhance the competitiveness and added value of existing properties, while at the same

time lowering its financing costs, lengthening the average maturity period of its debt and further diversifying repayment dates for interest-bearing debt.

Bond Series	Issue Date	Issue Amount (JPY million)	Interest Rate (annual rate)	Redemption Date	Abstract
Fourth Series Unsecured Investment Corporation Bonds (with pari passu conditions among specified corporate bonds)	October 28, 2019	1,000	0.480%	October 28, 2024	Unsecured / Unguaranteed Rating: A+ (JCR)
Fifth Series Unsecured Investment Corporation Bonds (with pari passu conditions among specified corporate bonds)	October 28, 2019	2,000	0.900%	October 26, 2029	Unsecured / Unguaranteed Rating: A+ (JCR)
Total Amount / Average Interest Rate		3,000	0.760%		

(d) Overview of Acquisition of Assets

The Asset Manager decided on the acquisition of trust beneficiary interests in eighteen domestic hotels as follows on July 1, 2019, and acquisition of the assets was closed on July 19, 2019.

Property Number	Property Name	Acquisition Price (JPY million) (Note 1)	Appraisal Value (JPY million) (Note 2)	Seller
D64	Hotel MyStays Sapporo Aspen	15,543	15,700	Touyako Godo Kaisha
D65	Art Hotel Ishigakijima	9,731	9,830	Yaeyama Resort Hotel Tokutei Mokuteki Kaisha
D66	Hotel MyStays Fuji Onsen Resort	9,405	9,500	Saturnia Tokutei Mokuteki Kaisha
D67	Hotel Sonia Otaru	5,930	5,990	Shirahama Tokutei Mokuteki Kaisha
D68	Hotel MyStays Kanazawa Castle	5,682	5,740	Calvis Tokutei Mokuteki Kaisha
D69	Art Hotel Niigata Station	5,524	5,580	HL Investments 2 Tokutei Mokuteki Kaisha
D70	Hotel MyStays Nagoya Nishiki	5,197	5,250	Shirahama Tokutei Mokuteki Kaisha
D71	Hotel Nord Otaru	4,296	4,340	Shirahama Tokutei Mokuteki Kaisha
D72	Hotel MyStays Kagoshima Tenmonkan	3,445	3,480	Kawaguchiko Tokutei Mokuteki Kaisha
D73	Art Hotel Asahikawa	3,197	3,230	Shirahama Tokutei Mokuteki Kaisha

Property Number	Property Name	Acquisition Price (JPY million) (Note 1)	Appraisal Value (JPY million) (Note 2)	Seller
D74	Hotel MyStays Matsuyama	3,098	3,130	Calvis Tokutei Mokuteki Kaisha
D75	Hotel MyStays Sapporo Susukino	3,059	3,090	Kawaguchiko Tokutei Mokuteki Kaisha
D76	Hotel MyStays Sapporo Nakajima Park	2,118	2,140	Shirahama Tokutei Mokuteki Kaisha
D77	Hotel MyStays Sapporo Nakajima Park Annex	1,584	1,600	Shirahama Tokutei Mokuteki Kaisha
D78	Flexstay Inn Sakuragicho	1,425	1,440	Calvis Tokutei Mokuteki Kaisha
D79	MyCUBE by MYSTAYS Asakusa Kuramae	1,287	1,300	Calvis Tokutei Mokuteki Kaisha
D80	Hotel MyStays Kagoshima Tenmonkan Annex	1,168	1,180	Kawaguchiko Tokutei Mokuteki Kaisha
D81	Hotel MyStays Nayoro	957	967	Kawaguchiko Tokutei Mokuteki Kaisha
Total		82,646	83,487	-

(Note 1) Acquisition Price does not include adjustments for property taxes, city planning taxes, or national or local consumption taxes. Hereinafter the same shall apply.

(Note 2) Appraisal Value is based on appraisal value stated in the appraisal report by the Japan Real Estate Institute, The Tanizawa Sōgō Appraisal Co., Ltd. or Daiwa Real Estate Appraisal Co., Ltd. on the valuation date of April 1, 2019.

(e) Overview of Sale of Assets

The Asset Manager decided to sell two residential properties, City House Tokyo Shinbashi and Winbell Kagurazaka on December 9, 2019 in order to improve the profitability of the portfolio through the previously mentioned accretive asset recycling, as well as stabilizing future distributions by retaining the gain from sales as internal reserves. The sale of Winbell Kagurazaka was completed on December 17, 2019 and the sale of City House Tokyo Shinbashi was completed on January 15, 2020. The overview of the sold assets are as follows. A portion of the proceeds from the sales were used to fund a portion of the acquisition and the related expenses described in “c Significant Subsequent Events (b) Acquisition of Assets”.

Property Number	Property Name	Acquisition Price (JPY million)	Book Value (JPY million) (Note 1)	Sale Price (JPY million) (Note 2)	(Estimated) Gain on Sale (JPY million) (Note 3)	Transferee
A51	City House Tokyo Shinbashi	2,520	2,269	4,465	2,043	Undisclosed (Note 4)
A52	Winbell Kagurazaka	3,260	2,992	5,135	1,970	

Property Number	Property Name	Acquisition Price (JPY million)	Book Value (JPY million) (Note 1)	Sale Price (JPY million) (Note 2)	(Estimated) Gain on Sale (JPY million) (Note 3)	Transferee
Total		5,780	5,262	9,600	4,013	-

(Note 1) Book Value shows figures as of December 31, 2019 for City House Tokyo Shinbashi and as of the date of sale for Winbell Kagurazaka.

(Note 2) Sale Price does not include transfer related cost, adjustments for fixed asset taxes or city planning taxes, or national or local consumption taxes.

(Note 3) Gain on Sale is calculated by deducting the Book Value and transfer related cost (estimated transfer related cost for City House Tokyo Shinbashi) from Sale Price.

(Note 4) The name of the transferee is not disclosed, as the transferee's consent has not been obtained for disclosure.

(Note 5) Amounts are rounded down to the nearest million yen.

(f) Overview of Results of Operations and Distributions

As a result of the operations mentioned above, operating revenues for the Reporting Period decreased by JPY 8,752 million from the previous period (-32.0%) to JPY 18,587 million, net income decreased by JPY 9,600 million (-45.2%) to JPY 11,638 million and unappropriated retained earnings including the retained earnings carried forward from the preceding fiscal period (JPY 11,622 million) reached JPY 23,261 million.

INV believes that maintaining the stability of cash distributions over the medium term is one of the most important factors in determining the amount of distribution for a given fiscal period. With respect to the Reporting Period, INV reserved a portion of net income increased due to the sale of Winbell Kagurazaka, and aims to maintain stable distributions in the future. INV reserved JPY 1,121 million of net income as internal reserve and decided that distribution per unit (excluding excess profit distribution) is JPY 1,725 and does not make distributions in excess of profits.

b Outlook for the Fiscal Periods Ending June 30, 2020 and December 31, 2020

The DPU for the June 2020 fiscal period and December 2020 fiscal period are forecasted to be JPY 1,812 (+9.4% YoY) and JPY 1,647 (-4.5% YoY), respectively. The full year DPU for calendar year 2020 is forecasted to be JPY 3,459 (+2.3% YoY), providing expected continued steady growth.

Future operational policy and issues to be addressed

Since July 2011, INV has enhanced unitholder value by significantly increasing DPU and financial stability with the Fortress Group as its sponsor. Since Fortress Group joined under the umbrella of SoftBank Group in December 2017 and SoftBank Group owns 100% of issued shares of the Asset Manager directly and indirectly as of March 29, 2018, in addition to continued access to Fortress's global real estate expertise, INV will seek to leverage the resources that are expected to become available through SoftBank Group. SoftBank Group has market-leading expertise in technology fields such as digital marketing for both mobile and desktop, online payment systems, search engine optimization, AI and robotics. INV believes that deployment of technology into INV's real estate assets, especially its hotels, will enhance the ongoing initiatives to improve its digital marketing, minimize labor costs and increase customer engagement. For example, INV plans to pursue opportunities to better manage the increased number of foreign visitors and their related online research, bookings and payments, improve the process in setting hotel rates and manage overbooking through the use of sophisticated AI algorithms, and reduce labor costs while enhancing customer service through the use of robotics.

In addition to pursuing synergies with SoftBank Group, going forward, INV will continue to implement various strategies to maintain further growth and financial stability, including the following measures.

- Further external growth utilizing sponsor support
- Property acquisition from third parties with the aim of expanding the AUM

- Asset recycling and property acquisitions using the proceeds from sales
- Further internal growth at hotel and residential properties
- Diversification of funding sources and lengthening the average maturity period of its debt through borrowings and the issuance of investment corporation bonds

Details of the future growth strategy are as follows.

(i) External growth strategy

New Property Acquisitions

As its basic strategy, INV will move forward with the acquisition of new properties focusing on hotels, where continued growth in portfolio revenues is anticipated and residential properties especially where rental growth can be achieved. Rent revenue from residential assets and other assets as well as the fixed rent portion from hotels will also contribute to more stable revenue, which was 57.0% of total revenue (Note 1). This acquisition strategy will enable INV to build a portfolio with a good balance between growth and stability.

In regards to hotels, INV will take into consideration the trends in foreign travelers visiting Japan, demands of business and leisure customers in nearby areas, and leasing contract types when making investment decisions, with the aim of acquiring properties where growth and stability of GOP and rental revenue are forecasted to increase.

In regards to residential properties, INV will analyze occupancy rates, rental market trends, the presence of competing properties among other factors, and consider acquiring properties that have mainly small-type rooms with strong competitiveness in large cities, in which it believes it can achieve increases in rent.

INV has achieved steady external growth via the sponsor pipeline from the Fortress Group, as follows.

Properties Acquired from affiliates of the Fortress Group (as of the date of this document)

Date	Properties acquired	Total acquisition price
September 2012	24 residential properties (Note 2)	JPY 14,043 million (Note 2)
May 2014	Two hotels	JPY 5,435 million
July 2014	18 hotels	JPY 39,938 million
February 2015	Two hotels	JPY 4,911 million
July 2015	11 hotels and three residential properties	JPY 35,258 million
August 2015	One hotel	JPY 5,069 million
January 2016	Five hotels and one residential property	JPY 10,207 million
March 2016	Four hotels and one residential property	JPY 66,697 million
June 2016	Two hotels	JPY 15,900 million
March 2017	Two residential properties	JPY 24,562 million
May 2017	One hotel	JPY 8,000 million
October 2017	Five hotels (Note 3)	JPY 57,444 million (Note 3)
February 2018	Four hotels	JPY 12,425 million
June 2018	Two hotels	JPY 7,325 million
August 2018	Four hotels	JPY 47,747 million
September 2018	Two hotels (Note 4)	JPY 36,783 million (Note 4)
July 2019	18 hotels	JPY 82,646 million
January 2020	Two hotels	JPY 16,236 million
Total	114 properties (of which 83 are hotels and 31 are residential properties)	JPY 490,627 million (of which hotels: JPY 438,989 million; residential: JPY 51,638 million)



The Fortress Group manages five dedicated Japanese real estate funds, including the Fortress Japan Opportunity Funds I, II, III and IV. The Fortress Group's committed equity is over JPY 450 billion and the number of properties that the Fortress Group is invested in exceeds 3,500. In order to ensure future growth options for the portfolio, INV entered into an updated MOU with affiliates of the Fortress Group that provides preferential negotiation rights with respect to the acquisition of two hotels and seven residential properties (see the table below) (Note 5). In addition, by utilizing the property transaction information available through the Fortress Group and INV's own network, INV will continuously consider and implement the acquisitions of properties from third parties that will contribute to stability and growth in revenue and cash flow and an increase in DPU.

No.	Asset name	Location	Asset type (Note 6)	No. of rooms
1	Rihga Royal Hotel Kyoto	Kyoto, Kyoto	Full Service Hotel	489
2	Fusaki Beach Resort Hotel & Villas	Ishigaki, Okinawa	Resort Hotel	333
3	Gran Charm Hiroo	Shibuya-ku, Tokyo	Residential/Small Type	121
4	Gran Charm Kichijoji	Musashino, Tokyo	Residential/Small Type	28
5	Dainichi F-45	Urayasu, Chiba	Residential/Small Type	54
6	Gran Charm Urayasu	Urayasu, Chiba	Residential/Small Type	54
7	Gran Charm Urayasu 5	Urayasu, Chiba	Residential/Small Type	54
8	Gran Charm Minami Gyotoku I	Ichikawa, Chiba	Residential/Small Type	52
9	Gran Charm Minami Gyotoku II	Ichikawa, Chiba	Residential/Small Type	48

(Note 1) The percentage indicates composition of rent revenue and management contract revenue based on the actual results for the fiscal period ended December 2019. Sheraton Grande Tokyo Bay Hotel (preferred equity interest) is excluded.

(Note 2) Of the properties acquired from affiliates of the Fortress Group, two residential properties (Sun Terrace Minami-Ikebukuro and Royal Parks Tower Minami-Senju) have been sold.

(Note 3) Sheraton Grande Tokyo Bay Hotel acquired by a special purpose company, of which INV owns the preferred equity interest, is counted as one property and the INV's investment amount to the preferred equity interest is counted as the acquisition price of the preferred equity interest.

(Note 4) The Cayman Hotels acquired by the Cayman SPC, of which INV owned the TK interest, are counted as two properties and the INV's investment amount to the TK interest is used as the acquisition price of the TK interest. After the Structure Change, INV currently has direct ownership of the Leasehold of the Cayman Hotels.

(Note 5) The term of validity of the MOU is from July 1, 2019, the date of execution of the updated MOU, to June 30, 2020. However, regarding the 9 properties listed above, there is no guarantee that INV will be granted an opportunity for considering acquisition of the properties or be able to acquire the properties. INV has no preferential negotiation rights with respect to overseas assets.

(Note 6) Each "Asset Type" above is as follows:

"Full Service Hotel" refers to a hotel generally having both restaurant facilities providing breakfast, lunch and dinner (including meals provided by reservation) and meeting facilities that can be used for banquet services.

"Limited Service Hotel" refers to a hotel that does not qualify as Full-Service Hotel.

"Resort Hotel" refers to a hotel located in areas where a substantial number of guests stay for sightseeing or recreational purposes and includes both full service hotels and limited service hotels. With respect to a hotel that falls within the definition of both a full service hotel and a resort hotel, we categorize the hotel as a full service hotel if it has substantial demand for meeting room, banquet service, wedding service or food and beverage service (including demand from non-staying guests) and as a resort hotel in all other cases. With respect to a hotel that falls within the definition of both a limited service hotel and a resort hotel, we categorize the hotel as a resort hotel.

"Small Type" refers to a residential property in which the majority of dwelling units are less than 30 m<sup>2</sup>.



### Property Sales

While INV places priority on increasing unitholders' value through external growth by taking into account the increased level of activity in the real estate trading market, it also considers the possibility of portfolio optimization upon consideration of the portfolio sector composition, geographic distribution and competitiveness of each property, as appropriate and previously detailed in the Asset Recycling Program.

#### (ii) Strategy for internal growth

##### (Hotels)

Of the 82 domestic hotels (Note 1) owned by INV as of the end of the Reporting Period, 73 hotels use a variable rent scheme. In the variable rent scheme, in principle, INV receives all of gross operating profit (GOP) after deducting payment of management fees for the hotel operator as rents. For 71 hotels of the 73 hotels, MHM and subsidiaries of MHM have implemented sophisticated revenue management initiatives seeking to maximize revenue through effectively taking in the accommodation demand. As a result, INV can directly enjoy the hotel revenue upside through this variable rent scheme. For hotels, renovation of rooms and replacement of fixtures and fittings are indispensable to maintain and increase revenues and operate stably in a planned manner.

##### (Residential properties and others)

INV will continue to strengthen its collaborative ties with PM and brokers to further boost occupancy rates and earning capabilities of its properties. With respect to INV's residential properties, while keeping in mind the high-season in the residential rental market during the June 2020 period, INV will focus on increasing the occupancy rates and rents for both new lease contracts and lease renewals for all of its properties as well as formulating net leasing cost reduction policies in order to continue maximizing profits.

Further, the implementation of appropriate maintenance and repair plans is of the utmost importance in maintaining and enhancing the competitiveness and market value of the properties as well as ensuring high tenant satisfaction. Therefore, INV will continue to monitor current strategic plans with flexible implementation as it sees fit.

(Note 1) Including Sheraton Grande Tokyo Bay Hotel (the preferred equity interest).

#### (iii) Financial strategy

The credit rating from Japan Credit Rating Agency, Ltd. (JCR) has been changed as of February 4, 2020 as follows by further making progress in reduction of funding costs, extending average interest-bearing debt repayment period, diversification of interest-bearing debt repayment dates, and diversification of funding methods. Going forward, INV seeks to maximize unitholders' value through improvement of its credit rating by way of further reduction of borrowing costs, extension of average interest-bearing debt repayment period, diversification of loan maturity dates and financing measures.

Rating Object	Before Change	After Change
Long-term Issuer Rating (Outlook)	A (Positive)	A+ (Stable)

#### (iv) Compliance risk management

While the executive officer of INV concurrently serves as the representative director at the Asset Manager, two supervisory directors (an attorney and a certified public account) oversee the execution of the executive officer's duties via the Board of Directors of INV. In addition, the compliance officer of the Asset Manager attends each meeting of the Board of Directors in the capacity of an observer.

The Asset Manager has a compliance officer who is responsible for compliance with laws, regulations and other relevant matters as well as overall management of transactions with sponsor related parties.

Moreover, it has in place a compliance committee which, chaired by such compliance officer, is in charge of deliberating on compliance with laws, regulations and other relevant matters as well as transactions with sponsor related parties. Compliance committee meetings are attended by an outside expert (an attorney) who, sitting in as a compliance committee member, conducts rigorous deliberations on the existence of conflicts of interest in transactions with sponsor related parties as well as strict examinations with respect to INV's compliance with laws and regulations.

INV intends to continually take steps to strengthen its compliance structure.

c Significant Subsequent Events

(a) Debt Financing

INV decided to borrow New Syndicate Loan (P) on December 9, 2019 and borrowed on January 6, 2020 in order to pay a portion of the acquisition price and related expenses for the acquisition of the two domestic hotels described in “(b) Acquisition of Assets”.

Lender	Borrowing Date	Outstanding Balance (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
Sumitomo Mitsui Trust Bank, Limited	January 6, 2020	4,550	Floating interest rates (Note 1)	January 6, 2025	Unsecured/ non guarantee
		1,550	Floating interest rates (Note 2)	January 6, 2023	
		880	Floating interest rates (Note 3)	January 6, 2021	
Total Debt		6,980	-		

(Note 1) 1-month JPY TIBOR (Base Rate) + spread (0.50000%), fixed, in effect, at 0.64291% by the interest swap agreement

(Note 2) 1-month JPY TIBOR (Base Rate) + spread (0.30000%), fixed, in effect, at 0.41687% by the interest swap agreement

(Note 3) 1-month JPY TIBOR (Base Rate) + spread (0.20000%)

(b) Acquisition of Assets

The Asset Manager decided to acquire two hotels as follows on December 9, 2019, and acquisition of assets was completed on January 6, 2020.

Property Number	Property Name	Acquisition Price (million yen)	Appraisal Value (million yen) (Note 1)	Seller
D82	Hotel MyStays Premier Narita	10,593	10,700	Adria Tokutei Mokuteki Kaisha
D83	Art Hotel Morioka	5,643	5,700	Heijo Tokutei Mokuteki Kaisha
Total		16,236	16,400	-

(Note 1) Appraisal Value is based on appraisal value stated in the appraisal report by The Tanizawa Sōgō Appraisal Co., Ltd. or JLL Morii Valuation & Advisory K.K. on the valuation date of October 1, 2019.

(c) Sale of Assets

The Asset Manager decided to sell one residential property as follows on December 9, 2019, and sale of asset was completed on January 15, 2020.

Property Number	Property Name	Acquisition Price (JPY million)	Book Value (JPY million) (Note 1)	Sale Price (JPY million) (Note 2)	Estimated Gain on Sale (JPY million) (Note 3)	Transferee
A51	City House Tokyo Shinbashi	2,520	2,269	4,465	2,043	Undisclosed (Note 4)

(Note 1) Book Value shows a figure as of December 31, 2019.

(Note 2) Sale Price does not include transfer related cost, adjustments for fixed asset taxes or city planning taxes, or national or local consumption taxes.

(Note 3) Estimated Gain on Sale is calculated by deducting the Book Value and estimated transfer related cost from Sale Price.

(Note 4) The name of the transferee is not disclosed, as the transferee's consent has not been obtained for disclosure.

(Note 5) Amounts are rounded down to the nearest million yen.

#### d Operational Outlook

The forecasts of financial results for the fiscal periods ending June 30, 2020 (from January 1, 2020 to June 30, 2020) and December 31, 2020 (from July 1, 2020 to December 31, 2020) are as follows. For reference purposes, full-year forecasts (aggregate of the fiscal periods ending June 30, 2020 and December 31, 2020) are provided as well, since hotel revenues are influenced by seasonal effects.

	June 2020 Fiscal Period (Anticipated)	December 2020 Fiscal Period (Anticipated)	(Reference) Full-year 2020
Operating Revenues	JPY 18,510 million	JPY 17,441 million	JPY 35,951 million
Operating Income	JPY 12,342 million	JPY 11,112 million	JPY 23,454 million
Ordinary Income	JPY 11,259 million	JPY 10,047 million	JPY 21,306 million
Net Income	JPY 11,258 million	JPY 10,047 million	JPY 21,305 million
Total Distribution Amount (Including excess profit distribution)	JPY 11,047 million	JPY 10,041 million	JPY 21,088 million
Net Income per Unit	JPY 1,846	JPY 1,647	JPY 3,493
Distribution per Unit (Excluding excess profit distribution)	JPY 1,812	JPY 1,647	JPY 3,459
Excess Profit Distribution per Unit	-	-	-
Distribution per Unit (Including excess profit distribution)	JPY 1,812	JPY 1,647	JPY 3,459

For the assumptions underlying the operational outlook for the fiscal period ending June 30, 2020 and December 31, 2020, please see "Assumptions Underlying the Forecast of Financial Results and Distribution ending June 30, 2020 and December 31, 2020".

Further, the new coronavirus, which has been spreading in China and is spreading across the world is expected to have a negative impact on hotel property revenues. However, since it is difficult to estimate such impact at this moment, the forecasts of financial results herein do not reflect such impact. We will promptly notify you if there is a need to amend the outlook for the operating situation in light of future effects.

#### (Cautionary Note regarding Forward Looking Statements)

Forward looking statements such as the forecasts set forth herein are based on information currently available and certain assumptions that are deemed reasonable. Actual operating performance may vary significantly due to factors not foreseen at the time of this present notice, such as the occurrence of gains and losses associated with the sale of properties, repayment of borrowings and a decrease in rent received. Also, this forecast is not a guarantee of distribution amounts.

<Assumptions Underlying the Forecast of Financial Results and Distribution for the Fiscal Periods ending June 30, 2020 and December 31, 2020>

Item	Assumptions
Fiscal period	The June 2020 Fiscal Period: from January 1, 2020 to June 30, 2020 (182 days) The December 2020 Fiscal Period: from July 1, 2020 to December 31, 2020 (184 days)
Assets under management	Properties held as of the end of the June 2020 Fiscal Period: 147 properties and preferred equity interests in one TMK Properties held as of the end of the December 2020 Fiscal Period: 147 properties and preferred equity interests in one TMK  Based on the properties held as of today (147 properties and preferred equity interests in one TMK), and INV assumes that there will be no change in the portfolio through the end of the fiscal period ending December 2020.
Units outstanding	As of the end of the June 2020 Fiscal Period: 6,096,840 units As of the end of the December 2020 Fiscal Period: 6,096,840 units  INV assumes that there will be no change to the current 6,096,840 units issued and outstanding through the end of the December 2020 Fiscal Period.
Interest-bearing liabilities	Balance as of the end of the fiscal period ending June 2020: JPY 263,468 million (borrowing: JPY 256,468 million, investment corporation bonds: JPY 7,000 million) Balance as of the end of the fiscal period ending December 2020: JPY 263,468 million (borrowing: JPY 256,468 million, investment corporation bonds: JPY 7,000 million)  INV assumes that of the current total balance of JPY 266,154 million, INV intends to repay consumption tax loan of JPY 2,686 million maturing on July 18, 2020 in the fiscal period ending June 2020. Regarding other loans maturing during the June 2020 Fiscal Period and December 2020 Fiscal Period, INV intends to refinance at a similar condition during the respective fiscal periods. INV assumes no other new loan or prepayment of loan through the end of the December 2020 Fiscal Period.

Operating revenues	INV expects to record rental revenues for each fiscal period as follows:		
		June 2020	December 2020
		Fiscal Period	Fiscal Period
	• Rental revenues	JPY 12,741 million	JPY 15,306 million
	(of these, hotel rents)	(JPY 10,172 million)	(JPY 12,767 million)
	(fixed hotel rents)	(JPY 5,514 million)	(JPY 7,015 million)
	(variable hotel rents)	(JPY 4,658 million)	(JPY 5,752 million)
	• Management contract revenue	JPY 2,963 million	JPY 1,324 million
	• TMK dividend amount	JPY 768 million	JPY 811 million
	• Gain on sale	JPY 2,038 million	-
	Total operating revenues	JPY 18,510 million	JPY 17,441 million
<p>INV estimates the amount of dividends on the preferred equity interests based on the performance of the underlying asset and the assumed amount of expenses incurred by the special purpose company.</p> <p>INV recognizes management contract revenue from the overseas hotels as a real estate investment income from management contracts of the Cayman Hotels. The forecasts of management contract revenue are based on estimated performance of the underlying assets and the assumed amount of expenses incurred by the hotel management company. Management contract revenue have been calculated based on the exchange rate of USD 1 = JPY 110.00, as the exchange rate is fixed based on the currency put/call options covering approximately 85% of expected cash flow. With respect to the Cayman Hotels, the forecast of the fiscal period ending December 2020 assumes a slight decline in room and spa revenue based on the assumption that the expansion and renovation of the Cayman Hotels will commence in the summer of 2020, with the aim for completion around the end of 2022, because in such case, the part of rooms will not be available for sale and the spa will be temporarily closed. Although the commencement of such expansion and renovation has not been decided, INV is conservatively incorporating these factors into the forecast of December 2020 Fiscal Period. INV is currently continuing its due diligence work on the costs and work of the development. If the development does go forward, there will be certain one-off costs such as demolition costs and a non-cash expense from the retirement of a part of existing buildings, but the estimated amount is not yet unknown, so such impact is not reflected in the forecast.</p> <p>Rental revenues are calculated based on estimates as of today. In addition, INV assumes there will be no delinquencies or non-payment of rent by tenants.</p>			

Operating expenses	INV expects to incur property related expenses and management contract expenses out of operating expenses for each fiscal period as follows:		
		June 2020 Fiscal Period	December 2020 Fiscal Period
	• Facility management fees (of these, repair costs)	JPY 561 million (JPY 37 million)	JPY 518 million (JPY 21 million)
	• Taxes and other public charges (Note)	JPY 599 million	JPY 773 million
	• Insurance expenses	JPY 147 million	JPY 152 million
	• Depreciation expenses	JPY 4,088 million	JPY 4,159 million
	• Other expenses	JPY 205 million	JPY 173 million
	Total property related expenses and management contract expenses	JPY 5,602 million	JPY 5,776 million
	(Note) Property taxes and city planning taxes on the acquired assets are calculated on a pro-rata basis with the previous owners and settled at the time of acquisition, and are not recorded for the fiscal periods ending June and December during the year of acquisition and recorded from the fiscal period ending June in the next year as the amount equivalent to such settlement is included in the acquisition cost.		
	For the two hotel properties acquired on January 6, 2020, INV expects to record the property taxes and city planning taxes of JPY 41 million in total as part of the total acquisition cost, and an annual amount of JPY 42 million of such taxes as expenses starting from the fiscal period ending June 2021.		
	INV expects to incur other operating expenses than the property related expenses or management contract expenses for each fiscal period as follows:		
		June 2020 Fiscal Period	December 2020 Fiscal Period
	• Other operating expenses (of these, asset management fees)	JPY 565 million (JPY 300 million)	JPY 553 million (JPY 300 million)
NOI	INV expects to record net operating income for each fiscal period as follows:		
		June 2020 Fiscal Period	December 2020 Fiscal Period
	• NOI	JPY 14,958 million	JPY 15,824 million
	(of these, domestic hotel NOI)	(JPY 10,344 million)	(JPY 12,834 million)
	(of these, overseas hotel NOI)	(JPY 2,791 million)	(JPY 1,147 million)
	(of these, residential NOI)	(JPY 1,641 million)	(JPY 1,659 million)
	NOI calculation method in the above table is as follows		
	• NOI = Rental Revenues - Property Related Expenses + Depreciation Expenses + Dividends on the preferred equity interest (TMK dividend) + (Management Contract Revenue - Management Contract Expense)		
Non-operating expenses	INV expects to incur non-operating expenses for each fiscal period as follows:		
		June 2020 Fiscal Period	December 2020 Fiscal Period
	• Interest expense	JPY 711 million	JPY 711 million
	• Finance related costs	JPY 342 million	JPY 323 million
	• Interest for investment corporation bonds	JPY 22 million	JPY 23 million
	• Depreciation of investment corporation bonds issuance expense:	JPY 6 million	JPY 6 million
	Total non-operating expenses	JPY 1,082 million	JPY 1,064 million

Distribution per unit	<p>The distribution per unit is calculated in accordance with the cash distribution policy as set forth in INV's Articles of Incorporation.</p> <p>With respect to the distribution for the fiscal period ending June 2020, INV expects to distribute an aggregate amount of JPY 11,047 million (distribution per unit: JPY 1,812) which is the remaining amount after retaining JPY 211 million (which is equivalent to an one-off revenue associated with the acquisition of the two hotel properties acquired on January 6, 2020) for internal reserve from net income for the fiscal period ending June 2020 (JPY 11,258 million).</p> <p>With respect to the distribution for the fiscal period ending December 2020, INV expects to distribute an aggregate amount of JPY 10,041 million (distribution per unit: JPY 1,647) from the net income for the fiscal period ending December 2020 (JPY 10,047 million).</p> <p>For the fiscal periods ending June 2020 and December 2020, INV expects to record deferred gain on hedge of the interest rate swap and the currency option as the valuation and conversion adjustments, etc. of JPY 87 million, which is equal to the amount for the fiscal period ended June 2019. The distribution per unit is calculated based on the assumption that fluctuation of the market value of the interest rate swap and the currency option does not affect the distribution per unit.</p> <p>Distribution per unit may vary due to various factors, including changes of the assets under management, fluctuation of rent income associated with reasons such as change of tenants and occurrences of unexpected repairs.</p>									
Excess profit distribution per unit	<p>INV believes maintaining the stability of cash distributions over the medium term is one of the most important factors in determining the amount of distribution for a given fiscal period, and therefore, INV has adopted the policy to make distributions in excess of profits in order to stabilize distributions, in cases where dilution of investment units or significant expenses are to be recorded in connection with, among other things, the acquisition of assets or the raising of capital, leading to a temporary decrease in distribution per unit, taking into consideration the level of distribution per unit assuming such acquisition of assets or capital raising had contributed for a full fiscal period.</p> <p>INV may also consider making distributions in excess of profits for the purpose of decreasing the impact from corporate tax increase arising from different rules in tax and accounting practices, such as treatment on depreciation of fixed term land lease or asset retirement obligation.</p> <p>With respect to the fiscal periods ending June 2020 and December 2020, INV will not make distributions in excess of profits. In addition, INV will not make distributions in excess of profits in order to cope with the discrepancy between tax and accounting treatment.</p> <table><tr><td></td><td>June 2020</td><td>December 2020</td></tr><tr><td></td><td>Fiscal Period</td><td>Fiscal Period</td></tr><tr><td>Excess profit distribution per unit</td><td>-</td><td>-</td></tr></table>		June 2020	December 2020		Fiscal Period	Fiscal Period	Excess profit distribution per unit	-	-
	June 2020	December 2020								
	Fiscal Period	Fiscal Period								
Excess profit distribution per unit	-	-								
Other	<p>INV assumes there will be no amendments to applicable laws and regulations, the taxation system, accounting standards and other regulations that would affect the foregoing forecasts.</p> <p>In addition, INV assumes there will be no unforeseen material changes in general economic trends, real estate market conditions and other trends and conditions.</p>									

(2) Investment Risk

Disclosure is omitted because there have been no material changes in the "Investment Risk" section of the latest securities report (filed on September 24, 2019).