

STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Product name: Nippon Building Fund Inc.

Legal entity identifier: 52990053R8NL2MB32172

The following is the adverse sustainability impact statement of Nippon Building Fund Inc. (“NBF”) pursuant to Regulation (EU) 2019/2088 (“SFDR”). NBF has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan and relies on Nippon Building Fund Management Ltd. (the “Asset Manager”), to manage and operate the properties in its portfolio. NBF and the Asset Manager are hereinafter referred to collectively as “we”, “us” or “our”.

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.

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 NBF’s portfolio.

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

NBF does not invest in investee companies, but invests in real estate. As adverse sustainability indicators 1-16 as contained in Table 1 of Annex 1 of the Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

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 December 31, 2022, 17 properties out of NBF's 71 properties were not "Eligible Green Assets" (as defined to the right).	As of December 31, 2021, 27 properties out of NBF's 73 properties were not "Eligible Green Assets" (as defined to the right).	To track the environmental performance of NBF's properties, we rely on certifications issued by third-party organizations, such as the Development Bank of Japan's ("DBJ") Green Building Certification, Comprehensive Assessment System for Built Environment	We implement as appropriate measures to reduce the environmental impact of the real estate assets following acquisition, including by obtaining environmental certifications such as DBJ or CASBEE. We also install and renew energy-efficient facilities such

					<p>Efficiency (“CASBEE”) certification, and other equivalent certifications. We call NBF’s property that receives any such certifications an “Eligible Green Asset”. With respect to DBJ certifications, we consider a property to have sufficient environmental certification if it received 3 stars or higher out of DBJ’s five-star ranking system. With respect to CASBEE, we consider a 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).</p>	<p>as LED lighting, reduce greenhouse gas emissions by reviewing agreements with electric power companies and increase use of renewable energy in order to reduce environmental impact caused by NBF’s properties. We aim to acquire properties with good environmental performance.</p>
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Table 2

Additional climate and other environment-related indicators

NBF does not invest in investee companies, but invests in real estate. As adverse sustainability indicators 1-17 as contained in Table 2 of Annex 1 of the Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

Adverse sustainability impact	Adverse sustainability impact (qualitative or quantitative)	Metric
Indicators applicable to investments in real estate assets		
Greenhouse gas emissions	<p>18. GHG emissions</p> <p>Scope 1 GHG emissions generated by real estate assets were 13,858 t-CO₂ (in 2019), 12,902 t-CO₂ (in 2020), 11,756 t-CO₂ (in 2021) and 4,819t-CO₂ (in 2022).</p> <p>Scope 2 GHG emissions generated by real estate assets were 144,852 t-CO₂ (in 2019), 129,680 t-CO₂ (in 2020), 138,323t-CO₂ (in 2021) and 20,942t-CO₂ (in 2022).</p> <p>Scope 3 GHG emissions generated by real estate assets were 131,952 t-CO₂ (in 2022).</p> <p>Until 2021, Scope 2 GHG emissions had been calculated by including Scope 3.</p> <p>Total GHG emissions generated by real estate assets were 158,711 t-CO₂ (in 2019), 142,583 t-CO₂ (in 2020), 150,079 t-CO₂ (in 2021) and 151,484t-CO₂ (in 2022).</p> <p>We aim to reduce GHG emissions by 40% from that in 2013 as a base by 2030.</p> <p>We have also increased use of renewable energy through installation of solar panels. As of December 31, 2022, seven of NBF's 71 properties were equipped with solar panels.</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
Energy consumption	<p>19. Energy consumption intensity</p> <p>Energy consumption of owned real estate assets were 188.2 kWh/m² (in 2019), 173.2 kWh/m² (in 2020), 146.1kWh/m² (in 2021) and 180.6kWh/m² (in 2022).</p> <p>We aim to reduce energy consumption by installing energy saving equipment such as LED lighting at NBF's properties. As of December 31, 2022, 45% of the lightings installed at NBF's properties were LED.</p>	Energy consumption in GWh of owned real estate assets per square meter

Table 3

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

NBF has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan, and relies on the Asset Manager to manage and operate the properties in its portfolio. Accordingly, additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters in this PAI statement pertain to the Asset Manager and the tenants of the properties in NBF's portfolio, to the extent available.

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		
	<p>5. Lack of grievance/complaints handling mechanism related to employee matters</p> <p>The Asset Manager has a mechanism to allow all employees including temporary employees to freely and anonymously provide feedback related to personnel affairs, the working environment and other matters. The feedback will be conveyed to those with management responsibility as needed. In addition, directors interview employees once a year to discuss their feedback and career aspirations. Moreover, the Asset Manager has established internal and external contacts to receive anonymous reports from whistleblowers, including on violations of human rights of employees, business partners and other parties as well as fraudulent and wrongful acts. The current internal contact is the compliance officer (or in the case of matters regarding the compliance officer, the CEO) and the current external contact is a law firm. The Asset Manager's whistleblower protection rule prohibits retaliatory action against any whistleblower, while making it mandatory for the Asset Manager to implement appropriate measures for any reported issue.</p>	<p>Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters</p> <p>The Asset Manager has a grievance/complaints handling mechanism for all of its officers and employees.</p>
	<p>6. Insufficient whistleblower protection</p> <p>In addition to the protection described above, if the whistleblower receives any retaliatory treatment, they may report it to either the designated internal or external contact under the rule. After receiving such a report, the contact must promptly take corrective measures to protect the whistleblower.</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>We have adopted the sponsor's Sustainable Procurement Standards and Human Rights Policy, in support of the basic labor rights set forth in the ILO Declaration on Fundamental Principles and Rights at Work.</p>	<p>Share of investments in entities without a human rights policy</p> <p>The Asset Manager has a human rights policy applicable to all of its officers and employees.</p>
Anti-corruption and anti-bribery	<p>15. Lack of anti-corruption and anti-bribery policies</p> <p>Our compliance manual prohibits giving more than moderate gifts and entertainment internally or to clients or business partners, gifts or entertainment meant to influence another party's judgment or gifts or entertainment to government officials. All employees, including temporary employees, are provided anti-corruption and anti-bribery policy training, including online.</p> <p>Before entering into a lease agreement with a tenant, we review if the tenant has any relations with criminal organizations or other anti-social forces.</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>The Asset Manager has compliance policies addressing anti-corruption and anti-bribery that apply to all of its officers and employees. In addition, to the best of our knowledge, all of our tenants have policies that prohibit relations with criminal organizations or other anti-social forces.</p>

For descriptions of actions which NBF takes and will take with respect to the PAI indicators, please refer to our ESG website with respect to NBF: <https://esg.nbf-m.com/en/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 NBF's 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 has established a green finance framework in accordance with the 2018 Green Bond Principles and the 2017 Green Bond Guidelines to conduct sustainable finance. With respect to Development Bank of Japan's ("DBJ") Green Building Certification, we consider a property to have sufficient environmental certification if it received 3 stars or higher out of DBJ's five-star ranking system. With respect to Comprehensive Assessment System for Built Environment Efficiency ("CASBEE") certification, we consider a 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, we consider a property to have sufficient environmental certification if it received a three stars or higher out of BELS' five-star ranking system.

For further information, please refer to our ESG website: <https://esg.nbf-m.com/en/index.html>

4. Engagement policies

Due diligence and screening

We consider the environment and nature of the soil when investing in properties. 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 from NBF's portfolio. However, from time to time we acquire properties not meeting the standards as long as they are deemed fixable promptly after acquisition. We also invest in properties that have been constructed, reinforced, or otherwise modified to meet applicable new earthquake resistance building codes or have been deemed to have seismic capacity equivalent thereto.

At the properties we operate, we set numerical targets and monitor the amount of energy used as well as the amount of CO2 emissions within the property in order to reduce our environmental burden.

We regularly monitor the environmental and social risks of NBF's properties and conduct technical evaluation of energy saving initiatives to reduce risks and improve property value.

Engagement

We have included in our leases with our tenants Green Lease provisions that require them to collaborate with us in implementing various measures, to promote environmental consideration, including installation of LED lighting at NBF's properties with the consent of the tenants.

In order to promote environmental initiatives and social consideration in our supply chain, we have established a green procurement manual. In line with this manual, we request newly selected and existing business partners in the supply chain, including property managers, to understand and cooperate on our environmental initiatives and social considerations.

5. References to international standards

The Asset Manager has expressed support for the Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board and clarified stronger efforts to address climate-related issues. The Asset Manager has also participated in the CDP (Carbon Disclosure Project) Climate Change Program, which evaluates efforts such as information disclosure on climate change.

6. Historical comparison

See Table 1, Table 2 above.