

# Japan Post Bank's Real Estate Strategy and Outlook

June 2023



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# Overview of Our Real Estate Investment Program

Long-term investments in various financial products backed by the high-quality diversified commercial real estate assets across the globe.

## Purpose of Real Estate Investment

- ✓ Enhance investments/ revenue diversification, portfolio diversification, and inflation hedging
- ✓ Stable rental income and capital growth supported by the long-term urban growth

## Organization

<b>Department</b>	Real Estate Investment Department
<b>General Manager</b>	Senior Managing Director Kazunari Yaguchi
<b># of Staff</b>	18 (As of April 1, 2023)*1
<b>Real Estate Experience</b>	Total yrs of experience in RE: 206 yrs Avg. tenure of service: 4.9 yrs
<b>Members' Certifications</b>	MBA, CFA, CMA, Real Estate appraiser, Ares Certified Master, RE Transaction Specialist

\*1 Including 1 concurrent

## Real Estate Financial Products\*2

	Equity	Debt
Private/Bilateral	Private Funds Private REITs	NRLs
Public/Listed	Public REITs	CMBS

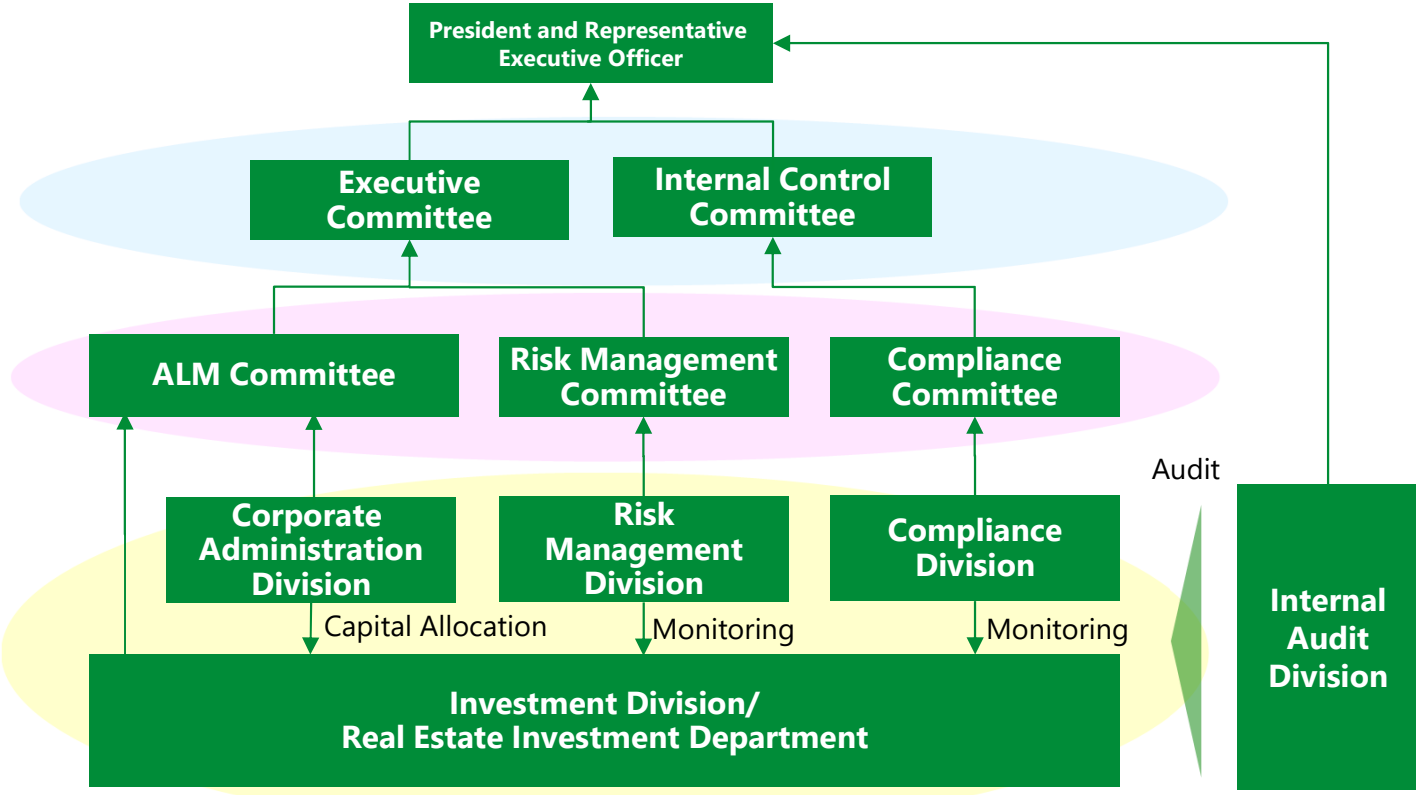
\*2 Started investment in domestic private funds and gradually expanded investment products thereafter.

- ✓ Able to secure benefits of real estate investments including diversification and inflation hedging by investing in financial products, such as stocks and bonds, backed by real estate assets.
- ✓ Progress investments through detailed analysis and evaluation of real estate backing each product, conducted by seasoned and well-experienced real estate investment team.

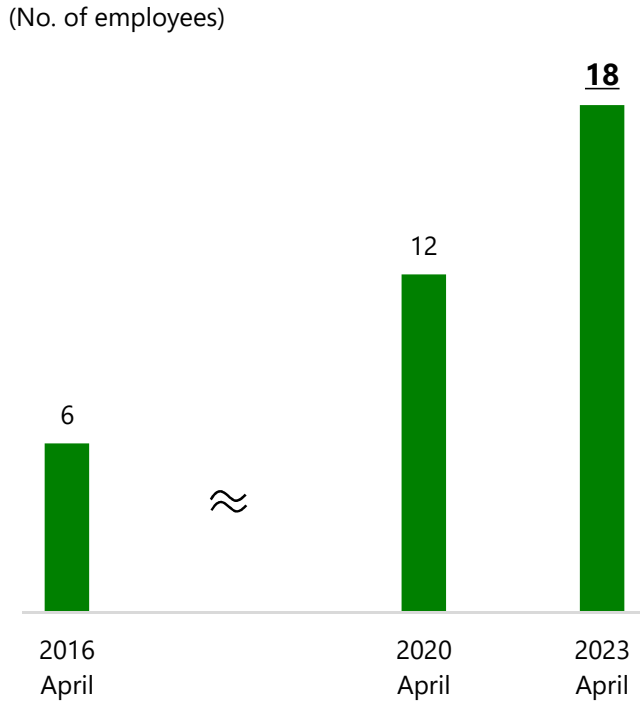
# Governance

Appropriate investment monitoring through check and balances system provided by divisions including Risk Management and Compliance Divisions.

## Investment Organization

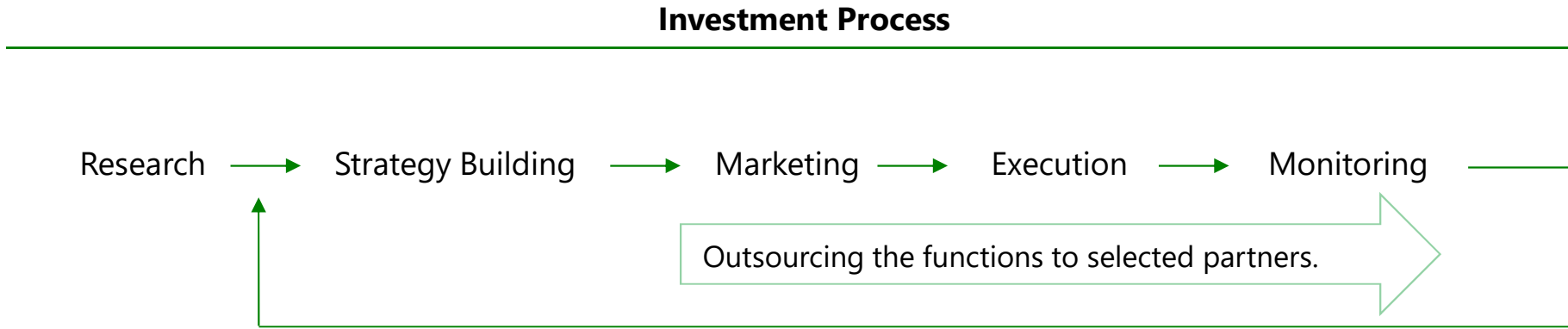


## Number of Employees in Real Estate Investment Department



# Investment Process

- Prioritize top-down approach by setting investment policy and strategy including allocation based on detailed market research.
- Outsource marketing, execution and monitoring functions to selected partners with local investment teams in the target regions.
- Use bottom-up approach for setting strategy leveraging periodic and ad-hoc asset management reports issued by partners.



- ✓ Setting multiple separate accounts with specific mandates. The partners carry out high-quality investment managements in line with our strategy.
- ✓ The partners effectively execute investments through local teams covering most of our investment destinations and follow/report market movements in a timely manner.

# Investment Philosophy

Build well-diversified portfolio to pursue a stable profit, with below investment philosophy/ideas as common theme.

## Urbanization

Long term betting on the properties in growing cities which have longstanding magnetic to top talents and capital with global/local partners.

(Growing cities)

Capturing the global trend of “urbanization,” invest in properties which provide safe/comfortable workplace, living space, and entertainment.

(Partners)

Leveraging global partners’ worldwide insight/view and high-quality investment management capability as well as local partners’ deep experience/network in each local market.

## Changes in Social Structures

Capturing the long term secular trend to minimize the impact by macro-economic cyclicality. Keeping eye on the following three trends.

1. Digitalization : Logistics properties supporting the growth of e-commerce and data centers playing a key role as infrastructure in the digital economy.
2. Environment : High-quality ESG credential properties, i.e. energy-saving and low-GHG emission buildings, expected to attract tenants in the long-term.
3. Demographic changes : Residential properties filling the gap of living needs caused by migration, aging, and smaller family formation.

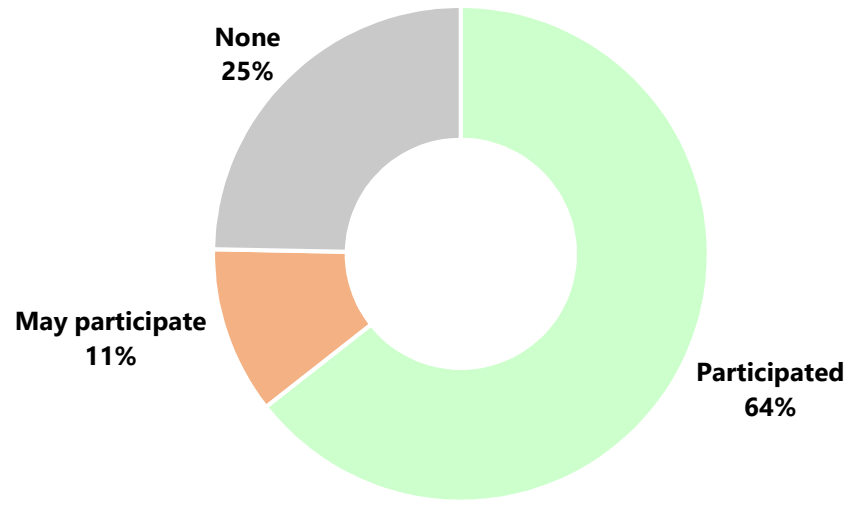
# ESG Policy

Emphasizing the importance of "Environment" among "E", "S" and "G" for evaluating the quality of properties.  
Becoming an investor member of GRESB, which provide benchmark/evaluation for the fund's ESG initiative.  
64.4% of our investing fund participate in GRESB in 2022 (calculation based on the weighted average of funds' FV).

## ESG Integration in Real Estate Investment

- ✓ More access to fund managers with high considerations to environment and ESG credential properties, by including ESG themed properties in our investment target.
- ✓ Negative screening from ESG perspective, such as exclusion of properties related to anti-social forces and gambling sector.
- ✓ Investment analysis based on qualitative/quantitative data analysis such as ESG certificates and GHG emission.
- ✓ Proactive recommendation to fund managers to participate in GRESB.
- ✓ Monitoring the portfolio in light of GRESB participation, green building certification and partners' ESG ratings, post investment execution.

## GRESB Participation of Equity Portfolio



# Current Status

Long term investments in the equity/debt financial products backed by the high-quality diversified commercial real estate assets. AUM of JPY 3.6tn. Unrealized gain on the equity portfolio is JPY 0.2tn.

Constant growth of net realized gains\*1 along with the growth of the portfolio size as both products produce stable income.

\*1 Management accounting basis. Including the amount of scheduled tax claim.

## Return Target/Actual

**[Target]**

- **Equity**  
Net\*2 IRR : 5-6%
- **Debt**  
Excess spread to the corporate bond with equivalent credit risk

**[Actual (as of Mar. 31, 2023)]**

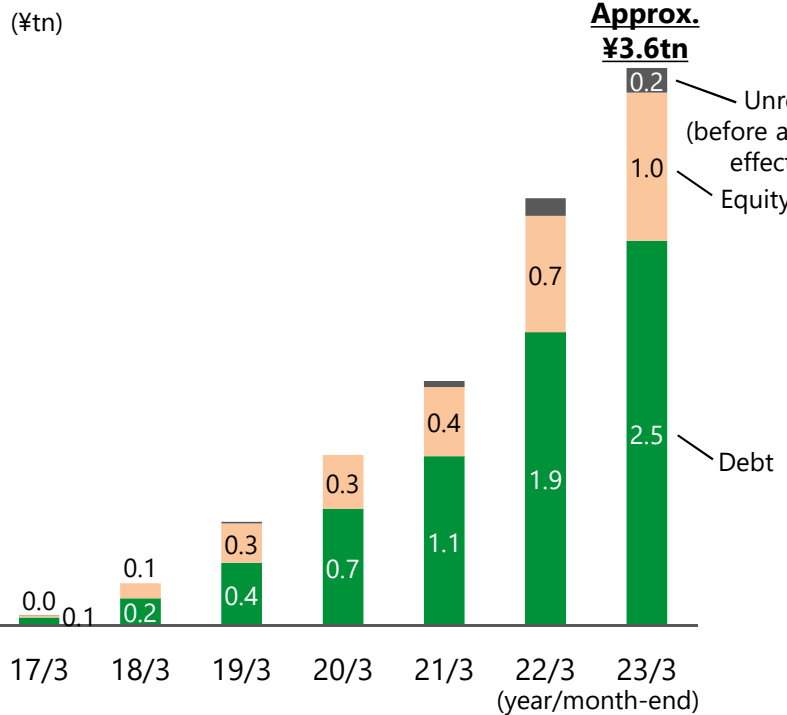
- **Equity**  
Net\* IRR : **11.1%**
- **Debt**  
Excess spread of **approx. +90bps**

\*2 After fees, expenses, and hedging costs

## Status of Balance and Net Realized Gains

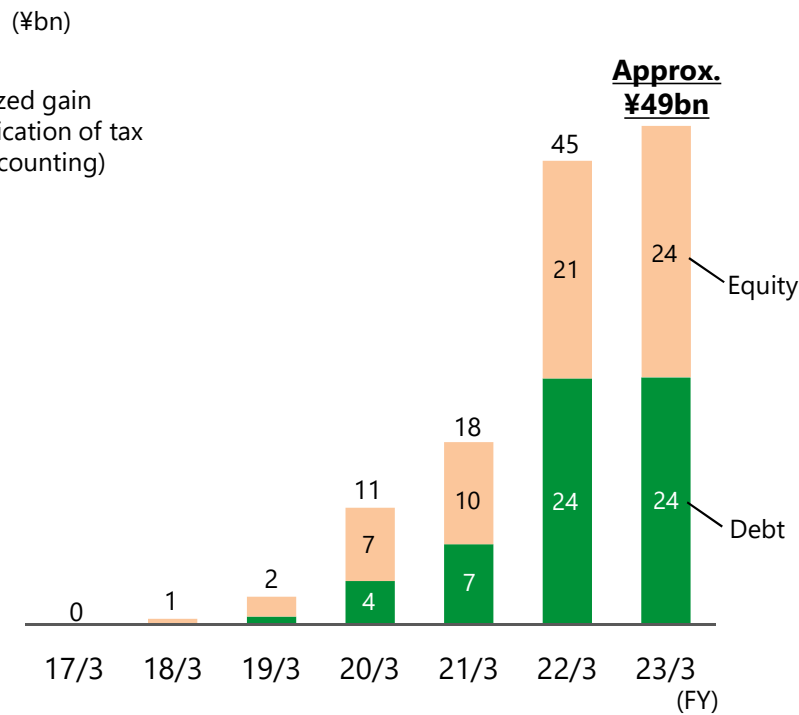
### < Balance >

The reported fair value generally **lags three months** behind the fair value of real estate fund, NRL and CMBS.  
(Fair values of commercial real estate are based on appraisal values which are less volatile than stock prices of listed companies.)



### < Net Realized Gains\*1 >

The reported net realized gains generally **lags three months** behind the net realized gains of real estate fund, NRL and CMBS.





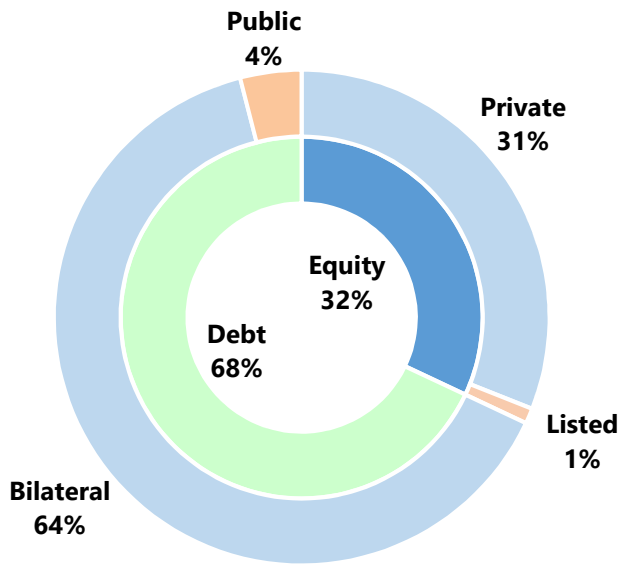
# The Portfolio

Pursue income gain backed by the stable rental revenue and capital gain by the long-term value growth of underlying properties. Highly and strategically diversify the portfolio with regard to the strategy, region, sector, timing, manager as well as property. Mainly invest in highly occupied properties located in the developed economies through private products.

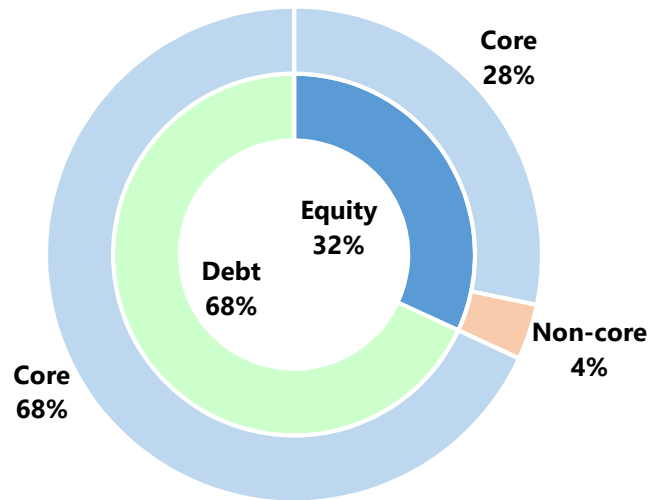
## Strategy Diversification (Fair Value Basis, as of Mar. 31, 2023)

## Geography Diversification (Fair Value Basis, as of Mar. 31, 2023)

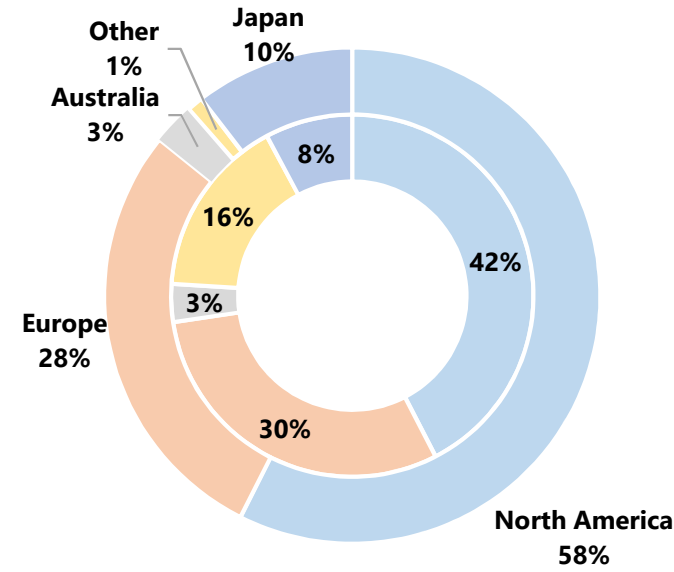
Product Allocation



Strategy Allocation



Geography Allocation



**[Core]**  
Strategy pursuing the stable rental income earned by the high occupancy properties.

**[Non-core]**  
Strategy pursuing the excess return over core strategy by active property management such as lease up and refurbishments.

<Note>  
Inner ring: Market size  
(as of Dec. 31, 2022, estimate by MSCI\*)  
Outer ring: Portfolio (as of Mar. 31, 2023)

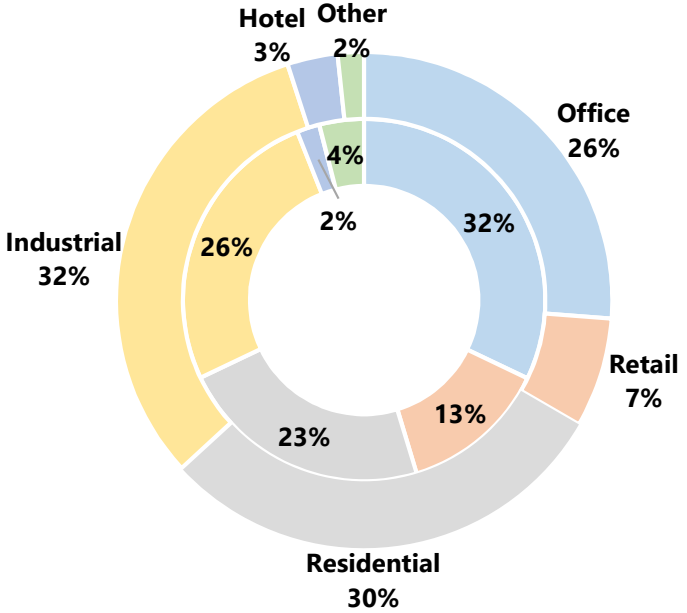
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# The Portfolio

Overweight to the industrial, including logistics facilities for e-commerce businesses, and rental residential sectors and underweight to the office sector relative to the benchmark index.

While keep the constant pace of the investment, tactically accelerated the pace in FY2022/3 to capture the timing of price recovery after the Covid-19 dislocation.

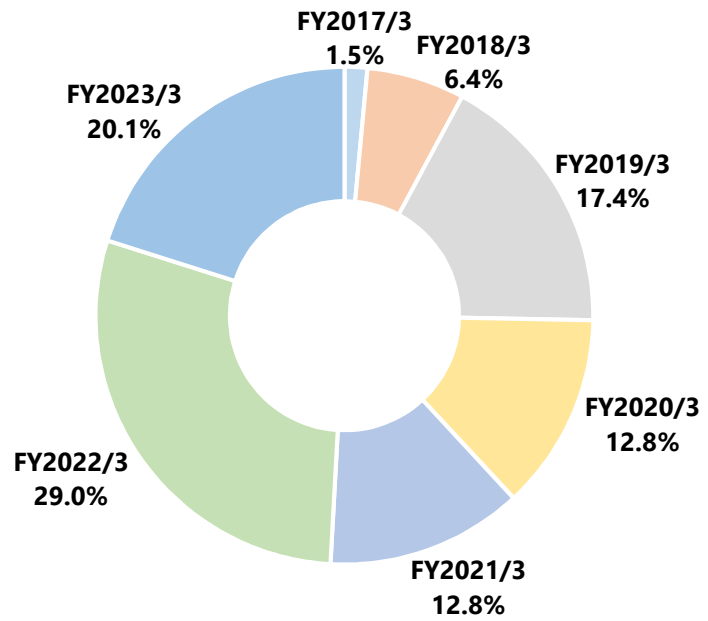
**Sector Diversification**  
(Fair Value Basis, as of Mar. 31, 2023)



<Note>  
 Inner ring: Market size  
 (as of Dec. 31, 2022, estimate by MSCI\*)  
 Outer ring: Portfolio (as of Mar. 31, 2023)

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**Vintage Diversification**  
(Fair Value Basis, as of Mar. 31, 2023)



**Investment Diversification (as of Mar. 31, 2023)**

No. of Funds  
**169**

No. of Loans  
**287**

No. of underlying property  
**Approx. 14,000**

# Investment Examples

## Industrial



Prologis Palmer Lakes (Miami)



Goodman Business Park (Inzai City)

## Residential



Dolphin Square (London)



Kawada-cho Garden (Shinjuku Ward)

## Office



21 Moorfields (London)



Toranomon Hills (Minato Ward)

## Retail



China Town Point (Singapore)



Fululu Garden Yachiyo (Yachiyo City)  
(Fully exited)

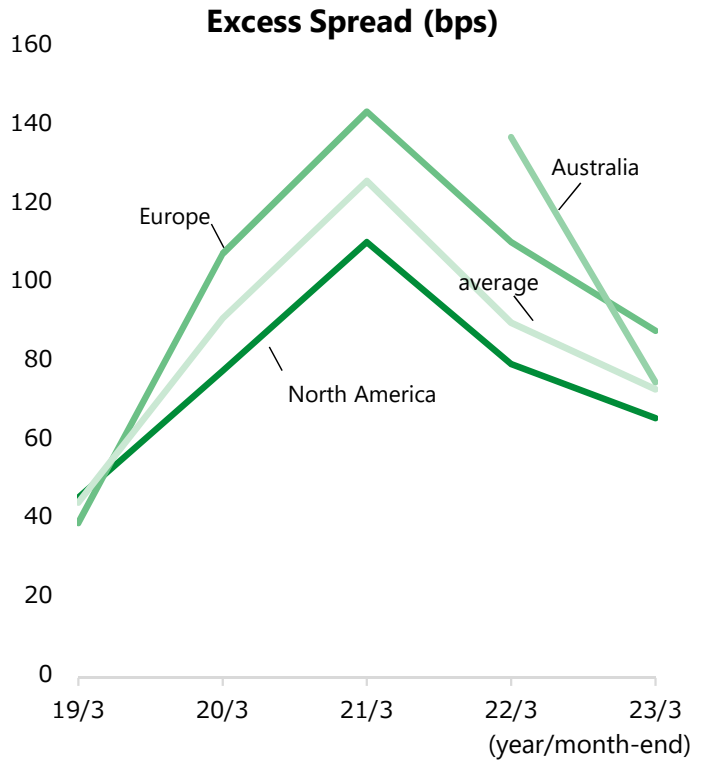
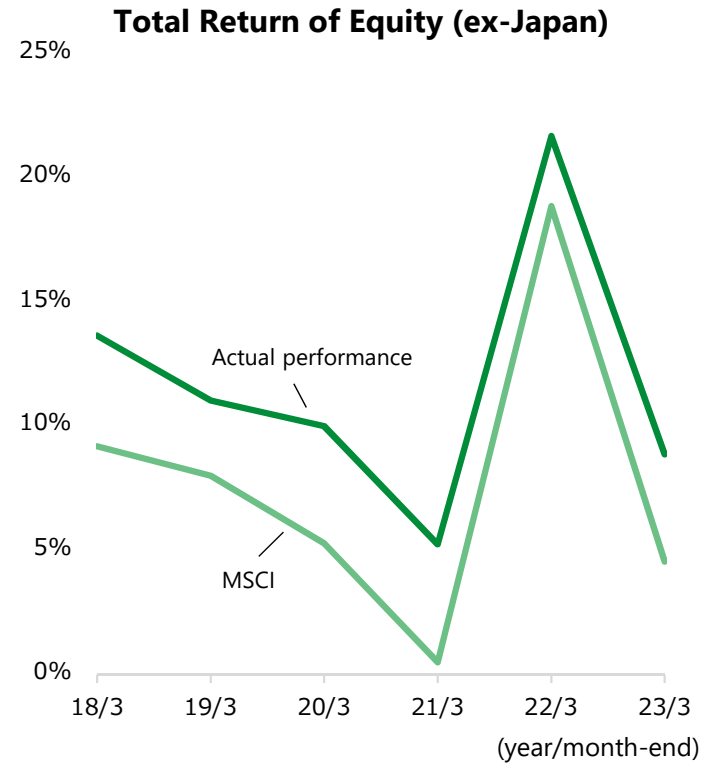
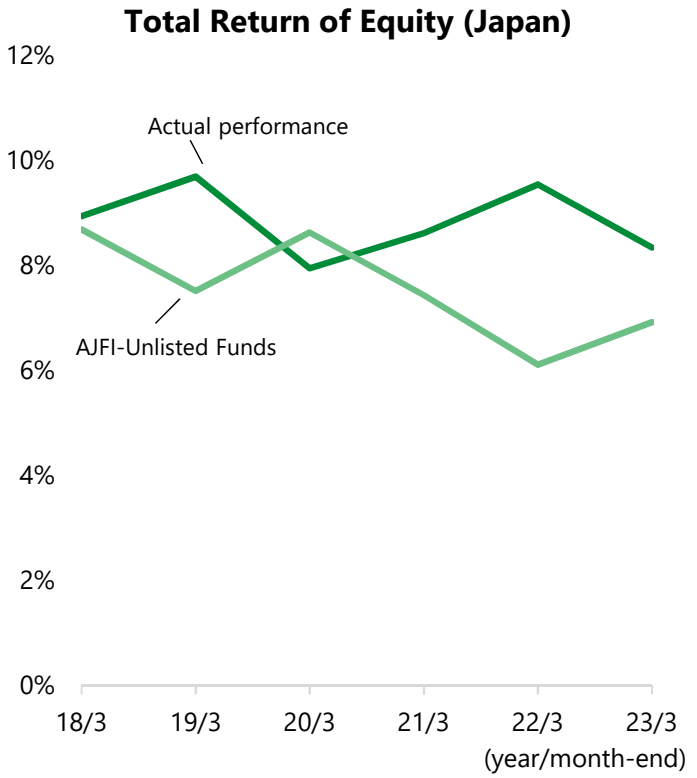
# Return

Outperforming the index in the equity investments.

Maintaining excess spread to the corporate bonds with equivalent credit risk in the debt investment.

## Equity

## Debt



Source: Created based on data from ARES\*  
 \* AJFI numbers after September 2022 are preliminary.

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# Risk Factors That May Affect Future Returns



Risk factors including but not limited to the following will affect future returns.

## Content of Risk

### Real Estate Market Risk

- ✓ Changes in rental market resulting in the decline of rental revenue.
- ✓ Changes in transaction market resulting in cap rate hike (price decline).

### FX, Interest Rate, Credit Risk

- ✓ Volatility in FX, interest rate, and credit spread resulting in the volatility of investment fair value.

### Fund Related Risk

- ✓ Mismanagement of the investment properties by the fund managers.
- ✓ Misconduct

### Disaster/Geopolitical Risk

- ✓ Physical damages to the properties by earthquake, fire, climate change, geopolitical conflict, and terrorism.

# Current Investment Market

Contrasting rental market with solid NOI\*<sup>1</sup> growth in the industrial and residential by tight supply/demand balance while weak in the gateway cities' office by prolonged WFH and stagnant economy. Only high-quality office keeps attracting tenant and investor.

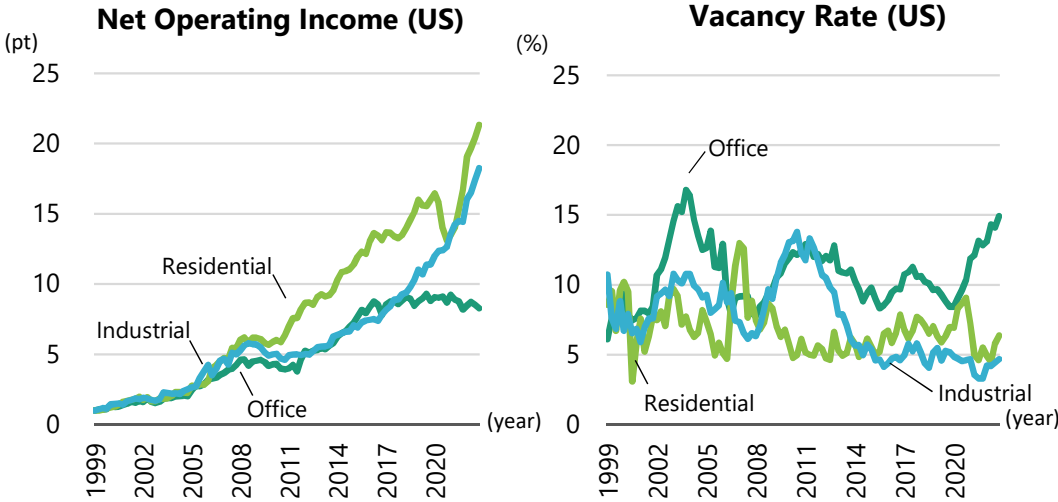
Cap rate\*<sup>2</sup> expansion (price decline) under the rate hike process across the developed economies, though inflation-linked rent growth partially offsets the impact.

\*1 NOI (Net Operating Income) is all revenues including rent from the property minus all operating expenses.

\*2 Cap Rate is the ratio of the NOI to its current value.

## Rental Market

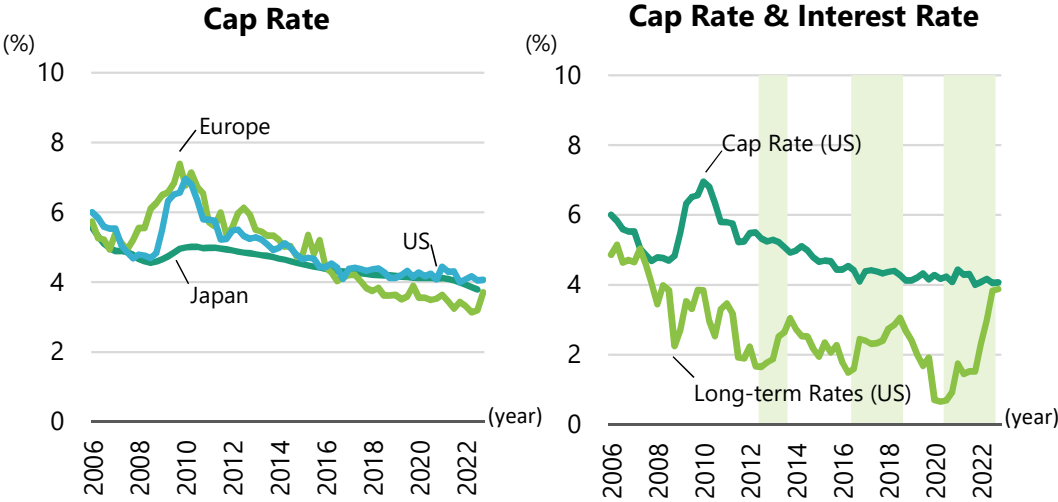
Source: Created based on data from MSCI\*  
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Note: Calculated based on NOI of end of March, 1999 being 1

## Transaction Market

Source: Created based on data from MSCI\*  
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Note: The shaded area in the graph shows the interest rate rise

## Risk Appetite Policy

- ✓ Keep discipline and selectively invest in good opportunities with long term perspective.
- ✓ Prudently expand the portfolio while increasing debt investment proportion.

# Appendix: Fair Value Calculation and Impacts by Inflation

Trust account value on JPB's B/S reflects the fair value of equity interests in real estate funds (i.e. Net Asset Value, NAV) , where the fair value of the funds is based on real estate appraisal value of roughly 3 months ago.

Fair value accounting has been introduced to the equity investment in real estate funds since FY2022 , except for some private funds, to follow the revision of guidance on fair value accounting for the unit trust in J-GAAP (2021).

## Fair Value Reflection

- ✓ Majority of the real estate funds employ unit trust vehicles. Thus, NAV of the real estate fund is reflected in JPB's trust account.
- ✓ Properties' fair values are generally updated based on the appraisal value on quarterly basis. The above appraisal value is incorporated into the fund NAV. Therefore, fund's NAV is directly/indirectly ensured through verification by the external appraisers, by valuation committee at fund, and by the external audits of financial statements.
- ✓ Trust account reflects fund's NAV roughly 3months ago due to the lag in availability of information.

## Impacts of Inflation on the Property Fair Value

- ✓ NOI from real estate property tends to increase under inflationary environment.
  - Residential properties where rents tend to rise in line with the inflation rate during inflation.
  - Long-term lease contracts that include a clause to review rents in line with the inflation rate.
  - Retail properties and the like, where rents link to tenants' sales.
- ✓ Cap rate in the real estate valuation methodology is mathematically translated as follows:
  - Investor's expected return(%)-expected NOI growth(%)*
  - The increase in the cap rate tends to be controlled as the increase in the expected NOI growth to some extent offsets the increase in the interest rate through inflation.

### Property valuation in direct capitalization method

$$P(\text{Property Price}) = \frac{NOI}{\text{Cap Rate}}$$