Invincible Investment Corporation

Financial Summary for the June 2020 Fiscal Period

(from January 1, 2020 to June 30, 2020)

August 25, 2020

Name	:	Invincible Investment Corporation ("INV")
Representative	:	Naoki Fukuda, Executive Director
Stock Listing	:	Tokyo Stock Exchange
Securities Code	:	8963
URL	:	https://www.invincible-inv.co.jp/en/
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	:	September 23, 2020

This English language notice is a translation of the Japanese-language notice released on August 25, 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 June 30, 2020 (from January 1, 2020 to June 30, 2020)

(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 June 30, 2020	9,410	(49.4)	1,496	(88.4)	424	(96.4)	423	(96.4)
Fiscal period ended December 31, 2019	18,587	(32.0)	12,858	(42.0)	11,639	(45.2)	11,638	(45.2)

	Net Income per Unit	Net Income / Unitholders' Equity	Ordinary Income / Total Assets	Ordinary Income / Operating Revenues
	JPY	%	%	%
Fiscal period ended June 30, 2020	70	0.2	0.1	4.5
Fiscal period ended December 31, 2019	1,910	4.7	2.4	62.6

(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 June 30, 2020	69	420	-	-	99.2	0.2
Fiscal period ended December 31, 2019	1,725	10,517	-	-	90.4	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) Dividend Payout Ratio is calculated in accordance with the following formula and is rounded to the nearest one decimal place:
Dividend Payout Ratio = Distribution Amount (Excluding excess profit distribution) ÷ Net Income × 100
The dividend payout ratio for the fiscal period ended December 31, 2019 is 90.4% because distribution (excluding excess profit distribution) differs from net income due to reserving a part of net income as internal reserve, as described in (Note 1).

(Note 3) 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 June 30, 2020	516,663	249,538	48.3	40,929
Fiscal period ended December 31, 2019	522,431	259,730	49.7	42,601

(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 June 30, 2020	12,931	(18,898)	(6,501)	16,318
Fiscal period ended December 31, 2019	12,971	(84,512)	44,729	28,787

2. Forecasts for the Fiscal Period ending 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 December 31, 2020	TBD (-)	TBD (-)	TBD (-)	TBD (-)	TBD	TBD

(Note) The worldwide spread of COVID-19 has had a significant impact on hotel revenues. At this point in time, it remains difficult to predict the spread of COVID-19 and its impact on the hotel industry and operators. Therefore, the forecast of financial results and DPU for the December 2020 fiscal period (from July 1 to December 31, 2020) remains undetermined.

※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 as of the End of the Fiscal Period (Including Treasury Units)	June 30, 2020	6,096,840	December 31, 2019	6,096,840
(b) Number of Treasury Units as of the End of the Fiscal Period	June 30, 2020	0	December 31, 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.

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 June 30, 2020

(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 June 30, 2020 ("Reporting Period"), INV acquired two hotels on January 6, 2020 and sold one residential property on January 15, 2020. As a result, INV's portfolio at the end of the Reporting Period comprised of 148 properties (86 hotels (Note 3) (Note 4), 60 residential properties and two others) with a total acquisition price of JPY 511,695 million (Note 5). The total acquisition price of the portfolio has significantly grown by 7.1 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 6) of JPY 450.6 billion (86 properties, 15,597 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) 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 4) 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 5) 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 6) "The largest asset size … among all J-REIT hotel portfolios" refers to the total acquisition price of 86 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 June 30, 2020.

(b) Operational Environment and Performance

Both the domestic and overseas hotel portfolios for the Reporting Period were heavily affected by the effects of COVID-19 including the State of Emergency issued by the Japanese Government on the economy and tourism. On May 11, 2020, INV entered into a Memorandum of Understanding ("MOU") to amend each fixed-term building lease and property management agreement ("MLPM Agreement") for domestic hotels owned by INV and operated by INV's main tenant, MyStays Hotel Management Co., Ltd. and its affiliates ("MHM Group"). Pursuant to the MOU, INV (i) waived the fixed rent during the relevant period and changed the calculation method of the variable rent by way of amendment of the MLPM Agreement in part and (ii) bore some property management costs that would normally be borne by the MHM Group under the former agreement and (iii) increased the amount of the management fees payable to the MHM Group (Note 1). As a result, the total amount of property management costs and incremental management fees incurred by INV from March to June 2020 totaled JPY 1,350 million, which was initially estimated to be up to JPY 1,500 million.

The occupancy rate of the rental housing market remained stable at a high level. The rent increase program of 60 residential properties (Note 2) continues to produce positive results, as rent has increased for both new and renewal contracts of properties owned by INV. The average rent per tsubo per month (Note 3) for the Reporting Period increased by 0.6% YoY to JPY 9,098, and the operating conditions remained firm.

For the June 2020 fiscal period, the portfolio NOI (Note 4) decreased by 72.7% or JPY 10,708 million to JPY 4,026 million compared to the same period in the previous year (the June 2019 fiscal period). The hotel portfolio NOI decreased by JPY 9,878 million, which is equivalent to the decrease by 67.0% of the portfolio NOI. While the residential portfolio continues to benefit from internal growth, the residential portfolio NOI (Note 5) decreased by JPY 826 million, which is equivalent to the decrease by 5.6% 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 6) of 99.3% for the Reporting Period.

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

The NOI for the Reporting Period of the 75 domestic hotels (Note 7) owned by INV decreased by 92.5% compared to the same period in the previous year (figures exclude nine domestic hotels with fixed-rent lease agreements among the 84 domestic hotels owned by INV as of the end of the Reporting Period, including Sheraton Grande Tokyo Bay Hotel, the underlying asset of the preferred equity interest of TMK owned by INV). The 75 domestic hotels recorded an occupancy rate (Note 8) of 48.1% (-38.7 points YoY), ADR (Note 9) of JPY 7,229 (-28.5% YoY), and RevPAR (Note 10) of JPY 3,478 (-60.4% YoY).

Westin Grand Cayman Seven Mile Beach Resort & Spa and Sunshine Suites Resort recorded an average occupancy rate of 37.5% (-51.7 points YoY), ADR of USD 487 (+17.2% YoY), and RevPAR of USD 183 (-50.7% YoY) for the Reporting Period.

Regarding the hotel sector, the domestic hotel demand significantly declined due to a sharp reduction in inbound visitors (JNTO's estimate for January to June 2020: -76.3% YoY) and a shift in mindset to refrain from business trips and leisure travel. In the Cayman Islands, where the Cayman Hotels are located, the temporary closure of the Owen Roberts International Airport caused a significant reduction in hotel demand and the Cayman Hotels closure from late March through the end of October.

Regarding the residential portfolio, the average occupancy rate (Note 6) of 60 residential properties (Note 2) for the Reporting Period was 96.2%, an increase of 0.2 points compared to the same period in the previous year. The NOI (Note 5) of the 60 residential properties for the Reporting Period increased by 1.9% compared to the same period in the previous year, due to internal growth through solid rent increases. For the rental residential market, COVID-19 seems to have no impact and trends for rent at city-center residential properties with small-type rooms maintained a moderate increase. Under such 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 52.0% (based on the number of contracts) of the new residential lease contracts for an average rent increase of 0.7% compared to the previous rent across all new leases (Note 11). INV achieved a rent increase for 46.6% (based on the number of contracts) of contract renewals for an average rent increase of 1.6% compared to the previous rent across all renewal leases (Note 11), while maintaining a high contract renewal rate (Note 12) of 80.7%. Combined, new leases and renewal leases were signed at 1.3% higher than the previous leases (Note 11).

The total appraisal value of 147 properties was JPY 542,336 million (1 out of the 148 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 the appraisal value of such interest is not available). The portfolio has an unrealized gain of JPY 65,080 million (Note 13) and an unrealized gain ratio of 13.6% (Note 13). The total appraisal value of 145 properties which were owned throughout the Reporting Period decreased by 4.8% from JPY 553,449 million at the end of the December 2019 fiscal period to JPY 526,836 million at the end of the Reporting Period.

Key Performance Indicators of 75 Domestic Hotel Properties (Note 7)

	June 2020 fiscal period	Year-on-year change
Occupancy Rate (Note 8)	48.1%	-38.7pt
ADR (JPY) (Note 9)	7,229	-28.5%
RevPAR (JPY) (Note 10)	3,478	-60.4%
GOP (JPY million) (Note 14)	413	-96.4%

Key Performance Indicators of Cayman Hotels

	June 2020 fiscal period	Year-on-year change
Occupancy Rate (Note 8)	37.5%	-51.7pt
ADR (USD) (Note 9)	487	+17.2%
RevPAR (USD) (Note 10)	183	-50.7%
GOP (USD) (Note 14)	8,502,469	-68.1%

Key Performance Indicators of 60 Residential Properties (Note 2)

	June 2020 fiscal period	Year-on-year change
Occupancy Rate (Note 6)	96.2%	+0.2pt
Average Rent per Tsubo per Month (JPY) (Note 3)	9,098	+0.6%
NOI (JPY million) (Note 5)	1,656	+1.9%

(Note 1) Under the MOU, the monthly total amount of property management costs and incremental management fees incurred by INV from March to June 2020 was JPY 362 million for March, JPY 644 million for April, JPY 343 million for May and JPY 0 million for June. As a result, the domestic hotel NOI of each month was JPY -252 million for March, JPY -642 million for April, JPY -416 million for May and JPY -86 million for June.

(Note 2) Based on the 60 residential properties owned as of the end of June 2020. Hereinafter the same shall apply.

(Note 3) "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.

(Note 4) "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 5) For the comparison of NOI for the residential properties, one-off insurance-related revenues and expenses are excluded. Hereinafter the same shall apply.

(Note 6) "Average Occupancy Rate" and "Occupancy Rate" for the portfolio or 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 7) Of the 84 hotels held as of the end of the June 2020 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 January 2019 are calculated on the assumption INV had acquired those properties on January 1, 2019, using the actual figures provided by the sellers of such properties for the period before the acquisition. Hereinafter the same shall apply.

(Note 8) "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 9) "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 10) "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 11) 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 12) 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 13) 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 14) "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. 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.

(c) Overview of Fund Raising

As a result of the measures described below, INV's interest-bearing debt outstanding balance was JPY 263,468 million and the Interest-Bearing Debt ratio (Note 1) and LTV (appraisal value basis) (Note 2) were 50.8% and 46.8% respectively, as of the end of the Reporting Period, with an average interest rate (Note 3) of 0.54%.

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

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

(Note 2) LTV (appraisal value basis) uses the calculation formula below:
LTV = total outstanding interest-bearing debt (excluding short-term consumption tax loan) / 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). For appraisal value of the Cayman Hotels, USD is converted into JPY amount via the forward exchange rate of USD 1=JPY 110.45 based on the foreign exchange forward contract entered into on July 26, 2018 and executed on September 26, 2018.

(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) Borrowing of Funds

INV borrowed New Syndicate Loan (Q) (total amount borrowed: JPY 12,483 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.50000% (duration: five years; borrowed on March 16, 2020; by the interest swap agreement, it is fixed, in effect, at 0.48700%), 1-month JPY TIBOR plus 0.50000% (five years; March

30, 2020) and 1-month JPY TIBOR plus 0.30000% (three years; March 30, 2020)), which was arranged by Mizuho Bank, Ltd. in order to repay New Syndicate Loan (G) in the amount of JPY 3,250 million due on March 14, 2020 and New Syndicate Loan (F) in the amount of JPY 10,433 million due on March 30, 2020.

INV borrowed Term Loan (M) on June 15, 2020 (total amount borrowed: JPY 1,000 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for duration of two years), which was arranged by Citibank, N.A. Tokyo Branch in order to repay Term Loan (C) in the amount of JPY 1,000 million due on June 15, 2020.

In addition, a portion of INV's existing loans (New Syndicate Loan (P)) from Sumitomo Mitsui Trust Bank, Limited of JPY 4,550 million was transferred to Momiji Bank and The Kiyo Bank in the amount of JPY 1,000 and 500 million, respectively on February 28, 2020.

(ii) Prepayment of Loan

INV's short-term consumption tax loan (Note 1) in the New Syndicate Loan (L) (in the amount of JPY 2,686 million) was prepaid on May 29, 2020 from the consumption tax refund concerning asset acquisitions on July 19, 2019 and cash on hand.

(Note 1) Short-term consumption tax loan is a loan which is to be repaid before the maturity date from a refund of consumption taxes and regional consumption taxes on an acquisition of a property.

(iii) Issuance of Investment Corporation Bonds

INV issued its investment corporation bonds as follows for the purpose of raising a portion of funds for repayment of existing borrowings 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
Sixth Series Unsecured Investment Corporation Bonds (with pari passu conditions among specified corporate bonds)	March 13, 2020	1,200	0.850%	March 13, 2030	Unsecured / Unguaranteed Rating: A+ (JCR)

(d) Overview of Acquisition of Assets

INV completed the acquisition of trust beneficiary interests in two domestic hotels as follows on January 6, 2020.

Property Number	Property Name	Acquisition Price (JPY million) (Note 1)	Appraisal Value (JPY million) (Note 2)	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) 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 Tanizawa Sōgō Appraisal Co., Ltd. or JLL Morii Valuation & Advisory K.K. on the valuation date of October 1, 2019.

(e) Overview of Sale of Assets

INV completed the sale of trust beneficiary interests in one residential property, City House Tokyo Shinbashi as follows on January 15, 2020.

Property Number	Property Name	Acquisition Price (JPY million)	Book Value (JPY million) (Note 1)	Sale Price (JPY million) (Note 2)	Gain on Sale (JPY million) (Note 3)	Transferee
A51	City House Tokyo Shinbashi	2,520	2,269	4,465	2,046	Undisclosed (Note 4)

(Note 1) Book Value shows the figure as of the date of sale.
(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 costs 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 9,177 million from the previous period (-49.4%) to JPY 9,410 million, net income decreased by JPY 11,215 million (-96.4%) to JPY 423 million and unappropriated retained earnings including the retained earnings carried forward from the preceding fiscal period (JPY 12,744 million) reached JPY 13,168 million.

INV decided that distribution per unit (excluding excess profit distribution) is JPY 69 and does not make reversal of the retained earnings carried forward from the preceding fiscal period.

b Outlook for the Fiscal Period Ending December 31, 2020

From the next fiscal period onward, the Japanese economy is expected to start to recover from an extremely severe situation, supported by the effectiveness of various policies such as Go To Travel campaign, while taking measures to prevent the spread of COVID-19 and gradually raising the level of economic activity. However, since June 2020, the spread of COVID-19 seems to be again expanding domestically and internationally, and severe conditions are expected to continue. There is also a risk that the overall economy will deteriorate, such as a further rise in the unemployment rate. Therefore, it is necessary to closely monitor the impacts of COVID-19 infections in Japan and overseas, variables in the financial and capital markets, and other factors.

The worldwide spread of COVID-19 has had a significant impact on hotel revenues. At this point in time, it remains difficult to predict the spread of COVID-19 and its impact on the hotel industry and operators. Therefore, the forecast of DPU for the December 2020 fiscal period remains undetermined.

(a) 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. Fortress Group became a member 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 foreign visitors travel habits 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, INV will pay attention to safety-oriented asset

management in situations where accommodation demand has declined drastically due to the impact of COVID-19, and focus on reviewing the operational strategy to restore revenues from hotels. Going forward, INV will continue to implement various strategies for further growth and financial stability, including the following measures.

- Asset recycling: property acquisitions using the proceeds from sales
- Internal growth at hotels through reducing costs, stimulating existing demand and creating new demand by collaborating with hotel operators
- Further internal growth at 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 had moved forward with the acquisition of new properties focusing on hotels, where continued growth in portfolio revenues would be anticipated and residential properties, especially where rental growth could be achieved, to build a portfolio with a good balance between growth and stability. However, for the time being, it is necessary to carefully consider the acquisition of hotel properties, which have been greatly affected by the sluggish demand for accommodation due to COVID-19, while looking for the possibility of acquiring at an attractive price.

In regard to hotels, INV will take into consideration 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 regard 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.

Property Sales

While INV keeps in mind safety-oriented asset management in the sluggish accommodation demand due to the impact of COVID-19, it also considers the possibility of portfolio optimization upon consideration of the portfolio sector composition, geographic distribution and competitiveness of each property, as appropriate.

(ii) Strategy for internal growth

(Hotels)

Of the 84 domestic hotels (Note 1) owned by INV as of the end of the Reporting Period, 75 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 73 hotels of the 75 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.

In response to the significant reduction in hotel demand, MHM is taking steps to reduce hotel operating expenses by reviewing its operational strategy. Specific measures include temporary hotel closures and the suspension of non-essential capital expenditures as well as taking government subsidies, cutting payments to service providers such as cleaning vendors, significantly reducing marketing expenses, utilities and other items under the COVID-19 environment. MHM is vigorously working to stimulate demand from existing domestic customers by following up on cancelled or postponed functions and providing corporate customers with various options including new lineup of meeting options highlighting strict measures to reduce the spread of COVID-19. In addition, MHM is focusing on creating new demand, including the provision of day-use telework environments to provide individuals and corporates

with a comfortable telework space as well as accommodation demand associated with the 14-day voluntary quarantine period after returning to Japan.

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 while considering the hotel profit situation, where demand has dropped significantly as described above.

(Residential properties and others)

INV will continue to strengthen its collaborative ties with property managers and brokers to further boost occupancy rates and earning capabilities of its properties. With respect to INV's residential properties, 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 "A+" as long-term issuer rating (Outlook: Stable) as of the date of this document. As it is difficult to expect when the outbreak of COVID-19 will come to an end, in the short term INV will implement initiatives that restrict an increase in interest payments on refinancing of existing borrowings and ensure refinancing. Over the medium to long term, INV will implement financial strategies such as reduction of borrowing costs, extension of average interest-bearing debt repayment period, diversification of loan maturity dates and financing measures.

(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

Not applicable. Reference Information is described as follows.

(Reference Information)

(a) Debt Financing

INV decided to borrow New Syndicate Loan (R) on July 14, 2020 in order to repay New Syndicate Loan (E) in the amount of JPY 28,979 million due on July 16, 2020.

INV decided to borrow Term Loan (N) and Term Loan (O) on July 16, 2020 in order to repay Term Loan (E) in the amount of JPY 1,600 million due on July 20, 2020.

(i) New Syndicate Loan (R)

Lender	Borrowing Date	Outstanding Balance (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
Sumitomo Mitsui Banking Corporation MUFG Bank, Ltd. Mizuho Bank, Ltd. Shinsei Bank, Limited Citibank, N.A., Tokyo Branch Sumitomo Mitsui Trust Bank, Limited Resona Bank, Limited.	July 16, 2020	28,979	Floating interest rates (Note 1)	July 16, 2021	Unsecured/ non guarantee

(Note 1) 1-month JPY TIBOR (Base Rate) + spread (0.25000%)

(ii) Term Loan (N)

Lender	Borrowing Date	Outstanding Balance (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
The Tokyo Star Bank, Limited	July 20, 2020	600	Floating interest rates (Note 1)	July 20, 2022	Unsecured/ non guarantee

(Note 1) 1-month JPY TIBOR (Base Rate) + spread (0.25000%)

(iii) Term Loan (O)

Lender	Borrowing Date	Outstanding Balance (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
Development Bank of Japan Inc.	July 20, 2020	1,000	Floating interest rates (Note 1)	July 20, 2021	Unsecured/ non guarantee

(Note 1) 1-month JPY TIBOR (Base Rate) + spread (0.25000%)

d Operational Outlook

The worldwide spread of COVID-19 has had a significant impact on hotel revenues. At this point in time, it remains difficult to predict the spread of COVID-19 and its impact on the hotel industry and operators. Therefore, the forecast of financial results and DPU for the December 2020 fiscal period (from July 1 to December 31, 2020) remains undetermined.

	December 2020 Fiscal Period (Anticipated)
Operating Revenues	TBD
Operating Income	TBD
Ordinary Income	TBD
Net Income	TBD
Total Distribution Amount (Including excess profit distribution)	TBD
Net Income per Unit	TBD

Distribution per Unit (Excluding excess profit distribution)	TBD
Excess Profit Distribution per Unit	TBD
Distribution per Unit (Including excess profit distribution)	TBD

(2) Investment Risk

In connection with the worldwide spread of COVID-19, some material changes are made as follows to certain items contained in "Part 1 Fund Information, I. Fund Status, 3. Investment Risks" in the latest securities report for the fiscal period ended December 2019 (from June 1, 2019 to December 31, 2019) (available in Japanese only) filed on March 25, 2020. Underlined parts below indicate changes or additions, while deletions are not indicated.

① General risk

(Snip)

(e) Risk relating to price fluctuations of the Investment Units or Investment Corporation Bonds

The market value of the Investment Units of INV is influenced by various factors, including supply and demand conditions on the stock exchange, trends in investment in real estate-related assets, comparison with investment in other assets, conditions in the securities market, interest rates conditions, and economic conditions. The balance of supply and demand of real estate investment trusts as a whole could collapse as a result of comparison between investment in real estate and investment in other assets, triggered, for example, by earthquakes or other natural disasters. In particular, the worldwide spread of COVID-19 has caused economic activity to stagnate, and the market prices of real estate investment trust securities, including the INV's Investment Units, have also been adversely affected. On April 7, 2020, a State of Emergency was declared by the Japanese government, the subject areas of which were the seven prefectures of Tokyo, Kanagawa, Saitama, Chiba, Osaka, Hyogo, and Fukuoka. On April 16, 2020, the State of Emergency was expanded to cover all areas of Japan. Thereafter the State of Emergency was lifted in May 2020, however, COVID-19 has been spreading again since June 2020. Economic activities are unlikely to recover in a short term to the same level as prior to the spread of COVID-19. Depending on the future developments, there may be further adverse effects on the market prices of financial instruments including the Investment Units due to concerns that further restraint of economic activities may occur triggered by, among other things, another declaration of State of Emergency and related measures and requests and no one can tell when the pandemic is gone. These adverse effects may also be prolonged or worsened.

(Snip)

③ Risk pertaining to real estate

(Snip)

(x) Hotel-related risk

(ii) Risk related to tenant concentration

INV often leases an entire hotel building to a single lessee. 63 of the 85 hotel properties (excluding Sheraton Grande Tokyo Bay Hotels (preferred equity interest) held as of the date of this document) are leased to MHM as a single tenant and 18 of the remaining hotels are leased to other single tenants. In addition, among the said 18 hotels, each of the entire buildings of 8 hotels (Hotel MyStays Premier Dojima, Art Hotel Joetsu, Art Hotel Hirosaki City, Hotel MyStays Sapporo Aspen, Art Hotel Ishigakijima, Art Hotel Niigata Station, Art Hotel Asahikawa and Art Hotel Morioka) is leased to one single hotel tenant and the management is outsourced to the MHM, and for Hotel Epinard Nasu, Naqua Hotels & Resorts Management Co.,Ltd., a subsidiary of MHM, is a single tenant. For multi-tenant properties, income from the portion leased to the hotel lessee accounts for

a large percentage of the total revenue of the properties. Therefore, INV is greatly affected by the solvency of a specific hotel lessee, the operating capability of a specific hotel operator, the withdrawal of these hotel lessees or hotel operators, and other relevant factors.

Generally, a single tenant tends to sign a long lease term, sometimes with a non-cancelable lease term, so it is relatively unlikely that the single tenant will vacate unexpectedly. However, in the event of termination by a single tenant, the vacancy period tends to be prolonged until the commencement of new lease with an alternative tenant due to the large size of the rental space and the fact that there are many special specifications for the current single hotel tenant and the limited number of potential substitute hotel tenants. As a result, the occupancy rate of the property may decline significantly, or the rent level may have to be lowered in order to secure an alternative tenant, which may have a significant impact on rental revenue.

In particular, the majority of domestic hotels owned by INV as of the date of this document are leased to MHM or its subsidiaries as described above and INV depends on MHM's or its subsidiaries' solvency and operating capability. Accordingly, the financial position and profit of INV may be materially adversely affected in the event of the solvency or the operating capability of MHM or its subsidiaries being materially deteriorated, or in the event of the cancellation of a contract with MHM or its subsidiaries for any reason.

With the spread of COVID-19 and the accompanying restriction of travel around the world, the government's declaration of a State of Emergency, and requests from local governments to stay home and other measures, the number of hotel guests in Japan has recently decreased drastically, and the income of hotel operators, including MHM and its subsidiaries, has been sharply deteriorated. Under such circumstances, upon receipt of a request for exemption from rent payments and change of burden of cost and expenses from MHM and its subsidiaries, in May 2020, INV entered into a Memorandum of Understanding (MOU) to amend each fixed-term building lease and property management agreement (MLPM Agreement) for domestic hotels owned by INV and operated by INV's main tenant, MHM and its subsidiaries. Under the MOU, the parties have agreed as a provisional measure until the end of June 2020, that (i) INV will waive the fixed rent during the relevant period and change the calculation method of the variable rent, (ii) INV will bear the property management costs that should be borne by the MHM Group under the current agreement (provided, exclusive of general administrative costs, such as labor costs or operating costs incurred by the MHM Group), and (iii) INV will increase the amount of the management fees payable to the MHM Group up to the amount to be separately agreed upon as the amount necessary to enable MHM Group to continue hotel business operations. Due to the continued impact of COVID-19, it is anticipated that the rent in July 2020 and onward will also need to be adjusted in some way, and as a result, there is a possibility that the financial position and profit of INV will be seriously adversely affected.

(Snip)

⑦ Other

(Snip)

(f) Risk related to COVID-19

Infection with COVID-19 is spreading worldwide, and the spread of COVID-19 itself and measures taken by the government and local governments to prevent the outbreak have caused various impacts. Especially for the hotel sector, with the spread of COVID-19 and the accompanying restriction of travel around the world, the government's declaration of a State of Emergency, and requests from local governments to stay home and other measures, the number of hotel guests in Japan has decreased drastically and such trend is likely to continue. Since March 2020, the performance of domestic hotels owned by INV has worsened significantly compared with the same period in the previous year, and although there has been a sign of improvement since June 2020, at present, there is no prospect to recover to the level of 2019. Owen Roberts International Airport in Grand Cayman Island has been closed by the Government of the Cayman Islands since March 23, 2020, and the Cayman Hotels are scheduled to be closed until the end of October 2020.

As a result, variable rents received by INV generating in proportion with hotel sales or profits have been significantly reduced. Furthermore, as described in "③ Risk pertaining to real estate, (x) Hotel-related risk," INV, MHM and its subsidiaries, which operate 73 of the 83 domestic hotels owned by INV in the form of beneficiary interests in trust, have agreed that INV will bear certain costs in addition to waiver of fixed rent until June 2020, having seriously affected. Economic activities are unlikely to recover in a short term to the level prior to the spread of COVID-19, and there is a possibility that contractual terms with tenants/operators will have to be changed further in the future. In addition, various events, such as cessation of business operation or withdrawal by tenants, may have a serious adverse impact on INV's the financial position and financial results.

(g) Material events related to the going concern assumption

As described in "(f) Risk related to COVID-19" above, as a result of the spread of COVID-19 and the effects of measures taken by governments in each country, the variable rents received by INV generating in proportion with hotel sales or profits has recently decreased significantly. In order to avoid the insolvency of the MHM group, which is a major tenant, and to maintain the continuation of hotel operations by the MHM group, INV and the MHM group entered into the MOU and have agreed that INV would waive fixed rent until June 2020 and bear certain costs. As a result such MOU among others, net income for the fiscal period ended June 2020 declined substantially to JPY 423 million, down 96.4% from the previous fiscal period. With respect to the MLPM Agreement, due to the continued effect of the COVID-19, certain additional changes in terms of rent conditions are expected to be required for the period after July 2020. As such, there exist material events related to the going concern assumption of INV.

However, in order to improve this situation from business management perspective, INV intends to quickly resolve the material events by implementing various measures, such as internal growth at hotels through reducing costs, stimulating existing demand and creating new demand by collaborating with hotel operators, and initiatives for further internal growth at residential properties.

Furthermore, from short-term financial perspective, INV prioritizes refinancing existing borrowings trying to restrain increase of interest payments as well as ensuring refinancing. In July 2020, INV refinanced existing borrowings in a total amount of JPY 30,579 million. INV has not violated any financial covenants in connection with the existing borrowings from financial institutions during the fiscal period ended June 30, 2020 nor up to the date of this document. With respect to the interest payment of interest-bearing debt and the payment of operating costs of INV, the majority of these expenses can be covered by rental income from residential properties and commercial facilities. In addition, as INV has certain cash-on-hand, INV is of the view that the payment of interest-bearing debt and operating costs will not be adversely affected.

Based on the above, INV has determined that there is no material uncertainty regarding the going concern assumption.

(3) Material Events related to the Going Concern Assumption

Please refer to "Investment Risk ⑦ Other (g) Material events related to the going concern assumption" above.