

Invincible Investment Corporation

Financial Summary for the December 2022 Fiscal Period (from July 1, 2022 to December 31, 2022)

February 22, 2023

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/
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Start date for dividend distribution	: March 23, 2023

This English language notice is a translation of the Japanese-language notice released on February 22, 2023 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, 2022 (from July 1, 2022 to December 31, 2022)

(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, 2022	11,929	55.3	6,257	195.9	5,075	399.7	5,075	400.0
Fiscal period ended June 30, 2022	7,680	-8.6	2,114	-7.8	1,015	0.1	1,015	0.1

	Net Income per Unit	Net Income / Unitholders' Equity	Ordinary Income / Total Assets	Ordinary Income / Operating Revenues
	JPY	%	%	%
Fiscal period ended December 31, 2022	832	2.0	1.0	42.5
Fiscal period ended June 30, 2022	167	0.4	0.2	13.2

(2) Distributions

	Distribution (Excluding excess profit distribution)		Excess Profit Distribution		Dividend Payout Ratio	Distribution / Net Assets
	Per Unit	Total	Per Unit	Total		
Fiscal period ended December 31, 2022	832	5,072	-	-	99.9	2.0
Fiscal period ended June 30, 2022	166	1,012	-	-	99.7	0.4

(Note 1) Dividend Payout Ratio is calculated in accordance with the following formula and is rounded to the nearest one decimal place:

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

(Note 2) 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, 2022	494,237	250,321	50.6	41,058
Fiscal period ended June 30, 2022	490,118	246,211	50.2	40,383

(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, 2022	6,670	(993)	(2,178)	20,521
Fiscal period ended June 30, 2022	5,728	(574)	(4,856)	17,023

2. Forecasts for the Fiscal Periods ending June 30, 2023 (from January 1, 2023 to June 30, 2023) and December 31, 2023 (from July 1, 2023 to December 31, 2023)

(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, 2023	11,690	-2.0	5,964	-4.7	4,657	-8.2	4,656	-8.3	763	-
Fiscal period ending December 31, 2023	13,469	15.2	7,467	25.2	6,324	35.8	6,324	35.8	1,037	-

※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) | December 31, 2022 | 6,096,840 | June 30, 2022 | 6,096,840 |
| (b) Number of Treasury Units as of the End of the Fiscal Period | December 31, 2022 | 0 | June 30, 2022 | 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

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 the date of this document, 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 December 31, 2022

(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 (“CIM”), transferred 80.0% of issued shares of CIM 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 CIM, 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, CIM 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, CIM 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, 2022 (“Reporting Period”), INV additionally acquired the land adjacent to Hotel Epinard Nasu (the “Adjacent Land”) on September 9, 2022. Since the Adjacent Land is positioned as an integral portion of the existing hotel, the number of INV’s properties remained unchanged. INV’s portfolio at the end of the Reporting Period comprised of 128 properties (86 hotels (Note 3) (Note 4), 41 residential properties and one retail facility) with a total acquisition price of JPY 491,416 million (Note 5) that increased by the additional acquisition of the Adjacent Land. Furthermore, INV’s hotel portfolio has the largest asset size (Note 6) of JPY 450,631 million (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 CIM 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 CIM 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 December 31, 2022.

(b) Operational Environment and Performance

Given the enormous impact of COVID-19 on the economy as a whole, especially in the hotel sector, on September 9, 2022 and December 9, 2022, INV entered into Memorandum of Understanding (the “MOU”) to amend each fixed-term building lease and property management agreement (“MLPM Agreements”) pertaining to the rent conditions for the periods from July 1, 2022 to September 30, 2022 and from October 1, 2022 to December 31, 2022 for domestic hotels owned by INV and operated by INV’s main tenant, MyStays Hotel Management Co., Ltd. (“MHM”) and its affiliates (collectively the “MHM Group” along with MHM). Pursuant to the MOU, we have changed the rent payment conditions of MLPM Agreements in terms of the amount of fixed rent payment, the variable rent calculation method, payment method of rent and payment date. With the recovery in hotel portfolio performance, the total fixed rent for the properties operated by the MHM Group from October 1, 2022 to December 31, 2022 was the same as the total fixed rent amount stipulated in the original MLPM Agreements.

For the December 2022 fiscal period, the portfolio NOI (Note 1) increased by 150.1% or JPY 6,308 million compared to the same period in the previous year (the December 2021 fiscal period) to JPY 10,509 million.

The hotel portfolio NOI increased by JPY 6,528 million. The residential and retail portfolio NOI decreased by JPY 220 million due to asset sales. Compared to the December 2019 fiscal period prior to the COVID-19 pandemic, the portfolio NOI decreased by 30.7% or JPY 4,654 million, of which the hotel portfolio NOI decreased by JPY 3,861 million and the residential and retail portfolio NOI decreased by JPY 792 million due to asset sales.

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 2) owned by INV increased by 171.8% 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 3) of 75.9% (+23.5 points YoY), ADR (Note 4) of JPY 10,199 (+33.0% YoY), and RevPAR (Note 5) of JPY 7,744 (+92.6% YoY). Compared to the December 2019 fiscal period prior to the COVID-19 pandemic, the NOI decreased by 36.8%, the occupancy rate decreased by 12.4pt, ADR decreased by 3.9%, and RevPAR decreased by 17.4%.

Westin Grand Cayman Seven Mile Beach Resort & Spa and Sunshine Suites Resort recorded an average occupancy rate of 56.2% (+41.3 points YoY), ADR of USD 403 (+108.9% YoY), and RevPAR of USD 226 (+687.6% YoY) for the Reporting Period. Compared to the December 2019 fiscal period prior to the COVID-19 pandemic, the occupancy rate decreased by 16.1pt, ADR increased by 22.9%, and RevPAR decreased by 4.5%.

Regarding the hotel sector in Japan, Japan was hit by the seventh wave of COVID-19 infections from summer to early autumn. However, there were no restrictions on movement during this period. Tourism and accommodation demand were solid, partly because events such as fireworks festivals and summer festivals resumed in various places for the first time in three years. The government's travel subsidy program "National Travel Discount Campaign" which started in October 2022 helped to boost domestic accommodation demand. As a result, the total number of domestic guests in the market exceeded the 2019 levels each month from October to December 2022 according to the "Stay-over Travel Statistical Survey" released by the Japan Tourism Agency on January 31, 2023. Moreover, in response to the substantial relaxation of border measures in October 2022 and the depreciation of the yen, inbound demand also recovered significantly.

As for the Cayman Hotels, demand has been on a recovery trend, as all travel-related restrictions to the Cayman Islands have been lifted on August 24, 2022 and the total number of seats on commercial flights to and from the United States by major airlines has recovered to the 2019 levels. Visitors are more willing to pay a premium for their long-delayed vacations, and the ADR in 2022 consistently exceeded the ADR of the same month in 2019 since May 2022. Further, RevPAR in 2022 consistently exceeded the RevPAR of the same month in 2019 since October 2022. Moreover, GOP and NOI of the Cayman hotels in the 4th quarter of 2022 exceeded those of 4th quarter 2019, both in USD and in JPY.

Regarding the residential portfolio (Note 6), the occupancy rate (Note 7) of 41 residential properties increased by 0.4 points from 96.0% at the end of the previous fiscal period to 96.4% at the end of the Reporting Period. The average occupancy rate (Note 7) increased by 0.5 points YoY at 96.3%. The NOI (Note 8) for the Reporting Period increased by 0.8% YoY.

In the Reporting Period, INV realized a rent increase for 31.4% (based on the number of contracts) of the new residential lease contracts, however the new rent decreased by 1.3% compared to the previous rent across all new leases (Note 9). INV achieved a rent increase for 49.8% (based on the number of contracts) of contract renewals with an average rent increase of 1.6% compared to the previous rent across all renewal leases, while maintaining a high contract renewal rate (Note 10) of 79.7%. Combined, new lease and renewal lease rents were signed at 0.5% higher than the previous leases. The average rent per tsubo per month (Note 11) for the Reporting Period increased by 0.3% YoY at JPY 9,172.

The total appraisal value of 127 properties was JPY 532,570 million (one out of the 128 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 89,278 million (Note 12) and an unrealized gain ratio of 20.1% (Note 12). The total appraisal value of 127 properties which were owned throughout the Reporting Period increased by 0.4% from JPY 530,212 million at the end of the June 2022 fiscal period to JPY 532,570 million at the end of the

Reporting Period.

Key Performance Indicators of 75 Domestic Hotel Properties (Note 2)

	December 2022 fiscal period	Year-on-year change	vs 2H 2019
Occupancy Rate (Note 3)	75.9%	+23.5pt	-12.4pt
ADR (JPY) (Note 4)	10,199	+33.0%	-3.9%
RevPAR (JPY) (Note 5)	7,744	+92.6%	-17.4%
GOP (JPY million) (Note 13)	8,855	+165.5%	-31.3%

Key Performance Indicators of Cayman Hotels

	December 2022 fiscal period	Year-on-year change	vs 2H 2019
Occupancy Rate (Note 3)	56.2%	+41.3pt	-16.1pt
ADR (USD) (Note 4)	403	+108.9%	+22.9%
RevPAR (USD) (Note 5)	226	+687.6%	-4.5%
GOP (USD) (Note 13)	13,177,397	- (Note 14)	-0.8%

Key Performance Indicators of 41 Residential Properties (Note 6)

	December 2022 fiscal period	Year-on-year change
Occupancy Rate (Note 7)	96.4%	+0.8pt
Average Rent per Tsubo per Month (JPY) (Note 11)	9,172	+0.3%
NOI (JPY million) (Note 8)	1,118	+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) + (Management Contract Revenue of the Cayman Hotels - Management Contract Expense)

(Note 2) Of the 84 hotels held as of the end of December 2022 (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 July 2019 are calculated on the assumption INV had acquired those properties on July 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 3) "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 4) "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 5) "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 6) Based on the 41 residential properties owned as of the end of December 2022. Hereinafter the same shall apply.
- (Note 7) “Occupancy Rate” and “Average 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. Hereinafter the same shall apply.
- (Note 8) For the comparison of NOI for the residential properties, one-off insurance-related revenues and expenses are excluded. 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. Hereinafter the same shall apply.
- (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) “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 12) 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 13) “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. GOP for each fiscal period ended June 2020 and onwards includes the amount of employment adjustment subsidies received by the hotel operators for the respective fiscal periods. In addition, 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 14) GOP of the Cayman Hotels was USD -1,151,126 in the same period of 2021.

(c) Overview of Fund Raising

As a result of the measures described below, INV’s interest-bearing debt outstanding balance was JPY 240,797 million and the Interest-Bearing Debt ratio (Note 1) and LTV (appraisal value basis) (Note 2) were 48.7% and 44.5% respectively, as of the end of the Reporting Period, with an average interest rate (Note 3) of 0.45%.

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

$$\text{Interest-Bearing Debt ratio} = \frac{\text{total outstanding interest-bearing debt (excluding short-term consumption tax loan)}}{\text{total assets}} \times 100$$

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

$$\text{LTV} = \frac{\text{total outstanding interest-bearing debt (excluding short-term consumption tax loan)}}{\text{total appraisal value (*)}} \times 100$$

(*) 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 (003) on July 19, 2022 (total amount borrowed: JPY 49,684 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for a duration of one year), which was arranged by Mizuho Bank, Ltd. and Term Loan (005) on July 20, 2022 (total amount borrowed: JPY 600 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.35000% for a duration of three years), which was arranged by The Tokyo Star Bank, Limited in order to repay New Syndicate Loan (V) in the amount of JPY 40,024 million due on July 16, 2022, one of the tranches of New Syndicate Loan (I) in the amount of JPY 9,660 million due on July 17, 2022, and Term Loan (N) in the amount of JPY 600 million due on July 20, 2022.

Moreover, INV borrowed Term Loan (006) on September 14, 2022 (total amount borrowed: JPY 3,000 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for a duration of one year), which was arranged by Sumitomo Mitsui Banking Corporation in order to repay Term Loan (X) in the amount of JPY 3,000 million due on September 14, 2022.

Furthermore, INV borrowed New Syndicate Loan (004) on September 26, 2022, September 27, 2022 and October 13, 2022 (total amount borrowed: JPY 28,571 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for a duration of one year) and New Syndicate Loan (005) on September 27, 2022 (total amount borrowed: JPY 639 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for a duration of one year), which were arranged by Mizuho Bank, Ltd., and Term Loan (007) on September 27, 2022 (total amount borrowed: JPY 1,256 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for a duration of one year), which was arranged by Citibank, N.A., Tokyo Branch, and Term Loan (008) on October 13, 2022 (total amount borrowed: JPY 1,190 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.50000% for a duration of five years), which was arranged by The Tokyo Star Bank, Limited in order to repay one of the tranches of New Syndicate Loan (J) in the amount of JPY 13,120 million due on September 26, 2022, and New Syndicate Loan (W) in the amount of JPY 11,851 million, New Syndicate Loan (X) in the amount of JPY 639 million and Term Loan (Y) in the amount of JPY 1,256 million due on September 27, 2022, and one of the tranches of New Syndicate Loan (H) in the amount of JPY 5,365 million due on October 13, 2022.

In addition, INV borrowed Term Loan (009) on November 29, 2022 (total amount borrowed: JPY 4,321 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for a duration of one year), which was arranged by Mizuho Bank, Ltd. in order to repay Term Loan (Z) in the amount of JPY 4,321 million due on November 29, 2022.

As described in “c Significant Subsequent Events, (Reference Information), (a) Debt Financing” below, INV decided to borrow Term Loan (010) on December 22, 2022 and borrowed on January 6, 2023 (total amount borrowed: JPY 1,550 million; interest rate: variable interest rate of 1-month JPY TIBOR plus 0.25000% for a duration of one year), which was arranged by Sumitomo Mitsui Trust Bank, Limited in order to repay one of the tranches of New Syndicate Loan (P) in the amount of JPY 1,550 million due on January 6, 2023.

(d) Overview of Acquisition of Assets

INV completed the additional acquisition of real estate (Note 1) pertaining to one hotel on September 9, 2022 as follows.

Property Number	Property Name	Acquisition Price (JPY million) (Note 2)	Appraisal Value (JPY million) (Note 3)	Seller
D44	Hotel Epinard Nasu (Additional acquisition of adjacent land)	21	27	Nasu Estate Co., Ltd.

(Note 1) The acquired asset is actual real estate. We established an additional trust on the real estate management and disposal trust pertaining to Hotel Epinard Nasu with Sumitomo Mitsui Trust Bank, Limited as the trustee on the acquisition date.

(Note 2) Acquisition Price does not include adjustments for property taxes, city planning taxes, or national or local consumption taxes. Hereinafter the same shall apply.

(Note 3) Appraisal Value is based on appraisal value stated in the appraisal report by JLL Morii Valuation & Advisory K.K. on the valuation date of June 21, 2022.

(Note 4) Amounts are rounded down to the nearest million yen.

(e) Overview of Results of Operations and Distributions

As a result of the operations mentioned above, operating revenues for the Reporting Period increased by JPY 4,249 million from the previous period (+55.3%) to JPY 11,929 million, resulting in a net income of JPY 5,075 million, an increase of JPY 4,060 million from the previous period (+400.0%). Unappropriated retained earnings including the retained earnings carried forward from the preceding fiscal period (JPY 8,667 million) is JPY 13,742 million. INV has decided to set the distribution per unit (excluding excess profit distribution) of JPY 832 without reversing retained earnings.

b Outlook for the Fiscal Period Ending June 30, 2023

The Japanese economy is gradually recovering due to the resumption of economic activity through the spread of the "With Corona" lifestyle, which aims to coexist with COVID-19, and the recovery of inbound consumption, which is supported by the depreciation of the yen along with the pent-up demand for travel. On the other hand, there is a risk that a further slowdown in overseas economies may trigger a temporary slowdown in domestic economic growth, so it is necessary to pay close attention to the impact of fluctuations in the financial and capital markets and international affairs.

In the hotel market, the recovery trend is expected to continue for domestic and inbound demand in both leisure and business segments. However, it may take some time for the number of Chinese tourists to return to pre-2019 levels since border measures are again being implemented upon entry into Japan as of the date of this document, due to the rapid spread of COVID-19 infections in China after the change in its zero-Corona policy. Travelers from China accounted for about 30% of all inbound travelers to Japan in 2019.

In the rental housing market, lifestyle changes due to the impact of COVID-19 infections are expected to affect tenant trends, and INV will keep an eye on such trends.

(a) Future operational policy and issues to be addressed

Since July 2011, INV has focused on improving the profitability of its portfolio and strengthening its financial base in order to enhance unitholder value with the Fortress Group as its sponsor. Fortress Group became a member of SoftBank Group in December 2017 and SoftBank Group has owned 100% of issued shares of CIM directly and indirectly since March 29, 2018. In addition to access to Fortress' global real estate expertise, INV will collaborate with SoftBank Group affiliates that have cutting-edge expertise in various technology fields.

INV will actively promote efforts to acquire new demand under the environment of "With Corona" and flexibly respond to changes in the external environment while emphasizing customer safety and security. 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

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 due to COVID-19 infections, while looking for the possibility of acquiring property 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 with strong competitiveness, in which it believes it can achieve increases in rent.

Property Sales

INV 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 the 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 accommodation demand. As a result, INV can directly enjoy the hotel revenue upside through this variable rent scheme.

In response to the reduction in hotel demand, the MHM Group is taking steps to reduce hotel operating expenses and recover revenues by reviewing its operational strategy. GOP significantly recovered in the fourth quarter of 2022 due to a thorough review of staffing and work shifts, continuous efforts to reduce fixed costs, and strategies to maximize GOPPAR (GOP per the number of rooms available for sale). In particular, both GOP and GOP ratio (Note 2) for December 2022 exceeded the levels in the same month of 2019. In order to minimize the impact of rising costs such as utility costs and foodstuffs, we set detailed rates for each hotel based on factors such as occupancy rates and costs.

The MHM Group is vigorously working to stimulate demand from domestic customers by providing corporate customers with diverse options including a new lineup of meeting options highlighting strict measures to reduce the spread of COVID-19 and various options including educational tours and employee training while grasping changes in customer demand under the "With Corona" environment. In addition, the MHM Group is focusing on creating demand, including continuation of delivery and take-out services and the development of new menus through directly managed restaurants in the hotel.

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.

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

(Note 2) An indicator of hotel profitability, calculated as GOP divided by sales.

(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 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.

(iii) Financial strategy

The long-term issuer rating from Japan Credit Rating Agency, Ltd. (JCR) is "A" (Outlook: Stable) as of the date of this document.

INV has implemented initiatives that restrict an increase in interest payments upon refinancing of existing borrowings and ensure continued refinancing. From now on INV will implement financial strategies such as the extension of average interest-bearing debt repayment periods as well as diversification of loan maturity dates and financing measures in the "With Corona" environment.

(iv) Compliance risk management

While the executive director of INV concurrently serves as the representative director at CIM, two supervisory directors (an external attorney and an external certified public accountant) oversee the execution of the executive director's duties via the Board of Directors of INV.

CIM 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. No resolution will be adopted unless the outside expert agrees.

When INV conducts certain transactions such as asset acquisition with sponsor related parties, prior approvals by the Board of Directors of INV are required to ensure an objectivity in deliberation regarding conflicts of interests. In such agenda, only two supervisory directors (a lawyer and a certified public accountant) will participate in the vote, and the executive director who concurrently serves as the representative director of CIM will not participate in the vote as he is a special interested party.

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

(v) Initiatives for Sustainability

INV and CIM recognize the importance of environmental, social, and governance (ESG) considerations in real estate investment management from the viewpoint of sustainability such as economic and social development and contributing to global environmental conservation, and regard improvement of sustainability as an important management issue. INV and CIM believe that the incorporation of ESG considerations into the real estate investment management business, which is our primary business, is essential to maximizing unitholder value over the medium to long term and contributes to maximizing INV's investment returns.

Thus, INV and CIM have established a "Sustainability Policy" to set basic policies for sustainability and put them into practice in our daily operations.

Under this policy, CIM has formulated the "Energy Conservation Policy", the "Greenhouse Gas Emissions Reduction Policy", the "Water Saving Policy" and the "Waste Management Policy" which stipulate efforts to reduce environmental impact as initiatives for environment. In addition, CIM has established the "Sustainable Procurement Policy" in order to promote initiatives for ESG throughout the value chain of INV's real estate portfolio and concluded the "Green Lease" contract with tenants to collaborate with tenants on measures related to the environmental consideration of real estate, such as proactive introductions of energy-saving equipment such as LED lighting. Furthermore, Eight hotels owned by INV acquired the certification of Building-Housing Energy-efficiency Labeling System ("BELS"). In particular, Hotel MyStays Premier Akasaka, Hotel MyStays Yokohama Kannai, and Hotel MyStays Fukuoka Tenjin have been rated five stars "★★★★★", and Hotel MyStays Premier Kanazawa and Hotel MyStays Fuji Onsen Resort have been rated four stars "★★★★" due to high energy conservation performance.

As initiatives for society, CIM is working on various measures for tenants and CIM's officers and employees. CIM conducts the "Tenant Satisfaction Survey" for residents of INV's residential properties to collect opinions and requests of residents and utilize them for asset management, and provides sustainability-focused training for all officers and employees at least once a year to help officers and employees acquire knowledge and raise awareness of sustainability considerations in line with business practices. Moreover, as initiatives for CIM's employees, CIM conducts an employee satisfaction survey once every three years with the aim of improving its working environment, provides paid vaccine leave so that officers and employees can receive COVID-19 vaccines and deal with any potential side-effects, and gives full subsidy for a comprehensive medical checkup without age restrictions.

As the spread of COVID-19 continues, some hotels owned by INV (APA Hotel Yokohama-Kannai, Hotel MyStays Oita and Comfort Hotel Kitami) have been used as accommodation and medical facilities for patients with mild symptoms or quarantine facilities for returnees from overseas in terms of social contributions. Also, meeting rooms at Hotel MyStays Shin Osaka Conference Center were provided as a vaccination venue.

INV will continue to recognize its social responsibility to the environment and local communities as a J-REIT with hotels and residences as our core assets, and will proactively implement ESG-friendly investment management and sustainability initiatives that take advantage of asset characteristics and carry out social contribution activities.

c Significant Subsequent Events

Not applicable. Reference information is stated below.

(Reference Information)

(a) Debt Financing

INV decided to borrow Term Loan (010) on December 22, 2022 and borrowed on January 6, 2023 in order to repay one of the tranches of New Syndicate Loan (P) in the amount of JPY 1,550 million due on January 6, 2023.

Moreover, INV decided to borrow New Syndicate Loan (006), Term Loan (011), and Term Loan (012) on January 12, 2023 and borrowed on January 16 and January 24, 2023 in order to repay (i) one of the tranches of New Syndicate Loan (L) in the amount of JPY 4,943 million due on January 16, 2023, (ii) one of the tranches of New Syndicate Loan (M) in the amount of JPY 5,796 million due on January 16, 2023, (iii) Term Loan (001) in the amount of JPY 1,700 million due on January 24, 2023, and (iv) Term Loan (002) in the amount of JPY 6,800 million due on January 24, 2023.

(i) Term Loan (010)

Lender	Borrowing Date	Borrowing Amount (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
Sumitomo Mitsui Trust Bank, Limited	January 6, 2023	1,550	Floating interest rates (Note 1)	January 24, 2024	Unsecured/non guarantee

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

(ii) New Syndicate Loan (006)

Lender	Borrowing Date	Borrowing Amount (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
Mizuho Bank, Ltd. MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited Citibank, N.A., Tokyo Branch SBI Shinsei Bank, Limited Development Bank of Japan, Inc. Resona Bank, Limited The Nomura Trust and Banking Co., Ltd.	January 16, 2023	10,408	Floating interest rates (Note 1)	January 16, 2024	Unsecured/non guarantee

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

(iii) Term Loan (011)

Lender	Borrowing Date	Borrowing Amount (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
MUFG Bank, Ltd.	January 24, 2023	1,700	Floating interest rates (Note 1)	January 24, 2024	Unsecured/non guarantee

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

(iv) Term Loan (012)

Lender	Borrowing Date	Borrowing Amount (JPY million)	Interest Rate (annual rate)	Maturity Date	Borrowing Method
Sumitomo Mitsui Trust Bank, Limited	January 24, 2023	6,800	Floating interest rates (Note 1)	January 24, 2024	Unsecured/non guarantee

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

d Operational Outlook

The forecasts of financial results for the fiscal periods ending June 30, 2023 (from January 1, 2023 to June 30, 2023) and December 31, 2023 (from July 1, 2023 to December 31, 2023) are as follows. For reference purposes, full-year forecasts (aggregate of the fiscal periods ending June 30, 2023 and December 31, 2023) are provided as well, since hotel revenues are influenced by seasonal effects.

	June 2023 Fiscal Period (Anticipated)	December 2023 Fiscal Period (Anticipated)	(Reference) Full-year 2023
Operating Revenues	JPY 11,690 million	JPY 13,469 million	JPY 25,159 million
Operating Income	JPY 5,964 million	JPY 7,467 million	JPY 13,432 million
Ordinary Income	JPY 4,657 million	JPY 6,324 million	JPY 10,981 million
Net Income	JPY 4,656 million	JPY 6,324 million	JPY 10,980 million
Total Distribution Amount (Including excess profit distribution)	JPY 4,651 million	JPY 6,322 million	JPY 10,974 million
Net Income per Unit	JPY 763	JPY 1,037	JPY 1,800
Distribution per Unit (Excluding excess profit distribution)	JPY 763	JPY 1,037	JPY 1,800
Excess Profit Distribution per Unit	-	-	-
Distribution per Unit (Including excess profit distribution)	JPY 763	JPY 1,037	JPY 1,800

For the assumptions underlying the operational outlook for the fiscal periods ending June 30, 2023 and December 31, 2023, please see "Assumptions Underlying the Forecast of Financial Results and Distribution for the Fiscal Periods ending June 30, 2023 and December 31, 2023" as follows.

(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 as of the date of this document, 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, 2023 and December 31, 2023>

Item	Assumptions
Fiscal period	<p>The June 2023 Fiscal Period: from January 1, 2023 to June 30, 2023 (181 days)</p> <p>The December 2023 Fiscal Period: from July 1, 2023 to December 31, 2023 (184 days)</p>
Assets under management	<p>Properties held as of the end of the June 2023 Fiscal Period: 127 properties and preferred equity interests in one TMK</p> <p>Properties held as of the end of the December 2023 Fiscal Period: 127 properties and preferred equity interests in one TMK</p> <p>Based on the properties held as of today (127 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 2023.</p>
Units outstanding	<p>As of the end of the June 2023 Fiscal Period: 6,096,840 units</p> <p>As of the end of the December 2023 Fiscal Period: 6,096,840 units</p> <p>INV assumes that there will be no change to the current 6,096,840 units issued and outstanding through the end of the December 2023 Fiscal Period.</p>
Interest-bearing liabilities	<p>Balance as of the end of the June 2023 Fiscal Period: JPY 240,466 million (borrowing: JPY 232,266 million, investment corporation bonds: JPY 8,200 million)</p> <p>Balance as of the end of the December 2023 Fiscal Period: JPY 240,466 million (borrowing: JPY 232,266 million, investment corporation bonds: JPY 8,200 million)</p> <p>INV implemented a total of JPY 20,458 million of borrowing (refinance) in January 2023, and the total balance as of today is JPY 240,466 million. Regarding the loans maturing February onwards during the June 2023 Fiscal Period (a total of JPY 22,317 million), INV intends to refinance at similar conditions. Regarding the investment corporation bonds (JPY 1,000 million) maturing in May 2023, INV intends to redeem them by issuing investment corporation bonds of the same amount or by borrowing the same amount.</p> <p>Regarding loans maturing during the December 2023 Fiscal Period (a total of JPY 113,814 million), INV intends to refinance at similar conditions. Regarding the investment corporation bonds (JPY 2,000 million) maturing October 2023, INV intends to redeem by issuing investment corporation bonds of the same amount or by borrowing the same amount.</p> <p>INV assumes no other new loan or prepayment of loan through the end of the December 2023 Fiscal Period.</p>

Operating revenues	INV expects to record rental revenues for the fiscal periods as follows:		
		June 2023 Fiscal Period	December 2023 Fiscal Period
	• Rental revenues (of these, hotel rents)	JPY 9,080 million (JPY 7,321 million)	JPY 11,765 million (JPY 10,019 million)
	• Management contract revenue	JPY 2,609 million (USD 21,745 thousand)	JPY 1,704 million (USD 14,200 thousand)
	• TMK dividend amount	-	-
	Total operating revenues	JPY 11,690 million	JPY 13,469 million
	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 TMK.		
	INV recognizes management contract revenue from the overseas hotels as real estate investment income from management contracts of the Cayman Hotels. The forecasts of management contract revenue are based on estimated performance of the overseas hotels and the assumed amount of expenses incurred by the hotel management company. Management contract revenues for January to December 2023 have been calculated based on the exchange rate of USD 1 = JPY 120, and the foreign currency risk on the management contract revenues are partially hedged by foreign exchange forward contracts. Previously, INV had assumed that the expansion and renovation of the Cayman Hotels would begin in the summer of 2020 with the goal of completion in the summer of 2023. However, considering the situation of the Cayman Hotels under the impact of COVID-19, INV was forced to refrain from discussions on the expansion and renovation project. While INV resumed consideration of expansion and renovation based on the changes in the market environment, etc., INV does not anticipate and incorporate any particular impact of the expansion and renovation for the purpose of this forecast through the end of the fiscal period ending December 2023.		
	Rental revenues are calculated assuming certain changes in rent conditions with the MHM Group in 2023, and are based on estimates as of today. In addition, INV assumes there will be no delinquencies or non-payment of rent by other tenants.		
Operating expenses	INV expects to incur property related expenses and management contract expenses out of operating expenses for the fiscal periods as follows:		
		June 2023 Fiscal Period	December 2023 Fiscal Period
	• Facility management fees (of these, repair costs)	JPY 442 million (JPY 18 million)	JPY 435 million (JPY 16 million)
	• Taxes and other public charges	JPY 589 million	JPY 739 million
	• Insurance expenses	JPY 158 million	JPY 172 million
	• Depreciation expenses	JPY 3,839 million	JPY 3,997 million
	• Other expenses	JPY 115 million	JPY 94 million
	Total property related expenses and management contract expenses	JPY 5,146 million	JPY 5,439 million
	INV expects to incur other operating expenses than the property related expenses or management contract expenses for the fiscal periods as follows:		
		June 2023 Fiscal Period	December 2023 Fiscal Period
	• Other operating expenses (of these, asset management fees)	JPY 579 million (JPY 300 million)	JPY 562 million (JPY 300 million)

NOI	<p>INV expects to record net operating income for the fiscal periods as follows:</p> <table border="1" data-bbox="438 235 1276 448"> <thead> <tr> <th></th> <th>June 2023 Fiscal Period</th> <th>December 2023 Fiscal Period</th> </tr> </thead> <tbody> <tr> <td>• NOI</td> <td>JPY 10,383 million</td> <td>JPY 12,027 million</td> </tr> <tr> <td>(of these, domestic hotel NOI)</td> <td>(JPY 6,754 million)</td> <td>(JPY 9,309 million)</td> </tr> <tr> <td>(of these, overseas hotel NOI)</td> <td>(JPY 2,436 million)</td> <td>(JPY 1,518 million)</td> </tr> <tr> <td>(of these, residential NOI)</td> <td>(JPY 1,115 million)</td> <td>(JPY 1,121 million)</td> </tr> </tbody> </table> <p>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)</p> <p>NOI for the June 2023 fiscal period and the December 2023 fiscal period are calculated assuming changes in rent conditions for the period from January to December 2023 with the MHM Group.</p>		June 2023 Fiscal Period	December 2023 Fiscal Period	• NOI	JPY 10,383 million	JPY 12,027 million	(of these, domestic hotel NOI)	(JPY 6,754 million)	(JPY 9,309 million)	(of these, overseas hotel NOI)	(JPY 2,436 million)	(JPY 1,518 million)	(of these, residential NOI)	(JPY 1,115 million)	(JPY 1,121 million)			
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Non-operating expenses	<p>INV expects to incur non-operating expenses for the fiscal periods as follows:</p> <table border="1" data-bbox="438 728 1276 1052"> <thead> <tr> <th></th> <th>June 2023 Fiscal Period</th> <th>December 2023 Fiscal Period</th> </tr> </thead> <tbody> <tr> <td>• Interest expense</td> <td>JPY 560 million</td> <td>JPY 557 million</td> </tr> <tr> <td>• Finance related costs</td> <td>JPY 537 million</td> <td>JPY 548 million</td> </tr> <tr> <td>• Interest for investment corporation bonds</td> <td>JPY 28 million</td> <td>JPY 31 million</td> </tr> <tr> <td>• Depreciation of investment corporation bonds issuance expenses</td> <td>JPY 6 million</td> <td>JPY 6 million</td> </tr> <tr> <td>Total non-operating expenses</td> <td>JPY 1,132 million</td> <td>JPY 1,143 million</td> </tr> </tbody> </table>		June 2023 Fiscal Period	December 2023 Fiscal Period	• Interest expense	JPY 560 million	JPY 557 million	• Finance related costs	JPY 537 million	JPY 548 million	• Interest for investment corporation bonds	JPY 28 million	JPY 31 million	• Depreciation of investment corporation bonds issuance expenses	JPY 6 million	JPY 6 million	Total non-operating expenses	JPY 1,132 million	JPY 1,143 million
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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 2023, INV expects to distribute an aggregate amount of JPY 4,651 million (distribution per unit: JPY 763) from the net income for the fiscal period ending June 2023 (JPY 4,656 million).</p> <p>With respect to the distribution for the fiscal period ending December 2023, INV expects to distribute an aggregate amount of JPY 6,322 million (distribution per unit: JPY 1,037) from the net income for the fiscal period ending December 2023 (JPY 6,324 million).</p> <p>For the fiscal periods ending June 2023 and December 2023, INV expects to record a deferred gain on the hedge of the interest rate swap as the valuation and conversion adjustments, etc. of JPY 142 million, which is equal to the amount for the fiscal period ended December 2022. The distribution per unit is calculated based on the assumption that a fluctuation of the market value of the interest rate swap does not affect the distribution per unit and earnings per unit.</p> <p>Distribution per unit and earnings 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>																		

<p>Excess profit distribution per unit</p>	<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 a 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 2023 and December 2023, INV will not have to make distributions in excess of profits in order to cope with the discrepancy between tax and accounting treatment.</p> <table data-bbox="443 629 1241 725"> <thead> <tr> <th></th> <th style="text-align: center;">June 2023 Fiscal Period</th> <th style="text-align: center;">December 2023 Fiscal Period</th> </tr> </thead> <tbody> <tr> <td>Excess profit distribution per unit</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> </tbody> </table>		June 2023 Fiscal Period	December 2023 Fiscal Period	Excess profit distribution per unit	-	-
	June 2023 Fiscal Period	December 2023 Fiscal Period					
Excess profit distribution per unit	-	-					
<p>Other</p>	<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 26, 2022).