

(2) Compliance

1. Fundamental Approach to Compliance

Based on the fundamental recognition that the management of Hulic Reit's assets by Hulic REIT Management is an act involving the management of the funds of Hulic Reit's unitholders, Hulic Reit and Hulic REIT Management strive to protect the interests of unitholders and secure the trust of unitholders through compliance with laws, etc. and exclusion of conflicts of interest, such as in transactions with interested parties, etc. or transactions in which the counterparty has its assets managed by or receives investment or management advisory from interested parties, etc., among other measures.

2. Compliance Structure

Compliance Committee

Hulic REIT Management established the Compliance Committee as the body to check the status of compliance with laws, regulations and other various rules, and to deliberate on such matters as transactions with interested parties, etc. Outside experts with no vested interest in Hulic REIT Management are appointed as members of the Compliance Committee by the Board of Directors.

A resolution of the Compliance Committee requires the attendance of a majority of the committee members having voting rights to the subject proposal (the attendance of the Compliance Officer and outside committee members is required; if an outside committee member acts as committee chairperson, the attendance of the Compliance Officer is not required, but the attendance of the outside committee member acting as committee chairperson and substitute outside committee member is required), and is effected by the agreement of a majority of the committee members having voting rights to the subject proposal in attendance (the agreement of the Compliance Officer and all outside committee members is required; if an outside committee member acts as committee chairperson, the agreement of the outside committee member acting as committee chairperson and substitute outside committee member is required). In this manner, the Compliance Officer and outside committee members each have authority to individually vote for or against a proposal.

Compliance and Risk Management Department and Compliance Officer

Understanding the significance underlying the management of Hulic Reit's assets being an act of managing the funds of Hulic Reit's unitholders, Hulic REIT Management sought to build an appropriate management structure by establishing the Compliance and Risk Management Department as the department to be in charge of the compliance matters of Hulic REIT Management and appointing the Compliance Officer as the person to be responsible for overseeing compliance matters, thereby securing the effectiveness of the internal controls on other departments.

The appointment and dismissal of the Compliance Officer shall be by resolution of the Board of Directors. ^(Note)

As the person responsible for compliance at Hulic REIT Management, the Compliance Officer shall strive to entrench the compliance structure throughout the company and foster a company-wide normative consciousness to comply with laws, regulations and other various rules. To that end, the Compliance Officer consistently monitors that the execution of business in the asset management for Hulic Reit performed by Hulic REIT Management complies with laws and regulations, Hulic Reit's Articles of Incorporation and other various rules, etc., and monitors and supervises the status of compliance in everyday execution of business, too.

Considering the magnitude of the duties and responsibilities of the Compliance Officer as described above, a person deemed to be fully competent to screen and supervise for ensuring compliance with laws, regulations and norms is appointed as the Compliance Officer.

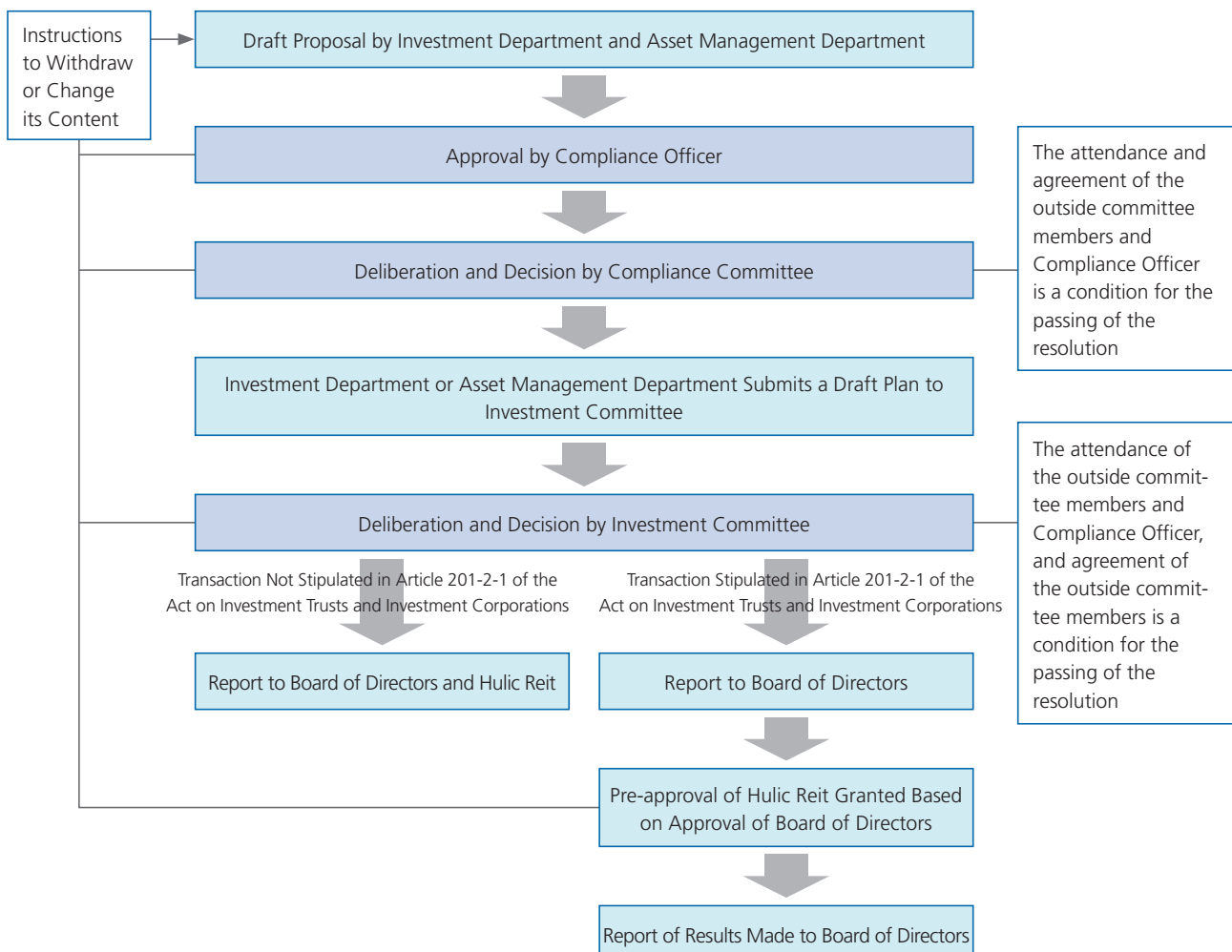
As of the date of issuance of this Report, the Compliance Officer is a full-time director who has not had employment with Hulic.

(Note) Hulic REIT Management may appoint a chief compliance officer to serve as the director who is responsible for the Compliance and Risk Management Department and supervises its work. If a chief compliance officer is appointed, he or she shall serve as the Compliance Officer, and if a chief compliance officer is not appointed, the General Manager of the Compliance and Risk Management Department shall be the Compliance Officer.

Investment and Management Decision-Making Process and Prevention of Transactions Involving Conflict of Interest

Hulic REIT Management appoints outside experts to both its Investment Committee and Compliance Committee. Upon resolution on asset acquisition, etc. from interested parties, the Investment Committee requires a majority of the committee members including outside committee members to agree, and the Compliance Committee requires a majority of the committee members in attendance, including outside committee members and the Compliance Officer, to agree.

Overview of Decision-Making Procedure for Acquisition, Sale, Leasing and Management of Managed Assets in Interested Party Transactions



Compliance Committee	Investment Committee	Hulic Reit's Board of Directors
<ul style="list-style-type: none"> ■ Members: Compliance Officer, President and CEO, Directors (excluding part-time directors), and outside committee members (attorneys) with no vested interest ■ Requires attendance and agreement of the Compliance Officer and outside committee members 	<ul style="list-style-type: none"> ■ Members: President and CEO, Directors (all), Head of Planning and Administration Division, Head of Investment and Management Division, General Manager of Investment Department, General Manager of Asset Management Department, General Manager of Corporate Administration Department, General Manager of Accounting Department, General Manager of Finance and Planning Department, Compliance Officer (obliged to attend, but has no voting rights), and outside committee members (real estate appraisers) with no vested interest ■ Requires attendance and agreement of the outside committee members 	<ul style="list-style-type: none"> ■ Members: 1 Executive Officer, and 2 Supervisory Officers (attorney, and certified public accountant)

Adoption of Voluntary Rules to Prevent Transactions Involving Conflict of Interest

Regarding transactions with interested parties, Hulic REIT Management applies the general rules outlined below and works to prevent transactions where a conflict of interest might arise.

Property acquisition	No acquisition is made at above the appraisal value (excluding acquisition costs) ^(Note 1)
Property transfer	No transfer is made at below the appraisal value (excluding transfer costs)
Property leasing	Properties are leased on terms considered appropriate based on an overall decision made after researching the market price, rates in the surrounding area, standard leasing terms for the property type, and other relevant factors
Outsourcing of property management operations	Outsourcing is undertaken on terms considered appropriate in accordance with the conditions stipulated in the operational guidelines, following due consideration of management performance and efficiency, and after taking account of the content of the services provided, the total volume of the operations, and other relevant factors. The outsourcing fees are determined based on market levels, the content of the services provided, the total volume of the operations, and other relevant factors.
Outsourcing of property purchase, sale and leasing to agencies	Outsourcing is undertaken on terms considered appropriate and at fees within the range stipulated in the Real Estate Brokerage Act, after taking account of the content of the services provided and other relevant factors
Commissioning of construction work, etc. ^(Note 2)	Construction work, etc. is commissioned on terms considered appropriate based on an overall consideration of the price, content, and other aspects of third-party estimates.

(Note 1) In cases where the interested party has incurred costs, for instance by temporarily creating a special-purpose company on the understanding that the interested party is to transfer the property to the investment corporation, the costs may be added to the appraisal value at the time of acquisition.

(Note 2) However, this does not apply where the estimate price is 10 million yen or below or in cases where urgent action is required.

Establishment of Compliance Rules and Compliance Manual, and Putting Such into Practice

In order to ensure thorough compliance with laws, regulations, etc., Hulic REIT Management has established the Compliance Rules and the Compliance Manual and has also formulated the Compliance Program, a concrete implementation plan for ensuring that compliance with laws, regulations, etc. are realized, and strives to have compliance with laws, regulations, etc. put into practice in accordance with these.

The Compliance Program is resolved at the Compliance Committee that includes full-time directors among its members, and the Compliance Officer regularly (once every three months in fiscal 2020) reports the status of progress and achievement of the Compliance Program to the Compliance Committee and the Board of Directors.

Implementation of Regular Internal Auditing and Monitoring System (Including the Involvement of Board of Directors)

Hulic REIT Management has established the Internal Audit Department as a department in charge of controlling internal audits as well as formulating policies and plans on internal audits.

Internal audits target the entire organization and all departments within the company as well as their businesses and are conducted no less than once a year, in principle, based on the Internal Audit Plan resolved by the Board of Directors (regular audit) (as a rule, conducted once a year with June 30 as the auditing reference date), but can also be implemented when specially ordered by the President and CEO (extraordinary audit).

In regular audits, Hulic REIT Management receives support from external audit corporations and, in general, confirms the status of compliance with laws and regulations, internal rules, manuals, rules, etc. and the status of instillment of the system that has been established.

In addition, General Manager of the Internal Audit Department and the Internal Audit Department notify the department(s) subject to audit of the audit results as well as prepare an internal audit report and submit it to the President and CEO and the Board of Directors. The President and CEO can give instructions for improvement to the department(s) subject to audit based on the audit results. Furthermore, the department(s) subject to audit shall report the status of improvement to the President and CEO and the Internal Audit Department after preparing an improvement plan and making improvements.

The regular audit for fiscal 2020, with an auditing reference date of June 30, 2020, was conducted from June through July 2020 (14 key audit items: workflow relating to property purchases and sales, management process for assets under management, financing process, disclosure/IR-related tasks, risk management process, management status of statutory books, implementation status of reporting to the authorities and notifications of various kinds, information management status, management of accidents/administrative errors and implementation status of measures to prevent their recurrence, status of measures to counteract anti-social forces, compliance status, implementation status of voluntary inspections, development and adherence to internal regulations/work manuals, and follow-up of fiscal 2019 internal audit). The audit results were reported to the Board of Directors in October 2020.

Compliance Training and Raising Awareness of Compliance

In order to ensure compliance and raise awareness of compliance, Hulic REIT Management holds periodic compliance training for all employees and officers (not limited to permanent employees, but including also contract employees, etc. ^(Note)), which mainly covers thoroughly communicating the basic policy on compliance and compliance standards and learning the laws, regulations and other various rules that are to be observed, among other matters (held monthly; 12 sessions held in fiscal 2020). Hulic REIT Management also holds separate training for those joining or transferred to the company and according to each department's features, etc.

(Note) "Compliance training" is for all employees and officers, including also contract employees, etc., but no contract employees, etc. were in employment in fiscal 2020.

Counteracting Anti-Social Forces

Hulic REIT Management has established the Standards for Counteracting Anti-Social Forces and the Manual for Checking for Anti-Social Forces, and takes a resolute stance against anti-social forces for severing any ties with anti-social forces.

Also working together with the Hulic Group, specific initiatives for severing ties with anti-social forces are underway through such measures as establishing a structure for screening for anti-social forces at the time of transaction and putting such into practice, including clauses on the exclusion of organized crime groups in written contracts with business partners and ensuring due diligence is performed at the time of transaction pursuant to the Act on Prevention of Transfer of Criminal Proceeds.

Measures to Prevent Bribery and Corruption

Hulic REIT Management provides in the Rules of Employment, Compliance Manual, etc. that bribery, embezzlement, money laundering and other misconduct are prohibited and any person who has committed misconduct shall be subject to strict disciplinary action.

It is stipulated in Compliance Manual that it is prohibited to provide, offer or promise illegal benefits to public officials, etc. and provide entertainment or gifts to clients, etc. beyond the appropriate scope under socially accepted conventions as well as provide, offer or promise bribes and illegal benefits. Accordingly, Hulic REIT Management requests an internal report regarding whether entertainment or gifts have been provided to clients, etc., and every six months checks that there have been no inappropriate cases. When there are inappropriate cases, Hulic REIT Management will appropriately respond to them based on the flow described in "Response in the Event of Accidents, Etc." below.

In addition, it has been stipulated in the manual that efforts to secure transparency and rationality of transactions and strive to realize appropriate and fair transactions shall be done so as not to harm the interests of the company and its shareholders and cause such suspicion.

Response in the Event of Accidents, Etc.

When inappropriate events such as violation of laws and regulations and crucial clerical errors stipulated in the “Rules on Response to Accidents, Etc.” of Hulic REIT Management (hereinafter, “accidents, etc.”) occur, the head(s) of the department(s) in which accidents, etc. occur will promptly report the incident to the Compliance Officer after confirming the facts in compliance with the rules, and the Compliance Officer will report it to the President and CEO and the heads of related departments as well as the Board of Directors, if necessary. Furthermore, if the accidents, etc. fall under the category of accidents, etc. of financial instruments, the Compliance Officer will notify a regulatory agency of the accidents, etc.

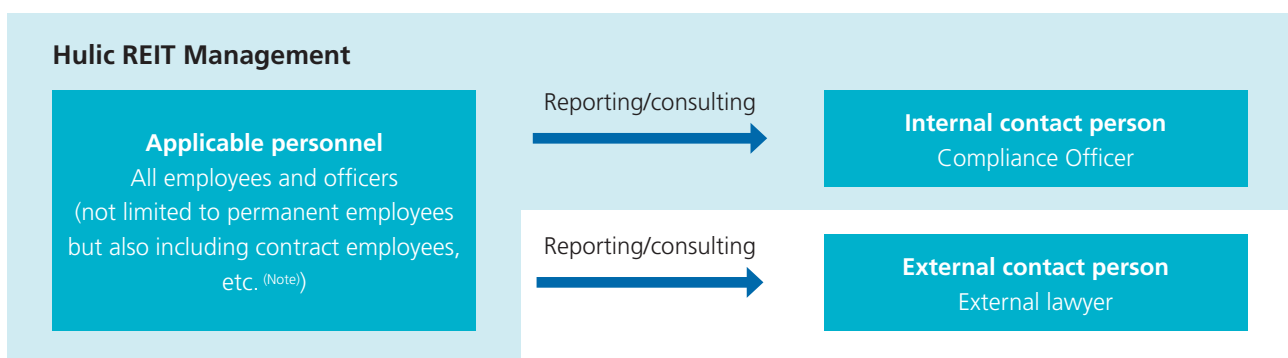
In addition, the head(s) of the department(s) in which accidents, etc. occur will promptly report the details of the facts, subsequent measures, prevention of recurrence, etc. to the Compliance Officer after the completion of subsequent measures, and the Compliance Officer will report such to the President and CEO and the heads of related departments as well as the Board of Directors, if necessary, with necessary opinions. Moreover, if a notification on the accidents, etc. is made to a regulatory agency, the Compliance Officer will notify the regulatory agency of the completion of subsequent measures or report such after a resolution is made by the Board of Directors.

Compliance Hotline (anonymous reporting and consultation are possible)

Hulic REIT Management established the Compliance Hotline open to employees and officers, with points of contact for consultation should there be any act suspected to be in violation of laws, regulations or corporate ethics and points of contact for consultation on harassment and human rights, establishing a structure for preventing risks and minimizing impact should such arise.

As for points of contact, the Compliance Officer will oversee the internal point of contact, and an external point of contact using an external attorney will also be established. Hulic REIT Management strives to ensure that the system functions appropriately by making it easier to report when correction is not made despite an anonymous whistleblowing, reporting or consultation and when there is reluctance toward consulting the Compliance Officer, etc. due to the nature of the problem.

In addition, as a system to protect whistleblowers and consulters, it has been stipulated in the “Whistleblowing Rules” that these individuals shall not be subject to dismissal or disadvantageous treatment (disciplinary punishment, demotion, salary reduction, etc.) and appropriate measures must be taken in compliance with the Whistleblower Protection Act so that their work environment does not deteriorate because of their whistleblowing or consultation.



(Note) The Compliance Hotline may be used by all employees and officers, including also contract employees, etc., but no contract employees, etc., were employed in fiscal 2020.

3. Customer-Oriented Business Conduct

Hulic REIT Management Co., Ltd. (hereinafter the "Company"), has worked to maximize unitholder value by maintaining and increasing income in the medium to long term and achieving growth in the size and value of its assets under management, as outlined in its corporate philosophy. Now, in order to instill more customer-oriented business conduct, the Company has adopted the "Basic Policy for Customer-Oriented Business Conduct" published by the Japanese Financial Services Agency on March 30, 2017, and established the following policies to address them.

Policy for Customer-Oriented Business Conduct

1. Customer-Oriented Business Conduct

The Company has established a corporate philosophy and basic approach to achieving customer-oriented business conduct, and publishes these on its website.

Furthermore, the Company shall regularly announce the status of addressing such business conduct, and conduct reviews to improve them.

2. Pursuit of the Customer's Best Interest

The Company shall maintain strict compliance with its corporate philosophy and with relevant laws and regulations, and strive toward honest and fair business conduct that give priority to the best interest of Hulic Reit through an operating structure that prevents conflicts of interest and ensures objectivity, as well as highly transparent disclosure of information. The Company shall work to instill such business conduct as part of its corporate culture.

3. Appropriate Management of Conflicts of Interest

The Company shall appropriately assess the scope of stakeholders and, before implementing any transactions between the stakeholders and Hulic Reit, work to ensure that transactions with the stakeholders concerned do not create any disadvantage for Hulic Reit by rigorously screening those transactions through the review procedure prescribed by internal rules, such as advance deliberation and resolution by a Compliance Committee whose objectivity is ensured, based on relevant laws and regulations as well as the internal rules.

4. Clarification of Fees, etc.

The Company shall provide information to unitholders in an easily understandable manner with regard to the fact that business operations, clerical work, etc. at Hulic Reit are outsourced, as well as the remuneration and various fees borne by Hulic Reit due to the outsourcing.

5. Clear Provision of Important Information

In addition to the disclosure of information specified by relevant laws and regulations, the Company shall work to disclose important information such as the financial highlights and future growth strategies of Hulic Reit in a clear manner easily understandable to unitholders, including through the use of graphs, in asset management reports and financial results briefing materials, on the Hulic Reit website, etc. Note that the Company does not sell or recommend multiple financial products or services as a package.

6. Provision of Services Suitable for the Customer

In addition to striving to understand the needs of unitholders, etc., the Company shall maintain strict compliance with the bylaws of Hulic Reit in its asset management services and implement business conduct in line with the various policies defined in its operational guidelines. Furthermore, the Company shall aim to maximize unitholder value by flexibly revising the operational guidelines in response to changes in the needs of unitholders, etc, and the conditions of the real-estate market in cases where doing so is expected to lead to greater unitholder value in the medium to long term. The Company does not sell or recommend complex or high-risk financial products, nor does it sell or recommend financial products to customer groups that are vulnerable to financial transaction damage.

7. Appropriate Incentivization Framework for Employees, etc.

All directors and employees shall work to offer high-quality value as professionals. Furthermore, the Company shall continually conduct compliance-related training, etc. for all directors and employees in order to ensure the thorough implementation of honest and fair business practices as well as appropriate management of conflicts of interest. In addition, the Company has instituted an incentive bonus system partially tied to the per-share dividend of Hulic Reit in the aim of integration with unitholder return.

As part of efforts to strengthen human resources for providing asset management services of high quality, we promote employees in obtaining qualifications. We have set the pursuit of such measures as one with key performance indicators (KPI), thereby promoting instilling customer-oriented business conduct.

The number of persons who have obtained qualifications or have passed the examinations for key qualifications (Real Estate Notary and ARES Certified Master) has been set as key performance indicators (KPI).

[Reference]

- Real Estate Notary: 19
- ARES Certified Master: 15

*As at June 30, 2021