

June 8, 2023

To All Concerned Parties

Investment Corporation  
ESCON JAPAN REIT Investment Corporation  
Representative: Atsumu Sasaki, Executive Director  
(Securities Code: 2971)

Asset Manager  
ES-CON ASSET MANAGEMENT Ltd.  
Representative: Wataru Orii  
President and Representative Director  
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Notice of Disposition Against the Asset Manager by The Investment Trusts Association, Japan

ES-CON Asset Management (hereinafter, the “Asset Manager”), to which ESCON JAPAN REIT Investment Corporation (hereinafter, “ESCON REIT”) entrusts the management of its assets, hereby announces that in connection with the administrative disposition announced in the "Notice Concerning Administrative Disposition Against the Asset Manager" dated July 15, 2022 (hereinafter, the “July 2022 Announcement”), it was subject to disposition from The Investment Trusts Association, Japan (the "JITA") on June 8, 2023, as follows.

1. The dispositions and Recommendations

(1) Disposition pursuant to Article 17, Paragraph 1 of the Articles of Incorporation

Imposition of Fine for default: 275 million yen

(2) Disposition pursuant to Article 18 of the Articles of Incorporation

- (i) In order to realize fair and appropriate business operations as a management company of investment corporation asset, to clarify its management stance regarding compliance with laws and regulations, etc., to establish a responsible compliance system and internal control system run by its management team, and to review its methods of business operation to steadily achieve these objectives.
- (ii) To investigate the cause of this incident and then formulate concrete measures to prevent recurrences, including establishing an adequate framework for managing conflicts of interest, such as clarifying the internal processes for verifying the appropriateness of decision-making concerning the investment management business.
- (iii) To clarify where responsibility lies, including that of management.
- (iv) To report in writing by June 30, 2023 on the state of response regarding items (i) through (iii) above and to provide written reports as required until all the responses have been completed.

For details of Article 17, Paragraph 1 and Article 18 of the Articles of Incorporation of the JITA, please refer to the Appendix.

2. Date of the disposition

June 8, 2023

3. Facts and Reasons for the Disposition

When the Asset Manager, in the course of the management of ESCON REIT’s assets conducted based on the consignment agreement for the management of assets concluded with ESCON REIT, was requesting an appraisal of real estate to be acquired from ES-CON JAPAN Ltd., which is the parent company of the Asset Manager, (hereinafter, the

"ES-CON JAPAN"), the Asset Manager engaged in improper attempts to undermine the independence of real estate appraisers, which is problematic from the viewpoint of appropriate conflict of interest management, and used an improper process for selecting real estate appraiser, as described below.

(1) Improper attempts to undermine the independence of a real estate appraiser

When the Asset Manager has ESCON REIT acquire real estate owned by interested parties such as the parent company, it asks a third-party real estate appraiser to appraise the property in question, and determines the acquisition price of said real estate using the appraised value as the upper limit. However, with regard to the three real estate properties for which the interim report or estimated amount of the appraisal value presented by the real estate appraiser did not meet ES-CON JAPAN's desired sales price, the Asset Manager prioritized ES-CON JAPAN 's desired sales price, communicated it to the appraiser, and lobbied the appraiser to increase the appraisal value so that it would exceed the preferred sales price. Such actions are recognized as improper approaches to undermine the independence of the real estate appraiser.

(2) Improper real estate appraiser selection process

When requesting real estate appraisals of multiple properties to be acquired from ES-CON JAPAN, the Asset Manager obtained estimates of real estate appraisal values from multiple real estate appraisers by intending to get appraisal values above ES-CON JAPAN's desired selling price, and negotiated with the appraiser who provided the highest estimate (hereinafter, the "said real estate appraiser") among them so that the said real estate appraiser would have the lowest appraisal fee compared to the other real estate appraisers. Furthermore, the Asset Manager selected the said real estate appraiser for the appraisal based on the fact that the said real estate appraiser's fee was the lowest while concealing that the said real estate appraiser had provided the highest estimated real estate value. These actions are regarded as an improper real estate appraiser selection process to prioritize having ESCON REIT acquire the property at ES-CON JAPAN's preferred price.

Accordingly, the Asset Manager's conflict-of-interest management system is found to be significantly inadequate, and because it has not faithfully conducted its investment management business on behalf of ESCON REIT, the Asset Manager is found to have breached its "fiduciary duty of loyalty" as stipulated in Article 42, Paragraph 1 of the Financial Instruments and Exchange Act.

4. Circumstances leading to the disposition and future outlook

As announced in the July 2022 Announcement, the Asset Manager received a business suspension order and a business improvement order from the Financial Services Agency (hereinafter, the "FSA") on July 15, 2022 and submitted a report to the Commissioner of the FSA on August 15, 2022, summarizing the status of its business improvement measures. With the support of its parent company ES-CON JAPAN and its ultimate parent company Chubu Electric Power, the Asset Manager has been making company-wide efforts to clarify our management stance regarding compliance with laws and regulations, to establish responsible compliance and internal control frameworks headed by our management team, and to review our operation methods in order to achieve fair and appropriate business.

Specifically, the Asset Manager has implemented various measures, such as the adoption of the Declaration of Compliance, establishment of a management philosophy, changes to the operational flow including property acquisition to further strengthen our governance system, acceptance of the dispatch of directors from Chubu Electric Power, changes to the rules for ordering real estate appraisals, revision of various rules and manuals, strengthening the monitoring of real the estate appraisal order process by the Compliance Department, and the implementation of various training programs and proficiency tests to continuously improve our compliance practices regarding conflicts of interest.

In addition, ESCON REIT commissioned an investigation by an outside law firm that has no vested interest in the Asset Manager, etc., to determine whether or not any damage was caused by the Asset Manager's breach of fiduciary duty of loyalty concerning the acquisition of all properties it owns, and the investigation found that damages of 666 million yen had been incurred by ESCON REIT. After entering into an agreement with the Asset Manager on January 16, 2023, the full amount of compensation was paid.

As of today, the Asset Manager is making steady progress in addressing the business improvement measures related to the administrative disposition taken by the FSA.

Both recent dispositions by the JITA were taken in relation to facts identified by the FSA in the Business Suspension Order and Business Improvement Order announced in the July 2022 Announcement. Therefore, there were no new violations of the Asset Manager's fiduciary duty of loyalty, such as Improper attempts to undermine the independence of a real estate appraiser or Improper real estate appraiser selection process.

Based on the establishment of the compliance and internal control systems mentioned above, ESCON REIT and the Asset Manager will continue to position the maintenance and improvement of these systems as its most important management issue and will endeavor to implement fair and appropriate business operations.

Regarding the disposition by the JITA, the Asset Manager will closely examine its content and consider the response policy for it, in light of the Articles of Incorporation, rules and regulations, and detailed regulations stipulated by the JITA.

The fine for default mentioned above will be collected from the Asset Manager and will have no impact on ESCON REIT's management situation.

ESCON REIT: <https://www.escon-reit.jp/en/index.html>

**【Appendix】****- Article 17, Paragraph 1 of the Articles of Incorporation of the JITA  
(Disposition of Members)****Article 17.**

When a Full Member has come to fall under any of the following, the JITA may, after giving the Full Member an opportunity for explanation, impose a fine for default on, suspend or restrict membership rights of, or expel the Full Member.

The expulsion shall be made based on a resolution of the General Meeting, and the imposition of a fine for default and the suspension or restriction of membership rights shall be made based on a resolution of the Board of Directors within the scope of the degree of disposition stipulated in the Rules on Disposition of Members, etc.:

- (1) When it is found that the matters stated in the application for admission stipulated in Article 8 or the attached documents stipulated in the Rules on Enforcement of Articles of Incorporation submitted to the JITA have been falsely stated or lacked any material particulars.
- (2) When a Full Member fails to pay the admission fee, membership fee, or special membership fee stipulated in Article 11 by the prescribed due date.
- (3) When a Full Member fails to make a report stipulated in Article 12 or makes a false report.
- (4) When a Full Member fails to submit or explain the reports or materials stipulated in Article 14 or submits or explains false reports or materials.
- (5) When a Full Member refuses, interferes with, or evades the investigation stipulated in Article 15.
- (6) When a Full Member violates the Financial Instruments and Exchange Act, the Investment Trust Act, an order based on these laws, or any disposition based thereon, the JITA's Articles of Incorporation or other rules, the basic terms and conditions of the investment trust, or the Certificate of Incorporation of the investment corporation, or has committed any act contrary to the principle of good faith in transactions.
- (7) When a Full Member has otherwise disrupted the order or reputation of the JITA.

**- Article 18 of the Articles of Incorporation of the JITA  
(Recommendation to Full Members)****Article 18.**

When the JITA finds that its Full Member's status of compliance with the Financial Instruments and Exchange Act, the Investment Trust Act, orders based on these laws, or dispositions based thereon, or the JITA's Articles of Incorporation or other rules, the basic terms and conditions of the investment trust, the Certificate of Incorporation of the investment corporation, or the principle of good faith in transactions, or the status of the business of asset management, etc. or the status of property is inappropriate, it may make a recommendation by indicating the grounds therefor.