US Masters Residential Property Fund

ARSN 150 256 161

Annual report

For the year ended 31 December 2016

Responsible Entity:

WALSH & COMPANY

INVESTMENTS LIMITED

ACN 152 367 649 | AFSL 410 433

Photo of Jersey City boardwalk

Interior photo of a property in the Fund's portfolio, Coles Street, Jersey City

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Chairman's Letter

For the year ended 31 December 2016

Dear Unitholders,

It is our pleasure to welcome you to the Annual Report for the US Masters Residential Property Fund (the Group or Fund) for the financial year ended 31 December 2016.

The 2016 year marked another successful year of operations during which the Group recorded a fair value gain of $33.0 million in respect of its freestanding property portfolio (before capitalisation of eligible interest expense, $13.9 million after capitalisation of interest), a 39% increase in rental revenue, the completion of the wind down of the Group's investments with Excelsior Equities and significant progress in increasing the number of the Group's properties to a stabilised status capable of generating rental revenue.

From a portfolio valuation perspective, Jersey City Heights and Journal Square, both located in Hudson County, New Jersey performed particularly well in 2016, with both areas showing rates of capital growth in excess of 15%. The Group's target areas in Downtown Jersey City and Brooklyn also continue to perform well, with an average rate of growth of 5% for the 2016 year.

Rental revenue grew significantly during 2016, up 39% from $22.0 million in the prior year to $30.4 million in the current year. The significant growth in rental revenue has been driven by a successful strategy of balancing keeping existing tenant increases around inflation to encourage retention, while capitalising on the opportunity of turnover to maximise new rents together with the first time letting of 38 properties following completion of renovation by Dixon Projects LLC. A total of 237 new leases were executed during the year with an average increase in rent of 10%, while 592 leases were renewed at an average increase in rent of 3%. The level of bad debt write off remained constant at 0.50% of rental revenue, reflecting the Group's initiative to require all new tenants as well as existing tenants at the point of lease renewal to utilise the Group's autopay function. This initiative has also greatly improved the speed and efficiency of rental collection.

The Group continued to selectively add to its core freestanding residential property portfolio throughout 2016. The Group focused its freestanding property acquisitions in the premium areas of Hudson County, and selected areas of Brooklyn and Manhattan. During the year, the Group inspected 592 properties, bid on 218 of the properties inspected and successfully acquired 39 properties at an aggregate acquisition cost of $89.0 million.

During the year, the Group completed US$51 million of property renovations which brought 38 large scale renovations and 79 small scale renovations across 109 properties to the market for rent. The Group continues to find innovative ways to drive value for the portfolio, including the addition of elevators as part of the renovation where appropriate. Based on the Group's internal research and analysis, the inclusion of an elevator for the right property can significantly increase the value of the property above cost of installation. On an annualised basis, the renovations completed during the year are expected to contribute significantly to future rental income.

The disposal of the multifamily investment properties owned jointly with Excelsior Equities was successfully completed during the year. A total sales price of US$94 million was realised by the respective jointly controlled entities, of which the Group's economic interest was US$86.6 million. The sales price reflects a 26.5% premium to purchase price (inclusive of closing costs). After repaying associated bank borrowings, the Group received US$40 million in liquidation proceeds, which will be used to both acquire additional properties and to partially complete the renovation of the current renovation pipeline.

In September 2016, the Group completed an equity raising of $102.9 million. In addition, the Group raised $15 million through its regular distribution reinvestment plan. This additional capital allowed continued growth and diversification within the Group's portfolio of New York metropolitan area residential housing and apartments, which now consists of some 1,572 housing units across 601 freestanding houses and 2 apartment buildings.

A significant portion of the Fund's property portfolio is under renovation and not yet generating income (31% of the portfolio by value in 2016 compared with 33% in 2015). As more of the portfolio is renovated, rental revenue will increase. Pleasingly, investment property related expenses as a percentage of rental revenue decreased from 63% in 2015 to 51%.

The Group produced a pre-tax loss for the year of $27.0 million, compared to a $25.4 million pre-tax profit in 2015. The primary drivers of the current year result were a smaller fair value gain recognised in respect of the Group's investment property portfolio, a reduction in the share of profits of jointly controlled entities due to the wind down of the Group's investments with Excelsior ($3.5 million in the current year compared with $13.7 million in the prior year) and an increase in interest expense.

Overall, New York property continues to represent a tremendous store of value. During periods of economic prosperity, New York property capital values benefit, and the Group's investments in the highly sought after, niche market of premium townhouses continue to outpace the capital appreciation of comparable investments, such as New York apartments. Additionally, the limited nature of the premium townhouse asset class, which comprises just 2.6% of all Manhattan real estate transactions, serves as a safe haven asset during periods of economic uncertainty. As a result, over long periods of time – and through many economic cycles – New York property has provided stable and growing capital value, proving to be an exceptional store of wealth for patient investors.

My thanks go to fellow Board members, as well as the local US management team for their dedicated efforts throughout the year. I also thank our Unitholders for their continued support as we push forward in creating the leading residential property fund in the United States.

Yours faithfully,

Alex MacLachlan
Walsh & Company Investments Limited

Managing Director's Report

For the year ended 31 December 2016

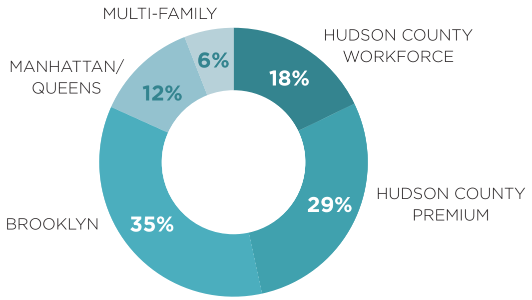
Freestanding property update

Freestanding portfolio update

As at December 2016, the Group owned 601 freestanding properties with a total book value of $1.1 billion. This represents a 24% increase in the book value of freestanding properties closed on since the prior balance date of 31 December 2015 ($862.5 million). The increase in total book value includes a $13.9 million increase in the fair market value of freestanding properties held at 31 December 2016.

The relative contributions of each of the Group's investment areas to the portfolio are summarised below.

PROPERTY DISTRIBUTION BY BOOK VALUE



Freestanding properties construction update

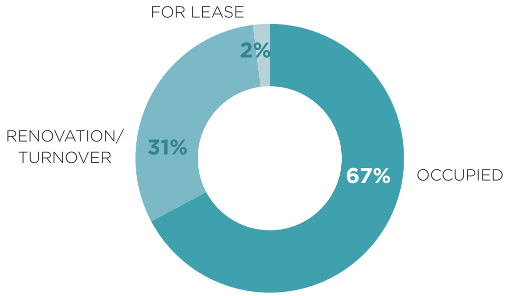
The Group continued to execute its renovation and rehabilitation strategy throughout 2016. This process is managed by Dixon Projects LLC, whose role it is to renovate properties acquired by the Group into highly desirable rental properties that attract premium rents and deliver long term capital growth. Dixon Projects LLC has built a highly experienced and talented team of 48 professionals who oversee the entire renovation process from start to finish including planning, permitting, interior design, procurement and construction management. Reflecting the quality of its renovation work and continued growth of the business, the Group was again awarded the Jersey City Landmarks Conservancy's "Excellence in Preservation" award for the work done on the Carriage House at 237 Montgomery Street in Jersey City.

During 2016, the Group was successfully able to complete US$51 million of renovations which brought 38 large scale renovations and 79 small scale renovations across 109 properties to the market for rent. The renovations completed during the year contributed, or are expected to contribute, an additional US$7.3 million of rental income.

As at 31 December 2016, there remained a further 91 properties in the renovation pipeline which are at various stages of completion. The majority of these properties are located in premium areas within Brooklyn, Manhattan and Hudson County and are often located in historic districts. Many of these properties require larger and more complex renovations and hence have an extended time period to move from acquisition to leasing. Renovation of the majority of these properties are expected to be progressively completed over the coming 3 to 24 months, and are expected to contribute additional annual rent of approximately US$12.5 million.

The property status of freestanding properties as at 31 December 2016 is depicted below.

PROPERTY STATUS BY BOOK VALUE



Multi-family property update

As communicated in the 2015 Annual Report, the Group entered into an agreement to dispose of its multi-family properties owned jointly with Excelsior Equities, LLC. The disposal process was successfully completed during 2016, with a total sales price of US$94 million realised by the respective jointly controlled entities (of which the Group's economic interest was $86.6 million). The sales price reflects a 26.5% premium to purchase price (inclusive of closing costs). After repaying associated bank borrowings, the Group received US$40 million in liquidation proceeds, which will be used to both acquire additional properties and to partially complete the renovation of the current construction pipeline.

On December 6, 2016, the Group made an equity investment in 515 West 168th Venture LLC (**'Investee'**). On the same date, the Investee acquired an 84 apartment multifamily property located at 515 West 168th Street, Washington Heights, New York. The Group's economic interest in the venture is 63.7%.

During the year, the multi-family property portfolio owned by the Group's Golden Peak II LLC jointly controlled entity was independently appraised at US$54.5 million, reflecting a 10% fair value uplift from the 31 December 2015 book value of US$49.6 million and a 44% uplift from purchase price of US$38 million in May 2012.

As at 31 December 2016, the total book value of the multi-family portfolio was US$48.6 million based on the Group's proportionate share.

Financial performance and position

The Group recorded a pre-tax loss of $26,979,279 for the year ended 31 December 2016. This compares with a profit before tax in the prior year of $25,374,515. The primary factors contributing to the movement in the pre-tax result include a smaller positive fair value movement on the Group's freestanding portfolio ($13,902,787 in the current year compared with $40,763,092 in the prior year), a reduction in the share of profits of jointly controlled entities due to the wind down of the Group's investments with Excelsior ($3,463,533 in the current year compared with $13,712,689 in the prior year), and an increase in interest expense reflected in the profit and loss due to additional borrowings incurred in order to fund both property acquisitions and renovations ($21,522,977 in the current year compared with $10,311,037 in the prior year). The pre-tax result in the prior year also includes a fair value gain on derivative instruments of $1,087,365 (nil this year). Rental income totalled $30,437,880, representing a 39% increase in the Group's rental revenue when compared to the prior period. The Group expects continued rental revenue growth throughout the remainder of 2017 as more completed properties are delivered from the renovation pipeline. Investment property expenses relative to rental income improved considerably from 63% in 2015 to 50% in 2016. The Group is confident that this ratio of costs to revenue will continue to decrease as more renovated properties are delivered to market and tenanted.

Total comprehensive loss for the year, after taking into account exchange rate differences, deferred tax expense and jointly controlled reserves, was $35,246,535 (2015: income of $66,750,174).

The Group retained a strong financial position with net assets of $583,843,909, a pre-tax net tangible asset backing of $1.93 per ordinary unit and a post-tax net tangible asset backing of $1.69 per ordinary unit at 31 December 2016.

The Group paid a distribution of 5 cents per ordinary unit on 1 August 2016. A further distribution of 5 cents per ordinary unit was declared on 16 December 2016 and paid on 3 February 2017.

Alex MacLachlan
Walsh & Company Investments Limited


Exterior photo of a property in the Fund's portfolio, 2nd Street Downtown, Jersey City


Interior photo of a property in the Fund's portfolio, 2nd Street Downtown, Jersey City

Photo of Columbia University in the city of New York

Corporate Governance Statement

Interior photo of a property in the Fund's portfolio, Bradhurst Avenue, Harlem

Corporate Governance Statement

For the year ended 31 December 2016

US Masters Residential Property Fund (**the Fund**) and the entities it controls (**the Group**) is a listed managed investment scheme whose units are traded on the Australian Securities Exchange (**ASX**). The Group has no employees and its day-to-day functions and investment activities are managed by the Responsible Entity of the Group (Walsh & Company Investments Limited (**Walsh & Co**)) and Dixon Advisory USA Inc, in accordance with the relevant management agreements.

The ASX Corporate Governance Council's *Corporate Governance* Principles and Recommendations provides guidelines for good corporate governance. The directors of the Responsible Entity (**the Board**), Walsh & Company Investments Limited, recognise the importance of good corporate governance.

The Group's Corporate Governance Charter, which incorporates the Group's policies referred to below, is designed to ensure the effective management and operation of the Group and will remain under regular review. The Corporate Governance Charter is available on the Group's website **usmastersresidentialfund.com.au**.

A description of the Group's adopted practices in respect of the eight Principles and Recommendations from the 3rd Edition of the ASX *Corporate Governance Principles and Recommendations* is set out below. All these practices, unless otherwise stated, were in place throughout the year and to the date of this report.

1. Lay Solid Foundations for Management and Oversight

Board Roles and Responsibilities

The Board is responsible for the overall operation, strategic direction, leadership and integrity of the Group and in particular, is responsible for the Group's growth and success. In meeting its responsibilities, the Board undertakes the following functions:

- Providing and implementing the Group's strategic direction;
- Reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Group are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with;
- Overseeing the integrity of the Group's accounting and corporate reporting systems, including the external audit;
- Ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance;
- Reviewing and overseeing internal compliance and legal regulatory compliance;
- Ensuring compliance with the Group's Constitution and with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act*;
- Overseeing the Group's process for making timely and balanced disclosures of all material information concerning the Group, and
- Communicating with and protecting the rights and interests of all unitholders.

Subject to legal or regulatory requirements and the Group's Constitution, the Board may delegate any of the above powers to individual directors or committees of the Board. Any such delegation shall be in compliance with the law and the Group's Constitution.

2. Structure the Board to Add Value

Board Composition

The composition of the Board is structured to maintain a mix of directors from different backgrounds with complementary skills and experience. Details of each director at the date of this report are given in the Directors' Report, including the period in office, skills, experience, and expertise relevant to the position of director.

The directors of the Responsible Entity during the 2016 financial year and as at the date of this report are:

- Alex MacLachlan
- Tristan O'Connell
- Tom Kline

The Board of Directors work closely with the Compliance Committee and the Advisory Board, the majority of whom are independent of the Group, to ensure adequate independent oversight.

Having regard to the size of the Group and the nature of its business, the Board has determined that a Board with 3 members is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Group. However, the composition of the Board will be reviewed periodically.

The current Board is not Independent. The Board however has established a Compliance Committee with a majority of Independent members who are responsible for; monitoring the extent to which the Responsible Entity complies with the Group's relevant regulations, compliance plan, constitution and report the findings to the Board, reporting to ASIC if the Committee is of the view that the Responsible Entity has not complied with the Compliance Plan or any relevant laws, and to assess at regular intervals whether the Group's compliance plan is adequate and make recommendations to Responsible Entity about any changes that the Committee considers should be made to the compliance plan.

The Group recognises the ASX Recommendations with respect to establishing remuneration and nomination Committees as good corporate governance. However, considering the size and structure of the Group, the functions that would be performed by these Committees are best undertaken by the Board.

The Board will review its view on Committees in line with the ASX Recommendations and in light of any changes to the size or structure of the Group, and if required may establish Committees to assist it in carrying out its functions. At that time the Board will adopt a charter for such Committees in accordance with the ASX Recommendations and industry best practices.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case-by-case basis and in conformity with the requirements of the Listing Rules and the Corporations Act 2001. In accordance with the corporate governance policy, directors are entitled to seek independent advice at the expense of the Group. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Group.

Performance Evaluation

The Board conducts a review of its collective performance and the performance of the Board at intervals considered appropriate.

3. Promote Ethical and Responsible Decision Making

Code of Conduct

The Board of the Responsible Entity has adopted a Code of Conduct to define basic principles of business conduct of the Fund and the Responsible Entity. This Code requires the Fund's personnel to abide by the policies of the Fund and to the law. The Code is a set of principles giving direction and reflecting the Fund's approach to business conduct and is not a prescriptive list of rules for business behaviour.

Unit Trading Policy

The Board of the Responsible Entity has established a Unit Trading Policy to apply to trading in the Group's units on the ASX. This policy outlines the permissible dealing of the Group's units while in possession of price sensitive information and applies to all directors, executives and relevant employees of the Responsible Entity.

The Policy places restrictions and notification requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

Insider Trading Policy

The Board of the Responsible Entity has established an Insider Trading Policy to apply to trading in the Group's units on the ASX. This policy applies to all directors, executives and relevant employees of the Responsible Entity. All directors, executives and relevant employees of the Responsible Entity must not deal in the Group's units while in possession of price sensitive information.

4. Safeguard integrity in Financial Reporting

Compliance Committee

As a registered managed investment scheme, the Group has a compliance plan that has been lodged with the Australian Securities and Investments Commission (**ASIC**). The compliance plan is reviewed comprehensively every year to ensure that the way in which the Group operates protects the rights and interests of unitholders and that major compliance risks are identified and properly managed.

The Responsible Entity has formed a Compliance Committee to; ensure the Group complies with the relevant regulations, its compliance plan and its constitution. The Committee meets and reports to the Board of the Responsible Entity on a quarterly basis.

The Committee is structured with three members, the majority of which are independent. Details of the Compliance Committee members are as follows:

Claire Wivell Plater (Independent Member) **(Chairperson)**

Claire Wivell Plater LLB. is Managing Director and majority owner of The Fold Legal which has provided specialist regulatory, legal and commercial advice to financial services businesses since 2002. Claire was an insurance law specialist with Phillips Fox (now DLA Piper) for 17 years (including 11 years as partner) and spent three years in Corporate Development with ING before founding The Fold Legal. Claire is a long standing member of the Business Advisory Committee to ASIC's Licensing Division and sits on the Board of Holdsworth Community, a leading community services organisation in Sydney's Eastern Suburbs (including serving as Chair for 10 years). She is a prolific author, commentator and public speaker on regulatory and legal issues.

Barry Sechos (Independent Member)

Barry is one of two independent members of the compliance committee. Barry is member of the compliance committee for the New Energy Solar Fund, the Australian Property Opportunities Fund I, II & III, US Select Private Opportunities Fund I, II & III, Emerging Markets Masters Fund and US Masters Residential Property Fund. Barry is a Director of Sherman Group Pty Limited, a privately owned investment company, and is responsible for managing the legal, financial and operational affairs of Sherman Group Limited. Barry has 30 years experience in corporate law and finance having spent seven years as a banking and finance lawyer at Allen Allen & Hemsley (Sydney, Singapore and London), and eight years as a Director of EquitiLink Funds Management and Aberdeen Asset Management Australia. Barry is also a Director of See Saw Films, a film production and finance group and winner of the 2011 Academy Award for Best Picture, Aberdeen Leaders Limited, an investment company listed on the ASX, Regeneus Limited, an ASX listed biotech company and a Director of Sherman Contemporary Art Foundation, a charitable cultural organisation.

Tristan O'Connell (Internal Member)

Refer to information on directors on page 7.

Audit & Risk Committee

The Group has established an Audit & Risk Committee. The members of the Audit & Risk Committee during the year were:

Tristan O'Connell (Internal Member)

Barry Sechos (Independent Member) (**Chairperson**)

Claire Wivell Plater (Independent Member)

The chairperson of the Audit & Risk Committee is an independent non-executive director and is not the chairperson of the Board. The Committee consists of two non-executive directors.

The primary function of the Audit & Risk Committee is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the following areas:

- Application of accounting policies to the Group's financial reports and statements
- Monitoring the integrity of the financial information provided to security holders, regulators and the general public
- Corporate conduct and business ethics, including Auditor independence and ongoing compliance with laws and regulations
- Maintenance of an effective and efficient audit
- Appointment, compensation and oversight of the external Auditor, and ensuring that the external Auditor meets the required standards for Auditor independence
- Assess the adequacy of the Group's process for managing risk
- Regularly monitoring and reviewing corporate governance policies and codes of conduct.

The Audit & Risk Committee meets four times a year. The chairperson of the Audit & Risk Committee will report to the Board at a minimum of two times a year.

The Audit & Risk Committee's Charter is available on the Group website.

Advisory Board

The Responsible Entity has established an Investment Advisory Board to provide the Responsible Entity with expert advice in relation to commercial matters regarding the Group. The independent directors of the Advisory Board are highly experienced senior US based investment professionals.

5. Making Timely and Balanced Disclosure

The Group is committed to complying with its continuous disclosure obligations under the *Corporations Act 2001* and the Listing Rules and releasing relevant information to the market and unitholders in a timely and direct manner and to promoting investor confidence in the Group and its securities.

The Board has adopted a Continuous Disclosure Policy to ensure the Group complies with its continuous disclosure obligations under the *Corporations Act* and the Listing Rules.

The policy administered by the Board is as follows:

- the Board is involved in reviewing significant ASX announcements and ensuring and monitoring compliance with this policy;
- the Company Secretary is responsible for the overall administration of this policy and all communications with the ASX; and
- Senior management of the Responsible Entity is responsible for reporting any material price sensitive information to the Company Secretary and observing the Group's no comments policy.

6. Respect the Rights of Unitholders

Rights of unitholders

The Group promotes effective communication with unitholders. The Board of Directors has developed a strategy within its Continuous Disclosure Policy to ensure that unitholders are informed of all major developments affecting the Group's performance, governance, activities and state of affairs. Each unitholder is also provided online access to the Registry to allow them to receive communications from, and send communication to, the Responsible Entity and the Registry. This also includes using a website to facilitate communication with unitholders via electronic methods. Information is communicated to unitholders through announcements to the ASX, releases to the media and dispatch of financial reports. Unitholders are provided with an opportunity to access such reports and releases electronically; copies of all such ASX announcements are linked to the Group's website at **www.usmastersresidential.com.au.**

These include:

- weekly net asset value estimates;
- monthly net tangible asset backing announcements;
- quarterly investment updates;
- monthly property purchasing updates;
- the half year report;
- the full year report;
- occasional ASX announcements made to comply with the Group's continuous disclosure requirements; and
- occasional correspondence sent to unitholders on matters of significance to the Group.

The Board encourages full participation of unitholders at the general meetings to ensure a high level of accountability and identification with the Group's strategy. Unitholders who are unable to attend the general meeting are given the opportunity to provide questions or comments ahead of the meeting and where appropriate, these questions are answered at the meeting.

7. Recognise and Manage Risk

The Board has accepted the role of identifying, assessing, monitoring and managing the significant areas of risk applicable to the Group and its operations. The Board has established an Audit & Risk Committee to deal with these matters. The Board liaises with the Advisory Board to identify and manage risk. The Board also monitors and appraises financial performance, including the approval of annual and half-year financial reports and liaising with the Group's auditors.

In order to evaluate and continually improve the effectiveness of its risk management and internal control processes, the Responsible Entity has adopted a set of Risk Management Guidelines for the Group. The Board conducts an annual review of the Group's Risk Management Guideline to satisfy itself that the Risk Management framework continues to be sound. During the year, the reviews took place on 9 May 2016 and 16 August 2016.

The Board is responsible for maintaining proper financial records. In addition, the Board receives a letter half yearly from the Group's external auditor regarding their procedures and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

The Responsible Entity provides declarations required by Section 295A of the *Corporations Act 2001* for all financial periods and confirms that in its opinion the financial records of the Group have been properly maintained and that the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view of the financial position and performance of the Group, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Group's external auditor. Details of the Group's financial risk management are set out in the notes to the financial statements in the Annual Report.

8. Remunerate Fairly and Responsibly

Remuneration Policies

Due to the relatively small size of the Group and its operations, the Board does not consider it appropriate, at this time, to form a separate committee to deal with the remuneration of the directors.

No director receives any direct remuneration from the Group.

In accordance with the Group's constitution, the responsible entity is entitled to a management fee for services rendered. Details of the Group's related party transactions are set out in the notes to the financial statements in the Annual Report.

Directors' Report

For the year ended 31 December 2016

The directors of Walsh & Company Investments Limited, the Responsible Entity of US Masters Residential Property Fund (**the Fund**) present their report together with the consolidated financial statements of the Fund and the entities it controlled (**the Group**) for the financial year ended 31 December 2016.

The Responsible Entity's registered office and principal place of business is Level 15, 100 Pacific Highway, North Sydney, NSW 2060.

Directors

The directors of the Responsible Entity at any time during or since the end of the financial year are shown below. Directors were in office to the date of the report unless otherwise stated.

Alex MacLachlan BA, MBA

Chairman

Alex is currently the Chairman of the Responsible Entity for US Select Private Opportunities Fund Series, Australian Property Opportunities Fund Series, Emerging Markets Masters Fund, New Energy Solar Fund and US Masters Residential Property Fund. Alex is also the Chairman of New Energy Solar Limited, and a director of Fort Street Real Estate Capital, the Australian Masters Yield Fund Series and Asian Masters Fund Limited.

Alex joined Dixon Advisory in 2008 to lead the then newly formed Funds Management division of Dixon Advisory, and is currently the CEO and Chairman of Walsh & Company Investments Limited.

Before joining Dixon Advisory, Alex was a senior investment banker specialising in the natural resources sector, most recently serving as head of energy, Australasia, for UBS AG in Sydney and prior to that as an investment banker at Credit Suisse First Boston. During his career as an investment banker, Alex advised many of Australia's and the world's leading natural resources companies, working with over 30 companies on more than $100 billion in announced mergers and acquisitions and capital markets transactions. Before specialising in natural resources investment banking, Alex worked in the Japanese Government Bond derivatives markets in London, New York and Sydney.

He has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

During the past three years Alex has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Asian Masters Fund Limited (since 2009)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009, delisted 26 August 2016)
- Australian Masters Yield Fund No 1 Limited (since 2010)

- Australian Masters Yield Fund No 2 Limited (since 2010)
- Australian Masters Yield Fund No 3 Limited (since 2011)
- Australian Masters Yield Fund No 4 Limited (since 2011)
- Australian Masters Yield Fund No 5 Limited (since 2012)
- Emerging Markets Masters Fund (since 2012)
- Global Resource Masters Fund Limited (since 2008, delisted 11 March 2016)
- US Select Private Opportunities Fund (since 2012)
- US Select Private Opportunities Fund II (since 2013)
- US Select Private Opportunities Fund III (since 2016)

Tristan O'Connell BCom, CPA

Director

Tristan joined Dixon Advisory in 2005 after more than 10 years' experience in corporate financial and management roles within the wholesale markets industry. Tristan oversees the finance and accounting function of Dixon Advisory Group, incorporating funds management accounting for fifteen funds, which manage more than $2 billion for 15,000 shareholders. Tristan is currently a director of Walsh & Company Investments Limited, the Responsible Entity of Australian Property Opportunities Fund Series, US Select Private Opportunities Fund Series, Emerging Markets Masters Fund, and New Energy Solar. Tristan is also a trustee of the US REIT.

Among Tristan's previous roles were Financial Controller of Tullet Prebon in Australia, one of the world's leading inter-dealer broker firms, specialising in over-the-counter interest rate, foreign exchange, energy and credit derivatives. He subsequently held senior finance roles for Tullet Prebon in Singapore and London and returned to Australia to be responsible for the financial management growth of Dixon Advisory.

Tristan has a Bachelor of Commerce from the Australian National University, is a member of CPA Australia and is a Fellow of the Financial Services Institute of Australasia.

During the past three years Tristan has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Emerging Markets Masters Fund (since 2012)
- US Select Private Opportunities Fund (since 2012)
- US Select Private Opportunities Fund II (since 2013)
- US Select Private Opportunities Fund III (since 2016)

Directors' Report continued

For the year ended 31 December 2016

Tom Kline BCom, LLB (Hons)

Director

Tom Kline is the Managing Director and CEO of New Energy Solar, and previously the Chief Operating Officer of Walsh & Company Investments Limited, the Funds Management division of Dixon Advisory.

Tom is chairman of Australian Masters Yield Fund No 4 Limited, Australian Masters Yield Fund No 5 Limited, Fort Street Real Estate Capital Pty Limited and a director of Walsh & Company Investments Limited, the responsible entity for Emerging Markets Masters Fund, US Select Private Opportunities Fund Series, US Masters Residential Property Fund, and Australian Property Opportunities Fund Series.

Before Dixon Advisory, Tom worked at UBS AG in Sydney. During his time at UBS, he was a member of the Power, Utilities and Infrastructure team and advised on a wide range of public and private M&A and capital market transactions. Tom advised some of Australia's leading energy generators and infrastructure players including EnergyAustralia and Transurban. Tom also advised energy and utility companies on the proposed introduction of Australia's federal carbon trading scheme (Carbon Pollution Reduction Scheme) and implications for fossil fuel and renewable energy generation.

Prior to joining UBS AG, Tom served in the Corporate Finance division of Deloitte. While at Deloitte, he worked in the Transaction Services, Business Modelling and Valuations Teams.

Tom has a Bachelor of Commerce and Bachelor of Laws (with honours) from Australian National University.

During the past three years Tom has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Australian Masters Yield Fund No 4 Limited (since 2011)
- Australian Masters Yield Fund No 5 Limited (since 2012)
- Emerging Markets Masters Fund (since 2012)
- US Select Private Opportunities Fund (since 2012)
- US Select Private Opportunities Fund II (since 2013)
- US Select Private Opportunities Fund III (since 2016)

Principal activities and significant changes in nature of activities

The principal activity of the Group during the course of the financial period was investing in the US residential property market. The Group invests in freestanding and multi-family properties in the New York metropolitan area, specifically Hudson County, New Jersey, and Brooklyn, Manhattan, and Queens, New York. There were no significant changes in the nature of the Group's activities during the period.

Results and review of operations

The Group recorded a total comprehensive loss for the year of $35,246,535 (2015: comprehensive income of $66,750,174. The primary factors contributing to the movement in comprehensive income include a smaller positive fair value movement on the Group's freestanding portfolio ($13,902,787 in the current year compared with $40,763,092 in the prior year), a reduction in the share of profits of jointly controlled entities due to the wind down of the Group's investments with Excelsior ($3,463,533 in the current year compared with $13,712,689 in the prior year), and an increase in interest expense reflected in the profit and loss due to additional borrowings incurred in order to fund both property acquisitions and renovations ($21,522,976 in the current year compared with $10,311,037 in the prior year). The operating loss of the Group for the year ended 31 December 2016 after providing for income tax amounted to $45,127,626 (2015: income of $63,986). The Group is in a strong position with net assets of $583,843,909.

At 31 December 2016, the net asset value (**NAV**) of the Group was $1.69 per ordinary unit, after unrealised gains and losses, and adjustments for tax (2015: $1.87 per ordinary unit). This is after taking into account a 5 cent distribution that was announced on 16 December 2016.

During the year ended 31 December 2016, a total of $102,912,622 was raised from the issue of 52,774,904 ordinary units in September 2016. An additional 7,412,380 ordinary units were issued during 2016 as part of the Group's Distribution Reinvestment Plan amounting to $14,935,317.

In addition, the Group successfully closed on US$134.5 million of additional bank financing.

Distributions paid or recommended

Two distributions of 5 cents per ordinary unit totalling $14,274,574 and $14,463,027 were paid on 29 January 2016 and 1 August 2016 respectively.

A further distribution of 5 cents per ordinary unit totalling $17,283,938 was announced on 16 December 2016. A distribution reinvestment plan is in place in relation to the distribution.

Significant changes in state of affairs

Other than as noted in "Results and Review of Operations", there were no significant changes in the state of affairs of the Group which occurred during the financial year ended 31 December 2016.

After balance date events

A distribution of 5 cents per ordinary unit totalling $17,283,938 was declared on 16 December 2016 and was paid to unitholders on 3 February 2017. 4,704,225 units were issued under the Group's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled 13 property purchase contracts with a total consideration of $12,169,113.

Directors’ Report continued

For the year ended 31 December 2016

The Group also raised a total of $175,000,000 from the issue of URF Notes III which were allotted on 20 February 2017.

Other than the matters discussed above, there has not arisen in the interval between the balance date and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity of the Fund, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Future developments, prospects and business strategies

Details of future developments in the Group are contained in the Chairman’s Letter and the Managing Directors report included in pages (i) through (vi). To the extent that the disclosure of information regarding developments in the operation of the Group, and the expected results of those operations is likely to result in unreasonable prejudice to the Group, such information has not been disclosed.

Environmental issues

To the best of the directors’ knowledge the USA operations have been conducted in compliance with the environmental regulations existing under the USA federal, state and local legislation.

Beneficial and relevant interest of directors of the Responsible Entity in units

As at the date of this report, details of directors of the Responsible Entity who hold units or notes for their own benefit are listed as follows:

Director	No. of units	No. of notes
Tom Kline	129,294	5,845
Alex MacLachlan	97,787	3,505
Tristan O’Connell	57,817	150

Other relevant information

The following is a list of other relevant information required to be reported under the *Corporations Act 2001*:

- fees paid to the Responsible Entity - refer to note 21 to the financial statements;
- units held by the directors of the Responsible Entity at the reporting date - refer to note 21 to the financial statements;
- capital raisings completed during the financial year - refer to note 15 to the financial statements;
- the value of the Group’s assets and basis of valuation - refer to consolidated Statement of Financial Position and note 2 respectively; and

- interests in the Group as at 31 December 2016, including movements in units on issue during the year – refer to note 15 to the financial statements.

Indemnifying officers or auditor

Under the Fund's Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

Insurance premiums have been paid, during or since the end of the financial year for all of the directors of the Responsible Entity of the Group. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for the auditor of the Group.

Non-audit services

During the year Deloitte Touche Tohmatsu (**Deloitte**), the Group's auditor, has performed certain other services in addition to their statutory duties.

The Board of the Responsible Entity has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, Deloitte, and its related practices for audit and non-audit services provided during the year are set out in note 25.

Auditor's independence declaration

The auditor's independence declaration is set out on page 12 and forms part of the directors' report for the financial year ended 31 December 2016.

Signed in accordance with a resolution of the Directors:,

Alex MacLachlan
Director

Dated this 27th day of February 2017

Auditor's Independence Declaration

For the year ended 31 December 2016

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
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The Board of Directors
Walsh & Company Investments Limited
as Responsible Entity for:
US Masters Residential Property Fund
Level 15, 100 Pacific Highway
North Sydney NSW 2060

27 February 2017

Dear Board Members

US Masters Residential Property Fund

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of US Masters Residential Property Fund.

As lead audit partner for the audit of the financial statements of US Masters Residential Property Fund for the financial year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants


Photo of Jersey City Heights


Interior photo of a property in the Fund's portfolio, Polhemus Place, Park Slope

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 $	2015 $
Investment property rental income		30,437,880	21,959,735
Interest income		797,159	1,312,912
Insurance proceeds		-	140,950
Total revenue		**31,235,039**	**23,413,597**
Fair value movement of investment properties	*9*	13,902,787	40,763,092
Fair value movement of forward foreign currency derivative		-	1,087,365
Share of profits of jointly controlled entities	*8*	3,463,533	13,712,689
Investment property expenses		(15,444,964)	(13,757,763)
Net foreign currency gain		332,010	1,960,771
Management fees	*21*	(19,709,048)	(14,420,588)
Listing fees		(261,817)	(311,199)
Professional fees		(2,587,917)	(2,341,085)
Marketing		(209,738)	(363,917)
Responsible Entity and related entity recharges - salaries & wages	*21*	(8,685,751)	(7,736,917)
Responsible Entity and related entity recharges - office administration costs	*21*	(7,067,829)	(4,609,471)
Interest expense	*9*	(21,522,977)	(10,311,037)
Impairment of investment property	*9*	-	(183,364)
Investment property disposal costs		(97,578)	(946,753)
Bad debt expense		(153,218)	(107,416)
Other expenses		(171,811)	(473,489)
(Loss)/Profit before income tax		**(26,979,279)**	**25,374,515**
Income tax expense	*3(l), 11*	(18,148,347)	(25,310,529)
(Loss)/Profit for the year attributable to unitholders		**(45,127,626)**	**63,986**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operation (nil tax)		9,838,493	66,843,499
Share of jointly controlled entity's reserve movements (nil tax)	*8*	42,598	(157,311)
Other comprehensive income for the year, net of tax		**9,881,091**	**66,686,188**
Total comprehensive (loss)/income for the year attributable to unitholders		**(35,246,535)**	**66,750,174**
Earnings per unit			
Basic (loss)/earnings per unit (dollars)	*16*	(0.15)	0.00
Diluted (loss)/earnings per unit (dollars)	*16*	(0.15)	0.00

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 $	2015 $
Current assets			
Cash and cash equivalents	*4*	123,212,092	133,557,456
Receivables	*5*	377,171	589,778
Other financial assets	*6*	-	19,091,341
Prepayments		382,176	320,994
Other assets	*7*	7,210,625	5,774,827
Investment properties held for sale	*9*	17,192,733	-
Total current assets		**148,374,797**	**159,334,396**
Non-current assets			
Investments in jointly controlled entities	*8*	28,347,843	81,194,726
Investment properties	*9*	1,049,977,873	862,538,836
Other assets	*7*	8,349,252	3,904,919
Other financial assets	*6*	8,382,656	-
Prepayments	*21*	2,520,037	-
Security deposits	*10*	346,837	343,124
Total non-current assets		**1,097,924,498**	**947,981,605**
Total assets		**1,246,299,295**	**1,107,316,001**
Current liabilities			
Payables	*12*	30,470,707	30,644,646
Borrowings	*13*	6,694,658	24,653,907
Total current liabilities		**37,165,365**	**55,298,553**
Non-current liabilities			
Deferred tax liabilities	*11*	84,989,435	65,868,122
Borrowings	*13*	540,116,329	450,825,390
Other non-current liabilities	*14*	184,257	182,284
Total non-current liabilities		**625,290,021**	**516,875,796**
Total liabilities		**662,455,386**	**572,174,349**
Net assets		**583,843,909**	**535,141,652**
Equity			
Unit capital	*15*	472,669,283	388,720,491
Reserves		160,191,850	150,310,759
Accumulated losses		(49,017,224)	(3,889,598)
Total equity		**583,843,909**	**535,141,652**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Unit capital	Foreign currency translation reserve	Share of jointly controlled entity's cash flow hedging reserve	Accumulated losses	Total equity
		$	$	$	$	$
Balance at 1 January 2015		**381,980,548**	**83,468,319**	**156,252**	**(3,889,598)**	**461,715,521**
Profit for the year		-	-	-	63,986	63,986
Other comprehensive income/ (loss), net of income tax						
Foreign operation currency translation gain	*15*	-	66,843,499	-	-	66,843,499
Jointly controlled entity interest rate swap hedge loss	*15*	-	-	(157,311)	-	(157,311)
Total other comprehensive income/(loss)		-	66,843,499	(157,311)	-	66,686,188
Total comprehensive income/ (loss) for the year		**-**	**66,843,499**	**(157,311)**	**63,986**	**66,750,174**
Transactions with owners in their capacity as owners						
Issue of ordinary units	*15*	34,563,588	-	-	-	34,563,588
Distributions to unitholders		(27,823,645)	-	-	(63,986)	(27,887,631)
Total transactions with owners		**6,739,943**	**-**	**-**	**(63,986)**	**6,675,957**
Balance at 31 December 2015		**388,720,491**	**150,311,818**	**(1,059)**	**(3,889,598)**	**535,141,652**
Balance at 1 January 2016		**388,720,491**	**150,311,818**	**(1,059)**	**(3,889,598)**	**535,141,652**
Loss for the year		-	-	-	(45,127,626)	(45,127,626)
Other comprehensive loss, net of income tax						
Foreign operation currency translation gain	*15*	-	9,838,493	-	-	9,838,493
Jointly controlled entity interest rate swap hedge gain	*15*	-	-	42,598	-	42,598
Total other comprehensive gain		-	9,838,493	42,598	-	9,881,091
Total comprehensive gain/(loss) for the year		**-**	**9,838,493**	**42,598**	**(45,127,626)**	**(35,246,535)**
Transactions with owners in their capacity as owners						
Issue of ordinary units	*15*	117,847,939	-	-	-	117,847,939
Distributions to unitholders		(31,746,965)	-	-	-	(31,746,965)
Issue costs	*15*	(2,152,182)	-	-	-	(2,152,182)
Total transactions with owners		**83,948,792**	**-**	**-**	**-**	**83,948,792**
Balance at 31 December 2016		**472,669,283**	**160,150,311**	**41,539**	**(49,017,224)**	**583,843,909**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Cash receipts from customers		30,823,614	22,676,375
Cash paid to suppliers		(61,766,026)	(44,826,721)
Insurance proceeds		-	140,950
Interest received		1,012,967	1,192,421
Interest paid (i)		(13,306,229)	(9,794,370)
Net cash used in operating activities		**(43,235,674)**	**(30,611,345)**
Cash flows from investing activities			
Acquisition of investment property, including improvements (i)		(175,158,179)	(195,873,635)
Investment in financial assets		(7,592,816)	-
Investment in jointly controlled entities		(1,641)	(1,847,516)
Payments for property-related deposits		(3,718,091)	(3,332,967)
Distributions received from jointly controlled entity investments (ii)		54,512,541	653,093
Proceeds from sale of investment properties		1,837,504	12,451,221
Proceeds from term deposits		19,091,341	-
Investment in term deposits		-	(19,091,341)
Disposal costs on sale of investment properties		(97,578)	(946,753)
Net cash used in investing activities		**(111,126,919)**	**(207,987,898)**
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		173,956,876	253,537,079
Bank loan repayments		(106,780,297)	(70,072,262)
Payment of interest reserve and escrow accounts		(5,330,439)	(2,744,977)
Payment of transaction costs related to loans and borrowings		(7,748,479)	(17,729,727)
Proceeds from issue of unit capital		102,912,622	19,462,000
Distributions paid		(13,804,096)	(11,926,992)
Payments of issue costs		(2,152,181)	-
Net cash from financing activities		**141,054,006**	**170,525,121**
Net decrease in cash and cash equivalents		(13,308,587)	(68,074,122)
Cash and cash equivalents at beginning of year		133,557,456	191,280,901
Effect of exchange rate fluctuations on cash held		2,963,223	10,350,677
Cash and cash equivalents at end of year	*4*	**123,212,092**	**133,557,456**

(i) Interest paid in respect of expenditure on Qualifying Assets has been classified as an "Acquisition of investment property" cash flow in the Consolidated Statement of Cash Flows.

(ii) Distributions received from jointly controlled entity investments are net of promote interest payments.

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the consolidated financial statements.

Exterior photo of a property in the Fund's portfolio, Barrow Street, Jersey City

Notes to the Consolidated Financial Statements

Interior photo of a property in the Fund's portfolio, Montgomery Place, Jersey City

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. General Information

US Masters Residential Property Fund (**the Fund**) is a registered management investment scheme under the *Corporations Act 2001* domiciled in Australia. The financial statements comprise the Fund and its subsidiaries, collectively referred to as **the Group**.

The consolidated financial statements were authorised for issue by the Board of Directors on 27 February 2017. For the purposes of preparing the consolidated financial statements, the Fund is a for-profit entity.

The Group is primarily involved in investing in the US residential property market.

2. Basis of preparation

A) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures that the consolidated financial statements comply with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**).

B) Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and are based on historical cost with the exception of certain financial instruments and investment property assets, which are measured at fair value. All amounts are presented in Australian dollars, unless otherwise noted.

C) Use of estimates and judgements

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies which are subject to significant accounting estimates and judgements at the reporting date and have a significant risk of causing material adjustments to the financial statements in the next annual reporting period includes:

i) Fair value of investment property assets

The Fund estimates the fair value of investment properties at each reporting date primarily based on assessment of current market sale prices at or around balance date of comparable properties using available market data. The Fund engages with external licensed property valuers and agents to assist in this assessment - refer note 3D and note 9(i).

ii) Deferred tax liability recognition

The Fund recognises a deferred tax liability in respect of withholdings tax obligations which may arise in connection with the realisation and distribution of taxation capital gains associated with its property assets. The US tax consequences relating to property sales are complicated and the tax position which would apply depends on specific circumstances which can only be determined at a future disposal date. The tax position can vary from a zero tax liability position to the 35% withholding rate tax position which management have applied in its accounting policy. Furthermore, under recent legislation passed by the US government, the rate of withholding tax obligations on distribution of property asset gains may be reduced from the present rate of 35% to a lower rate of 15% if certain qualifying criteria are satisfied. The Fund has assessed that historically it has not consistently satisfied the relevant qualifying criteria and, on the expectation of the future improbability of meeting these criteria, has continued to recognise the deferred tax liability at the present rate of 35% on the differences arising between the carrying value and tax cost base of its property assets – refer note 3I.

D) Removal of parent entity financial statements

The Group has applied amendments to the *Corporations Act 2001* that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 23.

3. Significant accounting policies

The accounting policies set out below have been applied in the preparation of the financial statements.

A) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund (**its subsidiaries**). Control is achieved when the Fund:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Fund and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

B) Foreign currency

i) Translation of foreign currency transactions

The functional and presentation currency of US Masters Residential Property Fund is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies that are outstanding at the reporting date are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

Exchange differences on monetary items are recognised in the profit or loss in the period in which they arise. Differences arising on a monetary item forming part of the net investment in a foreign operation are taken to the foreign currency translation reserve on consolidation.

ii) Translation of financial reports of foreign operations

The functional currency of US Masters Residential Property Fund's subsidiaries is United States dollars. As at the reporting date, the assets and liabilities of those entities are translated into Australian dollars at the rate of exchange ruling at the Statement of Financial Position date, and other than fair value gains/losses on investment properties, the Statement of Profit or Loss and Other Comprehensive Income is translated at the average exchange rates for the period. Fair value gains/losses on investment properties are translated using the exchange rate prevailing on the date the directors of the Group determined the fair value of the underlying properties.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

C) Financial instruments

i) Non-derivative financial assets

All financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: receivables, cash and cash equivalents, and investments.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Equity investments

The Fund's interest in 515 West 168th Venture LLC (refer to note 6) is designated as a financial asset at fair value through profit or loss (**FVTPL**). Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value has been determined as outlined in note 6.

ii) Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: Trade and other payables, borrowings and preference unit capital.

Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, trade and other payables are measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Borrowing costs directly relating to the acquisition or construction of investment properties that take a substantial period of time to get ready for its intended use (i.e., "qualifying assets") are capitalised to the carrying value of the underlying investment property until such time as the assets are considered substantially ready for their intended use. Where funds are borrowed specifically to finance the acquisition or construction of investment properties, the amount capitalised represents the actual borrowing costs incurred.

Where the funds used to finance the acquisition or construction of investment properties form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the year. All other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest rate method.

Preference unit capital

Preference unit capital is classified as a financial liability if it is redeemable on a specific date or at the option of the unitholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

iii) Unit capital

Ordinary units

Ordinary units are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Fund. Incremental costs directly attributable to the issue of ordinary units are recognised as a deduction from equity.

Distributions to unitholders

Distributions are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Board of the Responsible Entity.

D) Investment property

i) Recognition and measurement

Investment property comprising residential real estate assets held to earn rental income and/or for capital appreciation is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value, representing the assessed amount that would be received to sell the asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. The best evidence of fair value is given by current prices in an active market for a similar property in the same location and condition. Changes in the fair value of investment property are recorded in profit or loss as and when they arise.

As outlined in accounting policy C)ii), borrowing costs incurred in respect of the acquisition or construction of investment properties that are "qualifying assets" are capitalised to the carrying value of investment properties.

ii) Determination of fair value

At each reporting date, the fair values of investment properties are assessed using management's knowledge of relevant market factors impacting the residential markets in which the Fund invests, and supported by engagement of suitably qualified external property valuers and agents to assist in determination of active market prices (fair values). Properties are categorised into homogeneous groupings displaying similar characteristics for the purpose of assessing fair value movements.

E) Interests in jointly controlled (joint venture) entities

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when key decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 136 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

F) Impairment

The directors of the Responsible Entity assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, through profit or loss.

G) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for distribution is recognised in the Statement of Financial Position if the distribution has been declared or publicly recommended on or before balance date.

H) Revenue

i) Rental income

Rental income from operating leases where the Group is a lessor is recognised in profit or loss on a straight-line basis over the lease term.

Costs that are directly associated with negotiating and executing the ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are deferred and amortised on a straight-line basis over the lease term.

ii) Interest income

Interest income is recognised as the interest accrues using the effective interest rate method.

I) Income tax

Under current Australian income tax legislation, the Fund is not liable to pay income tax provided unitholders are presently entitled to the Fund's distributable income and its taxable income (including assessable realised capital gains) is fully distributed to unitholders.

The US subsidiary has elected to be taxed as a US real estate investment trust (**REIT**) under US federal taxation law, and on this basis will generally not be subject to US income taxes on that portion of the US REIT's taxable income or capital gains which are distributed to the US REIT's unitholders, provided that the US REIT complies with the requirements of the Code and maintains its REIT status.

A deferred tax liability is recognised at 35% based on the temporary difference arising between the recorded carrying amount of investment property assets in the Consolidated Statement of Financial Position and their associated tax cost bases. The US tax consequences relating to property sales are complicated and the tax position which would apply depends on specific circumstances which can only be determined at a future disposal date. The tax position can vary from a zero tax liability position to the 35% withholding rate tax position adopted, which would apply if the REIT were to make a distribution to its parent during the year in which a capital gain is realised on disposal of investment property assets. Furthermore, during 2015, the U.S. government passed legislation that has the potential to eliminate or significantly reduce withholding tax on distributions of capital gains made by the US REIT, provided certain specified criteria are satisfied. If all qualifying criteria are satisfied in a year where a capital gain is realised and distributed, then such distribution would be subject to withholding at the lower operating profit distribution rate of 15% rather than the 35% rate currently applied. The Fund has not met the eligibility criteria on a consistent basis in historical years, and based on the assessed improbability of meeting these criteria in future years, it has continued to recognise a deferred tax liability based on the current 35% withholding tax rate applied.

J) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (**GST**), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (**ATO**) is included as a current asset or liability in the consolidated Statement of Financial Position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

The Fund qualifies for reduced input tax credits at a rate of 75%. Hence, expenses are recognised net of the amount of GST recoverable from the ATO.

K) Earnings per unit

Earnings per unit is calculated by dividing the profit or loss attributable to ordinary unitholders of the Fund by the weighted average number of ordinary units outstanding during the period. Diluted earnings per unit are the same as ordinary earnings per unit because there are no dilutive potential ordinary units.

L) Operating segments

The Group operates in a single operating segment, being in the business of investing in residential real estate assets associated with the New York metropolitan area in the United States of America.

M) Derivative financial instruments

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 18.

N) New accounting standards and interpretations

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to their operations and effective for the current year.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 1057 'Application of Australian Accounting Standards' and AASB 2015-9 'Amendments to Australian Accounting Standards – Scope of Application Paragraphs'
- AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'
- AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012 – 2014 Cycle'
- AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'

No new or revised Standards and Interpretations effective for the current year are considered to materially impact the Fund.

Accounting Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The potential impact of the new or revised Standards and Interpretations has not yet been determined.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	31 December 2018
AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	31 December 2018
AASB 16 Leases	1 January 2019	31 December 2019
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2018	31 December 2018
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	31 December 2017
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	31 December 2017

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Annual Improvements to IFRS Standards 2014– 2016 Cycle		
• IFRS 1 First-time Adoption of International Financial Reporting Standards	1 January 2018	31 December 2018
• IFRS 12 Disclosure of Interests in Other Entities	1 January 2017	31 December 2017
• IAS 28 Investments in Associates and Joint Ventures	1 January 2018	31 December 2018
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018	31 December 2018
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018	31 December 2018

4. Cash and cash equivalents

	2016 $	2015 $
Cash at bank	123,138,163	133,557,456
Restricted cash	73,929	-
	123,212,092	**133,557,456**

Cash at bank earns interest at floating rates based on the bank deposit rates. The effective interest rate on bank deposits was 0.70% (2015: 1.13%).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 18.

Restricted cash relates to the sale of property via a 1031 exchange. In a 1031 exchange, the proceeds due on sale of property are held in escrow and must be used to purchase replacement property. A 1031 exchange transaction preserves the REIT status of US Masters Residential Property (USA) Fund for US tax purposes, and allows the Group to defer realisation of any capital gains tax.

Reconciliation of cash flows from operating activities	2016 $	2015 $
(Loss)/Profit for the year	(45,127,626)	63,986
Adjustments for:		
Net unrealised loss on foreign exchange	(332,010)	(1,960,771)
Change in fair value of investment property	(13,902,787)	(40,763,092)
Share of profits of jointly controlled entities	(3,463,533)	(13,712,689)
Investment property disposal costs	97,578	946,753
Change in trade and other receivables	212,607	(9,073)
Change in other assets	(668,954)	(919,091)
Change in prepayments	(2,581,219)	451,481
Change in trade and other payables	1,364,508	1,098,433
Change in deferred tax liability (excluding foreign exchange impact)	17,844,989	25,096,719
Non-cash interest expense	3,320,773	-
Change in fair value of forward foreign currency derivative	-	(1,087,365)
Impairment loss on investment property	-	183,364
Net cash (used in) operating activities	**(43,235,674)**	**(30,611,345)**

5. Receivables

	2016 $	2015 $
Current		
Receivables - rental debtors	272,864	146,740
Allowance for doubtful debts	(6,282)	(21,987)
GST receivable	80,562	215,702
Interest receivable	30,027	245,835
Other receivables	-	3,488
	377,171	**589,778**

Rent is receivable in advance on the first day of each month. Late fees are levied on tenants if rent is not paid by the 6th day of the month. No interest is charged on trade receivables.

Management of the Group regularly review the trade debtors ledger for recoverability of outstanding balances. A provision of $6,282 (2015: $21,987) has been recognised in respect of outstanding amounts at balance date that, based on historical experience, are unlikely to be collected at their recorded amounts. Amounts owing from tenants that have since departed the property are written off as a bad debt in profit and loss.

Before accepting any new tenants, the Group assesses the prospective tenants ability to pay rent as and when due with reference to the applicants financial position, current earning capacity and previous landlord references.

The Group's exposure to credit and currency risks related to trade and other receivables is disclosed in note 18.

6. Other financial assets

	2016 $	2015 $
Current assets		
Term deposits	-	19,091,341
	-	**19,091,341**
Non-current assets		
Equity investment - fair value	8,382,656	-
	8,382,656	**-**

On December 6, 2016, the Group made an equity investment in 515 West 168th Venture LLC ('**Investee**'). On the same date, the Investee acquired an 84 apartment multifamily property located at 515 West 168th Street, Washington Heights, New York. The Group's economic interest in the venture is 63.7%.

The Group does not have existing rights that give it the ability to direct or to significantly influence the relevant activities of the company, and therefore does not exercise control over the Investee, nor does it have significant influence over the Investee. Accordingly, the investment has thus been designated as a financial asset at fair value through profit or loss. Given the proximity of the property acquisition date to balance date, the fair value of the investment property owned by the Investee has been assessed at its purchase price of US$18,598,791 (A$25,802,984). The Investee has borrowings totalling US$11,500,000 (A$15,954,495) at balance date.

7. Other assets

	2016 $	2015 $
Current assets		
Property related deposits	3,718,091	3,332,967
Deferred leasing fee	1,130,980	1,053,317
Property tax escrow deposits	927,200	842,430
Other assets (escrow deposits and receivables)	1,434,354	546,113
	7,210,625	**5,774,827**

	2016 $	2015 $
Non-current assets		
Facility interest reserve and escrow accounts (i) (ii)	8,184,045	3,904,919
Other assets (escrow deposits and receivables)	120,673	-
Interest rate cap derivative instrument	44,534	-
	8,349,252	**3,904,919**

(i) Under the terms of the Centennial Bank loan facilities, the Group is required to:

- Maintain interest reserve accounts equivalent to six months of interest on the outstanding principal loan balances. At balance date, the amount of interest on reserve with Centennial Bank was US$2,649,991 (A$3,676,458).
- Maintain a property tax and insurance reserve. At balance date, the amount on reserve with Centennial Bank in relation to property taxes and insurance was US$287,487 (A$398,844). The account does not bear interest.
- Maintain a collection reserve. At balance date, the amount on reserve with Centennial Bank in relation to collection reserves was US$961,591 (A$1,334,062).

(ii) The Group was also required to place US$1,999,990 (A$2,774,681) in escrow with Investors Bank.

8. Investments in jointly controlled entities

Jointly controlled entities	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest 2016 $	2015 $
Golden Peak II, LLC (i) (ii)	United States	Property Investment	Hudson County, New Jersey	67.5%	67.5%
Hudson Gardens, LLC (i) (ii)	United States	Property Investment	Hudson County, New Jersey	90.0%	90.0%
Gold Coast Equities, LLC (i) (ii)	United States	Property Investment	Hudson County, New Jersey	92.5%	92.5%
DXEX Brooklyn I, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn II, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn III, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%

(i) The Fund does not have existing rights that give it the current ability to direct the relevant activities of the jointly controlled entity and therefore does not exercise control of the jointly controlled entity.

(ii) The investment properties owned by all Excelsior jointly controlled entities have been disposed of and the net assets of each jointly controlled entity have been fully distributed to the joint venture partners. The jointly controlled entities will be dissolved in 2017.

Carrying amount of interest in jointly controlled entities	2016 $	2015 $
Balance at beginning of year	81,194,726	60,159,752
Investments made	1,641	292,348
Distributions received and receivable (net of promote interest)	(55,442,901)	(653,093)
Share of profits of jointly controlled entities	3,463,533	13,712,689
Share of reserves of jointly controlled entities	42,598	(157,311)
Exchange rate differences on translation	(911,754)	7,840,341
Balance at end of year	**28,347,843**	**81,194,726**

Summary of financial information for equity accounted investees presented in Australian dollars in accordance with Australian Accounting Standards, but not adjusted for the percentage ownership held by the Fund, is set out below.

2016	$	$	$	$	$	$	$
	Golden Peak II LLC	**Hudson Gardens LLC**	**Gold Coast Equities LLC**	**DXEX Brooklyn I**	**DXEX Brooklyn II**	**DXEX Brooklyn III**	**Total**
Cash and cash equivalents	1,142,934	-	-	-	-	-	1,142,934
Other current assets	617,333	-	-	-	-	-	617,333
Current assets	**1,760,267**	**-**	**-**	**-**	**-**	**-**	**1,760,267**
Investment properties at fair value	75,610,433	-	-	-	-	-	75,610,433
Derivatives	61,534	-	-	-	-	-	61,534
Non-current assets	**75,671,967**	**-**	**-**	**-**	**-**	**-**	**75,671,967**
Total assets	**77,432,234**	**-**	**-**	**-**	**-**	**-**	**77,432,234**
Borrowings	690,040	-	-	-	-	-	690,040
Other current liabilities	760,794	-	-	-	-	-	760,794
Current liabilities	**1,450,834**	**-**	**-**	**-**	**-**	**-**	**1,450,834**
Borrowings	28,970,804	-	-	-	-	-	28,970,804
Non-current liabilities	**28,970,804**	**-**	**-**	**-**	**-**	**-**	**28,970,804**
Total liabilities	**30,421,638**	**-**	**-**	**-**	**-**	**-**	**30,421,638**
Net assets	**47,010,596**	**-**	**-**	**-**	**-**	**-**	**47,010,596**
Ownership interest	**67.5%**	**90.0%**	**92.5%**	**92.5%**	**92.5%**	**92.5%**	
Equity accounted interest before Promote Interest	**31,732,152**	**-**	**-**	**-**	**-**	**-**	**31,732,152**
Promote Interest attributable to joint venture partner	**3,384,309**	**-**	**-**	**-**	**-**	**-**	**3,384,309**
Equity accounted interest	**28,347,843**	**-**	**-**	**-**	**-**	**-**	**28,347,843**

2016	$	$	$	$	$	$	$
	Golden Peak II LLC	Hudson Gardens LLC	Gold Coast Equities LLC	DXEX Brooklyn I	DXEX Brooklyn II	DXEX Brooklyn III	Total
Revenue	6,688,400	121,240	302,215	138,834	-	677,868	7,928,557
Fair value movement of investment properties	6,430,104	-	24,341	(1,224,517)	-	1,655,414	6,885,342
Interest income	6,655	-	284	1,286	-	2,139	10,364
Interest expense	(1,058,572)	(97,187)	(268,307)	(372,650)	-	(778,630)	(2,575,346)
Other expenses	(3,511,125)	(12,165)	(332,300)	(801,405)	(7,465)	(1,260,818)	(5,925,278)
Profit/(loss)	**8,555,462**	**11,888**	**(273,767)**	**(2,258,452)**	**(7,465)**	**295,973**	**6,323,639**
Equity accounted interest before Promote Interest	**5,774,937**	**10,699**	**(253,234)**	**(2,089,068)**	**(6,905)**	**273,775**	**3,710,204**
Promote Interest attributable to joint venture partner	**1,083,560**	**(450,027)**	**-**	**(399,489)**	**-**	**12,627**	**246,671**
Equity accounted interest	**4,691,377**	**460,726**	**(253,234)**	**(1,689,579)**	**(6,905)**	**261,148**	**3,463,533**
Other comprehensive gain	**63,108**	**-**	**-**	**-**	**-**	**-**	**63,108**
Equity accounted interest	**42,598**	**-**	**-**	**-**	**-**	**-**	**42,598**
Total comprehensive income before Promote Interest	**8,618,570**	**11,888**	**(273,767)**	**(2,258,452)**	**(7,465)**	**295,973**	**6,386,747**
Equity accounted interest before Promote Interest	**5,817,535**	**10,699**	**(253,234)**	**(2,089,068)**	**(6,905)**	**273,775**	**3,752,802**
Promote Interest attributable to joint venture partner	**1,083,560**	**(450,027)**	**-**	**(399,489)**	**-**	**12,627**	**246,671**
Equity accounted interest	**4,733,975**	**460,726**	**(253,234)**	**(1,689,579)**	**(6,905)**	**261,148**	**3,506,131**
Distributions received and receivable - 2016	**784,666**	**6,980,246**	**12,843,370**	**10,032,169**	**2,689,337**	**22,113,113**	**55,442,901**
Distributions received - 2015	**538,383**	**114,710**	**-**	**-**	**-**	**-**	**653,093**

2015	$	$	$	$	$	$	$
	Golden Peak II LLC	**Hudson Gardens LLC**	**Gold Coast Equities LLC**	**DXEX Brooklyn I**	**DXEX Brooklyn II**	**DXEX Brooklyn III**	**Total**
Cash and cash equivalents	1,122,998	28,629	690,245	1,607,012	2,923,693	2,985,672	9,358,249
Investment properties held for sale at fair value	-	21,832,041	29,559,669	23,744,740	-	41,732,682	116,869,132
Other current assets	614,610	133,020	170,233	446,901	57,035	412,919	1,834,718
Current assets	**1,737,608**	**21,993,690**	**30,420,147**	**25,798,653**	**2,980,728**	**45,131,273**	**128,062,099**
Investment properties at fair value	68,089,487	-	-	-	-	-	68,089,487
Non-current assets	**68,089,487**	**-**	**-**	**-**	**-**	**-**	**68,089,487**
Total assets	**69,827,095**	**21,993,690**	**30,420,147**	**25,798,653**	**2,980,728**	**45,131,273**	**196,151,586**
Borrowings	656,518	244,798	338,785	233,806	-	159,878	1,633,785
Other current liabilities	769,069	212,464	187,621	59,886	3,837	117,844	1,350,721
Current liabilities	**1,425,587**	**457,262**	**526,406**	**293,692**	**3,837**	**277,722**	**2,984,506**
Borrowings	29,300,081	11,011,913	16,841,666	11,616,153	-	19,944,224	88,714,037
Derivatives	1,201	-	-	-	-	-	1,201
Non-current liabilities	**29,301,282**	**11,011,913**	**16,841,666**	**11,616,153**	**-**	**19,944,224**	**88,715,238**
Total liabilities	**30,726,869**	**11,469,175**	**17,368,072**	**11,909,845**	**3,837**	**20,221,946**	**91,699,744**
Net assets	**39,100,226**	**10,524,515**	**13,052,075**	**13,888,808**	**2,976,891**	**24,909,327**	**104,451,842**
Ownership interest	**67.5%**	**90.0%**	**92.5%**	**92.5%**	**92.5%**	**92.5%**	
Equity accounted interest before Promote Interest	**26,392,653**	**9,472,064**	**12,073,169**	**12,847,147**	**2,753,624**	**23,041,127**	**86,579,784**
Promote Interest attributable to joint venture partner	**2,241,456**	**1,532,541**	**-**	**884,521**	**-**	**726,540**	**5,385,058**
Equity accounted interest	**24,151,197**	**7,939,523**	**12,073,169**	**11,962,626**	**2,753,624**	**22,314,587**	**81,194,726**

2015	$	$	$	$	$	$	$
	Golden Peak II LLC	**Hudson Gardens LLC**	**Gold Coast Equities LLC**	**DXEX Brooklyn I**	**DXEX Brooklyn II**	**DXEX Brooklyn III**	**Total**
Revenue	6,319,862	1,726,763	2,212,546	1,176,856	134,395	1,902,596	13,473,018
Fair value movement of investment properties	4,364,438	2,578,197	2,392,915	4,193,478	666,879	4,696,263	18,892,170
Interest income	2,264	35	93	3,661	856	5,559	12,468
Interest expense	(1,061,341)	(430,862)	(687,905)	(438,700)	(131,242)	(752,405)	(3,502,455)
Other expenses	(3,360,570)	(1,078,784)	(1,787,035)	(830,590)	(859,887)	(1,249,275)	(9,166,141)
Profit/(loss)	**6,264,653**	**2,795,349**	**2,130,614**	**4,104,705**	**(188,999)**	**4,602,738**	**19,709,060**
Equity accounted interest before Promote Interest	**4,228,641**	**2,515,814**	**1,970,818**	**3,796,852**	**(174,824)**	**4,257,533**	**16,594,834**
Promote Interest attributable to joint venture partner	**663,888**	**842,625**	**-**	**704,990**	**-**	**670,642**	**2,882,145**
Equity accounted interest	**3,564,753**	**1,673,189**	**1,970,818**	**3,091,862**	**(174,824)**	**3,586,891**	**13,712,689**
Other comprehensive loss	**(233,054)**	**-**	**-**	**-**	**-**	**-**	**(233,054)**
Equity accounted interest	**(157,311)**	**-**	**-**	**-**	**-**	**-**	**(157,311)**
Total comprehensive income before Promote Interest	**6,031,599**	**2,795,349**	**2,130,614**	**4,104,705**	**(188,999)**	**4,602,738**	**19,476,006**
Equity accounted interest before Promote Interest	**4,071,330**	**2,515,814**	**1,970,818**	**3,796,852**	**(174,824)**	**4,257,533**	**16,437,523**
Promote Interest attributable to joint venture partner	**663,888**	**842,625**	**-**	**704,990**	**-**	**670,642**	**2,882,145**
Equity accounted interest	**3,407,442**	**1,673,189**	**1,970,818**	**3,091,862**	**(174,824)**	**3,586,891**	**13,555,378**
Distributions received - 2015	**538,383**	**114,710**	**-**	**-**	**-**	**-**	**653,093**
Distributions received - 2014	**224,433**	**228,592**	**-**	**-**	**-**	**-**	**453,025**

During the year, Jones Lang LaSalle was appointed to value the investment properties owned by the Golden Peak II, LLC jointly controlled entity. In determining the fair value of the portfolio owned by Golden Peak II, LLC, Jones Lang LaSalle adopted a combination of direct capitalisation of net income approach and a discounted cash flow model approach. Where a direct capitalisation of net income approach was used, a capitalisation rate of 5.5% was applied to year one pro-forma income. Where a discounted cash flow model approach was used, discount rates ranging from 8% to 9% were applied to projected cash flows.

Jones Lang LaSalle is independent of the Group, and all jointly controlled entities to which the Group is a joint venturer.

All properties owned by the Excelsior jointly controlled entities were disposed of prior to balance date and all final distributions have been received.

The Group has not incurred any contingent liabilities in relation to its interest in the jointly controlled entities, nor do the jointly controlled entities themselves have any contingent liabilities. The jointly controlled entities do not have any capital commitments at reporting date.

There are no contributions contractually required to be made by the Group to any of the jointly controlled entities.

9. Investment properties

	2016 $	2015 $
Disclosed on the Condensed Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	17,192,733	-
Non-current assets		
Investment properties	1,049,977,873	862,538,836
	1,067,170,606	**862,538,836**

	2016 $	2015 $
At fair value		
Balance at beginning of year	862,538,836	561,501,651
Acquisitions, including improvements and interest on qualifying properties	177,105,137	198,119,085
Fair value movement of investment properties to market	13,902,787	40,763,092
Disposals	(1,867,962)	(12,476,110)
Impairment of investment properties due to damage	-	(183,364)
Exchange rate differences on translation	15,491,808	74,814,482
Balance at end of year	**1,067,170,606**	**862,538,836**

	2016 $	2015 $
Interest expense	40,921,454	26,648,436
Interest capitalised to carrying value of qualifying investment properties	(19,398,477)	(16,337,399)
Interest expense reflected in profit or loss	**21,522,977**	**10,311,037**

The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 3.57% (2015: 4.35%).

Investment properties that are either under contract or actively being marketed for sale at balance date have been classified as "Investment properties held for sale" and are shown as a current asset on the Consolidated Statement of Financial Position. Settlement is expected to occur within 12 months of balance date.

i) Valuation basis

In determining the fair value of the Group's investment properties at balance date, the portfolio of properties has been dissected into groupings by location (neighbourhood), being the principal characteristic assessed as impacting fair values. A sample of properties within each location grouping was selected for independent appraisal ensuring a representative coverage was obtained. The Group has a policy of ensuring each property is independently appraised on at least a three-year rotation basis.

A panel of the following appraisers were appointed to appraise the residential properties selected for appraisal during the period. The appraisers were selected in consideration of their certification as either licensed residential appraisers or licensed real estate agents, as well as their experience and independence to the Group. Where completed by a licensed appraiser, residential appraisals were conducted under the Uniform Standards of Professional Appraisal Practice as required by the Appraisals Standards Board of The Appraisal Foundation in the USA.

- County Appraisals, LLC (licensed residential appraiser)
- Accurate Appraisals Associates, LLC (licensed residential appraiser)
- F J R Appraisal Service (licensed residential appraiser)
- Platinum Coast Appraisal & Co. (licensed residential appraiser)
- Glenn A. Gabberty Appraisals, Inc. (licensed residential appraiser)
- Douglas Elliman Real Estate (licensed real estate agent)
- Madison Appraisal Group, LLC (licensed residential appraiser)

The appraisals of all properties have been completed using the "direct comparison" approach. Under this approach, the appraiser identifies at least three relevant and appropriate comparable location sales in relative close time proximity to valuation date, which sales evidence is used in conjunction with consideration of other relevant property specific or general market factors to assess the estimated market value of the subject property.

The average result of appraised properties for each location grouping, excluding outliers has then been extrapolated over the properties which were not subject to individual appraisal, thereby achieving an overall valuation outcome for each grouping and therefore the entire portfolio.

The Group has classified its property portfolio as a Level 2 hierarchy level asset due to its fair value measurement being based on inputs (other than unadjusted quoted prices in active markets for identical assets) that are observable for the assets, either directly or indirectly, as follows:

Class of Property	Fair Value Hierarchy Level	Fair Value 31/12/2016	Fair Value 31/12/2015	Valuation Technique	Inputs
Residential use investment property	Level 2	$1,067,170,606	$862,538,836	Direct comparable sales	- Selling price - Geographic location - Property age and condition - Size of property - Number of rooms

There were no transfers between Hierarchy Level 1 and Hierarchy Level 2 asset categories during the year. There were no significant unobservable inputs in the valuation technique applied.

ii) Leasing arrangements

Investment properties are leased to tenants under operating leases. Generally, the operating leases have a duration of 12-18 months with rentals payable monthly.

Minimum lease payments receivable on leases of investment properties are as follows:

	2016 $	2015 $
Not later than one year	18,902,974	14,433,933
Later than one year and not later than five years	2,252,020	1,222,595
Later than five years	-	-
	21,154,994	**15,656,528**

iii) Contractual obligations

As at balance date, the Group has paid property related deposits totalling $3,718,091 in respect of commitments to purchase 14 residential properties with a combined purchase consideration of $28,711,154.

The Group also has contracted to spend an amount of $44,273,839 in respect of property refurbishments.

10. Security deposits

	2016 $	2015 $
Security deposits	346,837	343,124

The Group is party to a letter of credit arrangement with Investors Bank. Under the terms of the facility, the Group is required to provide security in the form of a US$250,000 (A$346,837) deposit.

11. Deferred tax liabilities

	2016 $	2015 $
Investment properties	84,989,435	65,868,122
Movements		
Balance at beginning of year	65,868,122	35,303,707
Charged to profit and loss as income tax expense	17,844,989	25,096,719
Taken to profit and loss as unrealised foreign exchange loss	1,276,324	5,467,696
Balance at end of year	**84,989,435**	**65,868,122**

Income tax expense is comprised of:

	2016 $	2015 $
Deferred tax charged to profit or loss	17,844,989	25,096,719
Withholding tax payable	303,358	213,810
Income tax expense	**18,148,347**	**25,310,529**

The deferred tax liability represents temporary differences at 35% arising on differences between the tax cost base and the carrying value of the investment properties. Refer to note 3I.

During 2015, the U.S. government passed legislation that has the potential to eliminate or significantly reduce withholding tax on distributions of capital gains made by the US REIT, provided certain specified criteria are satisfied. If all qualifying criteria are satisfied in a year where a capital gain is realised and distributed, then such distribution would be subject to withholding at the lower operating profit distribution rate of 15%, instead of the current rate of 35%. Historically, the Group has not consistently satisfied all of the criteria necessary to qualify for the reduction in the rate of withholding tax, but may do so in the future. However, because based on historical experience the Group is not presently expected to satisfy all necessary criteria in future years to qualify for the reduced withholding tax rate, a deferred tax liability at 35% in respect of the temporary differences has continued to be recognised in the Consolidated Statement of Financial Position at balance date.

12. Payables

	2016 $	2015 $
Current		
Trade payables	4,696,849	12,828,668
Distribution payable	17,312,928	14,305,374
Other payables	8,460,930	3,510,604
	30,470,707	**30,644,646**

The average credit period on trade payables is 30 days. No interest is charged on trade payables from the date of invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. Borrowings

	2016 $	2015 $
Current liabilities		
Secured bank loans - at amortised cost	6,694,658	24,653,907
	6,694,658	**24,653,907**
Non-current liabilities		
Secured bank loans - at amortised cost	303,257,364	215,051,301
Unsecured notes	236,858,965	235,774,089
	540,116,329	**450,825,390**

Secured bank loans

During the year, the Group secured an additional loan facility of US$9,500,000 (A$12,739,708) from Investors Bank. The amount drawn (amortised cost) at balance date is shown on the next page.

The Group also secured an additional revolving loan facility of US$75,000,000 (A$104,137,740) from Centennial Bank in February 2016. The facility limit was subsequently increased to US$125,000,000 (A$170,653,637) in August 2016.

The amount drawn (amortised cost) at balance date is shown on the next page.

Bank borrowings are carried at amortised cost. Details of maturity dates and security for bank facilities are set out on the next page.

Financial Institution	Interest Rate	Maturity Date	Security	Property Security Value - Fair Value	2016 Principal Amount - Amortised Cost	2015 Principal Amount - Amortised Cost
Investors Bank	3.99% (i)	June 2022	Investment property (vi)	17,354,734	3,713,132	3,738,174
Investors Bank	3.75% (ii)	November 2022	Investment property (vi)	16,245,581	3,566,006	3,589,463
Investors Bank	3.75% (iii)	July 2025	Investment property (vi)	27,498,056	6,788,118	6,863,293
Investors Bank	3.63% (iv)	November 2023	Investment property (vi), (vi)*	68,863,536	18,217,407	18,360,724
Investors Bank	3.63% (iv)	November 2023	Investment property (vi)	45,074,654	11,346,287	11,934,592
Investors Bank	3.63% (iv)	November 2023	Investment property (vi)	26,544,102	7,786,686	7,861,359
Investors Bank	3.63% (v)	November 2024	Investment property (vi)	78,714,157	21,710,361	22,256,362
Investors Bank	3.63% (vii)	April 2025	Investment property (vi)	78,771,299	18,510,142	18,573,792
Investors Bank	3.75% (x)	June 2026	Investment property (vi)	56,680,143	12,650,461	-
Centennial Bank	(xi) (viii)	February 2021	(xi)	333,826,256	117,639,433	18,352,937
FCCD Limited	LIBOR 3 Month + 5.50% (viii)	(ix)	(ix)	267,389,152	88,023,989	128,174,512
					309,952,022	**239,705,208**

Disclosed as:	**2016 $**	**2015 $**
Current	6,694,658	24,653,907
Non-Current	303,257,364	215,051,301
	309,952,022	**239,705,208**

(i) Resets to a new fixed interest rate in June 2017 for the remaining term.

(ii) Resets to a new fixed interest rate in November 2017 for the remaining term.

(iii) Resets to a new fixed interest rate in July 2020 for the remaining term.

(iv) Resets to a new fixed interest rate in November 2018 for the remaining term.

(v) Resets to a new fixed interest rate in November 2019 for the remaining term.

(vi) Loans are secured by first mortgage security over specified secured property assets, assignment of borrower's right; title and interest in present and future property leases, and indemnity executed by US Masters Residential Property (USA) Fund in connection with specified non-recourse exclusions. Loans are subject to Default Event clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable.

(vi)*In addition to the security referred to in (vi), US Masters Residential Property (USA) Fund has guaranteed the loan and US$1,999,990 (A$2,774,681) has been placed in escrow with Investors Bank.

(vii) Resets to a new fixed interest rate in April 2020 for the remaining term.

(viii) As of 31 December 2016, LIBOR 1 Month was 0.70389% and LIBOR 3 Month was 0.60561%.

(ix) The facility with FCCD Limited is comprised of a Term Loan and a Revolver Note. The Term Loan of US$65,000,000 has a maturity date of July 10, 2020. The Revolver Note of US$85,000,000 has a maturity date of July 10, 2018. Amounts available to be drawn under the facility are based on providing collateral property security meeting specified conditions and meeting other facility terms and conditions. Both the cost and subsequent renovation costs pertaining to such properties are eligible for funding based on a 60% loan to value ratio. Once funded properties are stabilised (ie post renovation), funding is required to be repaid within a specified period and collateral properties are released. It is the Fund's intention that as properties are released from the facility collateral pool that these are refinanced in a long term facility such as those provided by Investors Bank and the new Centennial Bank facility entered into during the year (refer (xi)). The facility is subject to specified covenant and other reporting obligations. The facility is subject to Default Event clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable. The facility is secured by way of charge over the following subsidiaries of the Fund which own the funded pool of properties:

- Newcastle URF LLC
- Canterbury URF LLC
- Penrith URF LLC
- Manly Warringah URF LLC

The total value of the security at balance date is A$268,032,605, including property assets valued at A$267,389,152. US Masters Residential Property (USA) Fund and US Masters Residential Property Fund have each guaranteed the loan in limited circumstances.

(x) Resets to a new fixed interest rate in June 2021 for the remaining term.

(xi) The facility with Centennial Bank dated 23 February 2016 has a maturity date of 22 February 2021. Subject to satisfying certain criteria, the Group has an option to extend the maturity date for an additional year. The facility was amended in August 2016 to increase the limit from US$75,000,000 to US$125,000,000, as well as to allow for the inclusion of non-stabilised properties in the security pool. Amounts available to be drawn under the facility are based on pledged properties that meet specified conditions and meeting other facility terms and conditions. Funding against pledged properties is provided in accordance with the following:

- **Stabilised Property Advances:** The lower of 50% of fair market value (as determined by Centennial Bank), and 65% of total cost (as determined by Centennial Bank) for stabilised (ie tenanted) properties.

- **Non-Stabilised Property Advances:** The lower of 50% of fair market value (as determined by Centennial Bank), and 60% of total cost (as determined by Centennial Bank) for non-stabilised properties. The total amount advanced in respect of non-stabilised properties is limited to US$50,000,000.
- **Renovation Advances:** 45% of the renovation cost, subject to limitations imposed by Centennial Bank in certain circumstances.

The facility is subject to specific covenant and other reporting obligations. The facility is also subject to Event of Default clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable.

The facility is secured by the following:

a. A charge over the following subsidiaries of the Fund in which collateralised property assets are held:

- USM URF AT Holdings LLC
- USM Asset Trust

b. A guarantee given by US Masters Residential Property (USA) Fund.

c. A guarantee given by US Masters Residential Property Fund in limited circumstances.

d. US$3,899,069 (A$5,409,364) placed in interest, taxes and insurance and collection reserves. The interest reserve is non-interest bearing and is required to cover 6 monthly instalments of interest at the interest rate for the advances outstanding.

e. An interest rate cap agreement entered into by the Group with SMBC Capital Markets. The carrying value of the interest rate cap is included in other non-current assets. Refer note 7.

The total value of the security at balance date in respect of the Centennial Bank loan is A$340,068,548, including property assets valued at A$333,826,256.

Quarterly principal repayments are required based on a 30 year amortisation period. The facility bears interest at 1 month LIBOR plus 4.95% for stabilised properties and 1 month LIBOR plus 5.60% for non-stabilised properties. LIBOR is subject to a floor of 0.25%.

Unsecured Notes

Details of unsecured notes outstanding at balance date are set out below:

Notes Issue	Interest Rate	Maturity Date	Early Redemption Date at Discretion of Issuer	Security	2016 Amortised Cost	2015 Amortised Cost
URF Notes	7.75%	24 December 2019	24 December 2017	Unsecured	148,033,120	147,372,572
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	88,825,845	88,401,517
					236,858,965	**235,774,089**

A summary of drawn and available facilities at balance date is shown below:

Facility	Principal Drawn	Principal Available	Total
Investors Bank	107,516,350	-	107,516,350
Centennial Bank	124,250,792	49,167,632	173,418,424
FCCD Limited	94,368,296	113,733,812	208,102,108
URF Notes	150,000,000	-	150,000,000
URF Notes II	90,539,500	-	90,539,500
	566,674,938	**162,901,444**	**729,576,382**

*Available facilities are subject to provision of eligible property security meeting conditions set by lenders and meeting other conditions as noted in (ix) and (xi) above.

14. Other non-current liabilities

	2016 $	2015 $
Redeemable preference units	173,418	171,562
Accrued interest	10,839	10,722
	184,257	**182,284**

Series A Preferred Units	**2016 No of units**	**2016 $**	**2015 No of units**	**2015 $**
Issued	125	184,257	125	182,284

The holders of the Series A Preferred units are entitled to receive cumulative preferential cash dividends. Such dividends shall accrue on a daily basis and be cumulative from the first date on which any Series A Preferred unit are issued. Series A Preferred units rank ahead of the ordinary units, do not carry the right to vote, except in relation to Series A Preferred unit matters, and are redeemable at the sole discretion of the Fund. Dividends accruing under the terms of the Series A Preferred units are disclosed as interest expense in the Statement of Profit & Loss and Other Comprehensive Income.

15. Capital and reserves

	2016 $	2015 $
345,678,757 fully paid ordinary units (2015: 285,491,473)	472,669,283	388,720,491
(a) Issued Units		
Balance at beginning of the year	388,720,491	381,980,548
3,781,955 units issued at $2.05	-	7,753,008
3,499,324 units issued at $2.10	-	7,348,580
9,731,000 units issued at $2.00	-	19,462,000
June 2015 distribution	-	(13,613,057)
December 2015 distribution	-	(14,210,588)
3,769,080 units issued at $2.01	7,575,851	-
3,643,300 units issued at $2.02	7,359,466	-
51,489,904 units issued at $1.95	100,406,872	-
1,285,000 units issued at $1.95	2,505,750	-
June 2016 distribution	(14,463,027)	-
December 2016 distribution	(17,283,938)	-
Issue Costs	(2,152,182)	-
Balance at end of the year	**472,669,283**	**388,720,491**

(b) Movements in ordinary units **Date**	**Details**	**2016** **No.**	**2015** **No.**
1 January	Balance at beginning of the year	285,491,473	268,479,194
6 February 2015	Distribution reinvestment	-	3,781,955
10 August 2015	Distribution reinvestment	-	3,499,324
13 August 2015	Ordinary units issue	-	9,731,000
29 January 2016	Distribution reinvestment	3,769,080	-
1 August 2016	Distribution reinvestment	3,643,300	-
13 September 2016	Ordinary units issue	51,489,904	-
20 September 2016	Ordinary units issue	1,285,000	
31 December		**345,678,757**	**285,491,473**

Ordinary units

All issued units are fully paid. The holders of ordinary units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at meetings of the Fund.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Share of jointly controlled entity's cash flow hedging reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the effective interest rate swap held by Golden Peak II, LLC an entity over which the Group has joint control (refer note 8). The Group accounts for its share of fair value movements through reserves.

16. Earnings per unit

(a) Weighted average number of ordinary units	**2016 No.**	**2015 No.**
Weighted average number of ordinary units outstanding during the year used to calculate basic earnings per unit	306,167,514	276,981,179

(b) Profit/(loss) attributable to ordinary unitholders	**2016 $**	**2015 $**
(Loss)/profit attributable to ordinary unitholders	(45,127,626)	63,986
Basic (loss)/earnings per unit (dollars)	(0.15)	0.00
(Loss)/Earnings used in the calculation of basic (loss)/earnings per unit	(45,127,626)	63,986

Diluted earnings per unit is the same as basic earnings per unit as there are no dilutive units on issue.

17. Operating segments

The Group operates solely in the business of investing in residential real estate assets associated with the New York metropolitan area in the United States of America. Revenue, profit, net assets and other financial information reported to and monitored by the Chief Operating Decision Maker (**CODM**) for the single identified operating segment are the amounts reflected in the Statement of Profit & Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

The Responsible Entity, which is the CODM for the purposes of assessing performance and determining the allocation of resources, operates and is domiciled in Australia.

18. Financial risk management and financial instruments

Overview

The Group's principal financial instruments comprise cash and cash equivalents, receivables, payables, loan notes, bank loans and derivatives. The Group has exposure to the following risks from its use of financial instruments:

- **Credit risk**
- **Liquidity risk**
- **Market (currency risk and interest rate risk)**
- **Capital management**

Financial risk and risk management framework

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Group's risk management framework.

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Group to make a financial loss. The Group has exposure to credit risk on all its financial assets included in the Group's Statement of Financial Position.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Summary exposure	***Note***	**2016 $**	**2015 $**
Cash and cash equivalents	*4*	123,212,092	133,557,456
Trade and other receivables	*5*	266,582	128,241
GST receivable	*5*	80,562	215,702
Interest receivable	*5*	30,027	245,835
Other financial assets	*6*	-	19,091,341
Property tax escrow deposits	*7*	927,200	842,430
Interest reserve and security deposit escrows	*7*	9,783,606	3,904,919
Property related deposits	*7*	3,718,091	3,332,967
Security deposits	*10*	346,837	343,124
		138,364,997	**161,662,015**

Cash and cash equivalents

Cash and cash equivalents are only deposited with reputable financial institutions. The majority of funds at year end were deposited with Australia and New Zealand Bank in Australia, and Centennial Bank and Investors Bank in the USA.

Trade and other receivables

The Group manages its credit risk by performing credit reviews of prospective tenants and performing detailed reviews on tenant arrears.

Management of the Group regularly review the trade debtors ledger for recoverability of outstanding balances. A provision of $6,282 (2015: $21,987) has been recognised in respect of outstanding amounts at balance date that, based on historical experience, are unlikely to be collected at their recorded amounts.

Amounts owing from tenants that have since departed the property are written off as a bad debt in profit and loss.

Before accepting any new tenants, the Group assesses the prospective tenants ability to pay rent as and when due with reference to the applicants financial position, current earning capacity and previous landlord references.

The aging of trade receivables at the reporting date was:

	2016 $	2015 $
Current	241,041	111,081
Past due 31-60 days	25,541	13,672
Past due 61-90 days	699	336
More than 90 days	5,583	21,651
	272,864	**146,740**

Movement in allowance for doubtful debts

	2016 $	2015 $
Balance at beginning of the year	21,987	13,672
Increase in doubtful debt allowance	153,218	107,416
Amounts written off during the year as uncollectible	(168,661)	(100,977)
Exchange rate differences on translation	(262)	1,876
Balance at end of the year	**6,282**	**21,987**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following is the contractual maturity of non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

31 December 2016	Carrying amount $	Contractual cash flows $	12 mths or less $	1-5 years $	5 years and more $
Payables	30,470,707	30,470,707	30,470,707	-	-
Interest on series A preference units*	184,257	184,257	21,677	108,387	54,193
Secured bank loans**	309,952,022	443,588,601	30,782,441	272,548,616	140,257,544
Unsecured notes	236,858,965	303,124,231	18,641,811	284,482,420	-
	577,465,951	**777,367,796**	**79,916,636**	**557,139,423**	**140,311,737**

31 December 2015	Carrying amount $	Contractual cash flows $	12 mths or less $	1-5 years $	5 years and more $
Payables	30,644,646	30,644,646	30,644,646	-	-
Interest on series A preference units*	182,284	182,284	21,445	107,226	53,613
Secured bank loans**	239,705,208	343,818,636	42,114,064	175,114,412	126,590,160
Unsecured notes	235,774,089	321,766,042	18,641,811	303,124,231	-
	506,306,227	**696,411,608**	**91,421,966**	**478,345,869**	**126,643,773**

* Redeemable preference shares are redeemable at the sole discretion of the Fund, and as such have not been included as a contractual liability in the table above. Only cumulative interest payments accruing under the terms of the instruments have been included.

** Interest rates on secured bank loans are reset to market as shown in note 13. It is assumed that reset rates are equivalent to current rates.

Market risk (currency risk and interest rate risk)

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies that are different to the functional currency of the respective entities undertaking the transactions, hence exposures to exchange rate fluctuations arise which are recorded through profit or loss. The Group may use foreign currency exchange contracts to hedge these risks.

The carrying amount of the Group's foreign currency denominated assets and liabilities at the reporting date that are denominated in a currency different to the functional currency of the respective entities holding the monetary assets and liabilities are as follows:

External group exposure *	USD exposure converted to AUD	
	2016 $	2015 $
Assets		
Cash	10,818	10,651
Total assets	**10,818**	**10,651**
Liabilities		
Payables	(402,902)	(728,165)
Total liabilities	**(402,902)**	**(728,165)**
Net external exposure	**(392,084)**	**(717,514)**

* External group exposure predominantly relates to external party USD denominated balances recorded in the Australian Parent entity where foreign exchange gains and losses are recognised in profit or loss.

Internal group exposure **	USD exposure converted to AUD	
	2016 $	2015 $
USD denominated convertible note issued by the US REIT to the Australian parent entity	127,870,008	121,141,154
USD denominated interest receivable on convertible note	4,833,102	1,993,076
Net internal exposure	**132,703,110**	**123,134,230**
Net profit or loss exposure	**132,311,026**	**122,416,716**

** Internal group exposure predominantly relates to inter-group balances where foreign exchange gains and losses are recognised in profit or loss.

Sensitivity analysis

A 10% movement of the AUD against the USD at 31 December would have increased or decreased profit or loss by the amounts shown below. This analysis is based on foreign exchange rate variances that the Group considered to be reasonable at the end of the reporting period, and includes the effects of currency exposure to profit or loss arising from both internal and external transactions and assumes all other variables, in particular interest rates, remain unchanged.

	2016 $	2015 $
Impact on profit or loss / equity		
+10% - Strengthening	(12,037,093)	(11,139,614)
-10% - Weakening	14,710,334	13,613,025

In Management's opinion the above sensitivity analysis is not representative of the inherent foreign exchange risk as the year end exposure does not necessarily reflect the exposure during the course of the year.

In addition, the Group's operating subsidiary is based in the USA and has a USD functional currency which is different to the Group's presentation currency of AUD. As stated in the Group's accounting policies in Note 3, on consolidation the assets and liabilities or the USD entity is translated into Australian dollars at exchange rates prevailing on the balance date. The income and expenses of this entity are translated at the average exchange rates for the year with the exception of fair value movements recognised in respect of the Group's investment properties. Exchange differences arising are classified as equity and are transferred to a foreign currency exchange reserve.

The significant USD denominated assets and liabilities in respect of what the above exposure relates are shown below:

	USD exposure converted to AUD	
	2016 **$**	**2015** **$**
Assets		
Cash	99,683,802	101,882,155
Receivables and other assets	19,031,769	10,389,452
Investments in jointly controlled entities	28,347,843	81,194,726
Other financial assets	8,382,656	-
Investment properties	1,067,170,606	862,538,836
Total assets	**1,222,616,676**	**1,056,005,169**
Liabilities		
Payables	7,857,634	15,005,524
Borrowings	489,987,677	414,982,743
Other payables	184,257	182,284
Total liabilities	**498,029,568**	**430,170,551**
Net exposure	**724,587,108**	**625,834,618**

Fair value of the Group's financial assets and liabilities that are not measured at fair value on an ongoing basis

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis materially approximates their carrying amount at the reporting date.

Interest rate risk

Management of interest rate risk

The Group has both fixed interest rate and variable interest rate bank loans. Loans payable to Investors Bank are fixed rate loans, and have fixed rates of 3.63%, 3.75% and 3.99%. These fixed rates are reset at forward dates as shown in note 13. In addition, interest payable on the redeemable preference shares and the unsecured notes are fixed for the term of the loans at 12.5% and 7.75% respectively, and thus do not constitute an interest rate risk. The loans payable to Centennial Bank and FCCD Limited are variable rate loans, with Centennial interest rates of LIBOR 1 Month plus 4.95% for stabilised properties, LIBOR 1 Month plus 5.60% for non-stabilised properties, and Fortress interest rate of LIBOR 3 Month plus 5.50%. The Group's bank deposits are exposed to both variable rates of interest and fixed rates of interest.

	2016 $	**2015 $**
Variable rate instruments		
Cash and cash equivalents*	123,138,163	133,557,456
Variable rate bank loans (Centennial Bank and FCCD Limited)	(205,663,422)	(146,527,449)
	(82,525,259)	**(12,969,993)**

* Excludes restricted cash, which is non-interest bearing.

Cash flow sensitivity analysis for variable rate instruments

A change of 25 basis points in interest rates (on both cash on hand and borrowings) at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2016 $	**2015 $**
Impact on profit before tax / equity		
+0.25% (25 basis points)	(206,313)	(32,425)
-0.25% (25 basis points)	206,313	32,425

Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to unitholders. The Group is not subject to any externally imposed capital requirements.

The capital structure of the Group consists of net debt (redeemable preference units in note 14 and borrowings as detailed in note 13) and equity of the Group (comprising issued unit capital). The gearing ratio at the end of the reporting period was as follows:

	2016 $	2015 $
Debt	546,995,244	475,661,581
Equity	583,843,909	535,141,652
Debt to equity ratio *	**93.69%**	**88.89%**

* Debt to equity ratio has been calculated based on total equity as reflected in the Consolidated Statement of Financial Position.

19. Capital commitments

The Group has capital commitments in respect of investment property acquisitions totalling $28,711,154 as shown in Note 9(iii).

The Group also has a capital commitment of $44,273,839 in respect of properties that are under construction/ refurbishment.

There are no further contributions contractually required to be made by the Group to any other jointly controlled entity.

20. Contingent liabilities

The directors of the Responsible Entity are not aware of any potential material liabilities or claims against the Group as at balance date.

21. Related parties

Key management personnel compensation and unitholdings

Mr. Alexander MacLachlan, Mr. Tristan O'Connell and Mr. Tom Kline are directors of the Responsible Entity, Walsh & Company Investments Limited (**Walsh & Co.**), and are deemed to be key management personnel.

The key management personnel do not receive compensation from the Fund or from the Responsible Entity directly for their management function performed for the Fund.

As at the reporting date, details of directors who hold units for their own benefit or who have an interest in holdings through a third party and the total number of such units held are listed as follows:

Director	No. of units	No. of notes
Tom Kline	126,141	1,360
Alex MacLachlan	95,402	800
Tristan O'Connell	56,407	150

Management fees payable to the Responsible Entity

Responsible Entity fee (payable by the Fund)

The Responsible Entity's duties include establishing the Group's compliance plan and procedures and monitoring against regulatory and legislative requirements, the issuance of disclosure documents, the appointment and monitoring of external service providers to the Group and overall administration of the Group.

For these services, the Responsible Entity charged a Responsible Entity fee of 0.08% (exclusive of GST) of the gross assets of the Fund and an administration fee of 0.25% (exclusive of GST) of the gross assets of the Fund.

Total Responsible Entity and administration fee incurred during the year was $3,859,565 (2015: $3,238,357) and is included in management fees expense in the profit or loss.

The amount owed to the Responsible Entity in respect of the responsible entity fee at 31 December 2016 is $351,335 (2015: $665,197).

Management fees payable to the Investment Manager

Investment management fee (payable by US Masters Residential Property (USA) Fund (the "US REIT"))

The Investment Manager provides investment management services to the Group, including overseeing the assessment of market conditions and investment opportunities, the selection and recommendation of properties for investment, monitoring the Group's property portfolio, and determining and recommending the sale of properties in the Group's portfolio.

For these services, the Investment Manager charged no fee on the first $100 million of gross assets of the Fund and 1.24% (exclusive of GST) of the gross asset value of the Group thereafter during the year.

Total investment management fee incurred during the year was $12,658,953 (2015: $10,229,015) and is included in management fees expense in the profit or loss.

The amount owed to the Investment Manager in respect of the investment management fee at 31 December 2016 is $1,212,561 (2015: $2,993,205).

Leasing fee (payable by the US REIT)

The Investment Manager oversees the provision of tenant leasing services to the Group, including coordinating marketing campaigns, stagings, showings, administering inquiries, conducting background checks including criminal, eviction, and financial history, evaluating tenant applications, and negotiating and executing leases.

For this service, the Investment Manager charged a leasing fee of 1 month's rent on new leases entered into by the US REIT. The fee is capitalised and expensed over the lease period.

During the year, the Investment Manager successfully oversaw the screening of over 8,100 lease inquiries and successful letting of 237 units representing gross annual rent income to the Fund of $13.1 million.

Total leasing fee incurred during the year was $1,206,569 (2015: $1,227,379).

The amount owed to the Investment Manager in respect of the leasing fee at 31 December 2016 is $97,361 (2015: $266,295).

Total leasing fee expensed during the year, including fees capitalised in prior years, is $1,152,997 (2015: $912,022) included in management fees expense in the profit or loss.

Leasing fee deferred in other assets is $855,767 (2015: $791,893).

Asset disposal fee (payable by the US REIT)

The Investment Manager oversees the provision of disposal execution services by the Group.

For this service, the Investment Manager is entitled to receive an asset disposal fee of 2.49% of the sale price of assets disposed of by the US REIT. In its discretion, management charged a disposal fee on 7 property disposals out of 16 total property disposals during the year (including properties disposed at the jointly controlled entity level).

During the year, the Investment Manager oversaw the successful disposition of 16 properties for total sale proceeds of $122.5 million, which represented a 26% premium to total asset cost, including purchase price, closing costs, renovation expenditure and capitalised interest (where relevant).

Total asset disposal fee incurred in the year was $2,037,526 (2015: $41,194) included in management fees expense in the profit or loss.

The amount owed to the Investment Manager in respect of the asset disposal fee at 31 December 2016 is nil (2015: nil).

Of the total number of property disposals during the year, Dixon Realty Advisory LLC ('Dixon Realty', a wholly owned subsidiary of Dixon Advisory USA Inc) acted as real estate broker on 1 transaction. On disposal transactions where Dixon Realty acts as broker on behalf of the Group, the Group pays a total brokerage commission based on 4% of the sales price, which is split between participating brokers (where relevant). All brokerage commission paid to Dixon Realty by the Group was subsequently passed on to the relevant sales agents who are unrelated to both the Responsible Entity and the Investment Manager. No profit was made by Dixon Realty on the sale of Group properties.

During the year, the Group paid brokerage commission of $11,186 (2015: nil) to Dixon Realty.

Asset acquisition fee (payable by the US REIT)

The Investment Manager oversees the provision of property acquisition services to the Group, including property negotiations, conducting due diligence, coordinating title searches, insurance, and third-party reports and inspections, organising all documentation and the closing process.

For this service, the Investment Manager is entitled to receive an asset acquisition fee of 1.99% of the purchase price of assets acquired by the US REIT.

During the year, the Investment Manager oversaw the inspection of over 592 potential property acquisitions, the bidding on 218 properties, and the acquisition of 39 properties for a total acquisition cost of $89.0 million.

Total asset acquisition fee incurred during the year was $2,019,411 (2015: $1,764,680) and is included in the acquisition cost of investment properties, or where relevant, in the carrying value of the Group's investments in jointly controlled entities and financial assets.

The amount owed to the Investment Manager in respect of the asset acquisition fee at 31 December 2016 is $635,304 (2015: $364,392).

Debt arranging fee (payable by the US REIT)

The Investment Manager oversees the provision of debt arranging services to the Group, including contacting and liaising with capital providers, negotiating borrowing terms, and executing documentation. The Investment Manager has been successful in securing debt at competitive terms for the Group, providing significant diversification to the Group's capital sources.

For this service, the Investment Manager is entitled to receive a debt arranging fee of 2.00% of the gross amount of external borrowings obtained by the US REIT.

During the year, the Investment Manager oversaw the successful negotiation of new debt facilities totalling $198.8 million across three tranches and three lenders, including the debt facility for the 515 West 168th Street investment.

Total debt arranging fee incurred during the year was $3,811,968 (2015: $4,826,605). Debt arranging fees form part of the amortised cost of the underlying loan balance, or are added to the carrying value of the Group's investments in jointly controlled entities and financial assets where applicable. The capitalised fee forms part of the effective interest rate of the associated borrowing and is amortised over the loan expiry period. To the extent the associated borrowing relates to qualifying assets, the amortisation charge is capitalised to the qualifying asset.

The amount owed to the Investment Manager in respect of the debt arranging fee at 31 December 2016 is $203,260 (2015: nil).

Total debt arranging fee amortised during the year, including fees capitalised in prior years, is $2,654,883 (2015: $1,485,661)

Other fees and Recoveries

Stamping fee (payable by the Fund)

No stamping fees were paid to Dixon Advisory & Superannuation Services Limited (**DASS**) during the year (2015: $1,889,959).

Total stamping fees amortised during the year is $996,261 (2015: $687,370). Total stamping fee included in trade and other payables at 31 December 2016 is nil (2015: nil).

Responsible Entity and Dixon Advisory (USA) Inc expense recharge (payable by the Fund and the US REIT)

The Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) are entitled, pursuant to the management agreements, to recover certain direct expenses incurred in the management of the Group's activities. For the year ended 31 December 2016, expenditure incurred of $808,965 (2015: $317,022) and $17,597,956 (2015: $11,959,295) were recovered by the Responsible Entity and Dixon Advisory USA Inc, respectively. In an effort to minimise structural complexity and operating costs for the US REIT, the Group does not employ staff or management personnel and accordingly, has engaged the Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) to provide administrative and management services to the Fund and the US REIT. The expenses recovered from the Group (inclusive of amounts capitalised to investment properties) are primarily in respect of the Group's payroll related expenses, office lease and depreciation recoveries.

The total recharge by Dixon Advisory USA of $17,597,956 includes an upfront amount totalling $2,783,342 (US$2,117,846) representing the Fund's proportion of the cost of new office fit out and office equipment incurred by Dixon USA Inc during the year. This amount is included in Prepayments in the Consolidated Statement of Financial Position and is amortised to profit or loss based on the useful lives of these assets.

The amount recovered by Dixon Advisory USA Inc includes an administrative fee of 7.91% being $1,085,718 (2015: 8.86% being $973,356) permitted under the Administrative Services Agreement on actual costs incurred by Dixon Advisory USA Inc. This amount has been included in the Statement of Profit or Loss and Other Comprehensive Income as part of Responsible Entity and related entity recharges – office administration costs. No fee was charged by the Responsible Entity in this regard. Certain payroll and overhead expenses that are not recovered from the Group are borne by Dixon Advisory USA with the intention that such ongoing costs are met by the Management fees paid by the Group.

Structuring and handling fee (payable by the Fund)

The Responsible Entity is entitled to receive a structuring and arranging fee of 1.5% (exclusive of GST), and a handling fee of 1.5% of the total funds raised in connection with the provision of services as Issue Manager. Under the terms of the product disclosure statement, the Responsible Entity may distribute some or all of the structuring and arranging fee and the handling fee to AFSL Holders in relation to their participation in the equity raise, including Dixon Advisory & Superannuation Services Limited, a related party of the Responsible Entity.

During the year, $968,432 was paid to the Responsible Entity (2015: nil) and $905,125 was paid to Dixon Advisory & Superannuation Services Limited (2015: nil).

The total of structuring & arranging and handling fees are recognised as a reduction in issued unit capital. Nil amount owing at 31 December 2016 (2015: nil).

Fund administration fee (payable by the Fund)

Australian Fund Accounting Services Pty Limited (a subsidiary of Dixon Advisory Group Limited) provides administration and accounting services to the Fund. Time spent by staff is charged to the Fund at agreed rates under a Services Agreement. A total of $120,000 (exclusive of GST) (2015: $120,000) was charged by Australian Fund Accounting Services in relation to fund administration services, pursuant to a Service Agreement. Time spent by administrative staff is charged to the Fund at agreed rates under the agreement, capped at $120,000 per annum.

Architecture, Design and Construction Services (payable by the US REIT)

Dixon Projects, LLC (a subsidiary of Dixon Advisory Group Pty Limited, who is the parent entity of the Responsible Entity) provides architecture, design, and construction services to the Fund, including procurement and inventory management, permitting and approval process management and construction project management. Dixon Projects provides on-site project administration and management, overseeing and coordinating all aspects of the construction process, working closely with contractors to control quality and costs for the Group.

These services are provided under the Property Services and the Design and Architectural Services Master Agreements. Under these agreements, Dixon Projects is entitled to on charge the cost of renovations plus a development fee of 5% and architectural and quantity surveyor services at agreed hourly rates. Costs of renovations include direct labour and materials and an on-cost charge of 16.25% on direct labour and materials, represented by General Conditions fees of 15% and insurance fees of 1.25%.

During the year, Dixon Projects completed US$49.1 million, or A$66.0 million (2015: US$62.2 million, or A$82.0 million), of renovation work for the Fund across 38 large-scale renovations and 79 small-scale renovations. The renovation costs comprised of A$47.2 million of labour and materials (2015: A$60.7 million), A$7.7 million of General Conditions and insurance charges (2015: A$10.0 million), a development fee of A$2.7 million (2015: A$3.5 million), and architectural, quantity surveyor and interior design services of A$8.4 million (2015: A$7.8 million). These costs are capitalised to the relevant investment properties.

All expenses relating to Dixon Projects, including salaries for all architecture, design, and construction professionals as well as all overheads, are borne by Dixon Projects.

22. Controlled entities

Walsh & Co. is the Responsible Entity of both the Fund and the US REIT. URF Investment Management Pty Limited is the Investment Manager of both the Fund and the US REIT.

		Ownership interest	
		2016	2015
Parent entity			
US Masters Residential Property Fund	Australia		
Subsidiary			
US Masters Residential Property (USA) Fund	United States	100%	100%
US Masters Residential Property LLC	United States	100%	100%
Melbourne, LLC	United States	100%	100%
Wallaroo 2, LLC	United States	100%	100%
EMU, LLC	United States	100%	100%
Geelong, LLC	United States	100%	100%
Hawthorn Properties, LLC	United States	100%	100%
North Sydney, LLC	United States	100%	100%
Parramatta, LLC	United States	100%	100%
South Sydney, LLC	United States	100%	100%
St Kilda, LLC	United States	100%	100%
Canberra Raiders, LLC	United States	100%	100%
Newtown Jets, LLC	United States	100%	100%
Morben Finance, LLC	United States	100%	100%
Steuben Morris Lending, LLC	United States	100%	100%
Morris Finance, LLC	United States	100%	100%
Essendon, LLC	United States	100%	100%
Carlton URF, LLC	United States	100%	100%
Collingwood URF, LLC	United States	100%	100%
Cronulla URF, LLC	United States	100%	100%
New South Wales URF, LLC	United States	100%	100%
Freemantle URF, LLC	United States	100%	100%

		Ownership interest	
		2016	**2015**
Richmond URF, LLC	United States	100%	100%
AFL URF LLC	United States	100%	100%
Decatur URF LLC	United States	100%	100%
MacDonough URF LLC	United States	100%	100%
NRL URF LLC	United States	100%	100%
Grand Hill URF LLC	United States	100%	100%
Rogers Marks URF LLC	United States	100%	100%
Balmain Tigers URF LLC	United States	100%	100%
Newcastle URF LLC	United States	100%	100%
Canterbury URF LLC	United States	100%	100%
Manly Waringah URF LLC	United States	100%	100%
Penrith URF LLC	United States	100%	100%
NJ Prop 1 URF LLC	United States	100%	100%
NY Prop 1 URF LLC	United States	100%	100%
NY Prop 2 URF LLC	United States	100%	100%
NY Prop 3 URF LLC	United States	100%	-
Brisbane URF LLC	United States	100%	-
USM URF AT Holdings LLC	United States	100%	-
USM Asset Trust	United States	100%	-
TRS URF LLC	United States	100%	-
W168 Investors LLC	United States	100%	-

23. Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2016 the parent entity of the Group was US Masters Residential Property Fund.

	2016 $	2015 $
Result of parent entity		
Loss for the year	(46,757,544)	(26,798,866)
Total comprehensive loss for the year	**(46,757,544)**	**(26,798,866)**
Financial position of parent entity at year end		
Current assets	28,510,864	53,261,357
Total assets	695,477,548	631,099,526
Current liabilities	22,560,086	15,576,069
Total liabilities	**344,405,054**	**317,218,281**
Total equity of the parent entity comprising of:		
Share capital	472,669,283	388,720,491
Accumulated losses	(121,596,789)	(74,839,246)
Total equity	**351,072,494**	**313,881,245**

24. Subsequent events

A distribution of 5 cents per ordinary unit totalling $17,283,938 was declared on 16 December 2016 and was paid to unitholders on 03 February 2017. 4,704,224 units were issued under the Group's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled 13 property purchase contracts with a total consideration of $12,169,113.

The Group also raised a total of $175,000,000 from the issue of URF Notes III which were allotted on 20 February 2017.

Other than the matters discussed above, there has not arisen in the interval between the balance date and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity of the Fund, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

25. Auditors' remuneration

	2016 $	2015 $
Auditors of the Group		
Deloitte Touche Tohmatsu		
Audit and review of Group financial statements	198,500	192,500
Audit and review of subsidiary financial statements	48,700	47,400
Other audit services - predominantly relating to US GAAP accounting	20,000	130,550
Taxation services	35,277	114,472
Other services	45,738	45,534
	348,215	**530,456**
Other Audit Firms		
Deloitte Tax LLP		
Taxation services	**292,361**	**185,259**

Directors' Declaration

For the year ended 31 December 2016

The directors of the Responsible Entity for US Masters Residential Property Fund (the Group) declare that:

1. The financial report as set out in pages 14 to 63, are in accordance with the *Corporations Act 2001*, including:
   a. Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance, for the financial year ended on that date;
   b. In compliance with International Financial Reporting Standards as stated in note 2 to the financial statements; and
   c. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001*.
3. As at the date of this declaration, in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

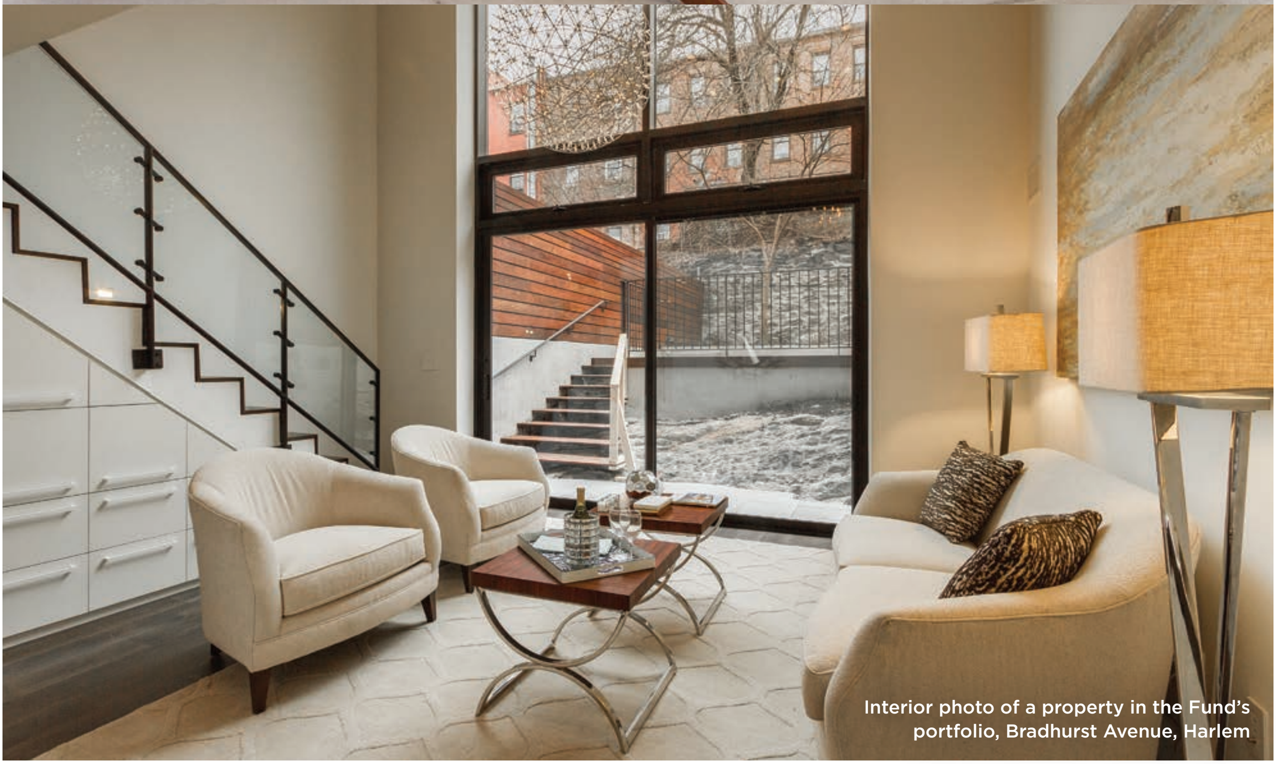
This declaration is made in accordance with a resolution of the Board of Directors made pursuant to Section 295(5) of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors of the Responsible Entity.

Alex MacLachlan
Director

Dated this 27th day of February 2017

Exterior photo of a property in the Fund's portfolio, Prospect Place, Crown Heights



Interior photo of a property in the Fund's portfolio, Bradhurst Avenue, Harlem

Photo of the boardwalk in Jersey City, directly adjacent to Manhattan

Independent Auditor's Report

Interior photo of a property in the Fund's portfolio, West 138th Street, Harlem

Independent Auditor's Report

Deloitte.

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Independent Auditor's Report to the Unitholders of US Masters Residential Property Fund

Opinion

We have audited the financial report of US Masters Residential Property Fund (the "Fund") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by the directors of the Responsible Entity of the Fund as set out on pages 14 to 64.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity of the Fund (the "directors"), would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Fair Value of Investment Properties As disclosed in Note 9, the Group has determined the fair value of the investment properties to be $1,067 million as at 31 December 2016. The valuation basis of the portfolio is disclosed in Note 9(i) to the financial report and is based on a valuation process performed during each reporting period which includes : a) segregation of the Group's property portfolio into groupings by location, which is considered to be the principal characteristic impacting property fair values; b) independent appraisals during each reporting period of a sample of properties within each location grouping, such that each property in the portfolio is independently appraised at least once every three years; and c) extrapolation to properties which were not subject to individual independent appraisal in the reporting period, based on the average changes in fair values evidenced by the results of the appraised properties in each location, excluding outliers. We focussed on this area as : a) the selection of a sample of properties each period, within each location grouping, involves management judgement; b) the independent appraisals are dependent on inputs that require significant judgement by the appraisers, including comparable property size, geographic location, property condition and selling prices; and c) the extrapolation to properties which were not subject to individual independent appraisals involves management estimation.	Our procedures included but were not limited to: • Obtaining an understanding of the key processes adopted by management to determine the fair value of investment properties at balance date, and, utilising our property specialist to assist in our assessment of the appropriateness of this process; • Evaluating management's selection of properties for independent appraisal to assess that appropriate coverage of location groupings is obtained, and that management's policy of independently appraising each property at least once every three years is complied with; • Assessing the professional expertise and objectivity of the external appraisers used by management in the assessment process; • Undertaking discussions with a selection of the external appraisers to obtain an understanding of their valuation methodology adopted and prevailing market conditions; • Evaluating on a sample basis the independent appraisal reports by assessing the inputs used by the external appraisers including location proximity, selling prices, size and condition of the comparable properties to the subject property appraised; • Assessing the inputs used by management in their extrapolation to properties which were not subject to individual independent appraisals during the reporting period; and • Assessing the appropriateness of the disclosures included in Notes 2(C)(i) and 9.
Taxation The Group has recognised a deferred tax liability of $85 million in respect of withholding tax obligations which may arise in connection with the realisation and distribution of taxation capital gains associated with its property assets. As disclosed in Note 2(C)(ii), the realisation of the deferred tax liability is dependent on circumstances which can only be determined at a future disposal dates which are uncertain at balance date.	Our procedures included but were not limited to: • Obtaining an understanding of management's assessment of the most likely disposal outcome of the Group's property assets and the likelihood of the Group meeting other relevant qualifying US taxation legislation conditions; • Utilising relevant taxation experts to assist in our assessment of management's application

Independent Auditor's Report

Deloitte.

The recorded deferred tax liability is based on management's judgement on the most likely outcome based on their assessment of the likely disposal outcomes and the likelihood of the Group meeting other relevant qualifying US taxation legislation conditions.	of the relevant US taxation legislation conditions used in management's assessment; • Assessing and challenging management's judgements as to the likelihood of the scenarios which would give rise to the most likely disposal outcome and the likelihood of the Group meeting other relevant qualifying US taxation legislation conditions; and • Assessing the appropriateness of the disclosures included in Notes 2(C)(ii) and 11.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the Financial Report

The directors of the Responsible Entity of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report

Deloitte.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

Exterior photo of a property in the Fund's portfolio, Paulmier Place

Interior photo of a property in the Fund's portfolio, Mercer Street, Jersey City

Stock Exchange Information

Statement of quoted securities as at 31 January 2017

- There are 4,910 unitholders holding a total 345,678,757 ordinary units
- The 20 largest unitholders between them hold 5.540% of the total units on issue

Distribution of quoted units as at 31 January 2017

Distribution of unitholders category (size of holding)	Number of unitholders
1-1,000	138
1,001-5,000	261
5,001-10,000	223
10,001-100,000	3,261
100,001 and over	1,027
Totals	**4,910**
Holding less than marketable parcel	56

Substantial unitholdings as at 31 January 2017

There are no substantial unitholders pursuant to the provisions of section 671B of the *Corporations Act 2001.*

Directors' unitholdings

As at 31 January 2017 directors of the Group held a relevant interest in the following securities on issue by the Group.

Director	Ordinary units	URF notes
Tom Kline	129,294	1,360
Alex MacLachlan	97,787	800
Tristan O'Connell	57,817	150

Restricted Securities

There are no restricted securities on issue by the Group.

Top 20 holders of ordinary units at 31 January 2017

Unitholder name	Number of units held	% of total
Mr Orange Pty Limited	3,510,848	1.016
Mr Orange Pty Limited	1,663,774	0.481
Yarraandoo Pty Ltd	1,534,707	0.444
GB & JA Cameron Holdings Pty Ltd	1,468,000	0.425
Mr Orange Pty Limited	1,061,215	0.307
Assess Pty Ltd	1,047,178	0.303
C & J Vonwiller 2 Pty Ltd	765,112	0.221
Iss Nominees Pty Limited	745,875	0.216
Mr Damien Joseph Kenneally & Mrs Candace Lynn Kenneally	738,692	0.214
J & V King Pty Ltd	731,542	0.212
Darmal Pty Limited	640,016	0.185
HSBC Custody Nominees	634,560	0.184
JLWA Holdings Pty Ltd	621,119	0.180
Aldwood Investments Pty Ltd	616,849	0.178
Duntex Manufacturing Co Pty Limited	611,984	0.177
Mr Alan Cochrane Dixon & Mrs Katharine Dixon	587,994	0.170
Mr Andrew Alexander Lindberg & Mrs Leigh Christine Lindberg	579,175	0.168
CG & KJ Forbes Pty Ltd	543,721	0.157
Mr Ernest Yuet Ning Shaw & Mrs Elizabeth Pui Chi Shaw	525,347	0.152
Theropod Pty Ltd	524,119	0.152
Total held by top 20 holders of ordinary units	**19,151,827**	**5.540**

Additional Disclosures

Transactions

There were no transactions in securities during the reporting year.

US REIT Management Agreement

Dixon Advisory has entered into a management agreement with the US REIT to manage and supervise all investments for the term of the Management Agreement. Under the terms of the US REIT Management Agreement, Dixon Advisory, as investment manager for the US REIT (Investment Manager) will, among other things:

a) provide compliance, accounting and other administrative services reasonably required by the US REIT from time to time;

b) assess residential property market conditions and opportunities in the US and review information, research and analysis and perform property due diligence;

c) select and recommend residential properties in which to invest;

d) monitor the US REIT's portfolio of residential properties;

e) determine and recommend the sale or disposition of properties in the US REIT's portfolio and coordinate any such sale or disposition; and

f) manage the US REIT's surplus capital and related accounts.

In return for the performance of its duties as Investment Manager of US REIT, the Investment Manager is entitled to be paid, and US REIT must pay to the Investment Manager, a management fee as disclosed in Note 21. The Investment Manager is also entitled to fees for the acquisition, disposal and leasing of property assets and the arranging of debt financing as disclosed in Note 21.

The US REIT will indemnify the Investment Manager against any losses or liabilities reasonably incurred by the Investment Manager as a result of providing the management services to the US REIT, except for any loss or liability caused by the negligence, default, fraud or dishonesty of the Investment Manager or its officers or employees.

The Investment Manager is entitled to be reimbursed out of the US REIT's assets, for all out-of-pocket expenses properly incurred in operating and administering the US REIT.

The US REIT Investment Management Agreement has a term 10 years. Either party may terminate the US REIT Management Agreement upon 90 days prior written notice.

The Investment Manager may terminate the US REIT Management Agreement immediately if the US REIT becomes insolvent or unable to pay its debts as they become due. Either party may terminate the US REIT Management Agreement upon a material default or breach by the other party of its obligations thereunder if not remedied upon a 30 day cure period after receiving notice of the default or breach.

Property Administrative Services Agreement

Dixon Advisory USA is a wholly owned subsidiary of Dixon Advisory Group Limited. Under the terms of the administrative services agreement, Dixon Advisory USA provides services to the Responsible Entity including employing all office personnel (excluding investment management personnel who will be remunerated out of fees already paid to the Responsible Entity), providing office space, office facilities and paying for all other expenses incidental to the Responsible Entity's operations.

This administrative services agreement provides that Dixon Advisory USA will be reimbursed for all expenses incurred during the performance of these administrative services.

In return for the performance of its duties under this administrative services agreement, Dixon Advisory USA is entitled to be paid, and the Responsible Entity must pay to Dixon Advisory USA, an administrative fee that will not exceed 20% of the cost of each service.

Administrative Services Agreement

Dixon Advisory USA is a wholly owned subsidiary of Dixon Advisory Group Limited. Under the terms of the administrative services agreement between the US REIT and Dixon Advisory USA, Dixon Advisory USA provides all services reasonably required by the US REIT in connection with the lease of office space and the management of the US REIT's property Dixon Advisory USA will be reimbursed for all costs and expenses incurred, including costs and expenses incurred in respect of:

a) acquiring and maintaining office space and related office facilities;

b) employing office personnel;

c) book keeping;

d) acquiring and maintaining appropriate levels of insurance; and

e) other corporate expenses incidental to the performance of such services.

Dixon Advisory USA also coordinates the procurement of third party contractor services in connection with the service of properties held directly or indirectly by the US REIT, and provides such other services as requested by the US REIT from time to time. In addition, Dixon Advisory USA advises and assists the trustees and officers of US REIT in taking such steps as are necessary or appropriate to carry out the decision of US REIT's board of trustees with respect to these matters and the conduct of US REIT's business.

In return for the performance of its duties under this administrative services agreement, Dixon Advisory USA is entitled to be paid, and US REIT must pay to Dixon Advisory USA, a service fee based on cost plus an administrative fee that will not exceed 20% of the cost of each service.

The administrative services agreement has an initial term of 20 years, unless earlier terminated. The initial 20 year term will be reduced to 10 years if the Fund is admitted to the Official List. The initial term will be automatically extended after the initial 10-year period for further one-year terms if not terminated earlier. Either party may terminate the administrative services agreement upon 90 days' prior written notice. Dixon Advisory USA may terminate the administrative services agreement immediately if US REIT becomes insolvent or unable to pay its debts as they become due. Either party may terminate the administrative services agreement upon a material default or breach of the agreement by the other party if the breach is not remedied upon a 30-day cure period of receiving notice of the default or breach.

Other

Since admission to the ASX on 23 July 2012 to the date of the financial report, the Group has used the cash assets at the time of admission in a way consistent with its business objectives.

Corporate Directory

The Group's units are quoted on the official list of the Australian Securities Exchange Limited (ASX).

ASX Code is URF.

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Interior photo of a property in the Fund's portfolio, West Hamilton Place, Jersey City

Interior photo of a property in the Fund's portfolio, MacDonough Street, Bed-Stuy