US Masters Residential Property Fund

28 August 2017

ASX Code: URF

US Masters Residential Property Fund (Fund)

US Masters Residential Property Fund 2017 Half Year Results and Fund Update

Strategy Update Leads to Management Fee Waiver

The US Masters Residential Property Fund and controlled entities (the Group) has grown assets in its portfolio to over $1 billion as at 30 June 2017 from $69 million at the time of the IPO in 2011. The initial phase of the strategy sought to capitalize on the weak state of the US housing market and the record value of the Australian dollar and entailed accumulating a high quality portfolio of residential property assets in the New York metropolitan area. At the same time as the portfolio was being acquired, the Group managed the assets to achieve rental yields and property price appreciation through renovation and improvement of the individual properties. The strategy delivered strong compound annual returns for unitholders of 9.5% in the five years to 30 June 2017.

While the Group will continue to acquire properties that meet the portfolio's characteristics and value parameters, in order to position the Fund to continue to deliver strong returns and to provide long term value for unitholders in varying market conditions, the next phase of the strategy will focus on the following:

- **Complete the renovation pipeline and maximise rental income**

Ninety-two properties comprising 31% of the total asset value of the portfolio are currently being renovated. The Group is aiming to complete these properties within the next 24 months in order to tenant and gain an estimated US$13 million in additional rental income.

- **Optimise capital structure**

The increasing proportion of completed and tenanted properties in the portfolio will enable the Fund to restructure its lending facilities to lower cost facilities. This will allow the Group to lower its interest expense and better manage its capital and gearing.

- **Continue to drive cost efficiencies to maximise rental yields**

As more properties are delivered from the renovation pipeline, the Group will continue to leverage available economies of scale to drive further cost efficiencies for the portfolio. The Group has consistently reduced the investment property cost to income ratio of the portfolio over time (reduced to 46% as at 30 June 2017 vs 51% as at 31 December 2016 and 63% as at 30 December 2015) and has maintained a bad debts expense of less than 0.4% of rental income.

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The next phase of the strategy involves less active portfolio management in identifying and acquiring portfolio properties and accordingly, the Investment Manager (URF Investment Management Pty Limited), will waive the investment management fee currently charged to the Group, indefinitely. For the period ended 30 June 2017, this fee was $7.4 million, equivalent to 1.24% (excluding GST) of the gross assets of the Group (no fee charged on the first $100 million of gross assets). The Investment Manager will continue to provide all the services set out in the Investment Management Agreement and all other fees paid by the Group remain unchanged.

Quality Renovation Processes Recognised

Walsh & Co is also pleased to announce that Dixon Projects LLC, whose role is to renovate properties acquired by the Fund into highly desirable rental properties that attract premium rents and deliver long term capital growth, was the recipient of 12 awards at the American Residential Design Awards (**ARDA**), including the coveted Global Choice award for excellence in residential design for the renovation work completed at 272 Ogden Avenue, Jersey City, New Jersey.

The ARDA awards were chosen from over 140 projects submitted by 35 design firms from 17 states. Dixon Projects LLC was the country's most awarded firm. In addition to the Global Choice award, Dixon Projects LLC also won awards in the following categories:

- Best Renovation
- Conceptual Designs
- Outdoor Living
- Indoor Living
- Design Detail

The ARDA awards, in addition to the Fund's previous receipt of the Jersey City Landmark's Conservancy "Excellence in Preservation" award and the Anchin's "Rising Star Award" reflect the quality of the Fund's renovation work and its expertise in the various phases of the renovation process.

Half Year Results

While total revenue for the Fund has increased 13.0% to $17.2 million compared to $15.2 million in the same period to 30 June 2016, the loss for the period attributable to unitholders has increased to $28.4 million ($0.08 per unit) compared to a loss of $12.2 million ($0.04 per unit) in the first half of FY2016. The items that contributed to the increased loss included lower growth in property valuations, $12.3 million compared to $22.5 million in the prior corresponding period, as well as higher interest expenses.

The depreciation in the US dollar (A$/US$ exchange rate 0.72 as at 31 December 2016 compared to 0.77 at 30 June 2017) in the period also impacted the translation of the results into Australian dollars for reporting purposes.

Distributions Paid and Recommended

A distribution of 5 cents per ordinary unit, totalling $17.3 million, was declared in the prior year. After accounting for the Group's Distribution Reinvestment Plan, $7.9 million was paid on 3 February 2017.

A further distribution of 5 cents per ordinary unit, totalling $17.5 million, was announced on 26 June 2017. The Distribution Reinvestment Plan is in place in relation to the distribution.

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