



US Masters Residential Property Fund

ARSN 150 256 161

Annual Report

For the year ended
31 December 2017

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 2017

Dear Unitholders,

It is our pleasure to present the Annual Report for the US Masters Residential Property Fund (**the Group or Fund**) for the financial year ended 31 December 2017.

The 2017 year marked another successful year of operations for the Group.

- The freestanding property portfolio recorded a fair value gain of \$41.1 million, before capitalisation of eligible interest expense;
- a 9% increase in rental revenue was achieved;
- the Group's multifamily portfolio holdings were expanded; and
- strategic initiatives to maximise value and Unitholder returns were implemented.

From a **portfolio valuation** perspective, strong fair value gains were recorded on properties that were acquired in Hudson County (NJ) and Essex County (NJ) foreclosure auctions, specifically a 27% uplift in Bayonne properties, 23% in Greenville and 14% in Essex County. Properties previously acquired in Bergen-Lafayette and Union City, both located in Hudson County, also performed well with both areas showing capital growth rates approaching 10%. Hamilton Heights, a neighbourhood located within Harlem, Manhattan, showed positive capital appreciation recording a fair value uplift of approximately 9%.

Rental revenue continued to grow significantly during 2017, up 9% from \$30.4 million in 2016 to \$33.3 million in the current year. This result was driven by the Group's success in retaining tenants, while also achieving annual rental increases, and through the delivery of quality renovated properties capable of earning above-market rents. Specifically, 594 leases were renewed this year at an average rental increase of 4%, for a total annualised rental income of US\$16.6m. These renewals – and the Group's tenant retention rate of nearly 90% – are fundamental to minimising portfolio vacancy and turnover costs, and also demonstrate the tenants' satisfaction with our first-class leasing and property management platforms.

During 2017 the Group also leased 211 units to **new tenants**, 42% of which were either leased prior to construction completion or within two weeks of being listed on the rental market. These new leases represent annualised rental income of US\$10.8 million and include the achievement of record rents in multiple precincts, including Harlem (US\$21,273 per month) and Clinton Hill, Brooklyn (US\$17,400 per month).

The Group continued to add to its core **freestanding residential property portfolio** throughout 2017, acquiring 73 properties for an aggregate acquisition cost of \$46.6 million. Of these properties, 57 were acquired in the foreclosure auction markets of Hudson County (NJ) and Essex County (NJ). At 31 December 2017, the fair value of these properties was \$28.9 million, representing a 15% fair value uplift on cost. The success of these acquisitions means that the Group will continue to target foreclosure properties defaulted on during the Global Financial Crisis. Many of these properties are still progressing through judicial foreclosure proceedings in New York and New Jersey. The Group will also selectively dispose of assets that do not offer future compelling value.



The Group expanded its **multi-family apartment joint venture with Urban American** in 2017, acquiring two 35 unit properties in Astoria, Queens for an aggregate purchase price of US\$20.5 million (US\$292,857 per unit) and entering into a contract to purchase a 21 unit property on 135th Street in Harlem, Manhattan for US\$7.2 million (US\$342,857 per unit) expected to settle in early 2018. As at 31 December 2017, the Group owned 16 multi-family properties – comprising 554 apartment units – in joint venture with Urban American, with an aggregate fair value of \$99.4 million (of which the Group's economic share is \$65.7 million), a 29% premium to acquisition cost.

Executing on the strategy to **optimise the capital structure**, in December, the Group completed a convertible step-up preference unit raising approximately \$199 million. In addition, the Group raised \$18.4 million over the course of 2017 through its regular distribution reinvestment plan. This additional capital will be used to partially repay URF Notes, as well as to fund the renovation pipeline and opportunistic acquisitions. As properties are steadily delivered from the renovation pipeline and tenanted, the Group will continue to optimise its capital structure. The portfolio's increasing occupancy will facilitate more cost effective financing, which will reduce the Group's interest expenses and, in turn, maximise rental yields to Unitholders.

The Group recorded earnings before interest, tax and currency movements of \$10.8 million, compared to a \$5.8 million loss in the prior year. The major contributing factors to this improvement in operating performance include a \$2.8 million increase in rental revenue, a larger positive fair value movement on the Group's freestanding property portfolio, and a reduction of 5% in investment property expenses. The Group also recorded a fair value gain on its equity investments in multifamily properties with Urban American of \$2.6 million. As outlined in the Group's half year financial report, the Investment Manager (URF Investment Management Pty Limited) also waived the investment management fee effective July 1st, 2017, resulting in a \$5.4 million saving during the 2017 year. The loss after tax for the year was \$13.2 million, compared to a \$45.1 million loss in 2016. Earnings benefited significantly from the recent US tax code, enacted on 22 December 2017, which lowered the rate at which the Group measures its deferred tax liability from 35% to 21%. In turn, this resulted in a \$36 million write back of tax expense in the current year.

As the portfolio properties are successfully tenanted and acquisition and renovation activity stabilises, the Group will evaluate further opportunities to achieve cost efficiencies and optimise the capital structure. We believe that the New York property market will continue to provide strong investment returns for property investors through stable and growing capital values and increasing property-level yields. These key drivers – combined with the limited quantity of the underlying assets – continue to position the Fund as an attractive investment 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 over the year.

Yours faithfully,



Alex MacLachlan

Walsh & Company Investments Limited



Managing Director's Report

For the year ended 31 December 2017

All figures referred to below and in the financial report are in Australian dollars, unless otherwise stated.

Freestanding property portfolio

Update

The Group continued to selectively add to its core freestanding residential property portfolio throughout the year ended 31 December 2017. Efforts were focussed on acquiring freestanding properties in the premium areas of Hudson County, as well as select areas of Brooklyn and Manhattan, consistent with the Group's strategy.

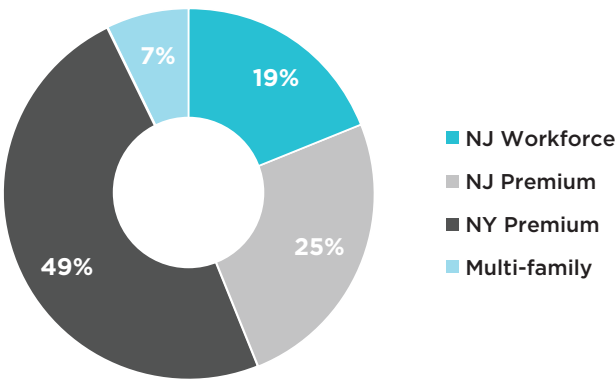
The Group also opportunistically purchased 57 freestanding properties in both Hudson and Essex Counties, New Jersey through foreclosure auctions. Characteristics that drove the selection of these freestanding homes included the need for interior renovation; the ability to purchase below replacement cost; and the opportunity to add significant value. From a valuation perspective, properties acquired at foreclosure auctions have performed particularly well, showing a 17.5% fair value increase over cost.

As at 31 December 2017, the Group had increased its total freestanding property count by 73, to 655. The total book value of these properties at 31 December 2017 was \$1.1 billion, which included a \$21.9 million (net of capitalised interest) revaluation gain reflecting the positive, stable real estate market conditions in the New York metropolitan area.

As part of its regular capital management program, the Group also completed the sale of 19 properties during 2017. The total sales price achieved for these 19 properties was US\$22.0 million which in aggregate reflected a 13.4% premium to combined asset cost, comprising purchase price, closing costs and renovation expenditure. These sales are part of the ongoing management of the portfolio and ensure the optimum deployment of the Group's capital.

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

PROPERTY DISTRIBUTION BY VALUE



Construction activity

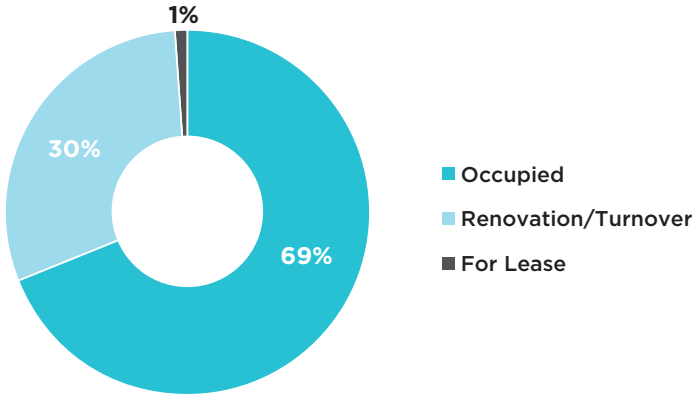
The Group continued to execute its renovation and rehabilitation strategy throughout 2017, transforming the Group's properties into highly desirable rental properties that attract premium rents and deliver long-term capital growth. The Group's renovation expertise was recognised at the American Residential Design Awards where it won 12 awards, making it the most awarded group in the United States by the American Institution of Building Design Awards. The coveted Global Choice award for excellence in residential design was among the accolades. These awards are in addition to the Group's previous receipt of the Jersey City Landmark's Conservancy's "Excellence in Preservation" award and Anchin's "Rising Star Award".

During 2017, the Group successfully completed US\$55.4 million of renovation work, comprising 32 large-scale renovations and 68 small-scale renovations of 97 properties which were subsequently placed on the rental market. Renovations completed during the year contributed, or are expected to contribute, an additional US\$5.5 million of annual rental income.

As at 31 December 2017, there remained a further 98 properties in the renovation pipeline at various stages of completion. The majority of these properties are located in premium areas within Brooklyn, Manhattan and Hudson County, often in historic districts. Renovation of the majority of these properties is expected to be completed progressively over the coming 24 months, with the finished properties expected to contribute annual rent of approximately US\$12.1 million.

The property status of freestanding properties as at 31 December 2017 is depicted below.

PROPERTY STATUS
BY VALUE



Multi-family property portfolio

As outlined in the Group's 2016 annual report and as a part of its strategic investment approach, in December 2016 the Group acquired, with multi-family operator and Golden Peak joint venture partner Urban American, an 84 apartment multi-family property located at 515 West 168th Street in Washington Heights, New York. The investment represents a 63.7% economic interest in the underlying property and an expansion of the Group's existing relationship with Urban American. The property was independently appraised during the year at US\$20.3 million, representing an 11.6% increase over the December 2016 purchase price of \$18.2 million. The positive appraisal result reflects the value added to the property by the apartment and common area renovation

program (including elevator, electrical, lobby and exterior upgrades). Since acquisition, 21 apartments have been renovated, with post renovation rents exceeding budgeted rents by 9%. It is expected that the improvements to the common areas of the property will continue to drive value as existing leases renew and additional apartments are renovated.

On 19 May 2017, the Group further expanded its multi-family holdings with Urban American, contributing US\$9.7 million in equity funding to acquire two 35 unit properties located at 30-58 and 30-64 34th Street in Astoria, Queens. The aggregate purchase price of the buildings was US\$20.5 million (US\$292,000 per unit), with the Group's investment representing an economic interest of 65%. The buildings were independently appraised during the year at US\$23.0 million, representing an 11% increase over the purchase price. Similar to the Washington Heights property, the appraisal result reflects the value added to the properties by the renovation program. Since acquisition, 7 apartment upgrades have been completed, with rents achieved on renovated apartments exceeding forecast rents by 15.4%.

The portfolio of properties owned jointly with Urban American via the Golden Peak II, LLC joint venture was also independently appraised during the year. The value assigned to the portfolio as at 31 December 2017 was US\$56.0 million, representing a 49% premium to acquisition cost.

Financial performance and position

The Group recorded earnings before interest, tax, and currency movements of \$10.8 million for the year ended 31 December 2017. This compares with the prior year loss before interest, tax, and currency movements of \$5.8 million. The primary contributing factors to the improved result include a larger positive fair value movement on the Group's freestanding portfolio (\$21.9 million in the current year compared with \$13.9 million in the prior year), along with an increase in rental revenue of 9% to \$33.3 million.

As all of the Group's property assets are held in the United States, the appreciation of the Australian dollar relative to the US dollar from 72.08 cents to 78.09 cents during the year negatively impacted the carrying value of the Group's US denominated assets, resulting in a foreign currency exchange loss of \$65.1 million. There is no cash impact as a result of this foreign currency exchange loss and, depending on future foreign currency movements, it may reverse in future periods. While the Group recorded a non-cash foreign exchange loss in 2017, the aggregate value of foreign currency movements since the Fund's inception in 2011 is a foreign currency gain of \$100 million.

The Group recorded a pre-tax loss of \$32.5 million for the year, equivalent to a \$0.09 loss per unit on a basic and diluted basis, and a post-tax loss of \$13.2 million, or a \$0.04 loss per unit on a basic and diluted basis.

The Group paid a distribution of 5 cents per ordinary unit on 3 February 2017 and 1 August 2017. A further distribution of 5 cents per ordinary unit was declared on 20 December 2017 and paid on 5 February 2018. The Group also accrued a distribution of 15.39 cents per convertible step-up preference unit amounting to \$306,464.



Investment management fee waiver

From 1 January 2017 to 30 June 2017, the Investment Manager (URF Investment Management Pty Limited) charged an investment management fee equivalent to 1.24% (excluding GST) of the gross assets of the Group over and above \$100 million, totalling \$7.3 million over this period. From 1 July 2017, the Investment Manager decided to waive the fee for an indefinite period. The Investment Manager will continue to provide all the services set out in the Investment Management Agreement. Other fees paid by the Group remain unchanged.

Strategy update

Since inception in 2011, the Group has grown from \$69 million at IPO to over \$1.4 billion in asset value as at 31 December 2017 and is now the largest institutional owner of brownstone properties in the New York Metropolitan area. URF remains the largest ASX-listed REIT focused on the US residential housing market.

The period since the Group's inception has proven to be an excellent opportunity to acquire a high-quality portfolio of residential property assets in the New York metropolitan area. The returns achieved from rental yields and property price appreciation has been supplemented by the depreciation of the Australian dollar from its record high of \$1.10 in July 2011 to \$0.78 as at 31 December 2017. These factors have been reflected in the historical returns to Unitholders. Over the five years to 31 December 2017, the Group has delivered compound annual returns to Unitholders of 9.6% in the form of Unit price appreciation and distributions.

In order to best position the Fund to continue to deliver strong returns to Unitholders in resilient and changing market conditions, the Group will continue the implementation of a strategy focused on the following principles:

1. Complete the renovation pipeline and maximise rental income

The Group currently has 98 properties in the renovation pipeline which represent 30% of the total asset value of the portfolio. The Dixon Projects team is intent on delivering these remaining properties to the rental market within 24 months and once fully tenanted, they are estimated to add US\$12.1 million per annum to the rental income of the Group.

2. Optimise capital structure

As the Group completes its renovation pipeline and rents more properties, it will seek to refinance its existing debt facilities. Properties which are completely renovated and tenanted are lower risk from a lending perspective and can be financed at lower interest rates than properties which are undergoing renovation, allowing the Group to reduce its interest expenses. The Group may also elect to sell properties in instances where the property does not fit the long-term objectives of the Group. Proceeds from the sale of any properties will be used to pay down debt and/or fund the renovation works on any remaining properties.



3. Continue to drive cost efficiencies to maximise rental yields

The Group will continue to deliver cost savings to maximise the rental yields obtained on the portfolio. The investment property cost to income ratio of the portfolio has been reduced to 44% as at 31 December 2017 vs 51% as at 31 December 2016 and 63% as at 30 December 2015 and bad debts comprise less than 0.5% of rental income. These measures, coupled with a retention focussed leasing strategy, have allowed the Group to increase the net rental yield of the portfolio. 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 will also examine general and administrative expenses to reduce the Group's overall management expense.



Alex MacLachlan

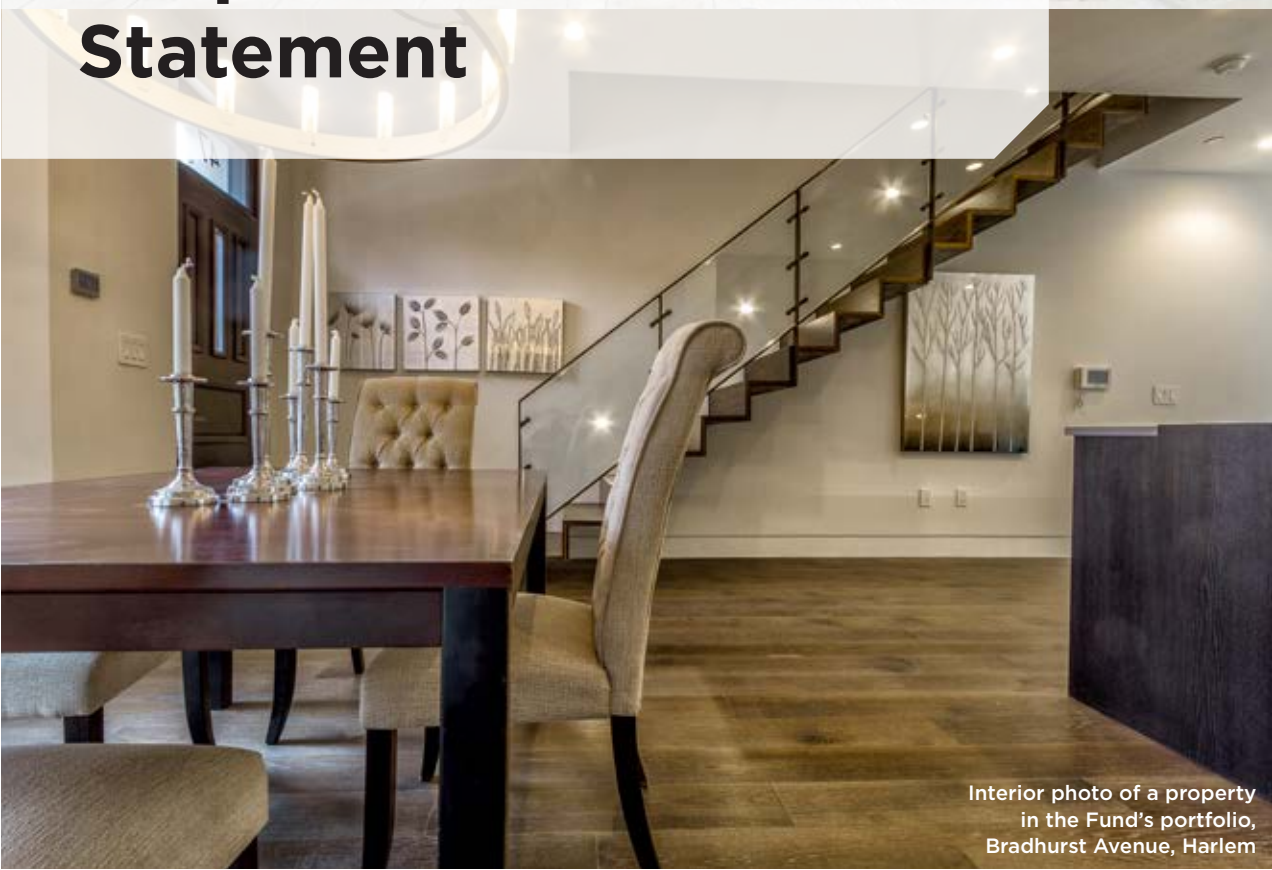
Walsh & Company Investments Limited



Photo of Columbia University in
the city of New York

A wide-angle photograph of the main building of Columbia University in New York City. The building is a large, classical-style structure with a prominent portico supported by many columns. It is surrounded by green lawns and walkways. In the foreground, there is a large, open plaza with a geometric tile pattern and a statue. The sky is clear and blue.

Corporate Governance Statement

A photograph of the interior of a modern property. In the foreground, there is a dark wood dining table with several silver candle holders and white candles. A tufted beige chair is visible. In the background, there is a staircase with a glass railing and a dark wood handrail. The walls are light-colored, and there are framed artworks on the wall.

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

Corporate Governance Statement

For the year ended 31 December 2017

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 usmastersresidential.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.

Mr. Alexander MacLachlan, Mr. Tristan O'Connell and Mr. Warwick Keneally (appointment effective 16 May 2017) are directors of the Responsible Entity, Walsh & Company Investments Limited (**Walsh & Co.**), and are deemed to be key management personnel. Mr. Tom Kline resigned as a director of the Responsible Entity effective 16 May 2017.

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 the 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 honorary Counsel to Fintech Australia Limited and the Institute of Managed Account Professionals. She is a long standing member of the Business Advisory Committee to ASIC's Licensing Division and a member of the Australian Government's Fintech Advisory Group. In addition, Claire is a Director of Athena Mortgage Pty Ltd and a member of the Advisory Boards of fintech startups, Red Marker Pty Ltd, HashChing Pty Ltd, Ignition Wealth Pty Ltd and Snug Technologies Pty Ltd.

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, Cordish Dixon Private Equity 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 of companies. 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 Paddington St Finance Pty Ltd, a specialist structured finance company, 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 Centre for Culture and Ideas, a charitable cultural organisation.

Tristan O'Connell (Internal Member)

Refer to information on directors on page 10.

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 Risk Management Framework. The Board conducts an annual review of the Risk Management Framework to satisfy itself that the Risk Management Framework continues to be sound. The Risk Management Framework was last reviewed on 17 July 2017.

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

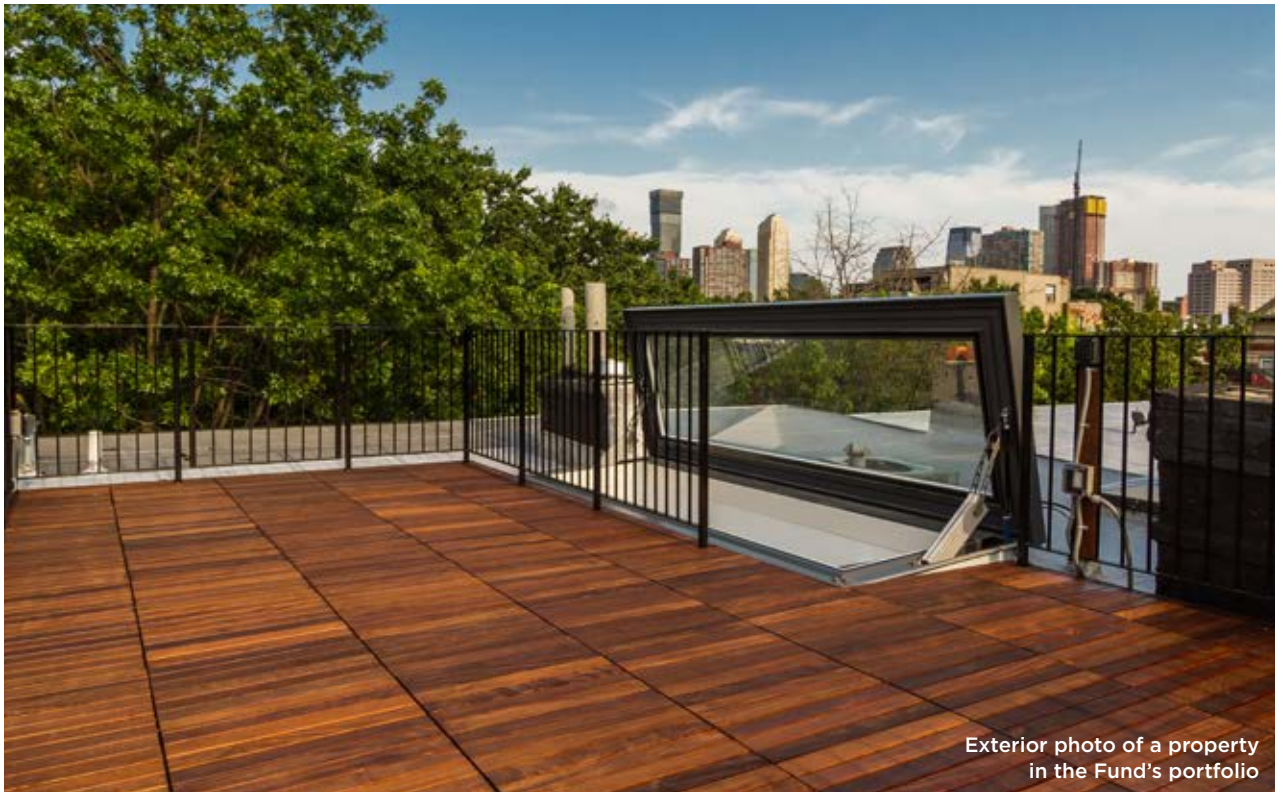
Remuneration Policies

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.





Exterior photo of a property
in the Fund's portfolio



Interior photo of a property in
the Fund's portfolio.

Directors' Report

For the year ended 31 December 2017

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 2017.

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 the Chairman of the Responsible Entity for Cordish Dixon Private Equity Fund Series, Fort Street Real Estate Capital Fund Series, Emerging Markets Masters Fund, New Energy Solar Fund, US Masters Residential Property Fund and Evans & Partners Global Disruption Fund. Alex is also 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, which later became Walsh & Company.

From funds under management of under \$100 million at the time of his start, Alex has grown Walsh & Company Group to over \$5 billion of assets under management today, with investments across residential and commercial property, fixed income, private equity, listed equities and renewable energy.

Prior to joining the firm, Alex was an investment banker at UBS AG, where he rose to Head of Energy for Australasia. During his tenure in investment banking, Alex worked on more than \$100 billion in mergers and acquisitions and capital markets transactions, advising some of the world's leading companies.

Alex 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, delisted 28 July 2017)



Directors' Report continued

For the year ended 31 December 2017

- Australian Masters Yield Fund No 2 Limited (since 2010, delisted 28 July 2017)
- 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)
- Cordish Dixon Private Equity Fund I (since 2012)
- Cordish Dixon Private Equity Fund II (since 2013)
- Cordish Dixon Private Equity Fund III (since 2016)
- Evans & Partners Global Disruption Fund (since 2017)
- New Energy Solar Limited (since 2015, until 27 October 2017)
- New Energy Solar Fund (since 2015)



Tristan O'Connell BCom, CPA

Director

Tristan O'Connell is Group Chief Financial Officer and Company Secretary for Evans Dixon and Director of Walsh & Company Investments Limited, the Responsible Entity for Cordish Dixon Private Equity Fund Series, Fort Street Real Estate Capital Fund Series, New Energy Solar Fund, US Masters Residential Property Fund and Evans & Partners Global Disruption Fund.

At Evans Dixon, Tristan oversees the finance and accounting function of the firm's group of companies. This incorporates funds management accounting for sixteen funds. He began his association with Dixon Advisory in 2005, joining to spearhead its financial management and growth.

Tristan brought to Evans Dixon more than a decade in corporate financial and management roles within the wholesale markets industry. This included a long tenure at Tullet Prebon, one of the world's leading inter-dealer broker firms that specialise in over-the-counter interest rate, foreign exchange, energy and credit derivatives. Tristan was Financial Controller of the Australian operation and held senior finance roles in their Singapore and London offices.

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)



- Cordish Dixon Private Equity Fund I (since 2012)
- Cordish Dixon Private Equity Fund II (since 2013)
- Cordish Dixon Private Equity Fund III (since 2016)
- Evans & Partners Global Disruption Fund (since 2017)
- New Energy Solar Fund (since 2015)



Tom Kline BCom, LLB (Hons)

Director (Resigned effective 16 May 2017)

Tom is the Executive Director - North America for New Energy Solar (NES). Tom was the inaugural CEO of New Energy Solar after the launch of the business in December 2015, and was previously the Chief Operating Officer of Walsh & Company Investments Limited, the Funds Management division of Evans Dixon. Tom relocated to the US in April 2017 to oversee NES' existing portfolio of solar power assets, and to guide the business' continued investment in North American projects.

Tom has extensive experience in funds management, corporate finance, and mergers and acquisitions, having been part of the senior management team at Walsh & Company and Dixon Advisory since 2009. Before joining the firm, 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.

Tom has a Bachelor of Commerce and Bachelor of Laws (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, until 19 July 2017)
- Australian Masters Yield Fund No 5 Limited (since 2011, until 19 July 2017)
- Emerging Markets Masters Fund (since 2012, until 16 May 2017)
- Cordish Dixon Private Equity Fund I (since 2012, until 16 May 2017)
- Cordish Dixon Private Equity Fund II (since 2013, until 16 May 2017)
- Cordish Dixon Private Equity Fund III (since 2016, until 16 May 2017)
- New Energy Solar Fund (since 2015, until 16 May 2017)
- New Energy Limited (since 2015, until 27 October 2017)



Directors' Report continued

For the year ended 31 December 2017



Warwick Keneally BCom, BEc, CA

Director (Appointed effective 16 May 2017)

Warwick Keneally is Head of Finance at Walsh & Company, the Funds Management division of Evans Dixon and Director of Walsh & Company Investments Limited, the Responsible Entity for Cordish Dixon Private Equity Fund Series, Fort Street Real Estate Capital Fund Series, New Energy Solar Fund, US Masters Residential Property Fund and Evans & Partners Global Disruption Fund.

Before joining Walsh & Company, Warwick worked in chartered accounting firms specialising in turnaround and restructuring. Warwick started his career with KPMG, working in their Canberra, Sydney and London offices and has undertaken a range of complex restructuring and insolvency engagements across Europe, UK and Australia, for a range of Australian, UK, European and US banks.

Warwick has worked with companies and lenders to develop and implement strategic business options, provide advice in relation to continuous disclosure requirements, develop cash forecasting training for national firms, and lectured on cash management. Among his former roles, Warwick worked on the initial stages of the HIH insolvency as part of the key management group tasked with the wind-down of the global estate.

Warwick has a Bachelor of Economics and Bachelor of Commerce from Australian National University and is a Member of the Institute of Chartered Accountants in Australia.

During the past three years Warwick 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 2017)
- Australian Masters Yield Fund No 5 Limited (since 2017)
- Emerging Markets Masters Fund (since 2017)
- Cordish Dixon Private Equity Fund I (since 2017)
- Cordish Dixon Private Equity Fund II (since 2017)
- Cordish Dixon Private Equity Fund III (since 2017)
- Evans & Partners Global Disruption Fund (since 2017)
- New Energy Solar Limited (since 2016, until 3 May 2017)
- New Energy Solar Fund (since 2017)



Principal activities and significant changes in the nature of activities

The principal activity of the Group during the course of the financial year was its continued investment 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 year.

Results and review of operations

The Group recorded earnings before interest, tax, and currency movements of \$10.8 million for the year ended 31 December 2017. This compares with the prior year loss before interest, tax, and currency movements of \$5.8 million. The Group achieved a larger positive fair value movement on the Group's freestanding portfolio (\$21.9 million in the current year compared with \$13.9 million in the prior year), along with an increase in rental revenue by 9% to \$33.3 million.

The Group recorded a pre-tax loss of \$32.5 million for the year, or \$0.09 basic and diluted loss per unit, and a post-tax loss of \$13.2 million, or \$0.04 basic and diluted loss per unit.

Asset values were negatively impacted by the appreciation of the Australian dollar during the year from 72.08 cents to 78.09 cents. This appreciation resulted in a decrease in the net assets of the Group of \$59.7 million, or 4.4%.

Distributions paid or recommended for payment on ordinary units

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. After accounting for the Group's Distribution Reinvestment Plan, \$8.5 million was paid on 1 August 2017.

Distributions paid or recommended for payment on convertible step-up preference units (CPUs)

During the year, a distribution of 15.39 cents per CPU based on 1,990,707 CPU's on issue amounting to \$306,464 was accrued.



Directors' Report continued

For the year ended 31 December 2017

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 2017.

After balance date events

A distribution of 5 cents per ordinary unit totalling \$17.8 million was declared on 20 December 2017 and was paid to unitholders on 5 February 2018. 5,412,546 units were issued under the Group's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled 8 property purchase contracts with a total consideration of \$4,626,997. In addition, the Group disposed of 8 properties for total consideration of \$7,606,035.

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 Director's report included in pages (i) through (viii). 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	No. of CPUs
Alexander MacLachlan	103,549	500	500
Tristan O'Connell	61,224	-	150
Warwick Keneally	18,705	-	250

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 2017, including movements in units on issue during the year - refer to note 15 to the consolidated 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 17 and forms part of the directors' report for the financial year ended 31 December 2017.

Signed in accordance with a resolution of the Directors:



Alex MacLachlan

Director

Dated this 22nd day of February 2018



Auditor's Independence Declaration

For the year ended 31 December 2017

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

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

22 February 2018

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.

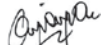
As lead audit partner for the audit of the financial statements of US Masters Residential Property Fund for the financial year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



Weng W Ching
Partner
Chartered Accountant

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited





Photo of Jersey
City Heights

Consolidated Financial Statements



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 2017

	Note	2017 \$	2016 \$
Investment property rental income		33,280,269	30,437,880
Interest income		1,432,930	797,159
Total revenue		34,713,199	31,235,039
Fair value movement of investment properties	9	21,866,986	13,902,787
Fair value movement of equity investments		1,301,213	-
Share of profits of jointly controlled entities	8	2,338,078	3,463,533
Investment property expenses		(14,694,971)	(15,444,964)
Net foreign currency (loss)/gain		(5,430,760)	332,010
Listing fees		(354,493)	(261,817)
Professional fees		(2,084,044)	(2,587,917)
Marketing		(150,474)	(209,738)
Management fees	21	(13,530,899)	(19,709,048)
Salaries and wages	21	(9,623,109)	(8,685,751)
Office administration costs	21	(5,637,544)	(5,982,110)
Administration fees	21	(1,202,889)	(1,085,719)
Interest expense	9	(37,844,754)	(21,522,977)
Investment property disposal costs		(1,857,444)	(97,578)
Bad debt expense		(175,225)	(153,218)
Other expenses		(85,425)	(171,811)
Loss before income tax		(32,452,555)	(26,979,279)
Income tax benefit/(expense)	3(i), 11	19,233,756	(18,148,347)
Loss for the year attributable to Unitholders		(13,218,799)	(45,127,626)
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operation (nil tax)		(59,694,933)	9,838,493
Share of jointly controlled entity's reserve movements (nil tax)	8	120,319	42,598
Other comprehensive (loss)/profit for the year, net of tax		(59,574,614)	9,881,091
Total comprehensive loss for the year attributable to Unitholders		(72,793,413)	(35,246,535)
Earnings per unit			
Basic loss per unit (dollars)	16	(0.04)	(0.15)
Diluted loss per unit (dollars)	16	(0.04)	(0.15)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with Notes to the Consolidated Financial Statements.



Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 \$	2016 \$
Current assets			
Cash and cash equivalents	4	182,798,770	123,212,092
Receivables	5	713,926	377,171
Prepayments		376,449	382,176
Other assets	7	4,628,216	7,210,625
Investment properties held for sale	9	54,417,303	17,192,733
Total current assets		242,934,664	148,374,797
Non-current assets			
Investment properties	9	1,063,986,752	1,049,977,873
Investments in jointly controlled entities	8	27,859,205	28,347,843
Other financial assets	6	23,062,847	8,382,656
Other assets	7	8,301,116	8,349,252
Prepayments	21	1,866,084	2,520,037
Security deposits	10	320,143	346,837
Total non-current assets		1,125,396,147	1,097,924,498
Total assets		1,368,330,811	1,246,299,295
Current liabilities			
Payables	12	31,467,972	30,470,707
Borrowings	13	28,619,678	6,694,658
Total current liabilities		60,087,650	37,165,365
Non-current liabilities			
Deferred tax liabilities	11	59,043,747	84,989,435
Borrowings	13	560,100,792	540,116,329
Other non-current liabilities	14	170,076	184,257
Total non-current liabilities		619,314,615	625,290,021
Total liabilities		679,402,265	662,455,386
Net assets		688,928,546	583,843,909
Equity			
Unit capital	15	455,858,921	472,669,283
Convertible step-up preference units	15	194,688,412	-
Reserves		100,617,236	160,191,850
Accumulated losses		(62,236,023)	(49,017,224)
Total equity		688,928,546	583,843,909

The Consolidated Statement of Financial Position is to be read in conjunction with Notes to the Consolidated Financial Statements.



Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Unit capital	Convertible step-up preference units	Foreign currency translation reserve	Share of jointly controlled entity's cash flow hedging reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$	\$
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 loss	15	-	-	-	42,598	-	42,598
Total other comprehensive loss		-	-	9,838,493	42,598	-	9,881,091
Total comprehensive 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	15	(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
Balance at 1 January 2017		472,669,283	-	160,150,311	41,539	(49,017,224)	583,843,909
Loss for the year	-	-	-	-	-	(13,218,799)	(13,218,799)
Other comprehensive (loss)/income, net of income tax							
Foreign operation currency translation loss	15	-	-	(59,694,933)	-	-	(59,694,933)
Jointly controlled entity interest rate swap hedge gain	15	-	-	-	120,319	-	120,319
Total other comprehensive (loss)/income		-	-	(59,694,933)	120,319	-	(59,574,614)
Total comprehensive (loss)/income for the year		-	-	(59,694,933)	120,319	(13,218,799)	(72,793,413)
Transactions with owners in their capacity as owners							
Proceeds from issue of convertible step-up preference units	15	-	199,070,700	-	-	-	199,070,700
Issue costs	15	38,737	(4,075,824)	-	-	-	(4,037,087)
Issue of ordinary units	15	18,440,078	-	-	-	-	18,440,078
Distributions to unitholders	15	(35,289,177)	(306,464)	-	-	-	(35,595,641)
Total transactions with owners		(16,810,362)	194,688,412	-	-	-	177,878,050
Balance at 31 December 2017		455,858,921	194,688,412	100,455,378	161,858	(62,236,023)	688,928,546

The Consolidated Statement of Changes in Equity is to be read in conjunction with Notes to the Consolidated Financial Statements.



Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Cash receipts from customers		32,468,030	30,823,614
Cash paid to suppliers		(49,505,817)	(61,766,026)
Interest received		1,345,374	1,012,967
Interest paid ⁽ⁱ⁾		(27,158,934)	(13,306,229)
Net cash used in operating activities		(42,851,347)	(43,235,674)
Cash flows from investing activities			
Acquisition of investment property, including improvements ⁽ⁱ⁾		(138,422,301)	(175,158,179)
Investment in financial assets		(14,091,152)	(7,592,816)
Payments for property-related deposits		(774,747)	(3,718,091)
Proceeds from sale of investment properties		28,347,256	1,837,504
Disposal costs on sale of investment properties		(1,857,444)	(97,578)
Distributions received from jointly controlled entity investments ⁽ⁱⁱ⁾		761,438	54,512,541
Investment in term deposits		(77,703,814)	-
Proceeds from term deposits		79,060,431	19,091,341
Investment in jointly controlled entities		-	(1,641)
Net cash used in investing activities		(124,680,333)	(111,126,919)
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		213,906,650	173,956,876
Bank loan repayments		(18,543,490)	(106,780,297)
Payment of interest reserve and escrow accounts		(489,247)	(5,330,439)
Payment of transaction costs related to loans and borrowings		(5,895,867)	(7,748,479)
Distributions paid		(16,361,781)	(13,804,096)
Withholding tax paid		(508,639)	-
Proceeds from issue of unit capital		-	102,912,622
Proceeds from issue of convertible step-up preference units ⁽ⁱⁱⁱ⁾		68,054,100	-
Payments of issue costs		(4,075,824)	(2,152,181)
Net cash from financing activities		236,085,902	141,054,006
Net increase/(decrease) in cash and cash equivalents		68,554,222	(13,308,587)
Cash and cash equivalents at beginning of year		123,212,092	133,557,456
Effect of exchange rate fluctuations on cash held		(8,967,544)	2,963,223
Cash and cash equivalents at end of year	4	182,798,770	123,212,092

⁽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.

⁽ⁱⁱⁱ⁾ The remaining non-cash proceeds from the issue of convertible step-up preference units totalling \$131,016,600 were through the redemption of URF Notes (see note 13).


The Consolidated Statement of Cash Flows is to be read in conjunction with 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 Street, Jersey City

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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 22 February 2018. 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 include:



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. In December 2017, the US government passed legislation which lowered the top corporate tax rate from 35% to 21%. As the rate of withholding tax imposed on distributions of capital gains is based on the top corporate tax rate, the Group has remeasured its deferred tax liability at balance date based on the rate of 21%. The tax position can vary from a zero tax liability position to the 21% withholding rate tax position which management have applied in its accounting policy. Furthermore, under legislation passed by the US government in 2015, the rate of withholding tax obligations on distribution of property asset gains may be reduced from the present rate of 21% 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 21% on the differences arising between the carrying value and tax cost base of its property assets - refer note 3I.

3. Significant accounting policies

The accounting policies set out below have been applied in the preparation of the consolidated 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 the 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 the 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 and 30-58/64 34th Street Venture LLC (refer to note 6) are designated as financial assets 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.

Convertible step-up preference units (CPUs)

CPUs are recognised as equity at the proceeds received, net of direct costs. The embedded derivative financial assets are recognised at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. 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.



iii) Held for sale

At balance date, investment properties that are under contract for sale or are otherwise designated to be sold are classified as held for sale. These contracts are expected to be settled within 12 months of the balance date. Investment properties classified as held for sale are presented separately in the consolidated statement of financial position as a current asset.

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 (refer note 2 C(ii)) 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 complex and the tax position which would apply depends on specific circumstances which can only be determined at a future disposal date. In December 2017, the US government passed legislation which lowered the top corporate tax rate from 35% to 21%. As the rate of withholding tax imposed on distributions of capital gains is based on the top corporate tax rate, the Group has remeasured its deferred tax liability at balance date based on the rate of 21%. The tax position can vary from a zero tax liability position to the 21% withholding rate tax position which management have applied in its accounting policy. Furthermore, under legislation passed by the US government in 2015, the rate of withholding tax obligations on distribution of property asset gains may be reduced from the present rate of 21% 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 21% on the differences arising between the carrying value and tax cost base of its property assets.

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 (excluding distributions on CPUs) by the weighted average number of ordinary units outstanding during the period.

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 2016-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'

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 which are expected to be applicable to the Group were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending	Impact on Group Financial Statements
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	31 December 2018	<p>The Group has assessed the impact of the new expected credit loss model on its trade and other receivables and given the historic value of the receivable write-offs, it is not expected to have significant impact on the results.</p> <p>The new hedge accounting treatment will not have any significant impact on the results.</p>



Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending	Impact on Group Financial Statements
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	The Group has assessed that this Standard will not be applicable to the Group.
AASB 16 Leases	1 January 2019	31 December 2019	The Group is continuing to evaluate, however, based on initial assessment the adoption of AASB 16 is not expected to result in a material impact on the Group's financial statements.

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 2015 – 2017 Cycle	1 January 2019	31 December 2019

4. Cash and cash equivalents

	2017 \$	2016 \$
Cash at bank	182,798,770	123,138,163
Restricted cash	-	73,929
	182,798,770	123,212,092

Cash at bank earns interest at floating rates based on the bank deposit rates. The effective interest rate on bank deposits was 0.87% (2016: 0.70%).



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

Restricted cash in 2016 relates to the sale of property via a 1031 exchange. In a 1031 exchange, the proceeds due on sale of property were held in escrow and must have been used to purchase replacement property. A 1031 exchange transaction helps to preserve the REIT status of US Masters Residential Property (USA) Fund for US tax purposes, and allowed the Group to defer realisation of any capital gains tax (**CGT**).

Reconciliation of cash flows from operating activities	2017 \$	2016 \$
Loss for the year	(13,218,799)	(45,127,626)
Adjustments for:		
Net unrealised loss on foreign exchange	5,430,760	(332,010)
Change in fair value of investment property	(21,866,986)	(13,902,787)
Change in fair value of equity investments	(1,301,213)	-
Share of profits of jointly controlled entities	(2,338,078)	(3,463,533)
Non-cash interest expense	7,449,295	3,320,773
Investment property disposal costs	1,857,444	97,578
Change in trade and other receivables	(336,755)	212,607
Change in other assets	(721,460)	(668,954)
Change in prepayments	659,680	(2,581,219)
Change in trade and other payables	1,172,132	1,364,508
Change in deferred tax liability (excluding foreign exchange impact)	(19,637,367)	17,844,989
Net cash (used in) operating activities	(42,851,347)	(43,235,674)

Reconciliation of liabilities arising from financing activities

	Note	1 Jan 2017 \$	Financing cash flows \$	Payment of transaction costs \$	Non-cash changes			31 Dec 2017 \$
					Redemption of URF Notes through issue of CPUs \$	Amortisation of borrowing costs \$	Exchange rate differences on translation \$	
Secured bank loans	13	309,952,022	20,363,160	(2,203,299)	-	4,865,488	(24,172,544)	308,804,827
Unsecured notes	13	236,858,965	175,000,000	(3,692,568)	(131,016,600)	2,576,553	189,293	279,915,643
		546,810,987	195,363,160	(5,895,867)	(131,016,600)	7,442,041	(23,983,251)	588,720,470



5. Receivables

	2017 \$	2016 \$
Current		
Receivables - rental debtors	214,955	272,864
Allowance for doubtful debts	(19,303)	(6,282)
GST receivable	400,691	80,562
Interest receivable	117,583	30,027
	713,926	377,171

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 \$19,303 (2016: \$6,282) 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 or 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

	2017 \$	2016 \$
Non-current assets		
Equity investments - fair value	23,062,847	8,382,656
	23,062,847	8,382,656

Investee	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest	
				2017 %	2016 %
515 West 168th Venture LLC ⁽ⁱ⁾	USA	Property investment	Washington Heights, NY	63.7%	63.7%
30-58/64 34th Street Venture LLC ⁽ⁱ⁾	USA	Property investment	Astoria, NY	65.0%	-

(i) The Fund does not have existing rights that give it the current ability to direct the relevant activities of the Investee and therefore does not exercise control of the Investee. Similarly, the Fund does not have significant influence over the Investee. Accordingly, the investment has been designated as a financial asset at fair value through profit or loss.



515 West 168th Venture LLC

During the year, Jones Lang LaSalle was appointed to value the investment property owned by 515 West 168th Venture LLC. In determining the fair value of the property, Jones Lang LaSalle adopted a discounted cash flow approach. The fair value of the property as at 30 June 2017 was US\$20,310,000 (A\$26,414,358). The directors of the Group are satisfied that the valuation completed at 30 June 2017 reflects the fair value of the property at balance date. The Investee had borrowings totalling US\$11,500,000 (A\$14,726,598) at balance date.

30-58/64 34th Street Venture LLC

On 19 May 2017, the Group made an equity investment in 30-58/64 34th Street Venture LLC ('Investee'). On the same date, the Investee acquired two 35 apartment multi-family properties located at 30-58 & 30-64 34th Street, Astoria, New York. The Group's economic interest in the venture is 65.0%.

During the year, Jones Lang LaSalle was appointed to value the investment properties owned by 30-58/64 34th Street Venture LLC. In determining the fair value of the portfolio, Jones Lang LaSalle adopted a discounted cash flow approach. The fair values of the portfolio as at 31 December 2017 totalled US\$23,020,000 (A\$29,478,807). The Investee had borrowings totalling US\$8,500,000 (A\$10,884,876) at balance date.

The Group has classified its equity investments as a Level 3 hierarchy level asset due to the fair value measurement of the Investees' investment properties being based on inputs that are not observable for the assets, either directly or indirectly, as follows:

Class of investment	Fair value hierarchy level	Fair value (\$) 2017	Fair value (\$) 2016	Inputs
Equity investments - fair value	Level 3	23,062,847	8,382,656	<ul style="list-style-type: none">- Net market income of \$15.05 - \$19.43 per square foot- 10 year annual compound growth rate of 4.51% - 7.40%- Discount rates of 5.00% - 5.25%- Terminal yields of 5.00% - 5.25%

There were no transfers between the fair value hierarchy levels during the year.



7. Other assets

	2017 \$	2016 \$
Current assets		
Property related deposits	774,747	3,718,091
Deferred leasing fee	939,478	1,130,980
Property tax escrow deposits	1,233,008	927,200
Other assets (escrow deposits and receivables)	1,680,983	1,434,354
	4,628,216	7,210,625
Non-current assets		
Facility interest reserve and escrow accounts ^{(i) (ii)}	8,043,593	8,184,045
Interest rate cap derivative instrument	167,883	44,534
Other assets (escrow deposits and receivables)	89,640	120,673
	8,301,116	8,349,252

⁽ⁱ⁾ Under the terms of the Centennial Bank loan facility, 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\$2,911,151 (A\$3,727,943).
- 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\$407,548 (A\$521,895). 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\$962,553 (A\$1,232,620).

⁽ⁱⁱ⁾ The Group was also required to place US\$1,999,990 (A\$2,561,135) 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	
				2017 %	2016 %
Golden Peak II LLC ⁽ⁱ⁾	USA	Property Investment	Hudson County, NJ	67.5%	67.5%
Hudson Gardens LLC ^{(i) (ii)}	USA	Property Investment	Hudson County, NJ	90.0%	90.0%
Gold Coast Equities LLC ^{(i) (ii)}	USA	Property Investment	Hudson County, NJ	92.5%	92.5%
DXEX Brooklyn I LLC ^{(i) (ii)}	USA	Property Investment	Brooklyn, NY	92.5%	92.5%
DXEX Brooklyn II LLC ^{(i) (ii)}	USA	Property Investment	Brooklyn, NY	92.5%	92.5%
DXEX Brooklyn III LLC ^{(i) (ii)}	USA	Property Investment	Brooklyn, NY	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 were disposed of and the net assets of each jointly controlled entity were fully distributed to the joint venture partners prior to the end of the 2016 financial year. It is anticipated that the jointly controlled entities will be dissolved during 2018.

	2017 \$	2016 \$
Carrying amount of interest in jointly controlled entities		
Balance at beginning of year	28,347,843	81,194,726
Investments made	-	1,641
Distributions received and receivable (net of promote interest)	(761,438)	(55,442,901)
Share of profits of jointly controlled entities	2,338,078	3,463,533
Share of reserves of jointly controlled entities	120,319	42,598
Exchange rate differences on translation	(2,185,597)	(911,754)
Balance at end of year	27,859,205	28,347,843

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 5.25% was applied to year one pro-forma income. Where a discounted cash flow model approach was used, discount rates ranging from 7% to 8% 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.

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.



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.

2017	\$ 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	1,524,181	-	-	-	-	-	1,524,181
Other current assets	547,995	-	-	-	-	-	547,995
Current assets	2,072,176	-	-	-	-	-	2,072,176
Investment properties at fair value	71,737,739	-	-	-	-	-	71,737,739
Derivatives	239,786	-	-	-	-	-	239,786
Non-current assets	71,977,525	-	-	-	-	-	71,977,525
Total assets	74,049,701	-	-	-	-	-	74,049,701
Borrowings	659,439	-	-	-	-	-	659,439
Other current liabilities	779,156	-	-	-	-	-	779,156
Current liabilities	1,438,595	-	-	-	-	-	1,438,595
Borrowings	26,122,036	-	-	-	-	-	26,122,036
Derivatives	-	-	-	-	-	-	-
Non-current liabilities	26,122,036	-	-	-	-	-	26,122,036
Total liabilities	27,560,631	-	-	-	-	-	27,560,631
Net assets	46,489,070	-	-	-	-	-	46,489,070
Ownership interest	67.5%	90.0%	92.5%	92.5%	92.5%	92.5%	
Equity accounted interest before Promote Interest	31,380,122	-	-	-	-	-	31,380,122
Promote Interest attributable to joint venture partner	3,520,917	-	-	-	-	-	3,520,917
Equity accounted interest	27,859,205	-	-	-	-	-	27,859,205



2017	\$	\$	\$	\$	\$	\$	\$
	Golden Peak II LLC	Hudson Gardens LLC	Gold Coast Equities LLC	DXEX Brooklyn I	DXEX Brooklyn II	DXEX Brooklyn III	Total
Revenue	6,595,943	-	-	-	-	-	6,595,943
Fair value movement of investment properties	1,755,204	-	-	-	-	-	1,755,204
Interest income	7,933	-	-	-	-	-	7,933
Interest expense	(1,003,734)	-	-	-	-	-	(1,003,734)
Other expenses	(3,292,459)	-	-	-	-	-	(3,292,459)
Profit	4,062,887	-	-	-	-	-	4,062,887
Equity accounted interest before Promote Interest	2,742,449	-	-	-	-	-	2,742,449
Promote Interest attributable to joint venture partner	404,371	-	-	-	-	-	404,371
Equity accounted interest	2,338,078	-	-	-	-	-	2,338,078
Other comprehensive gain	178,251	-	-	-	-	-	178,251
Equity accounted interest	120,319	-	-	-	-	-	120,319
Total comprehensive income before Promote Interest	4,241,138	-	-	-	-	-	4,241,138
Equity accounted interest before Promote Interest	2,862,768	-	-	-	-	-	2,862,768
Promote Interest attributable to joint venture partner	404,371	-	-	-	-	-	404,371
Equity accounted interest	2,458,397	-	-	-	-	-	2,458,397
Distributions received - 2017	761,438	-	-	-	-	-	761,438
Distributions received - 2016	784,666	6,980,246	12,843,370	10,032,169	2,689,337	22,113,113	55,442,901



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



9. Investment properties

	2017 \$	2016 \$
Disclosed in the consolidated statement of financial position as:		
Current assets		
Investment properties held for sale	54,417,303	17,192,733
Non-current assets		
Investment properties	1,063,986,752	1,049,977,873
	1,118,404,055	1,067,170,606

	2017 \$	2016 \$
At fair value		
Balance at beginning of year	1,067,170,606	862,538,836
Acquisitions, including improvements and interest on qualifying properties	142,179,074	177,105,137
Fair value movement of investment properties to market	21,866,986	13,902,787
Disposals	(28,252,067)	(1,867,962)
Exchange rate differences on translation	(84,560,544)	15,491,808
Balance at end of year	1,118,404,055	1,067,170,606

	2017 \$	2016 \$
Interest expense	57,012,358	40,921,454
Interest capitalised to carrying value of qualifying investment properties	(19,167,604)	(19,398,477)
Interest expense reflected in profit or loss	37,844,754	21,522,977

The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 2.72% (2016: 3.57%).

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)
- FJR 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 (\$) 2017	Fair value (\$) 2016	Valuation technique	Inputs
Residential use investment property	Level 2	1,118,404,055	1,067,170,606	Direct comparable sales	<ul style="list-style-type: none"> - Selling price - Geographic location - Property age and condition - Size of Property - Number of rooms

There were no transfers between the fair value hierarchy levels 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:

	2017 \$	2016 \$
Not later than one year	19,629,603	18,902,974
Later than one year and not later than five years	1,590,811	2,252,020
Later than five years	-	-
	21,220,414	21,154,994

iii) Contractual obligations

As at balance date, the Group has paid property related deposits totalling \$774,747 in respect of commitments to purchase three residential properties with a combined purchase consideration of \$7,747,471.

The Group also has contracted to spend an amount of \$79,032,418 in respect of property refurbishments.

10. Security deposits

	2017 \$	2016 \$
Security deposits	320,143	346,837

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\$320,143) deposit.

11. Deferred tax liabilities

	2017 \$	2016 \$
Investment properties	59,043,747	84,989,435
Movements		
Balance at beginning of year	84,989,435	65,868,122
Charged to profit or loss as income tax expense	16,369,234	17,844,989
Impact of change in US tax rate	(36,006,601)	-
Taken to profit and loss as unrealised foreign exchange (gain)/loss	(6,308,321)	1,276,324
Balance at end of year	59,043,747	84,989,435

Income tax expense is comprised of:

	2017 \$	2016 \$
Deferred tax (credited)/charged to profit or loss	(19,637,367)	17,844,989
Withholding tax payable	403,611	303,358
Income tax (benefit)/expense	(19,233,756)	18,148,347



The deferred tax liability represents temporary differences at 21% (2016: 35%, refer note 2 C(ii)) arising on differences between the tax cost base and the carrying value of the investment properties.

In December 2017, the US government passed legislation which lowered the top corporate tax rate from 35% to 21%. As the rate of withholding tax imposed on distributions of capital gains is based on the top corporate tax rate, the Group has remeasured its deferred tax liability at balance date based on the rate of 21%. The tax position can vary from a zero tax liability position to the 21% withholding rate tax position which management have applied in its accounting policy. Furthermore, under legislation passed by the US government in 2015, the rate of withholding tax obligations on distribution of property asset gains may be reduced from the present rate of 21% 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 21% on the differences arising between the carrying value and tax cost base of its property assets – refer note 3I.

12. Payables

	2017 \$	2016 \$
Current		
Trade payables	2,280,131	4,696,849
Distribution payable	18,106,710	17,312,928
Other payables	11,081,131	8,460,930
	31,467,972	30,470,707

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

	2017 \$	2016 \$
Current liabilities		
Secured bank loans - at amortised cost	28,619,678	6,694,658
	28,619,678	6,694,658
Non-current liabilities		
Secured bank loans - at amortised cost	280,185,149	303,257,364
Unsecured notes	279,915,643	236,858,965
	560,100,792	540,116,329



Secured Bank Loans

The facility with Centennial Bank dated 23 February 2016 was amended on 26 September 2017 to reflect the following:

- The facility limit was increased from US\$125,000,000 to US\$175,000,000
- The maturity date was extended to 26 September 2022, with an option to extend to 26 September 2023 subject to the Group satisfying certain criteria. Prior to the loan amendment, the maturity date was 22 February 2021 (with an extension option of 22 February 2022)
- The interest rate was adjusted to 1 month LIBOR plus 4.45% for stabilized properties, and 1 month LIBOR plus 5.45% for non-stabilized properties. However, the margin in respect of stabilized properties may fluctuate between 4.45% and 4.95% depending on the value of cash deposits the Group has on hand with Centennial Bank during the relevant period. Prior to the 2017 amendment, the interest rate previously was 1 month LIBOR plus 4.95% for stabilized properties, and 5.60% for non-stabilized properties. LIBOR is subject to a floor of 0.25%.

Bank borrowings are carried at amortised cost. Details of maturity dates and security for bank facilities are set out below:

Financial institution	Interest rate	Maturity date	Security	Property security value – fair value	2017 Principal amount – amortised cost	2016 Principal amount – amortised cost
Investors Bank	3.88% ⁽ⁱ⁾	Jun 2022	Investment property ^(vi)	16,452,605	3,362,641	3,713,132
Investors Bank	4.00% ⁽ⁱⁱ⁾	Nov 2022	Investment property ^(vi)	16,487,567	3,230,989	3,566,006
Investors Bank	3.75% ⁽ⁱⁱⁱ⁾	Jul 2025	Investment property ^(vi)	26,407,293	6,120,845	6,788,118
Investors Bank	3.63% ^(iv)	Nov 2023	Investment property ^{(vi), (vi)*}	64,161,299	13,017,003	18,217,407
Investors Bank	3.63% ^(iv)	Nov 2023	Investment property ^(vi)	45,580,143	10,245,819	11,346,287
Investors Bank	3.63% ^(iv)	Nov 2023	Investment property ^(vi)	26,464,004	7,032,610	7,786,686
Investors Bank	3.63% ^(v)	Nov 2024	Investment property ^(vi)	74,571,512	16,310,800	21,710,361
Investors Bank	3.63% ^(vii)	Apr 2025	Investment property ^(vi)	74,859,386	16,826,219	18,510,142
Investors Bank	3.75% ^(x)	Jun 2026	Investment property ^(vi)	51,541,095	9,174,737	12,650,461
Centennial Bank	^(xi) ^(viii)	Sep 2022	^(xi)	362,945,738	113,993,332	117,639,433
FCCD Limited	LIBOR 3 month + 5.50% ^(viii)	^(ix)	^(ix)	293,556,632	109,489,832	88,023,989
					308,804,827	309,952,022

Disclosed as:	2017 \$	2016 \$
Current	28,619,678	6,694,658
Non-current	280,185,149	303,257,364
	308,804,827	309,952,022



- (i) Effective 1 June 2017, the interest rate was reset to 3.875%. Commencing 1 June 2018, and each successive June 1st thereafter, the interest rate will be reset to the 1 Year US Treasury securities yield plus 2.75%. Prior to 1 June 2017, the interest rate was 3.99%.
- (ii) Effective 1 November 2017, the interest rate was reset to 4.00%. Commencing 1 November 2018, and each successive November 1st thereafter, the interest rate will be reset to the 1 Year US Treasury securities yield plus 2.75%. Prior to 1 November 2017, the interest rate was 3.75%.
- (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\$2,561,135) 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 2017, LIBOR one month was 1.47703% and LIBOR three month was 1.34978%.
- (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 10 July 2020. The Revolver Note of US\$85,000,000 has a maturity date of 10 July 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\$298,341,634, including property assets valued at A\$293,556,632. 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 was amended on 26 September 2017 to extend the maturity date to 26 September 2022 (previously 22 February 2021). Subject to satisfying certain criteria, the Group has an option to extend the maturity date for an additional year. The 2017 amendment also increased the facility limit from US\$125,000,000 to US\$175,000,000. 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. Under the terms of the 2017 amendment, the total amount advanced in respect of non-stabilised properties was increased from US\$50,000,000 to US\$100,000,000.
 - **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 charge over the following subsidiaries of the Fund in which collateralised property assets are held:
 - USM URF AT Holdings LLC
 - USM Asset Trust
- A guarantee given by US Masters Residential Property (USA) Fund.
- A guarantee given by US Masters Residential Property Fund in limited circumstances.
- US\$4,281,252 (A\$5,482,458) placed in interest, taxes and insurance and collection reserves. The interest reserve is non-interest bearing and is required to cover six monthly instalments of interest at the interest rate for the advances outstanding. Refer Note 7(i).
- 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\$369,239,776, including property assets valued at A\$362,945,738.



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	2017 Amortised cost	2016 Amortised cost
URF Notes *	7.75%	24 December 2019	24 December 2017	Unsecured	18,818,052	148,033,120
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	89,256,027	88,825,845
URF Notes III	7.75%	24 December 2021	24 December 2019	Unsecured	171,841,564	-
					279,915,643	236,858,965

* On 22 December 2017, \$131,016,600 worth of URF Notes were redeemed by Noteholders in exchange for Convertible Step-up Preference Units (**CPUs**) under the terms of the Product Disclosure Statement dated 1 December 2017. Refer note 15 for further details on the terms of the CPUs.

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

Facility	Principal drawn	Principal available	Total
Investors Bank	87,915,504	-	87,915,504
Centennial Bank	120,546,942	103,553,455 *	224,100,397
FCCD Limited	112,715,544	79,370,511 *	192,086,055
URF Notes	18,983,400	-	18,983,400
URF Notes II	90,539,500	-	90,539,500
URF Notes III	175,000,000	-	175,000,000
	605,700,890	182,923,966	788,624,856

* 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

	2017 \$	2016 \$
Redeemable preference units	160,072	173,418
Accrued interest	10,004	10,839
	170,076	184,257

Series A Preferred Units	2017 No of units	2017 \$	2016 No of units	2016 \$
Issued	125	170,076	125	184,257



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 or Loss and Other Comprehensive Income.

15. Capital and reserves

Ordinary Units

	2017 \$	2016 \$	
355,400,553 fully paid ordinary units (2016: 345,678,757)	455,858,921	472,669,283	
(A) Issued ordinary units			
Balance at beginning of the year	472,669,283	388,720,491	
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)	
4,704,225 units issued at \$2.00	9,408,450	-	
June 2017 distribution	(17,519,149)	-	
5,017,571 units issued at \$1.80	9,031,628	-	
December 2017 distribution	(17,770,028)	-	
Issue costs	38,737	(2,152,182)	
Balance at end of the year	455,858,921	472,669,283	
(B) Movements in ordinary units			
Date	Details	2017 No.	2016 No.
1 January	Balance at beginning of the year	345,678,757	285,491,473
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	Distribution reinvestment	-	1,285,000
3 February 2017	Distribution reinvestment	4,704,225	-
1 August 2017	Distribution reinvestment	5,017,571	-
31 December		355,400,553	345,678,757



Convertible Step-Up Preference Units

	2017 \$	2016 \$	
1,990,707 convertible step-up preference units fully paid (2016: nil)	194,688,412		
(A) Issued convertible step-up preference units			
Balance at beginning of the year	-	-	
1,990,707 units issued at \$100	199,070,700	-	
December 2017 distribution	(306,464)	-	
Issue costs	(4,075,824)	-	
Balance at end of the year	194,688,412	-	
(B) Movements in convertible step-up preference units			
Date	Details	2017 No.	2016 No.
1 January	Balance at beginning of the year	-	-
22 December 2017	Convertible step-up preference units issue	1,990,707	-
31 December		1,990,707	

During the year, the Group issued 1,990,707 Convertible Step-up preference units (**CPU's**) with a face value of \$199,070,700. Of this amount, \$131,016,600 was issued in connection with the redemption of URF Notes (see note 13), and \$68,054,100 was received in cash proceeds. The key terms of the CPU's are as follows:

- CPU's are perpetual instruments and remain on issue until converted into ordinary units or otherwise repurchased in accordance with the applicable law.
- The distribution rate is 6.25% per annum until 31 December 2022, at which point the rate steps up to 8.75% from 1 January 2023. Distributions are payable semi-annually, and are at the discretion of the Responsible Entity. Distributions are cumulative. The Responsible Entity may not pay any distribution on ordinary units for so long as any distribution on CPU's remains outstanding for more than 40 business days after the end of the relevant distribution period (**Distribution Stopper**).
- CPU holders may elect to apply any cash distribution payable in respect of CPU's in subscriptions for ordinary units.
- CPU's may be converted to ordinary units on 1 January 2023, or on the first day of any subsequent distribution period at the election of the Responsible Entity. CPU holders may convert to ordinary units only if the Responsible Entity breaches its obligations under the Distribution Stopper requirement.
- CPU's convert to the aggregate of the number of Units determined by dividing the outstanding face value of the CPU's and any accumulated unpaid distributions by the Volume Weighted Average Price (**VWAP**) over the 10 business days prior to conversion less a discount of 5%.
- CPU holders receive distributions of capital on a winding up of the Group in priority to Unitholders up to the value of outstanding CPU's and any accumulated unpaid distributions.



- CPU holders may elect to apply any cash distribution payable in respect of CPU's in subscription for Ordinary Units.
- CPU's carry the right to attend and vote at meetings of members of the Group.

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	2017 No.	2016 No.
Weighted average number of ordinary units used to calculate basic earnings per unit	352,034,289	306,167,514
Effect of dilution - convertible step-up preference units (CPUs)	2,721,300	-
Weighted average number of ordinary units adjusted for dilution	354,755,589	306,167,514

(b) Loss attributable to ordinary unitholders	2017 \$	2016 \$
Loss for the year attributable to unitholders	(13,218,799)	(45,127,626)
Less: distributions on CPUs	(306,464)	-
Loss used in the calculation of basic and diluted loss per unit	(13,525,263)	(45,127,626)
Basic loss per unit (dollars)	(0.04)	(0.15)
Diluted loss per unit (dollars)	(0.04)	(0.15)

Basic earnings/(loss) per unit amounts are calculated by dividing profit/(loss) for the year attributable to ordinary unit holders by the weighted average number of ordinary units outstanding during the year.

Diluted earnings/(loss) per unit amounts are calculated by dividing profit/(loss) for the year attributable to ordinary unit holders (after deducting CPU distributions) by the weighted average number of ordinary units outstanding during the year, plus the weighted average number of ordinary units that would be issued on the conversion of all the dilutive potential ordinary units (from CPUs) into ordinary units.



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 Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated 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	2017 \$	2016 \$
Cash and cash equivalents	4	182,798,770	123,212,092
Trade and other receivables	5	195,652	266,582
GST receivable	5	400,691	80,562
Interest receivable	5	117,583	30,027
Property tax escrow deposits	7	1,233,008	927,200
Interest reserve and security deposit escrows	7	9,982,099	9,783,606
Property related deposits	7	774,747	3,718,091
Security deposits	10	320,143	346,837
		195,822,693	138,364,997



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 \$19,303 (2016: \$6,282) 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 or 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:

	2017 \$	2016 \$
Current	171,399	241,041
Past due 31-60 days	24,253	25,541
Past due 61-90 days	1,699	699
More than 90 days	17,604	5,583
	214,955	272,864

Movement in allowance for doubtful debts

	2017 \$	2016 \$
Balance at beginning of the year	6,282	21,987
Increase in doubtful debt allowance	175,225	153,218
Amounts written off during the year as uncollectible	(161,472)	(168,661)
Exchange rate differences on translation	(732)	(262)
Balance at end of the year	19,303	6,282

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 2017	Carrying amount \$	Contractual cash flows \$	12 mths or less \$	1-5 years \$	5 years and more \$
Payables	31,467,972	31,467,972	31,467,972	-	-
Interest on series A preference units*	170,076	170,076	20,009	100,045	50,022
Secured bank loans**	308,804,827	437,830,993	51,748,025	262,396,316	123,686,652
Unsecured notes	279,915,643	364,622,563	24,330,214	340,292,349	-
	620,358,518	834,091,604	107,566,220	602,788,710	123,736,674

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

* 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	
	2017 \$	2016 \$
Assets		
Cash	93,112,868	10,818
Total assets	93,112,868	10,818
Liabilities		
Payables	(413,762)	(402,902)
Total liabilities	(413,762)	(402,902)
Net external exposure	92,699,106	(392,084)

* 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	
	2017 \$	2016 \$
USD denominated convertible notes issued by the US REIT to the Australian parent entity	180,164,998	127,870,008
USD denominated interest receivable on convertible note	3,566,936	4,833,102
Net internal exposure	183,731,934	132,703,110
Net profit or loss exposure	276,431,040	132,311,026

** 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.

	2017 \$	2016 \$
Impact on profit or (loss) / equity		
+10% - Strengthening	(25,139,435)	(12,037,093)
-10% - Weakening	30,724,133	14,710,334

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 of the USD entity are 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 which the above exposure relates are shown below:

	USD exposure converted to AUD	
	2017	2016
	\$	\$
Assets		
Cash	51,219,508	99,683,802
Receivables and other assets	15,644,313	19,031,769
Investments in jointly controlled entities	27,859,205	28,347,843
Other financial assets	23,062,847	8,382,656
Investment properties	1,118,404,055	1,067,170,606
Total assets	1,236,189,928	1,222,616,676
Liabilities		
Payables	4,903,171	7,857,634
Borrowings	555,136,863	489,987,677
Other payables	170,076	184,257
Total liabilities	560,210,110	498,029,568
Net exposure	675,979,818	724,587,108

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%, 3.88% and 4.00%. 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 4.45% to 4.95% (depending on the value of the Group's cash deposits with Centennial Bank) for stabilised properties, LIBOR 1 Month plus 5.45% 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.



	2017 \$	2016 \$
Variable rate instruments		
Cash and cash equivalents *	182,798,770	123,138,163
Variable rate bank loans (Centennial Bank and FCCD Limited)	(223,483,164)	(205,663,422)
	(40,684,394)	(82,525,259)

* 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.

	2017 \$	2016 \$
Impact on profit before tax / equity		
+0.25% (25 basis points)	(101,711)	(206,313)
-0.25% (25 basis points)	101,711	206,313

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 and CPUs). The gearing ratio at the end of the reporting period was as follows:

	2017 \$	2016 \$
Debt	588,890,546	546,995,244
Equity	688,928,546	583,843,909
Debt to equity ratio*	85.48%	93.69%

* 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 \$7,747,471 as shown in Note 9(iii).

The Group has a capital commitment of \$79,032,418 in respect of properties that are either under construction/refurbishment or are due to commence construction/refurbishment.

The Group also entered into a contract to purchase a 21 unit property on 135th Street in Harlem, Manhattan for US\$7,240,000 with its joint venture partner Urban American. The Group's equity contribution to the deal is expected to be US\$2,226,913. Settlement is expected to occur in March 2018.

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

Mr. Alexander MacLachlan, Mr. Tristan O'Connell and Mr. Warwick Keneally (appointment effective 16 May 2017) are directors of the Responsible Entity, Walsh & Company Investments Limited (**Walsh & Co.**), and are deemed to be key management personnel. Mr. Tom Kline resigned as a director of the Responsible Entity effective 16 May 2017.

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	No. of CPUs
Alexander MacLachlan	100,503	500	500
Tristan O'Connell	59,423	-	150
Warwick Keneally	18,154	-	250



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 \$4,480,124 (2016: \$3,859,565) 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 2017 is \$361,194 (2016: \$351,335).

Management Fees Payable to the Investment Manager

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

The Investment Manager (**URF Investment Management Pty Limited**) 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.

Under the terms of the agreement, the investment management fee is to be charged based on 1.24% (exclusive of GST) of the gross asset value of the Group. In its discretion, the Investment Manager charged no fee on the first \$100 million of gross assets of the Fund. Effective 1 July 2017, and as part of the repositioning of the portfolio and the strategy to drive cost efficiencies for the Group, the Investment Manager decided to waive the investment management fee entirely for an indefinite period. The Investment Manager will continue to provide all the services set out in the Investment Management Agreement.

The investment management fee charged to the Group up to 30 June 2017 is \$7,286,922 (2016: \$12,658,953) 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 2017 is nil (2016: \$1,212,561).

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 one 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 19,400 lease inquiries and successful letting of 211 units representing gross annual rent income to the Fund of \$11.5 million.

Total leasing fee incurred during the year was \$1,092,434 (2016: \$1,206,569).

The amount owed to the Investment Manager in respect of the leasing fee at 31 December 2017 is \$129,690 (2016: \$97,361).



Total leasing fee expensed during the year, including fees capitalised in prior years, is \$1,131,227 (2016: \$1,152,997) included in management fees expense in the profit or loss.

Leasing fee deferred in other assets is \$751,813 (2016: \$855,767).

Asset disposal fee (payable by the US REIT)

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

During the year, the Investment Manager oversaw the successful disposal of 19 properties for total sale proceeds of \$28.7 million, which represented a 15% premium to total asset cost, including purchase price, closing costs, and renovation expenditure.

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 15 property disposals out of 19 total property disposals during the year.

Total asset disposal fee incurred in the year was \$632,626 (2016: \$2,037,526) included in management fees expense in the profit or loss.

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 18 transactions. 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 \$528,784 (2016: \$11,186) 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 1,100 potential property acquisitions, the bidding on 898 properties, and the acquisition of 73 properties for a total acquisition cost of \$46.6 million.

Total asset acquisition fee incurred during the year was \$1,250,953 (2016: \$2,019,411) 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 2017 is \$36,809 (2016: \$635,304).

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 very attractive 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 issue of URF Notes III (\$175 million), an increase of US\$50 million in the Centennial Bank facility limit to US\$175 million, as well as the debt facility for the 30-58/64 34th Street Investment. At the discretion of the Investment Manager, the debt arranging fee in respect of URF Notes III was calculated based on 1.00% of total proceeds raised.

Total debt arranging fee incurred during the year was \$3,176,293 (2016: \$3,811,968). 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 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 2017 is nil (2016: \$203,260).

Total debt arranging fee amortised during the year, including fees capitalised in prior years, is \$2,160,929 (2016: \$2,654,883).

Other Fees and Recoveries

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

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.

Pursuant to the management agreements, the Responsible Entity and Dixon Advisory USA Inc recover certain direct expenses incurred in the management of the Group's activities.

The expenses recovered from the Group are primarily in respect of the Group's direct payroll and payroll related expenditure and the Group's share of office lease and depreciation recoveries.

For the year ended 31 December 2017, the Group's direct expenditure relating to salaries and wages totalling \$9,623,109 (2016: \$8,685,751) was recharged to the Group by Dixon Advisory USA Inc and the Group's share of office administration expenditure totalling \$5,514,392 (2016: \$5,852,119) was recharged to the Group by Dixon Advisory USA Inc (\$4,751,993) and the Responsible Entity (\$762,399). Included in the office administration costs is the amortisation for the current year of \$468,460 in relation to the Group's payment to Dixon USA Inc in the prior year totalling \$2,783,342 towards its share of the new office fit-out and related office equipment. The amortisation is determined based on the useful lives of the underlying assets. The unamortised balance is included in prepayments in the Condensed Consolidated Statement of Financial Position.

For the year ended 31 December 2017, an administrative fee of 8.37% being \$1,202,889 (2016: 7.91% being \$1,085,718) permitted under the Administrative Services Agreement on actual costs incurred by Dixon Advisory USA Inc was charged by Dixon Advisory USA Inc. 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 Inc with the intention that such ongoing costs are met by the Management fees paid by the Group.

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 direct 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 \$72,262,914 (2016: \$65,969,758), of renovation work for the Fund across 32 large-scale renovations and 68 small-scale renovations.

The renovation costs comprised of \$53,447,860 of direct labour and materials (2016: \$47,214,254) incurred by Dixon Projects and recharged to the Group.

The renovation costs also include \$8,707,019 of General Conditions and insurance charges (2016: \$7,705,544), a development fee of \$3,032,541 (2016: \$2,683,740), and architectural, quantity surveyor and interior design services of \$7,075,493 (2016: \$8,379,659) charged by Dixon Projects.

These costs are capitalised to the relevant investment properties.

Structuring and handling fee (payable by the Fund)

The Responsible Entity is entitled to receive a structuring and arranging fee of 1.0% (exclusive of GST) (2016: 1.5%), and a handling fee of 1.0% (exclusive of GST) (2016: 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, \$2,189,778 (inclusive of GST) was paid to the Responsible Entity (2016: \$968,432) and \$2,184,278 (inclusive of GST) was paid to Dixon Advisory & Superannuation Services Limited (2016: \$905,125). Both amounts paid in 2017 were in relation to the Convertible Preference Unit (**CPU**) offering which closed on 22 December 2017.

The total of structuring & arranging and handling fees are recognised as a reduction in issued unit capital. Nil amount owing at 31 December 2017 (2016: nil).

Stamping fee (payable by the Fund)

Under the terms of the URF Notes III Supplementary Prospectus dated 30 January 2017, Dixon Advisory & Superannuation Services Limited (**DASS**) is entitled to a stamping fee of 1.025% (inclusive of GST) of the



amounts raised and allocated under Applications bearing the stamp of AFSL Holder. In respect of URF Notes III, this fee amounted to \$1,752,697 (inclusive of GST), and forms part of the amortised cost of the unsecured notes balance referred to in Note 10. The capitalised fee is amortised over the Note expiry period. No stamping fees were paid to DASS in 2016. Total stamping fees amortised during the year is \$2,390,004 inclusive of stamping fees charged in prior years (2016: \$996,261).

Total stamping fee included in trade and other payables at 31 December 2017 is nil (2016: nil).

Fund administration fee (payable by the Fund)

Australian Fund Accounting Services Pty Limited (a related entity of the Responsible Entity) 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 un-claimable GST) (2016: \$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 (exclusive of un-claimable GST) per annum. The expenditure of \$120,000 (exclusive of un-claimable GST) (2016: \$120,000) is included in Office Administration Costs in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.

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	
		2017	2016
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%



		Ownership interest	
		2017	2016
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%
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 Warringah 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%	100%
Brisbane URF LLC	United States	100%	100%
USM URF AT Holdings LLC	United States	100%	100%
USM Asset Trust	United States	100%	100%
TRS URF LLC	United States	100%	100%
W168 Investors LLC	United States	100%	100%
34 Astoria Investors LLC	United States	100%	-
Essex URF LLC	United States	100%	-



23. Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2017 the parent entity of the Group was US Masters Residential Property Fund.

	2017 \$	2016 \$
Result of parent entity		
Loss for the year	(18,217,716)	(46,757,544)
Total comprehensive loss for the year	(18,217,716)	(46,757,544)
Financial position of parent entity at year end		
Current assets	135,707,529	28,510,864
Total assets	877,765,793	695,477,548
Current liabilities	26,511,943	22,560,086
Total liabilities	367,032,965	344,405,054
Total equity of the parent entity comprising of:		
Unit capital	455,858,921	472,669,283
Convertible step-up preference units	194,688,412	-
Accumulated losses	(139,814,505)	(121,596,789)
Total equity	510,732,828	351,072,494

24. Subsequent events

A distribution of 5 cents per ordinary unit totalling \$17,770,028 was declared on 20 December 2017 and was paid to unitholders on 5 February 2018. 5,412,546 units were issued under the Group's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled 8 property purchase contracts with a total consideration of \$4,626,997. In addition, the Group disposed of 8 properties for total consideration of \$7,606,035.

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

	2017 \$	2016 \$
Auditors of the group		
<i>Deloitte Touche Tohmatsu</i>		
Audit and review of Group financial statements	205,000	198,500
Audit and review of subsidiary financial statements	50,000	48,700
Other audit services - predominantly relating to US GAAP accounting	-	20,000
Taxation services	7,150	35,277
Other services	24,904	45,738
	287,054	348,215
Other audit firms		
<i>Deloitte Tax LLP</i>		
Taxation services	310,203	292,361



Directors' Declaration

For the year ended 31 December 2017

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 19 to 68, 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 2017 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.

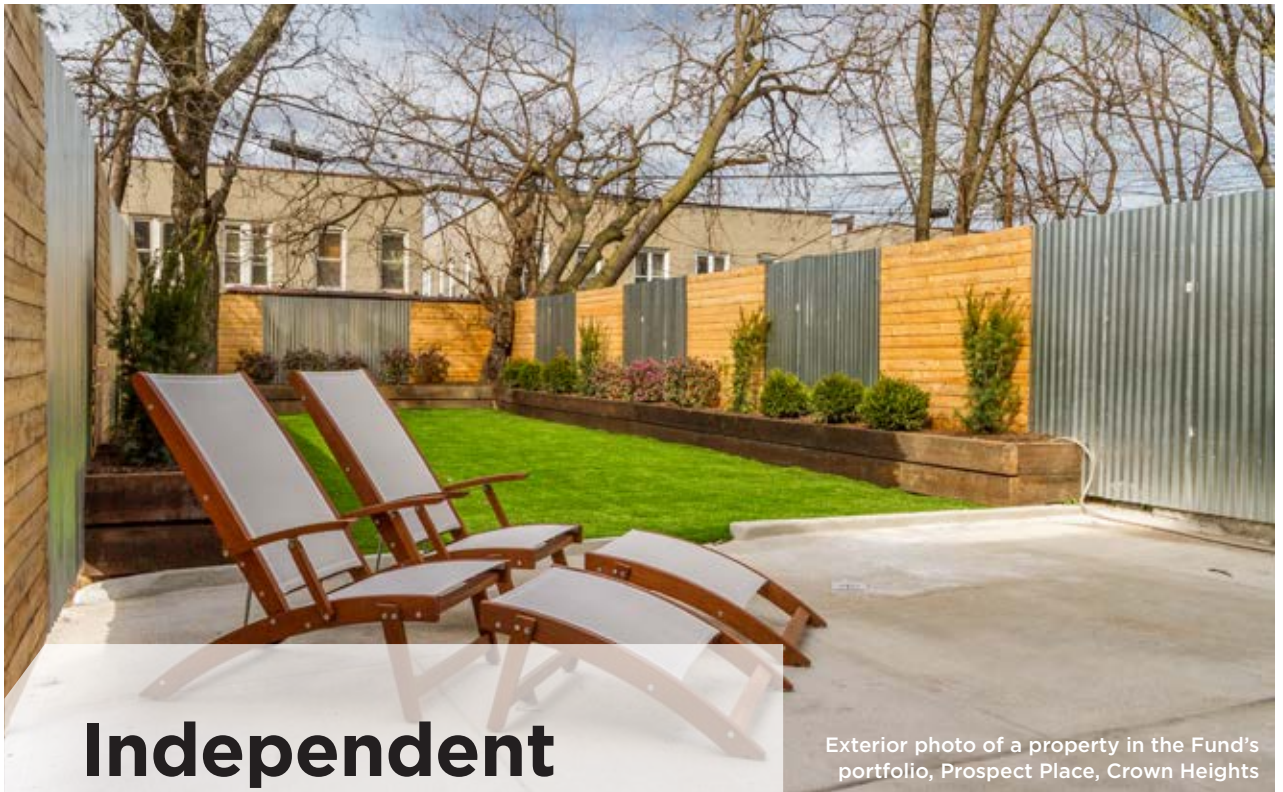


Alex MacLachlan

Director

Dated this 22nd day of February 2018





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

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 2017, 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 other explanatory information, and the directors' declaration.

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 2017 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 Walsh & Co Investments Limited (the "Responsible Entity"), 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.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited



Independent Auditor's Report

continued

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Fair Value of Investment Properties</i></p> <p>As at 31 December 2017 the Group has determined the fair value of the investment properties to be \$1,118 million as disclosed in Note 9.</p> <p>The valuation basis of the portfolio is disclosed in Note 9(i) to the financial statements and is based on a valuation process performed during each reporting period. Significant judgement is required in the following:</p> <ul style="list-style-type: none"> • The selection of a sample of properties each period, within each location grouping; • The independent appraisals are dependent on inputs by the appraisers, including comparable property size, geographic location, property condition and selling prices; and • The extrapolation to properties which were not subject to individual independent appraisals involves management estimation. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the key processes adopted by management to determine the fair value of investment properties at balance date, and engaging 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 independence, competence and objectivity of the external appraisers used by management in the assessment process; • Holding 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 to the financial statements.
<p><i>Taxation</i></p> <p>As at 31 December 2017 the Group has recognised a deferred tax liability of \$59 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.</p> <p>As disclosed in Note 2(C)(ii), the realisation of the deferred tax liability is dependent on circumstances which can only be determined at future disposal dates which are uncertain at balance date.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • 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; • Engaging taxation experts to assist in our assessment of management's application of the applicable US taxation legislation conditions used in management's assessment;



Independent Auditor's Report

continued



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
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.	<ul style="list-style-type: none">Assessing 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; andAssessing the appropriateness of the disclosures included in Notes 2(C)(ii) and 11 to the financial statements.

Other Information

The directors of the Responsible Entity (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 2017, 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 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.



Independent Auditor's Report

continued

Deloitte.

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.
- 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



Wong W Ching
Partner
Chartered Accountants
Sydney, 22 February 2018





Stock Exchange Information

Statement of quoted securities as at 31 January 2018

- There are 4,884 unitholders holding a total 355,400,553 ordinary units
- The 20 largest unitholders between them hold 5.577% of the total units on issue

Distribution of quoted units as at 31 January 2018

Distribution of unitholders category (size of holding)	Number of unitholders
1 - 1,000	126
1,001 - 5,000	226
5,001 - 10,000	200
10,001 - 100,000	3,283
100,001 and over	1,049
Totals	4,884
Holding less than a marketable parcel	66

Substantial unitholdings as at 31 January 2018

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

Directors' unitholdings

As at 31 January 2018 directors of the Group held a relevant interest in the following securities on issue by the Group.

Director	Ordinary units	URF notes	URF CPUs
Tristan O'Connell	59,423	0	150
Alex MacLachlan	100,503	500	500
Warwick Keneally	18,154	0	250

Restricted Securities

There are no restricted securities on issue by the Group.



Top 20 holders of ordinary units at 31 January 2018

Unitholder Name	Number of units held	% of total
Mr Orange Pty Limited	4,816,541	1.355
Mr Orange Pty Limited	1,752,739	0.493
GB & JA Cameron Holdings Pty Ltd	1,650,000	0.464
Leanganook Pty Ltd	1,573,075	0.443
Assess Pty Ltd	1,103,172	0.310
C & J Vonwiller 2 Pty Ltd	806,024	0.227
ISS Nominees Pty Limited	785,759	0.221
HSBC Custody Nominees (Australia) Limited	737,036	0.207
J & V King Pty Ltd	731,542	0.206
Darmal Pty Limited	674,239	0.190
JLWA Holdings Pty Ltd	621,119	0.175
Mr Alan Cochrane Dixon & Mrs Katharine Dixon	619,436	0.174
Aldwood Investments Pty Ltd	616,849	0.174
Duntex Manufacturing Co Pty Limited	611,984	0.172
Mr Damien Joseph Kenneally & Mrs Candace Lynn Kenneally	607,756	0.171
Mr Andrew Alexander Lindberg & Mrs Leigh Christine Lindberg	556,089	0.156
Mr Ernest Yuet Ning Shaw & Mrs Elizabeth Pui Chi Shaw	553,439	0.156
Theropod Pty Ltd	552,145	0.155
CG & KJ Forbes Pty Ltd	543,721	0.153
Netwealth Investments Limited	525,905	0.148
Total Securities of Top 20 Holdings	20,438,570	5.751



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.

US Masters Residential Property Fund

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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, McDonough Street, Bed-Stuy

