

Appendix 4D

Interim Final Report For the period ended 30 June 2018

Name of entity

US Masters Residential Property Fund

ARSN

150 256 161

Reporting period

1 January 2018 to 30 June 2018

Previous corresponding period

1 January 2017 to 30 June 2017

Results for announcement to the market

	30-Jun-18
Total revenue ("revenue from ordinary activities – investment property income, interest and dividend income")	Up by 9% to \$18,666,267
Net operating loss for the period ("loss from ordinary activities after tax attributable to unitholders")	Down by 81% to (\$5,474,881)
Total comprehensive income ("net income for the period attributable to unitholders")	Up by 149% to \$37,546,330

Commentary on results

Refer to attached Interim Financial Report, including the Directors' Report to Unitholders. Additional Appendix 4D disclosure requirements can be found in the notes to the financial statements.

Distributions

	Amount per unit	Franked amount
Interim distribution (paid on 5 February 2018)	5 cents	-
Final distribution (paid on 3 August 2018)	5 cents	-
Total distribution	10 cents	-
There is a distribution reinvestment plan in operation in respect of this distribution.		
Distribution dates:		
Ex-Distribution date:	Thursday, June 28, 2018	
Record date:	Friday, June 29, 2018	
Payment date:	Friday, August 03, 2018	

Net tangible assets per ordinary unit	30-Jun-18	30-Jun-17
Pre-tax attributable to ordinary units	\$1.61	\$1.68
Post-tax attributable to ordinary units	\$1.42	\$1.42

Loss per unit	30-Jun-18	30-Jun-17
Basic loss per unit	(3.3 cents)	(8.1 cents)
Diluted loss per unit	(3.3 cents)	(8.1 cents)

Interim Financial Report

This report is based on the 30 June 2018 Interim Financial Report and has been reviewed by Deloitte Touche Tohmatsu.



ARSN 150 256 161

US Masters Residential Property Fund



Interim Financial Report

For the half-year ended
30 June 2018

Responsible Entity:

WALSH & COMPANY

INVESTMENTS LIMITED

ACN 152 367 649 | AFSL 410 433

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161
FOR THE HALF-YEAR ENDED 30 JUNE 2018

CONTENTS

Directors' Report	2
Auditor's Independence Declaration	6
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Condensed Consolidated Statement of Financial Position	8
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Statement of Cash Flows	10
Notes to the Condensed Consolidated Financial Statements	11
Directors' Declaration	30
Independent Auditor's Review Report	31

US MASTERS RESIDENTIAL PROPERTY FUND

ARSN 150 256 161

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2018

The directors of Walsh & Company Investments Limited (**Walsh & Co.**), the Responsible Entity of US Masters Residential Property Fund (**the Fund**), are pleased to present their report together with the consolidated financial statements of the Fund and the entities it controlled (**the Group**) for the half-year ended 30 June 2018. The directors of the Responsible Entity at any time during, or since the end of, the financial period are shown below:

Alex MacLachlan
Tristan O'Connell (resigned 9 July 2018)
Warwick Keneally
Mike Adams (appointed 9 July 2018)

Directors have held office since the start of the half-year to the date of this report unless otherwise stated.

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

Principal activities and significant changes in the nature of activities

The principal activity of the Group during the course of the financial period 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 and Essex Counties, New Jersey, and Brooklyn, Manhattan, and Queens, New York.

Capital structure and operational update

During the period, the Group refinanced a large portion of its existing debt with a newly originated facility with Wells Fargo Bank. The new facility, which has an initial limit of US\$200 million but can grow to a maximum limit of US\$400 million, was put in place against the Fund's stabilised properties. The facility has a 3-year term and carries an interest rate of one-month LIBOR plus 1.80%, which, as at the time of the facilities closing, translates to an interest rate of 3.89%. The refinancing of the portfolio allowed the Group to repay the more expensive FCCD Limited facility, which was priced at LIBOR plus 5.50%, representing a significant interest saving to the Group. The facility will also replace the existing Investors Bank facilities and, as the facility is expanded, the Centennial Bank facility. The refinancing also allows the Group to capitalize on the price appreciation of the underlying property collateral, with the new facility expected to add upwards of US\$50 million in additional cash reserves to complete the construction pipeline. During the period, the Group also negotiated a reduced interest rate on its existing Centennial Bank facility from 4.95% and 5.60% for stabilised and non-stabilised properties, respectively, to 4.50% (irrespective of whether the property is stabilised or non-stabilised).

The Group also made considerable progress towards reducing the cost base of the business. Effective 1 July 2018, all staff and related costs that had been carried by Dixon Advisory USA Inc and recharged to the Group have been internalized directly into the US REIT. This will remove a layer of administrative cost to the Group going forward. For the period ended 30 June 2018, this administrative cost equated to US\$0.5 million, or US\$1.0 million on an annualised basis.

Reflecting the progress the Group has made in stabilising the portfolio by continuing to deliver on the construction pipeline and successfully lease properties, and in addition to the above, with effect from 1 July 2018 the Investment Manager has agreed to waive the asset acquisition fee and leasing fee for an indefinite period. In the current period, the combined value of these fees and costs was US\$1.2 million. The waiver by the Investment Manager of these fees is in addition to the waiver of the Investment Management fee which was effective 1 July 2017.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2018

Freestanding portfolio update

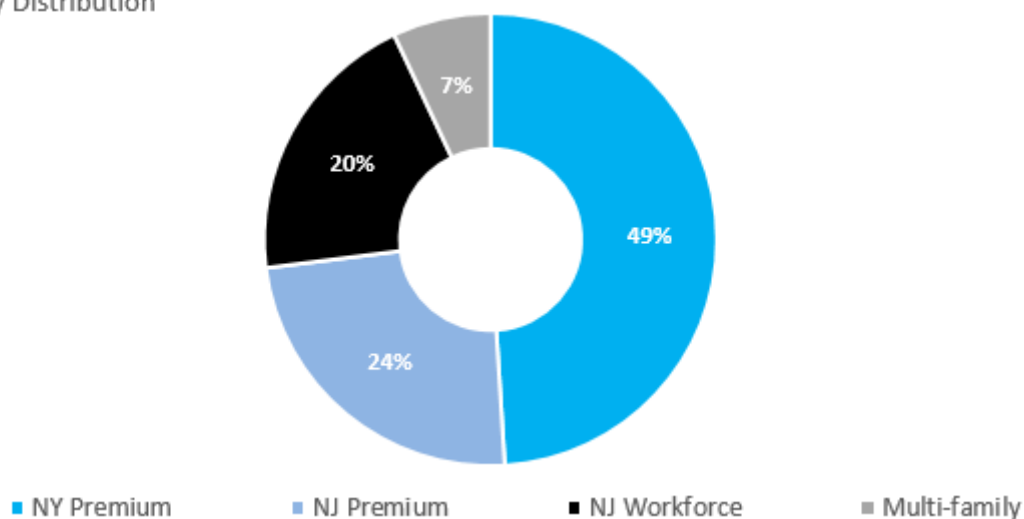
During the half-year to 30 June 2018, the number of freestanding properties in portfolio was largely unchanged, as the Group acquired 25 properties while disposing of 27 properties. At 30 June 2018, the Group had 653 properties. The total book value of these properties at 30 June 2018 was \$1.2 billion, which included an \$11.1 million increase in the value of freestanding properties over the half-year to 30 June 2018, net of capitalised interest. As outlined in the Group's strategic review a year ago, there will continue to be minimal acquisition activity going forward. Rather, the Group will continue to focus its resources on completing the renovation pipeline and bringing the portfolio to full stabilisation.

As noted, the Group acquired 25 properties for \$14.9 million during the period. The majority of the acquisitions during the period reflect opportunistic purchases in both Hudson and Essex Counties, New Jersey through foreclosure auctions. The vast majority of the properties acquired during the period require only a relatively small amount of renovation and repair work with most having a restoration budget of between US\$20,000 and US\$150,000.

As noted, the Group also completed 27 property disposals as part of its regular capital management program during the period. The total sales price achieved for these 27 properties was US\$22.5 million, which in aggregate reflected a 9% 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



US MASTERS RESIDENTIAL PROPERTY FUND ARSN 150 256 161

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2018

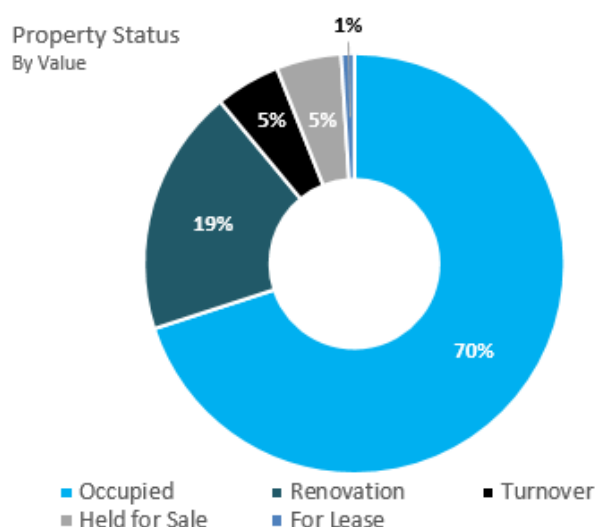
Freestanding properties construction update

The Group has made significant progress towards stabilising the freestanding portfolio, completing 40 renovations with a total renovation spend of US\$28 million during the period. As outlined in the quarterly updates, this result was slightly ahead of the scheduled 37 renovations projected for completion during the period, with the cost for the completed renovations in-line with budget.

Of these renovations, 18 were large scale renovations and 22 were small scale renovations. The newly renovated properties are expected to contribute an additional US\$3.3 million in additional annualized rental income. As of 30 June 2018, there are 77 properties that remain in the renovation pipeline. The Group expects to complete the majority of these renovations within the next 6-12 months. The completion of the renovation pipeline is expected to contribute an additional US\$11.4 million in annualized rental income. As the Group progresses towards full portfolio stabilisation, it will continue to place a focussed effort on driving cost efficiencies across the portfolio.

The Group's renovation expertise has again been recognised by the American Residential Design Awards, winning the Global Choice award for excellence in residential design subsequent to balance date. This is the second year running the Group has won the award and is a testament to the quality of renovation work completed by the Group. In addition to the Global Choice award, the Group also won four additional awards at the American Residential Design Awards, recognising the Group's expertise in renovation, design detail, indoor and outdoor living spaces.

The property status of freestanding properties as at 30 June 2018 is depicted below.



Multi-family property update

On 5 April 2018, the Group further expanded its multi-family holdings with Urban American, making an equity investment of US\$2.2 million to acquire a 21-unit property located at 523 West 135th Street, Hamilton Heights. The property is close to Columbia University, ensuring strong rental demand from both students and staff alike and is well serviced by the New York City subway system. Similar to the Group's other multifamily properties, the property offers an opportunity to drive value through a carefully curated renovation program. The Group's investment represents an economic interest of 64.7%.

During the period, the multi-family property located at 515 West 168th Street was independently appraised at US\$24.1 million, representing a 32% premium to acquisition cost in December 2016. 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, 30 apartments have been renovated, with post renovation rents exceeding pre-renovation rents by 23%. It is expected improvements to the common areas of the property will continue to drive value as existing leases renew and additional apartments are renovated.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2018

Financial performance and position

The Group recorded earnings before interest, tax, and currency movements of \$9.6 million for the period ended 30 June 2018. This compares with the prior period earnings before interest, tax, and currency movements of \$1.9 million. The improvement on the prior period reflects both revenue growth and cost reductions.

Rental revenue increased by 8% to \$17.8 million in the current period, and the Group benefited from a combined \$12.1 million fair value gain on its freestanding properties and equity investments. Group level cost savings of \$7.3 million were achieved by reducing the costs of managing the portfolio, while property level operating efficiencies were also improved, with the property level cost to income ratio decreasing to 44% in the current year compared with 46% in the prior period.

For the period, the Group recorded a pre-tax profit of \$0.3 million, a post-tax loss of \$5.5 million, and a total comprehensive profit of \$37.5 million. The total comprehensive profit of \$37.5 million was positively impacted by the depreciation of the Australian dollar during the period from 78.09 cents to 74.05 cents, resulting in an increase in the gross assets of the Group of \$42.9 million, or 3%.

Distributions paid or recommended

A distribution of 5 cents per ordinary unit, totalling \$17.8 million, was declared in the prior year. After accounting for the Group's Distribution Reinvestment Plan, \$8.8 million was paid on 5 February 2018.

A further distribution of 5 cents per ordinary unit, totalling \$18.0 million, was announced on 25 June 2018. The Distribution Reinvestment Plan is in place in relation to the distribution.

In addition, a distribution of \$3.27 per Convertible Preference Unit, totalling \$6.2 million, was announced on 25 June 2018. Like distributions on ordinary units, the Distribution Reinvestment Plan is in place in relation to the distribution.

After balance date events

Other than matters disclosed in Note 15 of the condensed consolidated financial statements, 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.

Auditor's independence declaration

The auditor's independence declaration is set out on page six and forms part of the Directors' Report for the half-year ended 30 June 2018.

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the *Corporations Act 2001*.



Mr Alex MacLachlan
Walsh & Company Investments Limited

Dated this 29th day of August 2018

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

29 August 2018

Dear Board Members

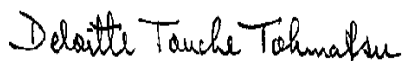
US Masters Residential Property Fund

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 review of the financial statements of US Masters Residential Property Fund for the financial half-year ended 30 June 2018, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Weng W Ching
Partner
Chartered Accountant

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE HALF-YEAR ENDED 30 JUNE 2018

	<i>Note</i>	30 Jun 2018	30 Jun 2017
		\$	\$
Investment property rental income		17,791,221	16,498,007
Fair value movement of investment properties	6	11,057,380	12,266,283
Fair value movement of equity investments		1,047,481	479,064
Share of profits of jointly controlled entities	5	756,328	738,957
Interest income		769,704	671,942
Dividends from equity investments		105,342	-
Investment property expenses		(7,768,773)	(7,633,406)
Net foreign currency gain/(loss)		8,487,598	(2,210,430)
Listing fees		(174,713)	(175,504)
Professional fees		(929,956)	(960,500)
Marketing		(77,715)	(82,820)
Management fees	13	(3,166,929)	(10,398,287)
Salaries and wages	13	(4,639,654)	(5,101,369)
Office administration costs	13	(2,478,300)	(3,121,316)
Administration fees	13	(579,957)	(637,671)
Interest expense	6	(17,733,844)	(17,264,067)
Investment property disposal costs	13	(1,684,302)	(525,934)
Bad debt expense		(64,033)	(63,331)
Other expenses		(397,229)	(43,058)
Profit/(Loss) before income tax		319,649	(17,563,440)
Income tax expense	8	(5,794,530)	(10,840,171)
Loss for the period attributable to Unitholders		(5,474,881)	(28,403,611)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operation (nil tax)		42,948,573	(48,254,217)
Share of jointly controlled entity's reserve movements (nil tax)	5	72,638	39,233
Other comprehensive income/(loss) for the period, net of tax		43,021,211	(48,214,984)
Total comprehensive income/(loss) for the period attributable to Unitholders		37,546,330	(76,618,595)
Earnings per unit			
Basic loss per unit (dollars)		(0.03)	(0.08)
Diluted loss per unit (dollars)		(0.03)	(0.08)

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	<i>Note</i>	30 Jun 2018	31 Dec 2017
		\$	\$
Current assets			
Cash and cash equivalents	2	120,957,564	182,798,770
Receivables		387,562	713,926
Prepayments		793,506	376,449
Other assets	3	7,454,489	4,628,216
Investment properties held for sale	6	52,561,631	54,417,303
Total current assets		<u>182,154,752</u>	<u>242,934,664</u>
Non-current assets			
Investment properties	6	1,172,976,873	1,063,986,752
Investments in jointly controlled entities	5	29,836,941	27,859,205
Other financial assets	4	35,558,160	23,062,847
Other assets	3	11,121,582	8,301,116
Prepayments	13	1,725,343	1,866,084
Security deposits	7	337,610	320,143
Total non-current assets		<u>1,251,556,509</u>	<u>1,125,396,147</u>
Total assets		<u>1,433,711,261</u>	<u>1,368,330,811</u>
Current liabilities			
Payables	9	39,165,779	31,467,972
Borrowings	10	2,453,236	28,619,678
Total current liabilities		<u>41,619,015</u>	<u>60,087,650</u>
Non-current liabilities			
Deferred tax liabilities	8	67,906,847	59,043,747
Borrowings	10	613,019,224	560,100,792
Other non-current liabilities		168,805	170,076
Total non-current liabilities		<u>681,094,876</u>	<u>619,314,615</u>
Total liabilities		<u>722,713,891</u>	<u>679,402,265</u>
Net assets		<u>710,997,370</u>	<u>688,928,546</u>
Equity			
Unit capital		446,748,965	455,858,921
Convertible step-up preference units		188,320,862	194,688,412
Reserves		143,638,447	100,617,236
Accumulated losses		(67,710,904)	(62,236,023)
Total equity		<u>710,997,370</u>	<u>688,928,546</u>

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2018

	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 2017	472,669,283	-	160,150,311	41,539	(49,017,224)	583,843,909
Loss for the period	-	-	-	-	(28,403,611)	(28,403,611)
Other comprehensive						
(loss)/income, net of income tax						
Foreign operation currency translation loss	-	-	(48,254,217)	-	-	(48,254,217)
Jointly controlled entity interest rate swap hedge gain	-	-	-	39,233	-	39,233
Total other comprehensive (loss)/income	-	-	(48,254,217)	39,233	-	(48,214,984)
Total comprehensive (loss)/income for the period	-	-	(48,254,217)	39,233	(28,403,611)	(76,618,595)
Transactions with owners in their capacity as owners						
Issue of ordinary units	9,408,450	-	-	-	-	9,408,450
Distributions to unitholders	(17,519,149)	-	-	-	-	(17,519,149)
Total transactions with owners	(8,110,699)	-	-	-	-	(8,110,699)
Balance at 30 June 2017	464,558,584	-	111,896,094	80,772	(77,420,835)	499,114,615
Balance at 1 January 2018	455,858,921	194,688,412	100,455,378	161,858	(62,236,023)	688,928,546
Loss for the period	-	-	-	-	(5,474,881)	(5,474,881)
Other comprehensive income, net of income tax						
Foreign operation currency translation gain	-	-	42,948,573	-	-	42,948,573
Jointly controlled entity interest rate swap hedge gain	-	-	-	72,638	-	72,638
Total other comprehensive income	-	-	42,948,573	72,638	-	43,021,211
Total comprehensive income/(loss) for the period	-	-	42,948,573	72,638	(5,474,881)	37,546,330
Transactions with owners in their capacity as owners						
Issue costs	-	(171,947)	-	-	-	(171,947)
Issue of ordinary units	8,930,701	-	-	-	-	8,930,701
Distributions to unitholders	(18,040,657)	(6,195,603)	-	-	-	(24,236,260)
Total transactions with owners	(9,109,956)	(6,367,550)	-	-	-	(15,477,506)
Balance at 30 June 2018	446,748,965	188,320,862	143,403,951	234,496	(67,710,904)	710,997,370

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 30 JUNE 2018

	<i>Note</i>	30 Jun 2018 \$	30 Jun 2017 \$
Cash flows from operating activities			
Cash receipts from customers		18,204,313	16,197,273
Cash paid to suppliers		(16,299,287)	(28,143,999)
Interest received		772,161	701,969
Interest paid (i)		(14,365,541)	(18,941,816)
Net cash used in operating activities		<u>(11,688,354)</u>	<u>(30,186,573)</u>
Cash flows from investing activities			
Acquisition of investment property, including improvements (i)		(63,185,970)	(71,401,564)
Investment in financial assets		(3,036,967)	(14,091,152)
Payments for property-related deposits		(3,798,804)	(1,729,094)
Proceeds from sale of investment properties		22,396,475	6,610,600
Disposal costs on sale of investment properties		(1,684,302)	(525,934)
Distributions received from jointly controlled entity investments (ii)		378,065	384,741
Distributions received from equity investments		105,342	-
Investment in term deposits		-	(77,703,814)
Proceeds from term deposits		-	79,060,431
Net cash used in investing activities		<u>(48,826,161)</u>	<u>(79,395,786)</u>
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		246,770,284	188,015,749
Bank loan repayments		(235,548,149)	(4,474,828)
Payment of interest reserve and escrow accounts		(5,047,025)	(615,011)
Proceeds from return of escrow deposit		2,670,214	-
Payment of transaction costs related to loans and borrowings		(4,518,925)	(3,754,978)
Distributions paid		(8,836,441)	(7,871,571)
Withholding tax paid		(390,229)	(508,639)
Payments of issue costs		(171,948)	-
Net cash (used in)/from financing activities		<u>(5,072,219)</u>	<u>170,790,722</u>
Net (decrease)/increase in cash and cash equivalents		(65,586,734)	61,208,363
Cash and cash equivalents at beginning of period		182,798,770	123,212,092
Effect of exchange rate fluctuations on cash held		3,745,528	(4,957,933)
Cash and cash equivalents at end of period	4	<u>120,957,564</u>	<u>179,462,522</u>

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

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

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

1. Basis of preparation

Statement of compliance

The consolidated financial statements are general purpose condensed financial statements which have been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (**AASB**), including AASB 134: Interim Financial Reporting, and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures that the consolidated financial statements comply with International Financial Reporting Standards (**IFRSs**) issued by the International Accounting Standards Board (**IASB**).

This interim financial report is intended to provide users with an update on the latest annual financial statements of US Masters Residential Property Fund (**the Fund**). The half-year financial statements do not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report, together with any public announcements made during the half-year.

These half-year financial statements were approved by the Board of Directors of the Responsible Entity on 29 August 2018.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

Amendments to Accounting Standards and new Interpretations that are mandatory effective from the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period which include AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers. The application of AASB 9 Financial Instruments did not result in any material impact on the Group's financial statements. There are no material changes to the timing or manner of recognition of the Group's revenue as rental income, interest income, dividend income and fair value movements in investment properties and equity investments are excluded from the application of AASB 15 Revenue from Contracts with Customers.

AASB 16 Leases is effective for annual reporting periods beginning on or after 1 January 2019. At 30 June 2018, the Group is not party to any lease agreements. Where applicable, the Group will adopt AASB 16 Leases in the financial year ended 31 December 2019.

2. Cash and cash equivalents

	30 Jun 2018	31 Dec 2017
	\$	\$
Cash at bank	120,957,564	182,798,770
	<u>120,957,564</u>	<u>182,798,770</u>

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

3. Other assets

	30 Jun 2018	31 Dec 2017
	\$	\$
Current assets		
Property related deposits	-	774,747
Deferred leasing fee	851,450	939,478
Property tax escrow deposits	798,710	1,233,008
Other assets (escrow deposits and receivables)	5,804,329	1,680,983
	<u>7,454,489</u>	<u>4,628,216</u>
	30 Jun 2018	31 Dec 2017
	\$	\$
Non-current assets		
Facility reserve accounts (i) (ii)	10,850,008	8,043,593
Interest rate cap derivative instrument	177,043	167,883
Other assets (escrow deposits and receivables)	94,531	89,640
	<u>11,121,582</u>	<u>8,301,116</u>

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

- maintain interest reserve accounts equivalent to six months of interest on the outstanding principal loan balances. At balance date, the amount of interest on reserve with Centennial Bank was US\$4,406,267 (A\$5,950,394).
- maintain a property tax and insurance reserve. At balance date, the amount on reserve with Centennial Bank in relation to property taxes and insurance reserves was US\$619,013 (A\$835,940).
- maintain a collection reserve. At balance date, the amount on reserve with Centennial Bank in relation to collection reserves was US\$963,031 (A\$1,300,514).

(ii) Under the terms of the new Wells Fargo Bank loan facility (refer note 10(i)), the Group is required to:

- maintain an interest reserve equivalent to the greater of three times the previous months interest and 1.5 times the succeeding months projected interest expense. At balance date, the amount of interest on reserve with Wells Fargo Bank was US\$505,487 (A\$682,629).
- maintain a property tax and insurance reserve equivalent to six months worth of tax and insurance expense. At balance date, the amount on reserve with Wells Fargo Bank in relation to property taxes and insurance reserves was US\$822,141 (A\$1,110,252).
- maintain a property management reserve equivalent to 6% of gross rent for a six month period calculated with reference to the current rent roll. At balance date, the amount on reserve with Wells Fargo Bank in relation to the property management reserve was US\$334,492 (A\$451,711).
- maintain a capital expenditure reserve equivalent to US\$2,000 per property. At balance date, the amount on reserve with Wells Fargo Bank in relation to the capital expenditure reserve was US\$384,000 (A\$518,568).

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

4. Other financial assets

	30 Jun 2018	31 Dec 2017
	\$	\$
Non-current assets		
Equity investments - fair value	28,600,103	23,062,847
Loan to other entity	6,958,057	-
	<u>35,558,160</u>	<u>23,062,847</u>

a) Equity investments – fair value

Investee	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest	
				30 Jun 2018 %	31 Dec 2017 %
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%	65.0%
523 West 135th Street Venture LLC (i)	USA	Property investment	Hamilton Heights, NY	64.7%	-
(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 period, 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 discount rate used to determine the fair value of the property was 5.00%. The fair value assigned to the property as of 30 June 2018 was US\$24,080,000 (A\$32,518,569), of which the Group's economic interest is US\$15,338,960 (A\$20,714,328). The Investee had borrowings totalling US\$11,393,492 (A\$15,386,215) at balance date.

30–58/64 34th Street Venture LLC

The fair value of the property portfolio owned by 30–58/64 34th Street Venture LLC has been determined by Management with reference to an appraisal completed by Jones Lang LaSalle at 31 December 2017. The directors of the Group are satisfied that the valuation completed at 31 December 2017 reflects the fair value of the properties at 30 June 2018. The Investee had borrowings totalling US\$8,500,000 (A\$11,478,731) at balance date.

523 West 135th Street Venture LLC

On 5 April 2018, the Group made an equity investment in 523 West 135th Street Venture LLC ('Investee'). On the same date, the Investee acquired a 21 apartment multi-family property located at 523 West 135th Street, Hamilton Heights, New York. The Group's economic interest in the venture is 64.71%.

Given the proximity of the property acquisition date to balance date, the fair value of the investment property owned by the Investee has been assessed at its purchase price of US\$7,483,936 (A\$10,106,598), of which the Group's economic interest is US\$4,842,855 (A\$6,539,979). The Investee had borrowings totalling US\$4,680,000 (A\$6,320,054) at balance date.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

4. Other financial assets (*continued*)

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 (\$) 30 Jun 2018	Fair value (\$) 31 Dec 2017	Inputs
Equity investments - fair value	Level 3	28,600,103	23,062,847	<ul style="list-style-type: none"> - Net market income of \$14.55 - \$21.18 per square foot - 10 year annual compound growth rate of 4.94% - 7.40% - Discount rates of 5.00% - Terminal yields of 4.75% - 5.00%

b) Loan to other entity

The Group provided vendor financing in respect of one property disposed during the period.

The loan is secured by a first mortgage over the underlying property and cash collateral totalling US\$1,274,863. The loan bears interest at 2.625% per annum and has a maturity date of 4 May 2020. No principal repayments are due until the maturity date of the loan.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

5. Investments in jointly controlled entities

Jointly controlled entities	Country of incorporation	Principal activity	Principal place of business	Ownership Interest	
				30 Jun 2018 %	31 Dec 2017 %
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.

	30 Jun 2018 (6 months) \$	31 Dec 2017 (12 months) \$
Carrying amount of interest in jointly controlled entities		
Balance at beginning of period	27,859,205	28,347,843
Distributions received and receivable (net of promote interest)	(378,065)	(761,438)
Share of profits of jointly controlled entities	756,328	2,338,078
Share of reserves of jointly controlled entities	72,638	120,319
Exchange rate differences on translation	1,526,835	(2,185,597)
Balance at end of period	<u>29,836,941</u>	<u>27,859,205</u>

The fair value of the property portfolio owned by Golden Peak II, LLC has been determined by Management with reference to an appraisal completed by Jones Lang LaSalle at 31 December 2017. The directors of the Group are satisfied that the valuation completed at 31 December 2017 reflects the fair value of the properties at 30 June 2018.

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.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

6. Investment properties

	30 Jun 2018	31 Dec 2017
	\$	\$
Disclosed on the Condensed Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	52,561,631	54,417,303
Non-current assets		
Investment properties	1,172,976,873	1,063,986,752
	<u>1,225,538,504</u>	<u>1,118,404,055</u>
	30 Jun 2018	31 Dec 2017
	\$	\$
At fair value		
Balance at beginning of period	1,118,404,055	1,067,170,606
Acquisitions, including improvements and interest on qualifying properties	64,338,058	142,179,074
Fair value movement of investment properties to market	11,057,380	21,866,986
Disposals	(30,277,275)	(28,252,067)
Exchange rate differences on translation	62,016,286	(84,560,544)
Balance at end of period	<u>1,225,538,504</u>	<u>1,118,404,055</u>
	30 Jun 2018	31 Dec 2017
	\$	\$
Interest expense	27,840,213	57,012,358
Interest capitalised to carrying value of qualifying investment properties	(10,106,369)	(19,167,604)
Interest expense reflected in profit or loss	<u>17,733,844</u>	<u>37,844,754</u>

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)

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

6. Investment properties (*continued*)

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 (\$) 30 Jun 2018	Fair value (\$) 31 Dec 2017	Valuation technique	Inputs
Residential use investment property	Level 2	1,225,538,504	1,118,404,055	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 hierarchy level 1 and hierarchy level 2 asset categories during the period. There were no significant unobservable inputs in the valuation technique applied.

Contractual obligations

Refer to Note 12 for contractual obligations in respect of property purchases.

7. Security deposits

	30 Jun 2018	31 Dec 2017
	\$	\$
Security deposits	337,610	320,143

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\$337,610) deposit.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

8. Deferred tax liabilities

	30 Jun 2018	31 Dec 2017
	\$	\$
Investment properties	67,906,847	59,043,747

Movements

Balance at beginning of period	59,043,747	84,989,435
Charged to profit or loss as income tax expense	5,559,802	16,369,234
Impact of change in US tax rate	-	(36,006,601)
Taken to profit and loss as unrealised foreign exchange loss/(gain)	3,303,298	(6,308,321)
Balance at end of period	67,906,847	59,043,747

Income tax expense is comprised of:

	30 Jun 2018	31 Dec 2017
	\$	\$
Deferred tax charged/(credited) to profit or loss	5,559,802	(19,637,367)
Withholding tax payable	220,516	403,611
State tax	14,212	-
Income tax expense/(benefit)	5,794,530	(19,233,756)

The Group recognises a deferred tax liability in respect of tax obligations which may arise in connection with the realisation and distribution to the Fund of taxation capital gains associated with its property assets.

The liability has been measured at a rate of 25% (incorporating both corporate and branch profit taxes) which may be applicable. The actual rate of tax may be lower, or even reduced to zero, depending on the structure of the realisation and other criteria and circumstances which can only be determined at a future disposal date. The Group has adopted a policy of recording its estimate of the likely amount of tax that may be applicable based on its expected manner of disposal.

9. Payables

	30 Jun 2018	31 Dec 2017
	\$	\$
Current		
Trade payables	4,872,877	2,280,131
Distribution payable	24,575,827	18,106,710
Other payables	9,717,075	11,081,131
	39,165,779	31,467,972

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.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2018

10. Borrowings

	30 Jun 2018	31 Dec 2017
	\$	\$
Current liabilities		
Secured bank loans - at amortised cost	2,453,236	28,619,678
	<u>2,453,236</u>	<u>28,619,678</u>
Non-current liabilities		
Secured bank loans - at amortised cost	332,636,357	280,185,149
Unsecured notes	280,382,867	279,915,643
	<u>613,019,224</u>	<u>560,100,792</u>

Secured Bank Loans

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

Financial institution	Interest rate	Maturity date	Security	Property security value – fair value	30 Jun 2018 Principal amount – amortised cost	31 Dec 2017 Principal amount – amortised cost
	LIBOR					
Wells Fargo	1 month + (iv) 1.80%	(i)	(i)	395,608,043	133,303,474	-
Investors Bank	3.88% (ii)	Jun 2022	Investment property	-	-	3,362,641
Investors Bank	4.00% (ii)	Nov 2022	Investment property	-	-	3,230,989
Investors Bank	3.75% (iii)	Jul 2025	Investment property (v)	29,408,227	6,270,942	6,120,845
Investors Bank	3.63% (iii)	Nov 2023	Investment property (v)	65,117,698	5,793,726	13,017,003
Investors Bank	3.63% (viii)	Nov 2023	Investment property (v)	48,431,239	9,985,940	10,245,819
Investors Bank	3.63% (iii)	Nov 2023	Investment property (v)	28,784,391	6,769,198	7,032,610
Investors Bank	3.63% (ix)	Nov 2024	Investment property (v)	79,283,666	15,393,417	16,310,800
Investors Bank	3.63% (ii)	Apr 2025	Investment property	-	-	16,826,219
Investors Bank	3.75% (ii)	Jun 2026	Investment property	-	-	9,174,737
Centennial Bank	(vii) (iv)	(vii)	(vii)	477,178,400	154,943,860	113,993,332
	LIBOR					
FCCD Limited	3 month + (iv) 5.50%	(vi)	(vi)	7,233,778	2,629,036	109,489,832
					<u>335,089,593</u>	<u>308,804,827</u>

Disclosed as:

	30 Jun 2018	31 Dec 2017
	\$	\$
Current	2,453,236	28,619,678
Non-current	332,636,357	280,185,149
	<u>335,089,593</u>	<u>308,804,827</u>

**US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018**

10. Borrowings (continued)

- (i) In June 2018, the Group refinanced several of its existing borrowing facilities with Investors Bank and FCCD Limited with a new Wells Fargo Bank facility dated 15 June 2018. At balance date, US\$102,000,000 (A\$137,744,767) was drawn from the Wells Fargo Bank facility. The Group intends to drawdown on the Wells Fargo Bank facility to repay the remaining outstanding principal due to Investors Bank (30 June 2018: A\$45,480,455) subsequent to balance date.

The Wells Fargo Bank facility limit is US\$200,000,000, and, subject to meeting certain terms may be increased up to US\$400,000,000. 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. The amount available to be drawn under the facility at any point in time is the lesser of:

- The facility limit
- The loan advance amount that supports a debt yield of 5.75% (ongoing requirement of 5.50%)
- The loan advance amount that supports a debt service cover ratio of at least 1.50 to 1.00 (ongoing requirement of 1.25 to 1.00), and
- 45% of the market value of the collateral property (ongoing requirement of 50% of the market value of collateral property).

The facility is secured by the following:

- a. A charge over the following subsidiaries of the Fund in which collateralized property assets are held:
 - NY Oakland LLC
 - NJ Penelope LLC
 - Melbourne LLC
 - Geelong LLC
 - NRL URF LLC
 - Brisbane URF LLC
- b. A guarantee given by US Masters Residential Property (USA) Fund.
- c. A guarantee given by US Masters Residential Property Fund.
- d. US\$2,046,120 (A\$2,763,161) placed in interest, taxes, insurance and property management reserves. Refer Note 3(ii).

The total value of the security at balance date in respect of the Wells Fargo Bank facility is A\$398,904,180, including property assets valued at A\$395,608,043.

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 interest rate on the facility is 1 month LIBOR plus 1.80%. Other than in specific circumstances, principal repayments are not required under the terms of the facility.

The maturity date of the facility is 15 July 2021.

- (ii) Facilities were repaid in June 2018. The underlying property collateral securing these Investors Bank facilities were refinanced with Wells Fargo Bank. Refer (i).
- (iii) Facilities were repaid subsequent to balance date in July 2018. The underlying property collateral securing these Investors Bank facilities were refinanced with Wells Fargo Bank. Refer (i).
- (iv) As of 30 June 2018, LIBOR 1 month was 2.09% and LIBOR 3 month was 1.98%.
- (v) 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.

**US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018**

10. Borrowings (continued)

- (vi) The facility with FCCD Limited comprised of a Term Loan and a Revolver Note. The Term Loan of US\$65,000,000 had a maturity date of 10 July 2020. The Revolver Note of US\$85,000,000 had a maturity date of 10 July 2018. Prior to balance date, all of the Revolver Note and the majority of the Term Loan was repaid. The underlying property collateral security was refinanced with Centennial Bank and Wells Fargo Bank.

Subsequent to balance date, the Group repaid the remaining outstanding principal amount of \$2,629,036 to FCCD Limited and consequently the Group is no longer party to the FCCD Limited loan agreement.

During the period that the facility was available, amounts available to be drawn under the facility were 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 were eligible for funding based on a 60% loan to value ratio. Once funded properties were stabilised (i.e. post renovation), funding was required to be repaid within a specified period and collateral properties were released. The facility was subject to specified covenant and other reporting obligations. The facility was subject to Default Event clauses, breach of which at the option of the lender resulted in all unpaid principal and interest amounts being immediately due and payable. The facility was secured by way of charge over the following subsidiaries of the Fund which owned 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\$7,238,855, including property assets valued at A\$7,233,778. US Masters Residential Property (USA) Fund and US Masters Residential Property Fund had each guaranteed the loan in limited circumstances.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

10. Borrowings (continued)

(vii) 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. The facility was amended again in June 2018 as outlined below. 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 2018 amendment, the total amount advanced in respect of non-stabilised properties was increased from US\$100,000,000 to US\$125,000,000.
- Renovation Advances: 45% of the renovation cost, subject to limitations imposed by Centennial Bank in certain circumstances.

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

- a. A charge over the following subsidiaries of the Fund in which collateralised property assets are held:
 - USM URF AT Holdings LLC
 - USM Asset Trust
- b. A guarantee given by US Masters Residential Property (USA) Fund.
- c. A guarantee given by US Masters Residential Property Fund in limited circumstances.
- d. US\$5,988,311 (A\$8,086,848) 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 3(i).
- e. An interest rate cap agreement entered into by the Group with SMBC Capital Markets. The carrying value of the interest rate cap is included in other non-current assets. Refer Note 3.

The total value of the security at balance date in respect of the Centennial Bank loan is A\$486,769,917, including property assets valued at A\$477,178,400.

Quarterly principal repayments are required based on a 30 year amortisation period. Under the terms of the June 2018 amendment, the facility bears interest at 1 month LIBOR plus 4.50% (previously 1 month LIBOR plus 4.75% and 5.60% for stabilised and non-stabilised properties, respectively). Under the terms of the June 2018 amendment, LIBOR is subject to a floor of 1.00% (previously 0.25%).

- (viii) Resets to a new fixed interest rate in November 2018 for the remaining term. It is the Group's intention to refinance this facility with Wells Fargo Bank after the date of issuance of this report, similar to the other Investors Bank facilities which were repaid in the current financial period and the underlying property collateral refinanced with Wells Fargo Bank – refer (i) and (ii).
- (ix) Resets to a new fixed interest rate in November 2019 for the remaining term. It is the Group's intention to refinance this facility with Wells Fargo Bank after the date of issuance of this report, similar to the other Investors Bank facilities which were repaid in the current financial period and the underlying property collateral refinanced with Wells Fargo Bank – refer (i) and (ii).

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

10. Borrowings (continued)

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	30 Jun 2018 Amortised cost	31 Dec 2017 Amortised cost
URF Notes *	7.75%	24 December 2019	24 December 2017	Unsecured	18,859,838	18,818,052
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	89,469,350	89,256,027
URF Notes III	7.75%	24 December 2021	24 December 2019	Unsecured	172,053,679	171,841,564
					280,382,867	279,915,643

* 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.

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

Facility	Principal drawn	Principal available	Total
Investors Bank	45,480,455	-	45,480,455
Centennial Bank	161,017,515	75,309,291 *	236,326,806
FCCD Limited	2,629,036	112,158,270 **	114,787,306
Wells Fargo	137,744,767	132,343,012 *	270,087,779
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
	631,394,673	319,810,573	951,205,246

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

** Available portion for FCCD Limited is in relation to the Revolver Facility. The FCCD Limited facility was fully repaid subsequent to balance date. The Group is no longer party to the facility.

**US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018**

11. Capital and reserves

Issuance of ordinary units

In relation to the distribution paid on 5 February 2018, 5,412,546 units were issued as part of the Fund's distribution reinvestment plan, for an amount of \$8,930,701.

The total number of ordinary units issued as at 30 June 2018 was 360,813,099.

12. Balance date capital commitments

As at balance date, the Group has a capital commitment of \$64,285,955 in respect of properties that are under construction/refurbishment.

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

13. Related parties

Key management personnel

Mr Alexander MacLachlan, Mr Tristan O'Connell and Mr Warwick Keneally are directors of the Responsible Entity, Walsh & Company Investments Limited (**Walsh & Co.**), and are deemed to be key management personnel. Mr. Tristan O'Connell resigned as a director of the Responsible Entity post balance date on 9 July 2018. Mike Adams was appointed as a director of the Responsible Entity effective 9 July 2018.

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.

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 period was \$2,352,394 (30 June 2017: \$2,223,525) and is included in management fees expense in the profit or loss.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

13. Related parties (continued)

Management fees payable to the Investment Manager

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

Effective 1 July 2017, the Investment Manager (**URF Investment Management Pty Limited**) waived the investment management fee. Accordingly, no fee was charged during the period (30 June 2017: \$7,286,922).

Prior to 1 July 2017, the Investment Management fee was charged based on 1.24% (exclusive of GST) of the gross asset value of the Group, and was in respect of services 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. In its discretion, the Investment Manager charged no fee on the first US\$100 million of gross assets of the Fund.

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 period, the Investment Manager successfully oversaw the screening of over 10,300 lease inquiries and successful letting of 118 units representing gross annual rent income to the Fund of \$6.4 million.

Total leasing fee incurred during the period was \$619,791 (30 June 2017: \$516,842) and is included in management fees expense in the profit or loss. With effect from 1 July 2018, the Investment Manager has agreed to waive this fee for an indefinite period.

Asset disposal fee (payable by the US REIT)

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

During the period, the Investment Manager oversaw the successful disposition of 27 properties for total sale proceeds of \$29.2 million, which represented a 9% 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 eight property disposals out of 27 total property disposals during the period.

Total asset disposal fee incurred in the period was \$194,744 (30 June 2017: \$192,080) and included in management fees expense in the profit or loss.

Of the total number of property disposals during the period, Dixon Realty Advisory LLC ('Dixon Realty', a wholly owned subsidiary of Dixon Advisory USA Inc) acted as real estate broker on 25 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 period, the Group paid brokerage commission of \$470,390 (30 June 2017: \$185,325) to Dixon Realty, which is included in investment property disposal costs in the profit or loss.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

13. Related parties (*continued*)

Management fees payable to the Investment Manager (*continued*)

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 period, the Investment Manager oversaw the inspection of over 207 potential property acquisitions, the bidding on 172 properties, and the acquisition of 25 freestanding properties and one multifamily building for a total acquisition cost of US\$21.1 million.

Total asset acquisition fee incurred during the period was \$409,891 (30 June 2017: \$898,988) and is included in the acquisition cost of investment properties, or where relevant, in the carrying value of the Group's investments in financial assets. With effect from 1 July 2018, the Investment Manager has agreed to waive this fee for an indefinite period.

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 period, the Investment Manager oversaw the successful negotiation of a new US\$200 million Wells Fargo Bank facility, allowing the Group to refinance a significant portion of its portfolio at attractive borrowing terms. The refinancing of the portfolio is expected to result in a capital injection of upwards of US\$50 million, which will partially be used to complete the renovation of the construction pipeline. At the discretion of the Investment Manager, the debt arranging fee in respect of Wells Fargo Bank facility was calculated based on 0.50% of proceeds (US\$102 million) drawn to date. The Investment Manager also oversaw the negotiation of the debt facility for the 523 West 135th Street Investment.

Total debt arranging fee incurred during the period was \$739,754 (30 June 2017: \$1,902,961). 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.

Other fees and recoveries

Stamping fee (payable by the Fund)

No stamping fees were incurred during the period. Total stamping fees amortised during the period was \$397,606 (30 June 2017: \$620,525).

Fund administration fee (payable by the Fund)

Australian Fund Accounting Services Pty Limited (a related party 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 \$60,736 (30 June 2017: \$61,261) 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 unclaimable GST) per annum. This expenditure of \$60,736 is included in Office Administration Costs in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

13. Related parties (continued)

Other fees and recoveries (continued)

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

Pursuant to the management agreements, the Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) 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 period ended 30 June 2018, the Group's direct expenditure relating to salaries and wages for the 85 staff fully dedicated to servicing the US REIT totalling \$4,639,654 (30 June 2017: \$5,101,369) was recharged to the Group by Dixon Advisory USA Inc. The Group's share of office administration expenditure totalling \$2,417,564 (30 June 2017: \$2,821,973) was recharged to the Group by Dixon Advisory USA Inc (\$2,268,120) and the Responsible Entity (\$149,444). Included in the office administration costs is the amortisation for the current period of \$232,866 in relation to the Group's upfront payment to Dixon Advisory USA Inc in 2016 totalling \$2,783,342 towards its share of the 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 period ended 30 June 2018, an administrative fee of 8.40% being \$579,957 (30 June 2017: 8.30% being \$637,671) 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 period, the Group invested \$36,357,855 (30 June 2017: \$36,017,587) in renovation work across 18 large-scale renovations and 22 small-scale renovations. These renovations were managed by Dixon Projects.

The renovation costs comprised of \$26,662,390 of direct labour and materials (30 June 2017: \$26,106,769) incurred from unrelated third party contractors and recharged to the Group.

The remaining renovation costs of \$9,695,465 includes \$4,311,425 of General Conditions and insurance costs (30 June 2017: \$4,383,648), a development fee of \$1,501,613 (30 June 2017: \$1,348,815), and architectural, quantity surveyor and interior design services of \$3,882,427 (30 June 2017: \$4,178,355) charged by Dixon Projects. These costs are capitalised to the relevant investment properties.

During the period, Dixon Projects employed 48 full time staff who were entirely dedicated to completing Fund projects, as well as 21 staff resources on an as needs basis. In making these resources available to the Group, Dixon Projects incurred payroll related costs of \$4,353,788, as well as office and related outgoings totalling \$1,847,247 during the period.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2018

14. 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	
		30 Jun 2018	31 Dec 2017
Parent entity			
US Masters Residential Property Fund	Australia		
Subsidiary			
US Masters Residential Property (USA) Fund	United States	100%	100%
US Masters Residential Property LLC	United States	100%	100%
Melbourne LLC	United States	100%	100%
Wallaroo 2 LLC	United States	100%	100%
EMU LLC	United States	100%	100%
Geelong LLC	United States	100%	100%
Hawthorn Properties LLC	United States	100%	100%
North Sydney LLC	United States	100%	100%
Parramatta LLC	United States	100%	100%
South Sydney LLC	United States	100%	100%
St Kilda LLC	United States	100%	100%
Canberra Raiders LLC	United States	100%	100%
Newtown Jets LLC	United States	100%	100%
Morben Finance LLC	United States	100%	100%
Steuben Morris Lending LLC	United States	100%	100%
Morris Finance LLC	United States	100%	100%
Essendon LLC	United States	100%	100%
Carlton URF LLC	United States	100%	100%
Collingwood URF LLC	United States	100%	100%
Cronulla URF LLC	United States	100%	100%
New South Wales URF LLC	United States	100%	100%
Freemantle URF LLC	United States	100%	100%
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%	100%
Essex URF LLC	United States	100%	100%
523 W. 135th Investors LLC	United States	100%	-
NY Oakland LLC	United States	100%	-
NJ Penelope LLC	United States	100%	-
Jett URF Holdings LLC	United States	100%	-
Kenny URF Holdings LLC	United States	100%	-

**US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2018**

15. Subsequent events

Subsequent to balance date, the Group settled one property acquisition contract for total consideration of \$424,815. In addition, the Group disposed of two properties for total consideration of \$1,835,383.

In the current and prior periods, staff engaged to provide administrative and property management related services to the Group were employed by Dixon Advisory USA Inc and the associated direct payroll and payroll related costs recharged to the Group. With effect from 1 July 2018, these staff are now employed directly by the Group and accordingly payroll and payroll related costs are no longer recharged to the Group.

The Group also became joint lessee with Dixon Advisory USA Inc over the office space currently utilised by the Group at 140 Broadway, New York. Similar to payroll costs, in the current and previous periods, rent and related occupancy costs were borne by Dixon Advisory USA Inc and recharged to the Group. Effective July 1 2018, these costs are borne directly by the Group and will not be recharged to the Group.

With effect from 1 July 2018, the Investment Manager has agreed to waive the asset acquisition fee and leasing fee, in addition to removing the administrative cost charged by Dixon Advisory USA Inc for an indefinite period. In the six month period ended 30 June 2018, these fees and costs totalled \$1,609,639.

Mike Adams was appointed as a director of the Responsible Entity effective 9 July 2018. Mr. Tristan O'Connell resigned as a director of the Responsible Entity effective 9 July 2018.

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.

16. Operating segments

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

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

**US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161**

DIRECTORS' DECLARATION

FOR THE HALF-YEAR ENDED 30 JUNE 2018

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

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to Section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Mr Alex MacLachlan

Director

Dated this 29th day of August 2018

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

We have reviewed the accompanying half-year financial report of US Masters Residential Property Fund (the "Fund"), which comprises the condensed consolidated statement of financial position as at 30 June 2018, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity of the Fund are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of US Masters Residential Property Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

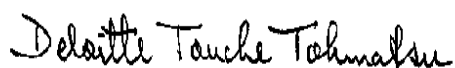
Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity of the Fund, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

The logo for Deloitte Touche Tohmatsu, featuring the company name in a stylized, handwritten-style script.

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read 'Weng W Ching'.

Weng W Ching
Partner
Chartered Accountants
Sydney, 29 August 2018

