



QUARTERLY UPDATE

October - December 2019



US Masters
Residential
Property Fund

US Masters Residential Property Fund

Quarterly Report: October - December 2019

We welcome investors to the US Masters Residential Property Fund's (URF or Fund) Quarterly Report for the period 1 October 2019 – 31 December 2019.

After being appointed as CEOs in August 2019, we have had the opportunity to engage with a large number of investors in the Fund, and we'd like to thank those investors for their engagement, proactive feedback, and openness to our new strategies and initiatives. A recurring request from investors was to better communicate the Fund's operations and future goals in a more detailed and regular manner. We have taken that feedback on board, and are pleased to present a new, more substantive and quantitative URF Quarterly Report.

The information contained within this Quarterly Report will provide investors with updates on the progress of the Fund's strategic direction and initiatives to maximise financial returns, namely:

1. The asset sales program to rebalance the portfolio and release capital for debt repayment (see "Asset sales" and "Portfolio composition" charts);
2. Debt reduction, with a focus on paying down the Fund's most expensive debt facilities (see "Debt reduction" table);
3. Operating the portfolio as efficiently as possible, maximising property level revenue and minimising property level expenses (see "Net Operating Income" and "Portfolio occupancy" graphics);
4. Minimising corporate and overhead expenses (see "General and Administrative expenses" chart), and;
5. Completing the pipeline of active construction projects (see "Construction pipeline" timeline).

Each quarter we will track the Fund's performance against the above metrics and provide investors with updates and analysis on the improvements being made. We will also provide detailed breakdowns on movements in the Fund's Net Asset Value (see "Net Asset Value Bridge") and the Fund's cash flow profile (see "Fund Cash Flow Profile").

In an effort to release this information in a timely manner, much of this data in future reports will be preliminary and unaudited, however we believe that this timely release is important to highlight the improvements that we expect will start building momentum throughout 2020 and 2021. The metrics contained within this report will provide a benchmark as at 31 December 2019 from which future reports and progress can be assessed.

We welcome investor feedback on these new reporting metrics, and encourage direct communication with the Fund via our Investor Relations team (URFInvestorRelations@usmrpf.com).

Best regards



Kevin McAvey
Co-Head of the US REIT



Brian Disler
Co-Head of the US REIT



Executive Summary

While the Fund's six-monthly valuation process resulted in a reduction in the value of the Fund's portfolio, the last quarter of 2019 otherwise contained several positive results for the Fund. Over the last quarter of 2019:

- US\$15.9 million in 1-4 family properties were sold. As at 23 February 2020, the Fund has a further US\$61 million of property under contract or with an accepted offer;
- The sale of Golden Peak II (the Fund's New Jersey multifamily joint venture investment) was finalised, with URF's share of the gross sales price being US\$43.9 million;
- A further A\$31.7 million was repaid against URF Notes II (ASX: URFHB), funded by a combination of asset sales and debt restructuring; and
- The Fund's office was successfully relocated from the Financial District in New York City to a more cost-efficient space in Jersey City, New Jersey.

New Board composition

During the quarter, Walsh & Company Investments Limited (Walsh & Company, ACN: 152 367 649) (as Responsible Entity for the Fund) made changes to its Board, appointing Stuart Nisbett as Independent Chairman and Peter Shear as Independent Director. Alex MacLachlan stepped down from the Board to facilitate this change. Both Stuart and Peter have been actively involved in URF's strategic direction since joining the board, including joining URF's management team in the US for ongoing strategic discussions early in 2020.

Evans Dixon investment

In late December, the Evans Dixon group announced its intention to use 20% of the annual Responsible Entity and Administration fees to purchase URF securities. These will be purchased on-market, on the same terms as other investors. This corporate alignment is further evidence of the alignment of interests between Evans Dixon (the Responsible Entity's parent company) and URF, as well as Evans Dixon's conviction in URF's long-term financial outlook.

Investor distributions

During the quarter, the Fund announced a further capital repayment on URFHB. This second repayment, of A\$35/Note, was paid on 31 December 2019 and brings the total capital return for URFHB at the end of the quarter to A\$75/Note. This payment was in addition to the regular quarterly URFHB interest payment of A\$1.17/Note which was paid on the same date. The Fund also announced (after quarter end) in February 2020 that the principal amount of URFHB was scheduled to be repaid on 31 March 2020.

A regular quarterly distribution for URF Notes III (ASX: URFHC) was also paid, with A\$1.95/Note in interest being paid to URFHC holders on 31 December 2019.

In addition to these payments related to debt securities, the regular six-monthly distribution for URF Convertible Step-Up Preference Units (ASX: URFPA) was also declared, with A\$3.15 per URFPA security paid to investors on 25 February 2020.

Given the Fund's focus on dedicating substantially all available funds toward the repayment of debt, it was also announced in December that no distribution would be paid to URF ordinary unitholders for the period. This should allow the Fund's debt to be repaid in a timely manner, which ultimately benefits ordinary unitholders by reducing the financing costs that are being incurred by the Fund. This distribution strategy will be reviewed on an ongoing basis.

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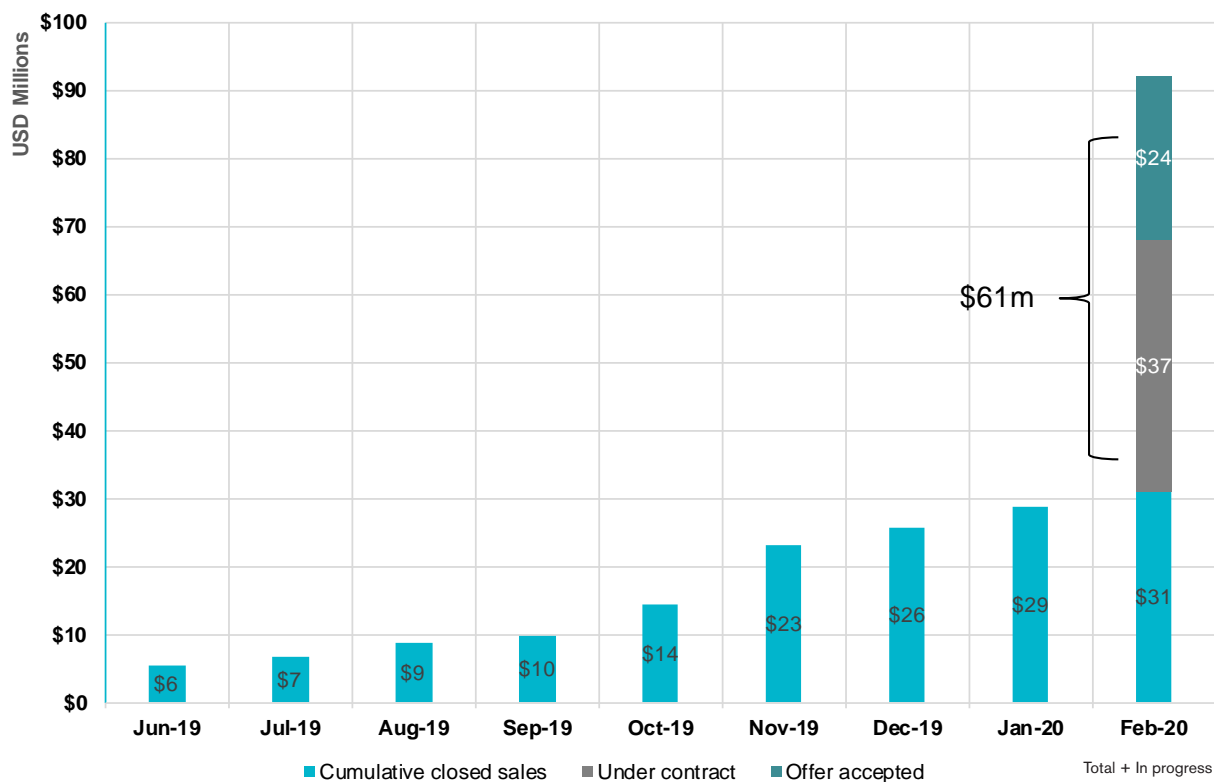


Asset Sales

During the quarter, the Fund disposed of 16 properties for a gross sales value of US\$15.9 million. As these 16 transactions were closed before the 31 December 2019 fair value adjustments, their combined book values at the time of sale (based on the 30 June 2019 accounts) were US\$17.3 million. This difference, relative to the 30 June 2019-based book values, is consistent with the broad market movements outlined during the Fund's January update, and the selling prices are consistent with the 31 December 2019 valuations. The costs associated with these sales were US\$969,384, with the bulk of the costs being real estate broker fees and state transfer taxes.

In addition to the sales noted above which closed during the quarter, as at the date of this Quarterly Report there are a further US\$61 million worth of properties with accepted offers or that are under contract across 30 properties. The total value of these potential transactions is currently a 2.3% premium to the combined 31 December 2019 book values. With total sales of US\$31 million already closed since 1 June 2019, upon the successful closure of the pending "under contract" and "offer accepted" transactions the Fund will have achieved over US\$90 million of the total US\$200-US\$250 million sales goal, which is targeted to be completed in the third quarter of 2021.

Complementing these 1-4 family asset sales, the Fund was also successful in closing the sale of its New Jersey multifamily portfolio, Golden Peak II on 17 December 2019. As previously outlined, this investment was made in partnership with Urban American, with URF owning 67.5% of the 14-building, 400-unit portfolio. The gross sales price for this transaction was US\$65 million, of which URF's share was US\$43.9 million. After accounting for debt held within the joint venture investment vehicle holding this asset, the Fund's net proceeds from this sale are approximately US\$26.25 million.



Source: US REIT

Note: Graphic excludes the Golden Peak II sale (via joint venture with Urban American). Transactions "under contract" or with an "offer accepted" are likely, but not guaranteed to close. Transaction data accurate as at 23 February 2020.

Asset Sales

It is anticipated that approximately US\$200-US\$250 million in sales will be required from the Fund's 1-4 family portfolio in order to achieve the ultimate goal of the sales program, which is the full repayment of URFHB and URFHC and a rebalancing of the portfolio towards higher-yielding properties. The total sales necessary to repay both URFHB and URFHC is subject to change, noting that changes to market conditions, asset valuations, and foreign exchange movements over the course of the program will impact the required levels of sales volume.

Since August 2019, A\$68 million of the outstanding capital of URFHB has been repaid to noteholders, and on the 21st of February 2020 the Fund announced that the remaining A\$22.6 million was scheduled to be repaid to noteholders at the end of March 2020. This final capital repayment will mark the full return of capital for URFHB.

Outstanding Notes Balances



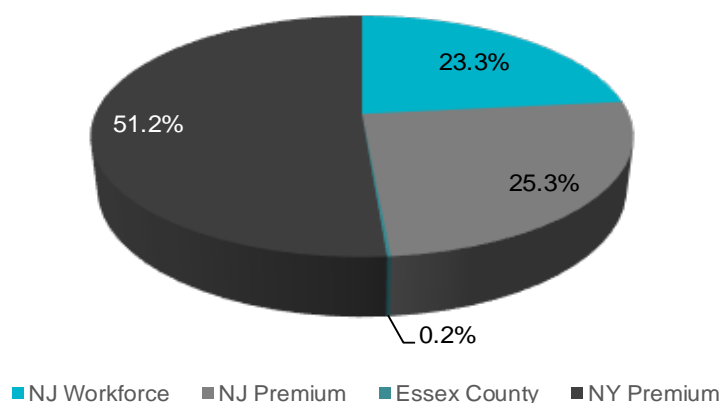


Portfolio Composition

The Fund's intention is to use the sales program to reduce the portfolio's current weighting of lower-yielding Premium assets and non-core exposures such as the larger multifamily (joint venture) assets and properties in Essex County, New Jersey. Selective sales will also take place from the New Jersey Premium and Workforce segments as determined on an asset-by-asset basis.

The following weightings are determined using valuations from the 31 December 2019 market appraisal process. This breakdown represents the Fund's 1-4 family portfolio and excludes both the multifamily exposures via joint ventures with Urban American, and the Fund's cash holdings.

Portfolio Composition (by value)



Location	Value (USD)	Property count	Location	Value (USD)	Property count
NJ Workforce	\$186,931,056	342	NY Premium	\$410,601,999	135
Bayonne	\$31,343,366	69	Bedford-Stuyvesant	\$103,880,502	41
Bergen-Lafayette	\$7,112,089	12	Boerum Hill & Brooklyn Heights	\$19,997,365	3
Greenville	\$30,961,957	70	Bushwick	\$19,581,424	15
Jersey City Heights	\$54,848,501	68	Clinton Hill	\$21,623,872	6
Journal Square	\$22,690,610	36	Cobble Hill	\$12,165,000	3
West Bergen	\$28,875,800	63	Crown Heights & Lefferts Garden	\$37,498,595	15
North Bergen	\$5,607,720	13	Fort Greene	\$19,882,149	5
Union City & Secaucus	\$4,082,191	8	Park Slope & Prospect Heights	\$44,510,950	10
West New York	\$1,408,822	3	East Williamsburg	\$15,051,188	7
NJ Premium	\$202,633,105	102	Williamsburg	\$14,489,544	4
Hoboken	\$14,024,125	6	Hamilton Heights	\$12,350,480	3
Downtown Jersey City	\$178,115,053	88	Forest Hills	\$4,014,314	3
Weehawken	\$10,493,927	8	Harlem	\$69,427,220	18
Essex County	\$1,575,301	3	Manhattan	\$16,129,398	2



Debt Reduction

In executing the sales program and rebalancing the portfolio, the Fund will be prioritising the repayment of debt, particularly URFHB and URFHC. Since August 2019, A\$68 million of URFHB has been repaid, and the Fund is committed to the full repayment of both URFHB and URFHC prior to their respective maturity dates (a final A\$22.6 million URFHB repayment was announced in February 2020 which will result in Notes II being fully repaid by the end of March 2020). This Notes repayment plan will reduce both the Fund's level of gearing (which improves cash flow and reduces NAV volatility), and the Fund's exposure to movements in the AUD/USD exchange rate.

The repayment of Notes debt is being significantly funded by the asset sales program. It should be noted that the Fund's senior debt facilities (Wells Fargo and Centennial Bank) are also being reduced as part of this process, as many of the assets being sold are currently being used as collateral for these bank loans. In any sale, senior bank lenders are repaid their required balance first with the remaining capital then being available for Notes repayments. As such, as URF moves through the sales program, a substantial amount of the sales proceeds (after transaction costs) are being used to reduce the amount of leverage within the portfolio. The Fund's long-term target is to reduce the gearing ratio from its current level of 53% to 35%-40%.

For the six-months to 31 December 2019, the Fund's aggregate debt balance was reduced by A\$44.76 million. The Fund's current debt structure represents an indicative interest saving of A\$6.5 million per annum compared to 30 June 2019.

Blended Cost of Interest Calculation

	A\$ Balance 30-Jun-19	% of Total Debt	Interest Rate at 30-Jun-19	A\$ Balance 31-Dec-19	% of Total Debt	Interest Rate at 31-Dec-19	Fixed / Floating
Wells Fargo *	382,992,482	53%	4.20%	375,012,423	55%	3.56%	Floating
Centennial Bank *	78,579,939	11%	6.90%	109,700,411	16%	6.26%	Floating
Notes II	90,539,500	12%	7.75%	22,634,875	3%	7.75%	Fixed
Notes III	175,000,000	24%	7.75%	175,000,000	26%	7.75%	Fixed
Total^	727,111,921	100%	5.79%	682,347,709	100%	5.21%	
Indicative Total Interest Cost	42,077,780			35,546,509			

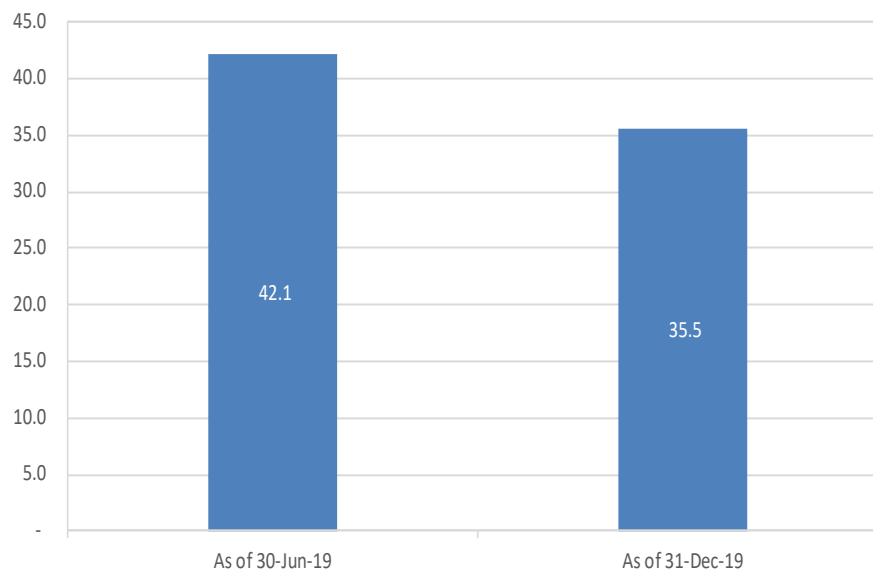
*Floating rate based on 1 month USD LIBOR which was approximately 2.4% and 1.76% at 30 June 2019 and 31 December 2019 respectively.

*AUD/USD spot rate of 0.702, 0.7021 at 30 June 2019 and 31 December 2019 respectively.

^Excludes multi-family joint venture level debt.

Debt Reduction

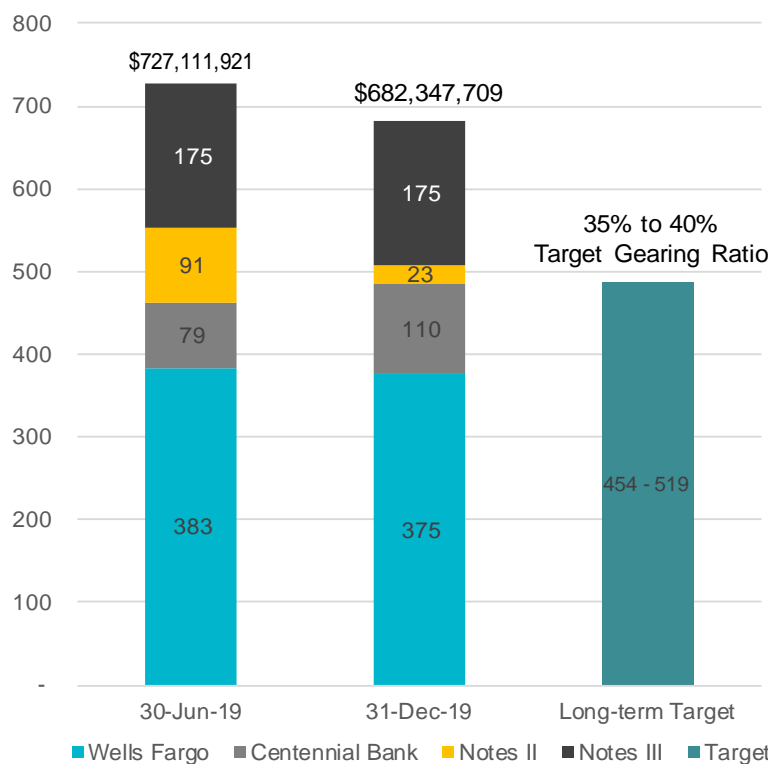
Indicative Total Interest Cost (A\$Millions)



Source: US REIT.

Note: AUD/USD spot rate of 0.702, 0.7021 at 30 June 2019 and 31 December 2019 respectively.

Debt Composition (A\$Millions)



Source: US REIT.

Note: Gearing Ratio is the total debt as a % of total assets, based on 31 December 2019 values. AUD/USD exchange rate of 0.7021.

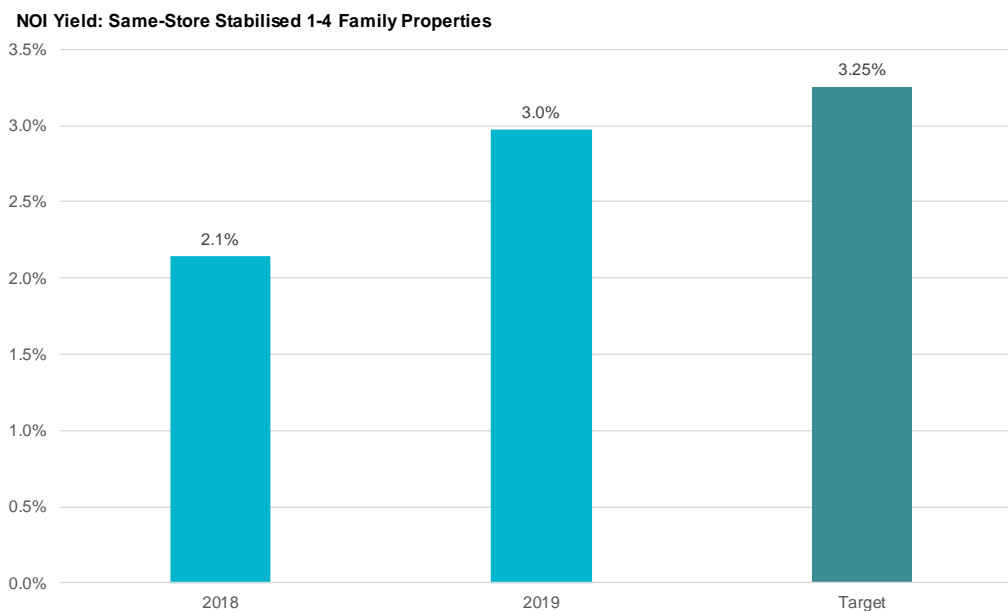




Net Operating Income

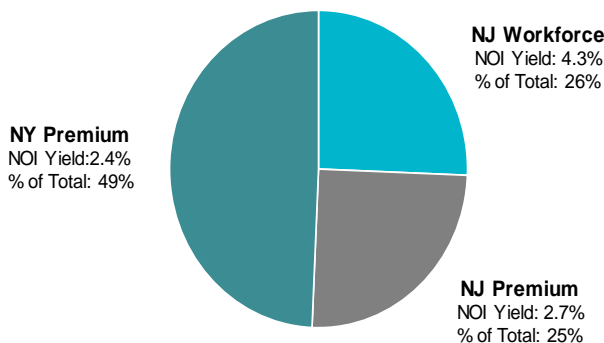
In addition to rebalancing and deleveraging the portfolio, the Fund is focused on improving operations to ensure that the portfolio is being managed as efficiently as possible. Given that the Fund has embarked on a sales program, it is anticipated that the rental revenue and Net Operating Income (NOI) - property revenue less expenses - will decrease as the sales program continues and the portfolio reduces in size. Despite the gross values decreasing, operational efficiencies and rental growth should result in the NOI margin – being the percentage of rental revenue that the Fund retains after paying property level expenses - continuing to improve over time. In addition, it is anticipated that the overall yield of the portfolio should continue to increase as the sales program progresses, as the Fund continues to dispose of lower-yielding assets and increase the portfolio weighting of the higher-yielding assets.

The “NOI Yield: Same-Store Stabilised” chart below will track the Fund’s stabilised portfolio yield each quarter. The Fund has a target of exceeding a 3.25% net yield as it continues to dispose of the lower-yielding, premium assets through the sales program. The substantial improvement in NOI between 2018 and 2019 is influenced by a significant number of properties coming out of the renovation pipeline and becoming income-generating assets for the portfolio. This increase is welcomed, however future increases are anticipated to be in the low-single digits (driven by rental growth and cost savings) as the portfolio becomes fully stabilised.



In the above “same-store” analysis, a consistent group of assets (excluding assets held for sale or under construction at the end of 2019) is compared. In both time periods the NOI is divided by the 31 December 2019 asset values. By holding the denominator consistent, changes in cash flow are isolated, rather than the NOI margin changing due to valuation changes. This analysis is useful for comparing NOI between different time periods, however individual NOI margins for specific years should not be reviewed in isolation using the above data set.

2019 NOI Yield - Same-Store Stabilised 1-4 Family Properties by Segment



Source: US REIT.

Note: Same-store assets by segment will not match the total portfolio distribution, as it excludes assets held for sale or under construction at the end of 2019.

Portfolio Occupancy

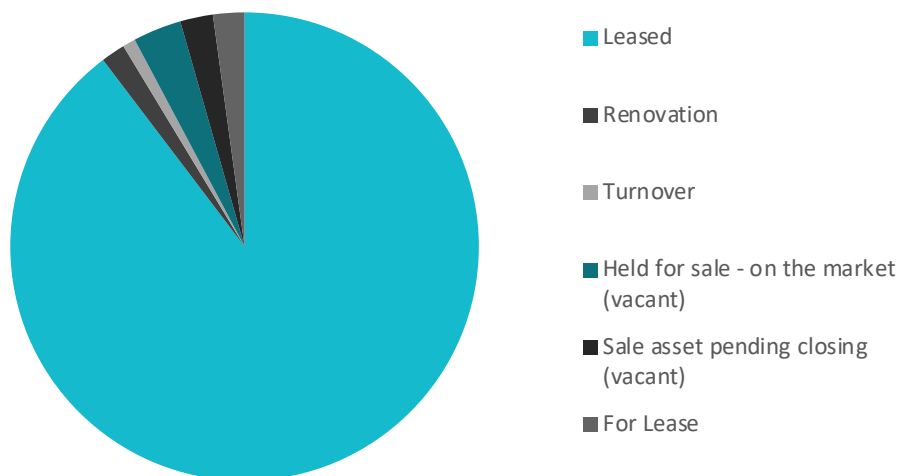
The Fund's goal is to have as many properties fully leased as possible, while noting that some assets being readied for sale often need to be vacated to maximise the potential sales price.

At 31 December 2019, the Fund's 1-4 family portfolio had 90% of its units leased and generating income. A further 2% of units were vacant and available for rent, while the remaining 8% were vacant due to either renovation work, undergoing a turnover between leases, or due to the property being actively prepared for sale. The "renovation" unit count appears high (15 units) relative to the remaining number of renovation projects (six projects) as one renovation project (a large scale development in Downtown Jersey City) consists of 10 separate units.

Total Portfolio	Unit Count	%
Leased	912	90%
Renovation	15	1%
Turnover	11	1%
Held for sale - on the market (vacant)	34	3%
Sale asset - pending closing (vacant)	23	2%
For Lease	22	2%
	1017	100%

Note: percentages may not add to 100% due to rounding.

1-4 Family Portfolio Occupancy



General and Administrative Expenses

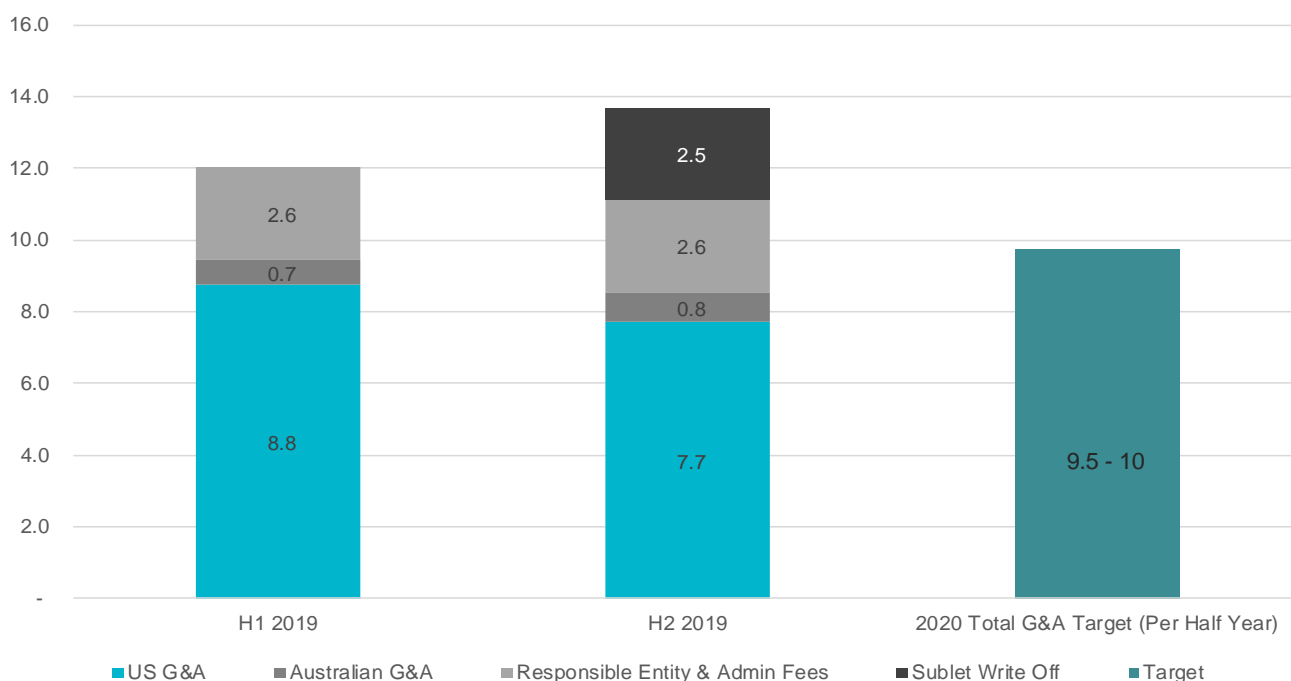
In addition to operating the portfolio as efficiently as possible at the property level and improving the Fund's NOI margin, reducing General and Administrative (G&A) expenses is a key goal for URF's new management team.

While 2019 expenses were slightly higher year-on-year, this understates the operational improvements that have already been made in this area and which should positively impact the Fund in 2020. For the 2019 year, a number of non-cash items associated with the Fund's office move were also recorded as losses. Specifically, anticipated losses associated with the expected sublease of the old New York office led to a A\$2.5 million write down. Upon successful sublet of the New York office space these costs will cease.

Since August 2019, URF's office has been moved from New York City to a more cost-effective location in New Jersey. Additionally, headcount has been reduced by approximately 46%, and this contributed to a A\$1.2 million reduction in staffing costs for 2019. Staffing costs are expected to result in further savings for the full calendar year 2020, as the 2019 savings were only realised in the last few months of the year.

We have set a target of reducing these expenses from the A\$25.7 million incurred in 2019, to A\$19-\$20 million for 2020 (note that the table below shows six-month time periods).

G&A Expenses (A\$Millions)



Source: US REIT.

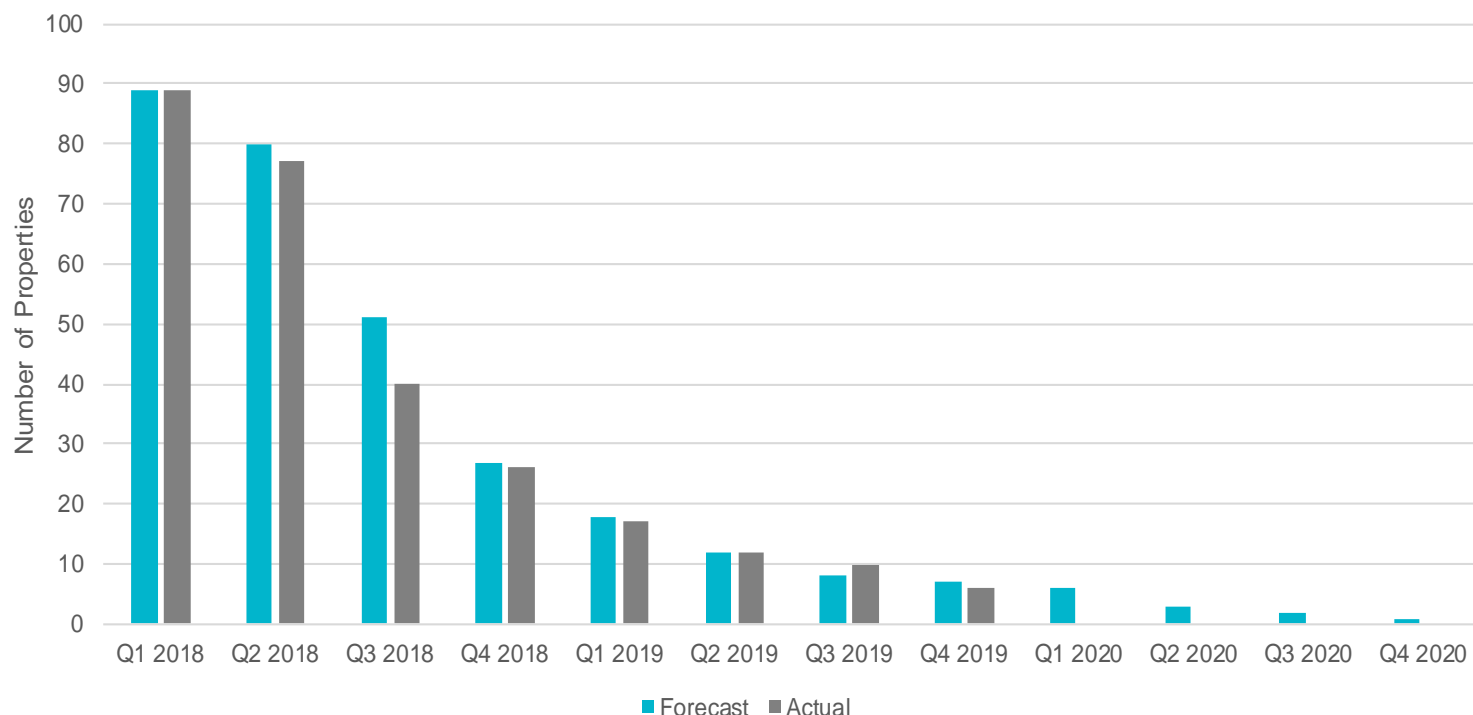
Note: AUD/USD exchange rate of 0.7021.



Construction Pipeline

At the start of the quarter, the Fund had ten properties remaining from the original construction pipeline. During the quarter, construction was completed on four of these properties, and the Fund ended the quarter with six properties remaining. The full completion of the renovation pipeline is a vital step towards achieving a portfolio of assets that are fully income producing.

The pipeline of construction projects has been tracked since 2018, and we expect to beat the original forecast by completing all remaining projects within the next six months. Each will be offered for sale upon completion, as they are all low-yielding assets which will benefit from being offered for sale as “brand new” assets immediately following completion of their respective renovations.



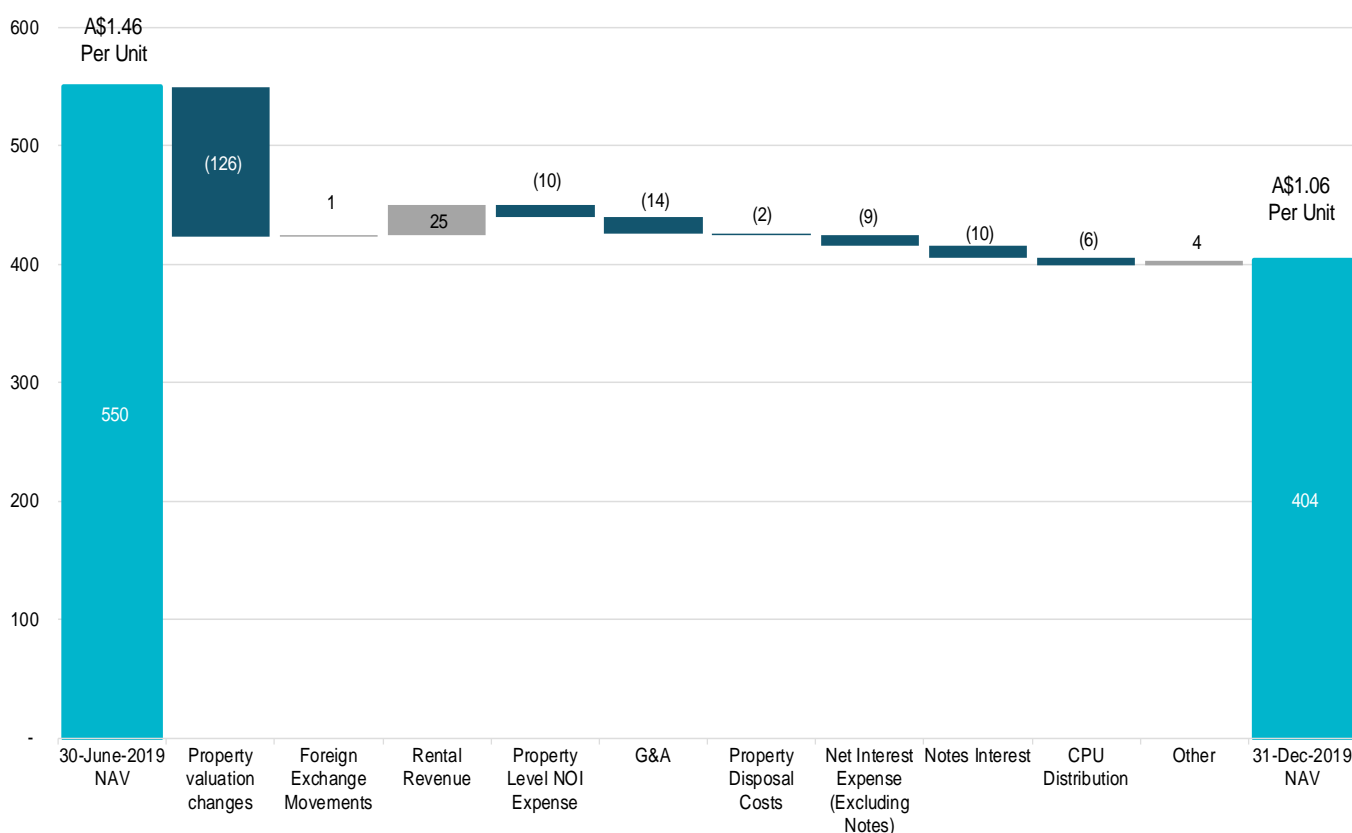
Net Asset Value

Changes in the Fund's Net Asset Value (NAV) over the period 30 June 2019 to 31 December 2019 are outlined below. This includes the results of the December 2019 portfolio valuation process, as well as Fund operations and currency movements over the 6-month period.

At 31 December 2019, the pre-tax NAV was A\$1.06 per unit and the post-tax NAV was A\$0.95 per unit.

The following chart shows the components that influenced the change in pre-tax NAV, from 30 June 2019 to 31 December 2019.

NAV Bridge - 30 June 2019 to 31 December 2019 (A\$Millions)



The updated pre-tax NAV at 31 January 2020 was A\$1.16 per unit and the post-tax NAV was A\$1.04 per unit.

Fund Cash Flow Profile

The following analysis outlines the Fund's major cash-flow drivers. This excludes non-cash items such as depreciation, foreign exchange movements and changes in underlying asset values, which are vital to reviewing the Fund's overall financial performance. However, this cash analysis does provide an important overview of the Fund's cash flow position at the current time.

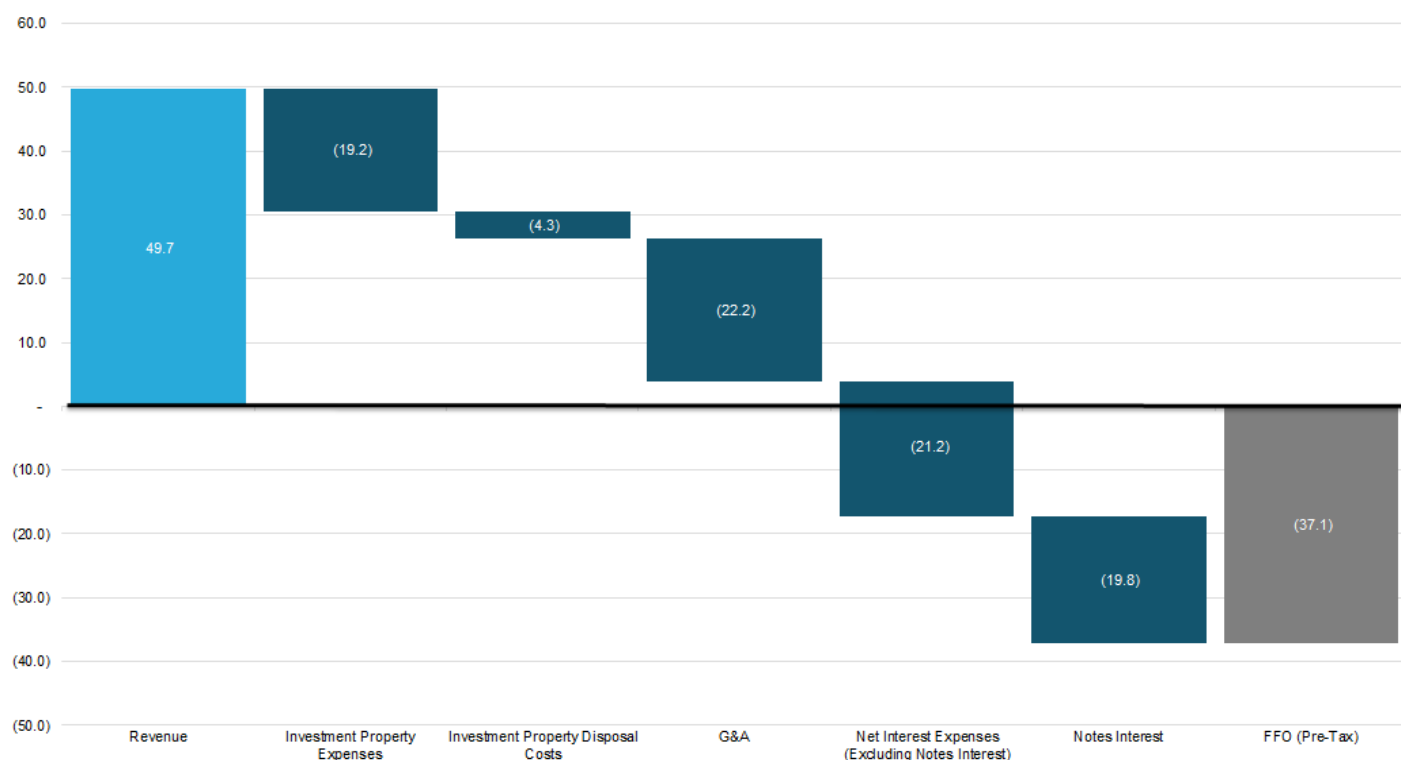
Historically, the Fund has made regular cash losses while it focused on growing and renovating its portfolio. In the past, asset value growth and favourable currency movements have outweighed the Fund's operational cash losses. However we intend to reposition the Fund to become cash flow positive from our operating activities, so that we are not reliant on such factors to generate a profit. This will be achieved by maximising net property-level income, paying down debt, minimising administrative expenses, and rebalancing the portfolio away from low-yielding assets.

This cash flow position highlights the importance of the current strategic priorities that have been outlined, and the opportunities that exist to improve the Fund's cash flow position into the future.

Funds From Operations (FFO) - Pre Tax (A\$ Millions)	2018	2019
Revenue	38.1	49.7
Investment Property Expenses	(16.3)	(19.2)
Investment Property Disposal Costs	(3.6)	(4.3)
G & A	(25.1)	(22.2)
EBITDA	(6.9)	4.0
Net Interest Expenses (Excluding Notes Interest)	(20.5)	(21.2)
Notes Interest	(21.7)	(19.8)
Funds From Operations (FFO) - Pre Tax	(49.0)	(37.1)

Note: Excludes Convertible Preference Unit (URFPA) distributions as they are equity distributions.

2019 Funds From Operations (FFO) - Pre-Tax (A\$Millions)



Fund Statistics

URF Unit Price Performance^{1,2,3,4} AS AT 31 DECEMBER 2019

1M	3M	6M	1YR	2YR (PA)	3YR (PA)	5YR (PA)	SI ² (PA)
8.8%	31.8%	-3.3%	-32.4%	-27.7%	-21.1%	-13.0%	-2.3%

NTA Performance^{1,2,3,4} AS AT 31 DECEMBER 2019

1M	3M	6M	1YR	2YR (PA)	3YR (PA)	5YR (PA)	SI ² (PA)
-29.3%	-30.7%	-30.7%	-33.7%	-15.5%	-14.5%	-5.4%	0.6%

Net Asset Value Breakdown^{3,4} AS AT 31 DECEMBER 2019

ASSETS	\$1,296m	Investment Properties ⁴	Cash	Other
LESS LIABILITIES (excl. tax) ⁵	(\$693m)	Bank debt ⁸	Notes ⁶	- Other
LESS CPUs ⁷ (at face value)	(\$199m)	CPUs ⁷		
EQUALS PRE-TAX NAV	\$404m			
LESS DEFERRED TAX LIABILITIES ⁵	(\$42m)			
EQUALS POST-TAX NAV	\$362m			

DIVIDED BY ORDINARY UNITS OUTSTANDING 380m



Pre tax
NAV per unit
(\$/unit)



Post tax
NAV per unit
(\$/unit)

Important Information

This Quarterly Update (Update) has been prepared by the US REIT, and issued by Walsh & Company Investments Limited (ACN 152 367 649 | AFSL 410 433) (Responsible Entity) as the Responsible Entity for the US Masters Residential Property Fund (Fund) (ARSN 150 256 161). An investment in the Fund is subject to various risks, many of which are beyond the control of the Responsible Entity.

This Update contains statements, opinions, projections, forecasts and other material (forward looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. None of the Responsible Entity, its officers, employees, agents, analysts nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfilment of the forward-looking statements or any of the assumptions upon which they are based.

This Update may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant product disclosure statement or offer document before making any decisions to purchase the product. The past performance of the Fund is not a guarantee of the future performance of the Fund.

Notes

1 Returns are inclusive of distributions reinvested and adjusted for rights issues

2 Inception date June 2011

3 Past performance is not a reliable indicator of future performance

4 Source: US REIT

5 Liabilities excludes deferred tax liabilities. Deferred tax liabilities is the estimated tax obligations which may arise in connection with the realisation and distribution of taxation capital gains associated with its property assets

6 Notes refer to URFHB and URFHC at face value

7 CPUs refer to Convertible Step-up Preference Units (ASX: URFPA). For the purpose of calculating the NAV, the above figures assume a cash settlement of the CPUs. No decision has been made regarding the conversion of the CPUs

8 Bank debt refers to all other borrowings

Board & Management

Board of the Responsible Entity

Stuart Nisbett

Peter Shear

Warwick Keneally

Mike Adams

US Management Team

Kevin McAvey CO-HEAD OF THE US REIT

Brian Disler CO-HEAD OF THE US REIT

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