

Appendix 4D

Interim Financial Report For the period ended 30 June 2020

Name of entity

US Masters Residential Property Fund

ARSN	Reporting period	Previous corresponding period
150 256 161	1 January 2020 to 30 June 2020	1 January 2019 to 30 June 2019

Results for announcement to the market

		30-Jun-20
Total revenue		
("revenue from ordinary activities – investment property income, interest and dividend income")	Up by 5% to	\$25,252,586
Net operating loss for the period		
("loss from ordinary activities after tax attributable to unitholders")	Up by 4% to	(\$49,650,401)
Total comprehensive income/(loss)		
("net income for the period attributable to unitholders")	Down by 14% to	(\$37,896,362)

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
Convertible Preference Units		
Distribution (paid on 25 February 2020)	\$3.15	-
Distribution (paid on 25 August 2020)	\$3.10	-
Total distribution	\$6.25	-
There is a distribution reinvestment plan in operation in respect of this Convertible Step-up Preference units distribution.		
Distribution dates:		
Ex-Distribution date:	Monday, 29 June 2020	
Record date:	Tuesday, 30 June 2020	
Payment date:	Tuesday, 25 August 2020	

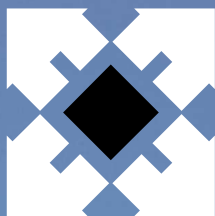
	30-Jun-20	30-Jun-19
Net tangible assets per ordinary unit		
Pre-tax attributable to ordinary units	\$0.93	\$1.46
Post-tax attributable to ordinary units	\$0.84	\$1.25

The above figures are based on a cash settlement of the Convertible Step-Up Preference Units.

	30-Jun-20	30-Jun-19
Loss per unit		
Basic loss per unit	(14.7) cents	(14.4) cents
Diluted loss per unit	(14.7) cents	(14.4) cents

Interim Financial Report

This report is based on the 30 June 2020 Interim Financial Report and has been reviewed by Deloitte Touche Tohmatsu.



US Masters Residential Property Fund

ARSN 150 256 161



Interim Financial Report

For the half-year ended
30 June 2020

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 2020

CONTENTS

Chairman's Letter	2
CEO Report	3
Directors' Report	4
Auditor's Independence Declaration	5
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10
Directors' Declaration	31
Independent Auditor's Review Report	32

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

CHAIRMAN'S LETTER

FOR THE HALF-YEAR ENDED 30 JUNE 2020

Dear Investors,

We are pleased to provide you with the half-year report for the US Masters Residential Property Fund (URF or Fund) for the six-month period ended 30 June 2020.

This period has been largely defined by the COVID-19 pandemic. While the full impact is still unknown, conditions have improved steadily across the Fund's investment regions of New York City and Hudson County New Jersey since cases peaked in these areas in April. While significant uncertainty remains, we are encouraged by the virus' relative containment as the region tentatively reopens.

Specifically for the Fund, the reduced real estate transaction volumes required an alternative market approach for assessing the value of URF's investment properties. The Board, in consultation with the US REIT leadership team, independent appraisers and real estate agents, has considered a number of sources to quantify the change in valuations for the first half of 2020. Ultimately the impacts of COVID-19 have weighed on asset valuations, with a 4.1% (A\$48 million) reduction in the value of the Fund's 1-4 Family portfolio being the primary driver behind a total comprehensive loss of A\$38 million for the period.

While any valuation reduction is disappointing, I encourage investors to consider the specifics of the Fund's operating results over this six-month period. Significant progress has been made in improving the Fund's cash flow profile, reducing expenses and repaying debt. The Fund's portfolio has proven resilient through this period of uncertainty, with strong rent collection rates and a high volume of enquiries from potential tenants. We are pleased with the operating efficiencies that have been achieved over this period, the details of which are outlined in the following Chief Executive Officers' Report and in our accompanying video update.

We remain confident about the opportunity for capital growth over the medium term. New York City's population density, economic credentials, high proportion of renters, and limited supply of townhome assets are strong long term growth drivers. We have no doubt that New York will ultimately emerge from this challenge a stronger city, as it has in the past. In addition, single family residential dwellings specifically are likely to attract a growing number of families moving out of high-density apartment complexes, attracted by the Fund's relatively low-density townhome assets which still offer close proximity to New York City. We expect this to be a positive tailwind for the Fund's assets compared to largescale apartment complexes.

As outlined throughout this document and in our accompanying Quarterly Report, the Fund continues to reposition itself to maximise investor returns, and we are pleased that the impact of these changes are starting to become apparent in our operating results.

We thank you for your support through these challenging times, and look forward to sharing continued progress over coming months.

Sincerely,



Stuart Nisbett

Chairman of Walsh & Company Investments Limited, Responsible Entity for US Masters Residential Property Fund

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

CEO REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2020

Dear Investors,

The first six months of 2020 have provided difficult conditions for individuals, communities and businesses alike. The Fund's investment portfolio has proven resilient during this period, with quality townhomes offering an attractive option for New York Metropolitan area residents who are increasingly focused on privacy and the ability to socially distance from neighbors, while also quickly adapting to extended periods of working from home.

Despite uncertainty relating to COVID-19, the Fund's operational results have improved significantly throughout the six-months to 30 June 2020. Overall cash flows (as measured by Funds from Operations¹) improved by an annualised rate of almost 50% through this period (compared to the full year 2019 results²), with contributing factors to this result including;

- Strong rental collection rates of 98% across the six-month period.
- Continued reductions in both general & administrative expenses and property level expenses compared to the same period last year.
- US\$33 million in asset sales to assist with debt reduction and rebalancing of the portfolio.
- Debt levels reducing by over \$50 million in Australian-dollar terms.

These improved operating results reflect the impact of changes that were implemented in late 2019, which have not only allowed the Fund to withstand the current challenges brought on by COVID, but also lay the foundation for our ability to drive investor returns into the future.

The US-based team is working diligently to adapt to evolving conditions on the ground, ensuring that tenants are provided with a quality housing product and professional service, through which financial returns will be derived for investors. We look forward to providing further evidence of the Fund's ongoing progress, and thank investors for their support and ongoing engagement.

Kind regards,



Kevin McAvey & Brian Disler

Co-Heads of US REIT

¹ Funds from Operations ("FFO") for the 6 months to 30 June 2020 of (\$7.4m) is calculated as revenue from ordinary operations of \$25.1m (including other income) plus one-off grant income of \$1.9m, less; investment property expenses of (\$7.4m), asset disposal costs of (\$2.6m), general & administrative expenses of (\$8.5m) and net interest expense (excluding amortised finance costs) of (\$15.9m).

Funds from Operations ("FFO") for the 12 months to 31 December 2019 of (\$37.1m) is calculated as revenue from ordinary operations of \$49.7m (including other income and dividends from equity investments) less; investment property expenses of (\$19.2m), asset disposal costs of (\$4.3m), general & administrative expenses of (\$22.2m) and net interest expense (excluding amortised finance costs) of (\$41.1m).

Refer to the accompanying Q2 URF Report for additional details on this metric.

² Excluding one-off grant income.

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

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2020

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 investment in the US residential property market. The Group owns 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.

Financial performance and position

The Group recorded earnings before interest, tax, depreciation & amortisation, currency movements and fair value movement on investment properties (including equity investments) of \$9.1 million¹ for the period ended 30 June 2020. The comparable figure in 2019 was earnings of \$3.9 million¹. The significant improvement in this metric is primarily attributable to the cost saving initiatives that the Group implemented in the second half of 2019, as well as receipt of government grant income. For the period, the Group recorded a pre-tax loss of \$56.8 million, a post-tax loss of \$49.7 million and a total comprehensive loss of \$37.9 million.

Distributions paid or recommended

A distribution of \$3.15 per Convertible Preference Unit totalling \$6.3 million was declared in the prior year. After accounting for the Group's Dividend Reinvestment Plan, \$5.2 million was paid on 25 February 2020. In addition, a distribution of \$3.10 per Convertible Preference Unit totalling \$6.2 million was declared on 15 June 2020. After accounting for the Group's Dividend Reinvestment Plan, \$4.8 million was paid on 25 August 2020.

After balance date events

The COVID-19 pandemic has caused significant disruption to businesses and economic activities. There remains significant uncertainty as the situation continues to evolve. In the event the COVID-19 impacts are more severe or prolonged than anticipated, this may have further adverse impacts to property values (refer to note 6) and the operating result of the Group.

A distribution of \$3.10 per Convertible Preference Unit totalling \$6,171,192 was declared on 15 June 2020 and was paid to unitholders on 25 August 2020. 4,140,426 units were issued under the Group's Distribution Reinvestment Plan.

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.

Auditor's independence declaration

The auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half-year ended 30 June 2020.

Signed in accordance with a resolution of the Directors:



Stuart Nisbett
Director

Dated this 31st day of August 2020

¹ Calculated as: loss for the period of \$49.7m (2019: \$47.6m) plus interest expense of \$17.7m (2019: \$21.1m) plus fair value decrement of investment properties and equity investments of \$51.1m (2019: \$29.1m) plus depreciation and amortisation of \$0.4m (2019: \$0.5m) less income tax benefit of \$7.2m (2019: income tax expense of \$1.6m) less net foreign currency gain of \$3.2m (2019: \$0.8m).

31 August 2020

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

Dear Board Members

Auditor's Independence Declaration to 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 half year financial report of US Masters Residential Property Fund for the half-year ended 30 June 2020, 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 2020

	<i>Note</i>	30 Jun 2020	30 Jun 2019
		\$	\$
Investment property rental income		25,001,658	23,113,452
Interest income		250,928	755,582
Dividends from equity investments		-	161,052
Other income		124,053	395,580
Fair value movement of investment properties	6	(47,787,162)	(24,302,151)
Fair value movement of equity investments	3	(3,226,924)	(4,714,313)
Share of (losses)/profits of jointly controlled entities	5	(133,653)	2,463,081
Grant income	13	1,876,521	-
Investment property expenses		(7,131,104)	(9,307,410)
Net foreign currency gain		3,230,194	765,001
Listing fees		(115,005)	(164,578)
Professional fees		(644,023)	(1,424,405)
Marketing		(113,982)	(186,396)
IT expenses		(300,742)	(397,499)
Management fees	16	(2,357,859)	(2,599,669)
Salaries and wages		(3,763,836)	(4,965,838)
Office administration costs		(255,677)	(295,227)
Interest expense	6	(17,722,090)	(21,074,618)
Investment property disposal costs		(2,607,086)	(2,550,850)
Allowance for expected credit losses		(265,117)	(138,993)
Reversal of impairment of right-of-use asset	9	100,234	-
Insurance expense		(363,160)	(453,774)
Depreciation and amortisation expense		(424,358)	(546,431)
Other expenses		(182,074)	(480,055)
Loss before income tax		(56,810,264)	(45,948,459)
Income tax benefit/(expense)	10	7,159,863	(1,644,509)
Loss for the period attributable to Unitholders		(49,650,401)	(47,592,968)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operation (nil tax)		11,754,039	3,519,537
Share of jointly controlled entity's reserve movements (nil tax)	5	-	(124,245)
Other comprehensive income for the period, net of tax		11,754,039	3,395,292
Total comprehensive loss for the period attributable to Unitholders		(37,896,362)	(44,197,676)
Earnings per unit			
Basic loss per unit (dollars)		(0.15)	(0.14)
Diluted loss per unit (dollars)		(0.15)	(0.14)

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 2020

	<i>Note</i>	30 Jun 2020	31 Dec 2019
		\$	\$
Current assets			
Cash and cash equivalents	2	59,118,005	85,875,027
Receivables		725,429	770,822
Prepayments		541,484	1,211,307
Other financial assets	3	9,419,750	9,160,343
Other assets	4	1,535,715	2,345,206
Investments in jointly controlled entities	5	711,421	5,524,908
Investment properties held for sale	6	80,130,013	123,383,421
Total current assets		<u>152,181,817</u>	<u>228,271,034</u>
Non-current assets			
Investment properties	6	996,988,469	1,018,547,242
Other financial assets	3	24,390,988	27,153,745
Other assets	4	14,552,043	16,576,187
Right-of-use asset	9	4,202,072	4,811,959
Property, plant and equipment	8	158,267	162,155
Security deposits	7	441,837	434,411
Total non-current assets		<u>1,040,733,676</u>	<u>1,067,685,699</u>
Total assets		<u>1,192,915,493</u>	<u>1,295,956,733</u>
Current liabilities			
Payables	11	10,347,373	14,585,509
Borrowings	12	629,532	22,494,544
Lease liability	9	838,711	789,934
Total current liabilities		<u>11,815,616</u>	<u>37,869,987</u>
Non-current liabilities			
Deferred tax liabilities	10	35,081,103	41,826,121
Borrowings	12	623,428,350	649,926,286
Lease liability	9	4,556,966	5,328,968
Other non-current liabilities		181,080	189,164
Total non-current liabilities		<u>663,247,499</u>	<u>697,270,539</u>
Total liabilities		<u>675,063,115</u>	<u>735,140,526</u>
Net assets		<u>517,852,378</u>	<u>560,816,207</u>
Equity			
Unit capital		449,503,804	448,400,079
Convertible step-up preference units		194,822,929	194,822,929
Reserves		199,453,512	187,699,473
Accumulated losses		(325,927,867)	(270,106,274)
Total equity		<u>517,852,378</u>	<u>560,816,207</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 2020

	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 2019	457,711,657	194,822,929	183,868,978	153,995	(103,151,403)	733,406,156
Loss for the period	-	-	-	-	(47,592,968)	(47,592,968)
Other comprehensive income, net of income tax						
Foreign operation currency translation gain	-	-	3,519,537	-	-	3,519,537
Jointly controlled entity interest rate swap hedge gain	-	-	-	(124,245)	-	(124,245)
Total other comprehensive income	-	-	3,519,537	(124,245)	-	3,395,292
Total comprehensive income/(loss) for the period	-	-	3,519,537	(124,245)	(47,592,968)	(44,197,676)
Transactions with owners in their capacity as owners						
Issue of ordinary units	10,519,479	-	-	-	-	10,519,479
Distributions to ordinary unitholders	(22,195,192)	-	-	-	-	(22,195,192)
Distributions to CPU unitholders	-	-	-	-	(6,171,192)	(6,171,192)
Total transactions with owners	(11,675,713)	-	-	-	(6,171,192)	(17,846,905)
Balance at 30 June 2019	446,035,944	194,822,929	187,388,515	29,750	(156,915,563)	671,361,575
Balance at 1 January 2020	448,400,079	194,822,929	187,699,473	-	(270,106,274)	560,816,207
Loss for the period	-	-	-	-	(49,650,401)	(49,650,401)
Other comprehensive income, net of income tax						
Foreign operation currency translation gain	-	-	11,754,039	-	-	11,754,039
Jointly controlled entity interest rate swap hedge gain	-	-	-	-	-	-
Total other comprehensive income	-	-	11,754,039	-	-	11,754,039
Total comprehensive income/(loss) for the period	-	-	11,754,039	-	(49,650,401)	(37,896,362)
Transactions with owners in their capacity as owners						
Issue of ordinary units	1,103,725	-	-	-	-	1,103,725
Distributions to ordinary unitholders	-	-	-	-	-	-
Distributions to CPU unitholders	-	-	-	-	(6,171,192)	(6,171,192)
Total transactions with owners	1,103,725	-	-	-	(6,171,192)	(5,067,467)
Balance at 30 June 2020	449,503,804	194,822,929	199,453,512	-	(325,927,867)	517,852,378

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 2020

	<i>Note</i>	30 Jun 2020 \$	30 Jun 2019 \$
Cash flows from operating activities			
Cash receipts from customers		25,264,856	23,194,558
Grant income received		1,876,521	-
Cash paid to suppliers and employees		(16,181,507)	(25,856,985)
Interest received		275,422	788,111
Interest paid (i)		(14,859,635)	(18,168,502)
Income tax paid		-	(195,781)
Net cash used in operating activities		<u>(3,624,343)</u>	<u>(20,238,599)</u>
Cash flows from investing activities			
Payments of investment property improvements (i)		(12,562,071)	(35,821,299)
Refunds for property-related deposits		-	246,844
Proceeds from sale of investment properties		52,353,902	37,701,829
Disposal costs on sale of investment properties		(2,607,086)	(2,550,850)
Distributions received from jointly controlled entity investments (ii)		5,015,203	206,429
Distributions received from equity investments		-	161,052
Amounts advanced to third parties		(102,821)	(467,229)
Net cash from/(used in) investing activities		<u>42,097,127</u>	<u>(523,224)</u>
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		-	147,928,309
Bank loan repayments		(21,179,970)	(106,226,976)
Unsecured note repayments		(40,134,875)	-
Refund of interest reserve and escrow accounts		1,055,034	2,304,985
Payment of transaction costs related to loans and borrowings		(6,330)	(2,172,290)
Distributions paid		(5,165,800)	(14,177,529)
Withholding tax paid		(321,281)	(467,117)
Lease payments		(426,363)	(372,146)
Net cash (used in)/from financing activities		<u>(66,179,585)</u>	<u>26,817,236</u>
Net (decrease)/increase in cash and cash equivalents		(27,706,801)	6,055,413
Cash and cash equivalents at beginning of period		85,875,027	106,992,735
Effect of exchange rate fluctuations on cash held		949,779	3,973,495
Cash and cash equivalents at end of period	2	<u>59,118,005</u>	<u>117,021,643</u>

(i) - Interest paid in respect of expenditure on Qualifying Assets has been classified as an "Payments of investment property improvements" 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 2020**

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 (**IFRS**) 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 31 August 2020.

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.

The following accounting policies were adopted during the period ended 30 June 2020:

Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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 Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

2. Cash and cash equivalents

	30 Jun 2020	31 Dec 2019
	\$	\$
Cash at bank	59,118,005	85,875,027
	<u>59,118,005</u>	<u>85,875,027</u>

3. Other financial assets

	30 Jun 2020	31 Dec 2019
	\$	\$
Current assets		
Loan to other entity	9,419,750	9,160,343
	<u>9,419,750</u>	<u>9,160,343</u>
Non-current assets		
Equity investments — fair value	24,390,988	27,153,745
	<u>24,390,988</u>	<u>27,153,745</u>

a) Loan to other entity

The Group provided vendor financing in respect of a property disposed in prior years.

The loan is secured by a first mortgage over the underlying property and bears interest at 2.625% per annum. During the period, the borrower exercised their one-time option to extend the maturity date of the loan to 22 October 2020. No principal repayments are due until the maturity date of the loan. An amount of US\$396,703 (A\$574,682) remains undrawn by the borrower pursuant to the terms of the loan agreement.

b) Equity investments — fair value

Investee	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest	
				30 Jun 2020	31 Dec 2019
				%	%
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%	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.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

3. Other financial assets (continued)

515 West 168th Venture LLC

During the period, Walker & Dunlop, Inc was appointed to value the investment property owned by 515 West 168th Venture LLC. In determining the fair value of the property, the appraiser adopted a discounted cash flow approach.

The fair value of the property as at 30 June 2020 was USD\$22,050,000 (A\$31,942,634). The Investee had borrowings totaling USD\$13,400,000 (A\$19,411,850).

30-58/64 34th Street Venture LLC

During the period, Walker & Dunlop, Inc was appointed to value the investment property owned 30-58/64 34th Street Venture LLC. In determining the fair value of the property, the appraiser adopted a discounted cash flow approach.

The fair value of the property as at 30 June 2020 was USD\$18,200,000 (A\$26,365,348). The Investee had borrowings totaling USD\$8,500,000 (A\$12,313,487).

523 West 135th Street Venture LLC

During the period, Walker & Dunlop, Inc was appointed to value the investment property owned 523 West 135th Street Venture LLC. In determining the fair value of the property, the appraiser adopted a discounted cash flow approach.

The fair value of the property as at 30 June 2020 was USD\$7,350,000 (A\$10,647,545). The Investee had borrowings totaling USD\$4,680,000 (A\$6,779,661).

The 30 June 2020 appraisals were impacted by laws enacted by NYC which placed a freeze on rent growth due to COVID-19. As a result, the adopted fair values of the investment properties were reduced which consequently resulted in the decrement in the fair value of the equity investments held in the investees.

Class of investment	Fair value hierarchy level	Fair value (\$) 30 Jun 2020	Fair value (\$) 31 Dec 2019	Inputs
Equity investments - fair value	Level 3	24,390,988	27,153,745	<ul style="list-style-type: none"> - Net market income of \$23.92 - \$35.16 per square foot - 10 year annual compound growth rate of 2.65% - 3.32% - Discount rates of 4.75% - 5.25% - Terminal yields of 4.85% - 5.0%

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

4. Other assets

	30 Jun 2020	31 Dec 2019
	\$	\$
Current assets		
Deferred leasing fee	81,277	260,522
Other assets (escrow deposits and receivables)	1,454,438	2,084,684
	<u>1,535,715</u>	<u>2,345,206</u>
	30 Jun 2020	31 Dec 2019
	\$	\$
Non-current assets		
Facility reserve accounts (i) (ii)	14,552,043	15,614,785
Other assets (escrow deposits and receivables)	-	961,402
	<u>14,552,043</u>	<u>16,576,187</u>

(i) Under the terms of the Centennial Bank loan facility (refer note 12(iii)), the Group is required to:

- maintain interest reserve accounts equivalent to six months of interest on the outstanding principal loan balances. At balance date, the amount of interest on reserve with Centennial Bank was US\$2,452,248 (A\$3,552,439).
- 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\$896,730).
- maintain a collection reserve. At balance date, the amount on reserve with Centennial Bank in relation to collection reserves was US\$964,960 (A\$1,397,885).

(ii) Under the terms of the Wells Fargo Bank loan facility (refer note 12(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\$1,414,267 (A\$2,048,771).
- 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\$2,743,303 (A\$3,974,073).
- 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\$879,484 (A\$1,274,062).
- 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\$972,000 (A\$1,408,083).

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

5. Investments in jointly controlled entities

Jointly controlled entities	Country of incorporation	Principal activity	Principal place of business	Ownership Interest	
				30 Jun 2020 %	31 Dec 2019 %
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. These entities are in the process of being dissolved.

	30 Jun 2020 (6 months) \$	31 Dec 2019 (12 months) \$
Carrying amount of interest in jointly controlled entities		
Balance at beginning of period	5,524,908	34,562,762
Distributions received and receivable	(5,015,203)	(33,006,958)
Share of (losses)/profits of jointly controlled entities	(133,653)	3,662,013
Share of reserves of jointly controlled entities	-	(153,995)
Exchange rate differences on translation	335,369	461,086
Balance at end of period	<u>711,421</u>	<u>5,524,908</u>

The entities are in the process of being dissolved and the remaining share of net assets is expected to be received by 31 December 2020. Consequently, the balance at period end totalling \$711,421 has been recognised as a current asset.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2020

6. Investment properties

	30 Jun 2020	31 Dec 2019
	\$	\$
Disclosed on the Condensed Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	80,130,013	123,383,421
Non-current assets		
Investment properties	996,988,469	1,018,547,242
	<u>1,077,118,482</u>	<u>1,141,930,663</u>
	30 Jun 2020	31 Dec 2019
	(6 months)	(12 months)
At fair value		
Balance at beginning of period	1,141,930,663	1,293,342,805
Acquisitions, including improvements and interest on qualifying properties	11,546,558	62,972,354
Fair value movement of investment properties to market	(47,787,162)	(150,094,732)
Disposals	(51,669,622)	(69,234,600)
Exchange rate differences on translation	23,098,045	4,944,836
Balance at end of period	<u>1,077,118,482</u>	<u>1,141,930,663</u>
	30 Jun 2020	30 Jun 2019
	(6 months)	(6 months)
Interest expense	19,711,305	24,916,245
Interest capitalised to carrying value of qualifying investment properties	(1,989,215)	(3,841,627)
Interest expense reflected in profit or loss	<u>17,722,090</u>	<u>21,074,618</u>

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2020

6. Investment properties (*continued*)

i) Valuation basis

The valuation basis utilised by the Group is disclosed in the annual financial report and involves the selection of a sample of individual properties within each relevant neighbourhood for independent valuation ("direct comparable sales" approach). These valuations are then used to determine the average fair value movement specific to each respective neighborhood. The fair value movement for each neighbourhood is then extrapolated over properties not subject to individual valuation, thereby achieving an overall outcome for each neighbourhood and accordingly the entire portfolio.

In the current period, as a result of the outbreak of the COVID-19 pandemic in the United States in early 2020 and the subsequent 'stay at home' orders enforced between March 2020 and June 2020 in New York and New Jersey, there was significant disruption in the real estate markets in which the Group invests. The number of real estate transactions reduced significantly during the period. As a consequence, in consultation with the Fund's panel of appraisers, the Directors assessed that there were insufficient direct comparable sales transactions during the period to enable the external valuation of individual properties using the "direct comparable sales" approach.

To determine the fair value of the Fund's entire portfolio of investment properties at 30 June 2020, the Directors have adopted an alternative market approach according to the portfolios of neighbourhoods ('sub-portfolio') listed below. The estimated fair value percentage movements specific to each sub-portfolio were determined and then applied to the carrying value of each property as at 31 December 2019 according to which sub-portfolio the property is located.

- Hudson County Workforce, New Jersey (HC Workforce)
- Hudson County Premium, New Jersey (HC Premium)
- New York Premium, New York (NY Premium)

The sub-portfolios above represent the aggregation of neighbourhoods of close geographic proximity.

In estimating the percentage fair value movements of each sub-portfolio, the Directors considered the movement in the median sales price of family homes in each sub-portfolio during the 6 months to 30 June 2020. The median sales prices of each sub-portfolio was estimated based on the sales prices of 1 family to 4 family homes in the neighborhoods in which the Group invests as sourced from external real estate databases such as the Multiple Listing Service (MLS). Where available, contracted sales prices of transactions which had not settled at balance date have also been considered. The Directors also had regard to the results of the Fund's property disposal program during the period, the opinions of real estate appraisers and brokers on current market conditions and where available and relevant, other published market reports. The resultant percentage fair value movements by sub-portfolio are summarised on the following page.

The valuation approach above is based on unobservable inputs categorised as Level 3 and which require significant judgements and estimates that are mainly based on market conditions at balance date.

As a result of the ongoing and developing COVID-19 pandemic and its resulting impact on the US economy, the Directors believe that there could be further changes in future periods as new information related to the pandemic is understood, including the continued impact on the real estate markets in New Jersey and New York and the evolution of government restrictions and travel limitations. A sensitivity analysis assessment has been performed below to consider the movement in the fair value of the portfolio of investment properties if the percentage fair value movements in each sub-portfolio were to increase or decrease.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

6. Investment properties (continued)

30 June 2020

Class of property	Valuation technique	Fair value hierarchy	Inputs
			<ul style="list-style-type: none"> - Median sales prices of 1 family to 4 family homes - Appraisers and broker opinions
Residential use investment property	Market approach	Level 3	Estimated percentage fair value movements during the period : New Jersey – Workforce : Nil % New Jersey – Premium : Decrease -4.8% New York – Premium : Decrease -5.5%

31 December 2019

Class of property	Valuation technique	Fair value hierarchy	Inputs
Residential use investment property	Direct comparable sales	Level 2	<ul style="list-style-type: none"> - Selling price - Geographic location - Property age and condition - Size of Property - Number of rooms

Sensitivity analysis

The Group has performed a sensitivity analysis on the fair value of the Fund's portfolio of investment properties to changes in key assumptions used in the valuation as follows:

	Key Assumptions	
	5% decrease in % FV movement in HC Workforce, HC Premium and NY Premium	5% increase % FV movement in HC Workforce, HC Premium and NY Premium
Change in total value (\$'000)	(56,134)	56,134

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2020

7. Security deposits

	30 Jun 2020	31 Dec 2019
	\$	\$
Security deposits	441,837	434,411

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\$305,000 (A\$441,837) deposit.

8. Property, plant and equipment

	30 Jun 2020	31 Dec 2019
	\$	\$
Leasehold improvements and office equipment - at cost	324,034	287,556
Accumulated amortisation and depreciation	(165,767)	(125,401)
	<u>158,267</u>	<u>162,155</u>

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2020

9. Leases

The balances below reflect the adoption of AASB 16, which came into effect 1 January 2019.

The Consolidated Statement of Financial Position shows the following amounts relating to leases:

	30 Jun 2020	31 Dec 2019
	\$	\$
Right-of-use asset		
Opening Balance	4,811,959	6,865,755
Depreciation charge	(384,259)	(904,156)
Impairment reversal	100,234	(1,168,723)
Reassessment of lease liability	(421,408)	-
Exchange rate differences on translation	95,546	19,083
Closing Balance	<u>4,202,072</u>	<u>4,811,959</u>

The right-of-use asset is recognised at cost less accumulated depreciation. The asset is depreciated on a straight line basis over the term of the lease.

	30 Jun 2020	31 Dec 2019
	\$	\$
Lease liability		
Opening Balance	6,118,902	6,865,755
Interest expense	125,130	248,644
Lease repayments	(524,152)	(994,520)
Reassessment of lease liability	(428,799)	-
Exchange rate differences on translation	104,596	(977)
Closing Balance	<u>5,395,677</u>	<u>6,118,902</u>

Disclosed as:

	\$	\$
Current	838,711	789,934
Non-current	4,556,966	5,328,968
	<u>5,395,677</u>	<u>6,118,902</u>

Minimum lease payments in respect of the lease liability are as follows:

	\$	\$
Lease liability - contractual undiscounted cash flows		
Not later than one year	1,048,303	1,030,684
Later than one year and not later than five years	4,294,364	4,195,066
Later than five years	735,651	1,808,218
	<u>6,078,318</u>	<u>7,033,968</u>

During the period, the Group executed a sublease in respect of its lease at 140 Broadway, New York, New York to commence on 1 October 2020. Based on the terms of the sublease, the recoverable amount of the right-of-use asset was reassessed based on the future net cash inflows, which resulted in an impairment reversal of US\$65,954 (A\$100,234) being recognised in the current period.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

10. Deferred tax liabilities

	30 Jun 2020	31 Dec 2019
	\$	\$
Investment properties	35,081,103	41,826,121

Movements

Balance at beginning of period	41,826,121	75,871,554
Charged to profit or loss as income tax expense	(7,334,616)	(34,433,102)
Unrealised foreign exchange differences	589,598	387,669
Balance at end of period	35,081,103	41,826,121

Income tax expense is comprised of:

	30 Jun 2020	31 Dec 2019
	\$	\$
Deferred tax charged to profit or loss	(7,334,616)	(34,433,102)
State and withholding tax payable	174,753	719,882
Income tax expense	(7,159,863)	(33,713,220)

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 24.95% (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.

11. Payables

	30 Jun 2020	31 Dec 2019
	\$	\$
Current		
Trade payables	795,729	2,161,016
Distribution payable	6,215,009	6,313,342
Other payables	3,336,635	6,111,151
	10,347,373	14,585,509

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 time frame.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

12. Borrowings

	30 Jun 2020 \$	31 Dec 2019 \$
Current liabilities		
Secured bank loans — at amortised cost	629,532	-
Unsecured notes	-	22,494,544
	<u>629,532</u>	<u>22,494,544</u>
Non-current liabilities		
Secured bank loans — at amortised cost	467,698,046	477,039,142
Unsecured notes	155,730,304	172,887,144
	<u>623,428,350</u>	<u>649,926,286</u>

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

Financial institution	Interest rate	Maturity date	Security	Property security value – fair value \$	30 Jun 2020 Principal amount – amortised cost \$	31 Dec 2019 Principal amount – amortised cost \$
Wells Fargo	LIBOR 1 month + (ii) 1.80%	(i)	(i)	837,213,981	368,912,338	370,320,707
Centennial Bank	(iii) (ii)	(iii)	(iii)	238,084,873	99,415,240	106,718,435
					<u>468,327,578</u>	<u>477,039,142</u>

Disclosed as:

	30 Jun 2020 \$	31 Dec 2019 \$
Current	629,532	-
Non-current	467,698,046	477,039,142
	<u>468,327,578</u>	<u>477,039,142</u>

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

12. Borrowings (*continued*)

(i) The facility with Wells Fargo Bank dated 15 June 2018 was amended on 3 April 2019 to increase the facility limit from US\$200,000,000 to US\$300,000,000, 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
 - Essendon URF LLC
 - St. Kilda LLC
 - Collingwood URF LLC
 - Carlton URF LLC
 - Fremantle URF LLC
 - Kenny URF Holdings LLC
 - Jett URF Holdings LLC
- b. A guarantee given by US Masters Residential Property (USA) Fund.
- c. A guarantee given by US Masters Residential Property Fund.
- d. US\$6,009,054 (A\$8,704,989) placed in interest, taxes, insurance and property management reserves. Refer Note 4(ii).

The total value of the security at balance date in respect of the Wells Fargo Bank facility is A\$847,066,460, including property assets valued at A\$837,213,981.

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% (assessed as at the 1st of each month). Other than in specific circumstances, principal repayments are not required under the terms of the facility.

Subsequent to balance date, the Group entered the "Repayment Phase" of the facility, meaning that the proceeds associated with the sale of properties in the collateral pool are required to be sent to Wells Fargo as a principal repayment.

The maturity date of the facility is 15 July 2021.

At the date of this report, the Group is in the process of refinancing the Wells Fargo Bank debt facility. As a part of this process, the Group is negotiating loan terms and satisfying financier due diligence requests. Based upon on the status of negotiations to date, the Group expects that the Wells Fargo Bank debt facility will be refinanced by 31 December 2020.

(ii) As of 30 June 2020, LIBOR 1 month was 0.18%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

12. Borrowings (continued)

- (iii) The facility with Centennial Bank dated 23 February 2016 was amended on 26 September 2017 to extend the maturity date to 26 September 2022 (previously 22 February 2021). Subject to satisfying certain criteria, the Group has an option to extend the maturity date for an additional year. The 2017 amendment also increased the facility limit from US\$125,000,000 to US\$175,000,000. Amounts available to be drawn under the facility are based on pledged properties that meet specified conditions and meeting other facility terms and conditions. Funding against pledged properties is provided in accordance with the following:

Advances under the facility are limited to 50% of fair market value (as determined by Centennial Bank). Drawdown of renovation advances is limited to 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\$4,036,221 (A\$5,847,054) 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 4(i).
- e. An interest rate cap agreement entered into by the Group with SMBC Capital Markets.

The total value of the security at balance date in respect of the Centennial Bank loan is A\$242,760,283, including property assets valued at A\$238,084,873.

The facility bears interest at 1 month LIBOR plus 4.50%. LIBOR is subject to a floor of 1.00%.

Effective December 2019, quarterly principal repayments are no longer required.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2020

12. 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 2020 Amortised cost \$	31 Dec 2019 Amortised cost \$
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	-	22,494,544
URF Notes III	7.75%	24 December 2021	24 December 2019	Unsecured	156,964,291	172,887,144
					<u>156,964,291</u>	<u>195,381,688</u>

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

Facility	Principal drawn \$	Principal available \$	Total \$
Centennial Bank	101,152,712	152,360,253 *	253,512,965
Wells Fargo	372,093,615	62,500,040 *	434,593,655
URF Notes III	157,500,000	-	157,500,000
	<u>630,746,327</u>	<u>214,860,293</u>	<u>845,606,620</u>

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

13. Grant income

During the period, the Group was eligible and received a forgivable loan pursuant to the U.S. Government's COVID-19 stimulus program (Paycheck Protection Program). The Group assessed that there is reasonable assurance that the Group will meet the terms for the forgiveness of the loan and accordingly, the total grant income was recognised in profit or loss during the period on a systematic basis over the periods in which the qualifying expenditure (including payroll costs, interest expense and rent and utilities) for which the grant was intended to compensate.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2020**

14. Capital and reserves

Issuance of ordinary units

In relation to the CPU distribution paid on 25 February 2020, 1,345,971 units were issued under the Group's Distribution Reinvestment Plan, for an amount of \$1,103,725.

The total number of ordinary units issued as at 30 June 2020 was 381,070,816 (31 December 2019: 379,724,845).

15. Capital commitments

The Group has a capital commitment of \$2,631,018 (31 December 2019: \$8,466,171) in respect of properties that are either under construction/refurbishment or are due to commence construction/refurbishment.

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

16. Related parties

Key management personnel

Mr. Stuart Nisbett, Mr. Mike Adams, Mr. Warwick Keneally and Mr. Peter Shear are directors of the Responsible Entity, Walsh & Company Investments Limited (Walsh & Co.) and deemed to be key management personnel.

Mr. Kevin McAvey and Mr. Brian Disler are joint CEOs of the US REIT and are also deemed to be key management personnel.

Other than Mr. Kevin McAvey and Mr. Brian Disler, the key management personnel did not receive compensation from the Group 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 2020

16. Related parties (continued)

Payments made to the Responsible Entity and related parties

Management Fees	2020	2019
<p>Responsible Entity fee (payable by the Fund)</p> <p>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.</p> <p>The amount owed to the Responsible Entity in respect of the responsible entity fee at 30 June 2020 is \$nil (31 December 2019: \$2,559,849).</p>	\$2,357,859	\$2,599,669
<p>Debt arranging fee (payable by the US REIT)</p> <p>The debt arranging fee was waived for an indefinite period during 2019 and was terminated in June 2020.</p> <p>Total debt arranging fee incurred during the period was nil (30 June 2019: \$726,557). 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.</p> <p>The amount owed to the Investment Manager* in respect of the debt arranging fee at 30 June 2020 was nil (31 December 2019: nil).</p> <p>Total debt arranging fees amortised during the period, including fees capitalised in prior years, is \$1,145,965 (31 December 2019: \$1,985,030).</p> <p>* URF Investment Management Pty Limited ceased to be the Investment Manager of both the Fund and the US REIT during the period.</p>	Nil	\$726,557

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

16. Related parties (continued)

<i>Other services provided by the Responsible Entity and related parties of the Responsible Entity</i>	2020	2019
<p><i>Fund administration services (payable by the Fund)</i></p> <p>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.</p> <p>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 is included in Office Administration Costs in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.</p>	\$60,784	\$62,297
<p><i>Architecture, design and construction services (payable by the US REIT)</i></p> <p>Dixon Projects LLC (a subsidiary of Evans Dixon 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.</p> <p>These services are provided under the Property Services and the Design and Architectural Services Master Agreements. Under the terms of these agreements, Dixon Projects is entitled to charge a development fee of 5%, General Conditions fee of 15% and insurance fees of 1.25%.</p> <p>The fee in the current period includes \$986,463 of General Conditions and insurance costs (30 June 2019: \$3,530,076), a development fee of \$343,572 (30 June 2019: \$1,229,480), and architectural, quantity surveyor and interior design services of \$359,471 (30 June 2019: \$2,221,288) charged by Dixon Projects. These costs are capitalised to the relevant investment properties.</p>	\$1,689,506	\$6,980,844

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

16. Related parties (continued)

<i>Recoveries and recharges paid to (or received from) the Responsible Entity</i>	2020	2019
<p><i>Responsible Entity and Dixon Advisory USA Inc expense recharge (payable by the Fund and the US REIT)</i></p> <p>From time to time, the Group may share resources with Dixon Advisory USA, Inc and/or the Responsible Entity. Where this occurs, the Group may recover the costs of the resources.</p> <p>During the period, the Group recovered certain shared payroll and office related costs from Dixon Advisory USA, Inc and its subsidiaries. The total amount owed to the Group at 30 June 2020 is \$78,896 (31 December 2019: \$289,636).</p> <p>Pursuant to the agreements, the Responsible Entity is entitled to recover direct expenses incurred in the management of the Group's activities. These costs were in relation to various regulatory and professional services provided by external vendors and are recognised in 'Office administrative costs' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.</p> <p>In November 2019, the Fund relocated from its US premises at 140 Broadway, New York to Harborside Financial Center, New Jersey which is leased by Dixon Advisory USA, Inc. The Fund reimbursed Dixon Advisory USA, Inc for its share of the rental expense for the six months ended 30 June 2020, totalling \$69,994 (30 June 2019: nil).</p>	<p>(\$82,770)</p> <p>\$151,966</p> <p>.</p> <p>\$69,994</p>	<p>(\$471,394)</p> <p>\$232,931</p> <p></p> <p>Nil</p>

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2020

17. Controlled entities

Walsh & Co. is the Responsible Entity of both the Fund and the US REIT.

		Ownership interest	
		30 Jun 2020	31 Dec 2019
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%
Melbourne LLC	United States	100%	100%
Walleroo 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%
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%
MacDonough URF LLC	United States	-	100%
NRL URF LLC	United States	100%	100%
Grand Hill URF LLC	United States	100%	100%
Rogers Marks URF LLC	United States	-	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%	100%
NY Oakland LLC	United States	100%	100%
NJ Penelope LLC	United States	100%	100%
Jett URF Holdings LLC	United States	100%	100%
Kenny URF Holdings LLC	United States	100%	100%

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2020

18. Subsequent events

The COVID-19 pandemic has caused significant disruption to businesses and economic activities. There remains significant uncertainty as the situation continues to evolve. In the event the COVID-19 impacts are more severe or prolonged than anticipated, this may have further adverse impacts to property values (refer to note 6) and the operating result of the Group.

A distribution of \$3.10 per Convertible Preference Unit totalling \$6,171,192 was declared on 15 June 2020 and was paid to unitholders on 25 August 2020. 4,140,426 units were issued under the Group's Distribution Reinvestment Plan.

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.

19. 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 2020

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. Stuart Nisbett
Director

Dated this 31st day of August 2020

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 2020, 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 2020 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.

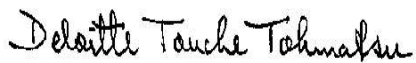
Auditor's Independence Declaration

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 2020 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*.



DELOITTE TOUCHE TOHMATSU



Weng W Ching

Partner

Chartered Accountants

Sydney, 31 August 2020

