US Masters Residential Property Fund

ARSN 150 256 161

Annual Report

For the year ended 31 December 2020

Responsible Entity:

E&P

ACN 152 367 649 | AFSL 410 433


Photo of Jersey City boardwalk


Interior photo of a property in the Fund's portfolio, Coles Street, Jersey City

Contents

Chairman's Letter

For the year ended 31 December 2020

Dear Investors,

I am pleased to provide you with the full-year report for the US Masters Residential Property Fund (**URF** or **Fund**) for the year ended 31 December 2020.

Throughout the year, the Responsible Entity and local US team have been executing the Fund's stated strategic goals, and the result has been a productive period for the Fund. Despite the uncertainty and challenges presented by the COVID-19 pandemic, significant operational improvements have been achieved. The execution of the ongoing sales process secured US$70 million of sales throughout the year, and despite the number of properties in the portfolio reducing, both stabilised Net Operating Income (**NOI**) Yield[1] and normalised Funds from Operations (**FFO**)[2] substantially increased compared to the prior reporting period (up approximately 13% and 45% respectively). This represents positive progress, and we anticipate further improvements in these metrics throughout 2021.

We are also pleased to have secured a refinance with Global Atlantic Financial Group. This new loan structure is designed to complement the Fund's stated strategic goals, and the ongoing repayment of the Bridge Loan component will further reduce the Fund's ongoing interest expense. The refinance facilitated a further early repayment of URF Notes III at the end of the 2020 year, bringing the total Notes repayment for 2020 to A$180 million. Following the end of the reporting period we have also announced the full repayment of the remaining URF Notes III balance at the end of March 2021. With the Fund's debt and cash flow positions now on more stable footings, we are better positioned to explore capital market opportunities on behalf of investors.

The Fund completed five major construction properties throughout the year, with only a single project remaining we now expect full completion of the renovation pipeline in Q1 2021.

The effect of an appreciating Australian dollar has had a significant impact on the Fund's published results in the second half of 2020. Over this period, the Australian dollar increased more than 11% against the US dollar, equating to a reduction in the value of the Group's net assets of A$65 million (A$16 million gain in H1 2020). The Fund's full repayment of URF Notes will reduce this currency sensitivity in future reporting periods.

While the Fund's asset values throughout 2020, in particular the first half of the year, were negatively impacted by soft local real estate markets, we note that the second half of the year saw markets stabilise, with an increase to the value of the New Jersey Workforce portfolio and flat movement in the New Jersey Premium market. Pleasingly, the Fund's rental portfolio has continued to demonstrate resilience through this period of uncertainty, highlighted by strong rent collection rates averaging 98% of rent roll for the full 2020 year.

1 Stabilised NOI Yield for the 12 months to 31 December 2020 of 3.39% is calculated as total NOI of properties available for rental totalling $21,180,352 divided by the carrying value of properties available for rental as at 31 December 2020 of $625,519,328.

Stabilised NOI Yield for the 12 months to 31 December 2019 of 3.01% is calculated as total NOI of properties available for rental totalling $18,851,644 divided by the carrying value of properties available for rental as at 31 December 2020 of $625,519,328.

Refer to the accompanying Q4 URF Report for additional details on this metric.

2 Refer to the CEOs' report.

As outlined throughout this document and in our accompanying Q4 Quarterly Report, the Fund continues to reposition itself to maximise investor returns. The operational improvements that have been implemented has put the Fund in a strong position to take advantage of the improving sentiment around the New York and New Jersey property markets as vaccine programs are rolled out in both states. We thank you for your support through these challenging times, and look forward to sharing continued progress over the coming year.

Yours faithfully,

Stuart Nisbett
Independent Chairman
Chairman of E&P Investments Limited, Responsible Entity for US Masters Residential Property Fund

Chief Executive Officers' Report

For the year ended 31 December 2020

Dear Unitholders,

It goes without saying that 2020 was a year unlike any other in recent history. The onset of the COVID-19 pandemic not only created a worldwide health crisis, but also completely upended the global economy, creating a level of macroeconomic uncertainty not seen in decades. This macroeconomic uncertainty still exists today – nearly a full year after the start of the pandemic. New York City was unfortunately one of the early epicenters of this crisis, experiencing incredibly high levels of infection, hospitalization, and fatalities beginning in March 2020.

In addition to being the initial epicenter of the COVID-19 outbreak in the US, in many ways New York City also epitomised the corresponding lifestyle changes brought on by the virus. New York and New Jersey were two of the only states in the US to issue formal stay-at-home orders at the outset of the pandemic, mandating that all residents confine themselves to their homes, only permitted to leave for essential activities. Even after these stay- at-home orders were relaxed, office towers from Midtown Manhattan to Wall Street remained empty amidst continued fear of the virus and a burgeoning work-from-home trend. With commuting to the office no longer required by employers, Manhattanites flocked to surrounding suburban areas or to different parts of the country entirely, seeking more affordable, less dense locations. Beyond the COVID-specific challenges, New York City experienced periods of social unrest, as protests swept through urban areas across the nation, and also dealt with political uncertainty stemming from a highly polarised nation in a Presidential election year.

Despite the countless macroeconomic and New York City-specific headwinds, 2020 was more than just a resilient year for the Fund – it was a continued step forward in the strategic repositioning and improvement of the portfolio. The Fund's significant progress in 2020 was capped off with the November settlement of a US$430.65 million senior debt refinance with Global Atlantic Financial Group.

After jointly stepping into the CEO role on 1 August 2019, we outlined a strategic plan designed to stabilise the financial position of the Fund, and – by doing so – drive future returns for unitholders. The strategic plan was built on the following core principles, designed to improve the portfolio's Funds From Operations[1] (**FFO**):

- Executing a targeted sales program, focused on selling assets from the Fund's lower-yielding New York Premium and New Jersey Premium segments to rebalance the portfolio and improve the overall portfolio yield;
- Utilising the proceeds generated by the sales program to reduce the Fund's gearing levels;

1 FFO for the 12 months to 31 December 2020 of ($20.7 million) is calculated as revenue from ordinary operations of $45.4 million (including other income) plus one-off grant income of $1.9 million, less; investment property expenses of ($14.9 million), asset disposal costs of ($5.7 million), general & administrative expenses of ($16.1 million), net interest expense (excluding amortised finance costs) of ($29.6 million) and certain refinancing costs of ($1.7 million).

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

Refer to the accompanying Q4 URF Report for additional details on this metric.

- Improving property-level operations to increase the portfolio's net operating income[2] (**NOI**) margin; and
- Reducing General & Administrative (**G&A**) expenses.

During 2020, the following significant progress was made toward this stated strategy:

- The Fund sold US$70.9 million worth of property from its portfolio, with 76.4% (US$54.2 million) coming from the New York and New Jersey Premium segments;
- A further US$30.1 million worth of property was under contract as of 31 December, 88.6% of which was from the New York and New Jersey Premium segments;
- The Fund reduced its total debt by $111.8 million, with Notes II fully repaid during the year and Notes III set to be repaid in March 2021;
- NOI was increased by 3% y-oy, despite reducing the portfolio size by US$70.9 million, with a further US$98.0 million either under contract or intentionally held vacant while actively being marketed for sale;
- Reduced G&A by 30.8%; and
- Improved FFO by 44% compared to 2019.

Further, the aforementioned refinance with Global Atlantic markedly improved the Fund's capital structure by:

- Removing any maturity risk associated with the Wells Fargo facility;
- Reducing the balance of Notes III to $10 per Note well in advance of its December 2021 maturity date;
- Increasing the Fund's level of senior debt and securing an attractive interest rate, while also reducing its more expensive, subordinate Notes; and
- Removing the currency mismatch between the US dollar-denominated assets and Australian dollar- denominated debt to reduce the Fund's exposure to a further depreciation in the US dollar. Without removing this currency mismatch, depreciation of the US dollar would make the cost of the Notes even more expensive and burdensome to the Fund. Of note – since the Global Atlantic settlement date, the USD has depreciated a further 5.3%, and the immediate transfer of proceeds to Australian dollars represented a net tangible assets (**NTA**) savings of 2 cents per unit[3].

While this progress over the course of 2020 has immeasurably improved the underlying business, we are cognisant – and disappointed – that this progress has not yet resulted in a strengthening of the price of the ordinary units or the Convertible Preference Units (**CPUs**).

2 NOI for the 12 months to 31 December 2020 of US$20.7 million is calculated as total US REIT operating revenue of US$31.2 million less total property level expenses of US$10.5 million, consisting of property taxes of US$5.8 million, property insurance of US$1.0 million, utilities expenses of US$1.0 million, repairs and maintenance expenses of US$1.7 million, and other property expenses of US$1.0 million.

NOI for the 12 months to 31 December 2019 of US$20.0 million is calculated as total US REIT operating revenue of US$33.6 million less total property level expenses of US$13.6 million, consisting of property taxes of US$6.0 million, property insurance of US$1.1 million, utilities expenses of US$1.1 million, repairs and maintenance expenses of US$2.7 million, and other property expenses of US$2.7 million.

3 NTA savings per unit is calculated as the equivalent Australian dollar figure of the repatriation of USD$100 million to Australia translated at the actual transaction date rate of 0.73152 (A$136,701,662) less the Australian dollar figure translated at the balance date spot rate of 0.7694 (A$129,971,406) resulting in net savings of A$6,730,256, divided by the total number of ordinary units on issue at 31 December 2020 of 385,211,242 (refer to note 18).

With the debt refinance now completed (and the Fund's capital structure on stable footing) we look forward to using 2021 to:

- Continue executing the stated operational strategy of improving the portfolio's NOI margin and reducing G&A to continue to grow the portfolio's FFO;
- Continue to sell low-yielding properties and utilising the sales proceeds to focus on expedited repayments of the remaining stub of Notes III and the Global Atlantic Bridge Loan; and
- Placing an increased emphasis on exploring capital market opportunities to address and rectify the current market discount on the CPUs and ordinary units.

We want to continue to acknowledge and thank investors for the trust that has been placed in the management team. We would also like to take this opportunity to thank the entire US-based staff for their hard work and dedication despite the COVID-related challenges that not only impacted the job they do for the Fund, but also their everyday lives. It was only through their determination and efforts that the positive results detailed above were able to be achieved for the Fund. Our entire team is continuing to work diligently to ensure a successful outcome for unitholders, and we look forward to delivering continued progress in 2021.

Yours faithfully,

Brian Disler & Kevin McAvey
Co-CEO's US REIT


Photo of Columbia University in the city of New York

Corporate Governance Statement


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

Corporate Governance Statement

For the year ended 31 December 2020

US Masters Residential Property Fund (**Fund**) and the entities it controls (**Group**) is a listed managed investment scheme whose units are traded on the Australian Securities Exchange (**ASX**). The responsible entity of the Group is E&P Investments Limited (**E&P**, formerly Walsh & Company Investments Limited) (**Responsible Entity**).

The directors of the Responsible Entity (**Board**) recognise the importance of good corporate governance.

The Group's Corporate Governance Charter, which incorporates the Group's policies referred to below, is designed to ensure the effective management and operation of the Group and will remain under regular review. The Corporate Governance Charter is available on the Group's website **usmastersresidential.com.au**.

A description of the Group's adopted practices in respect of the eight Principles and Recommendations from the Fourth Edition of the *ASX Corporate Governance Principles and Recommendations* (**ASX Recommendations**) is set out below. All these practices, unless otherwise stated, were in place throughout the year and to the date of this report.

1. Lay solid foundations for management and oversight

Board Roles and Responsibilities

The Board is responsible for the overall operation, strategic direction, leadership and integrity of the Group and in particular, is responsible for the Group's growth and success. In meeting its responsibilities, the Board undertakes the following functions:

- Providing and implementing the Group's strategic direction
- Reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Group are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with
- Overseeing the integrity of the Group's accounting and corporate reporting systems, including the external audit
- Ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance
- Reviewing and overseeing internal compliance and legal regulatory compliance
- Ensuring compliance with the Group's constitution and with the continuous disclosure requirements of the *ASX Listing Rules* and the *Corporations Act 2001 (Cth)* (**Corporations Act**)
- Overseeing the Group's process for making timely and balanced disclosures of all material information concerning the Group, and
- Communicating with and protecting the rights and interests of all unitholders.

The Board of the Responsible Entity has established a formal policy which sets out its functions and responsibilities (**Board Policy**). The Board Policy is set out in section 2 of the Corporate Governance Charter.

Subject to legal or regulatory requirements and the Group's constitution, the Board may delegate any of the above powers to individual directors or committees of the Board. Any such delegation shall be in compliance with the law and the Group's constitution.

2. Structure the Board to add value

Board Composition

The composition of the Board is structured to maintain a mix of directors from different backgrounds with complementary skills and experience. Details of each director at the date of this report are given in the Directors' Report, including the period in office, skills, experience, and expertise relevant to the position of director.

The directors of the Responsible Entity during the 2020 financial year and as at the date of this report are:

Stuart Nisbett – Independent, Non-Executive Chairperson

Warwick Keneally – Non-Independent, Executive Director

Mike Adams – Non-Independent, Non-Executive Director

Peter Shear – Independent, Non-Executive Director

The company secretaries of the Responsible Entity during the 2020 financial year and as at the date of this report are:

Hannah Chan

Caroline Purtell

The Board of Directors work closely with the Compliance Committee, the majority of whom are independent of the Group, to ensure adequate independent oversight.

Having regard to the size of the Group and the nature of its business, the Board has determined that a Board with four members is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Group. However, the composition of the Board will be reviewed periodically.

The current Board comprises two independent directors, Stuart Nisbett and Peter Shear and two non-independent directors, Warwick Keneally and Mike Adams with the independent Chairperson holding the casting vote[4]. The Board however has established a Compliance Committee with a majority of external members who are responsible for monitoring the extent to which the Responsible Entity complies with the Group's constitutions, compliance plan and any relevant regulations. The Compliance Committee must provide a report to the Board at least on a quarterly basis and report to ASIC if it is of the view that the Responsible Entity has not complied with the Group's constitutions, Compliance Plan or any relevant regulations.

The Group recognises the ASX Recommendations with respect to establishing remuneration and nomination committees as good corporate governance. However, considering the size and structure of the Group, the functions that would be performed by these committees are best undertaken by the Board.

The Board will review its view on committees in line with the ASX Recommendations and in light of any changes to the size or structure of the Group, and if required may establish committees to assist it in carrying out its functions. At that time the Board will adopt a charter for such committees in accordance with the ASX Recommendations and industry best practices.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non- executive directors on a case-by-case basis and in conformity with the requirements of the ASX Listing Rules and the Corporations Act. In accordance with the Corporate Governance Charter, directors are entitled to seek independent advice at the expense of the Group. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Group.

3. Promote ethical and responsible decision-making

Code of Conduct

The Board of the Responsible Entity has adopted a Code of Conduct set out in Section 5 of the Corporate Governance Charter to define basic principles of business conduct of the Fund and the Responsible Entity. This Code requires the Fund's personnel to abide by the policies of the Fund and to the law. The Code is a set of principles giving direction and reflecting the Fund's approach to business conduct and is not a prescriptive list of rules for business behaviour.

Whistleblower Policy

The Board is subject to a Whistleblowing Policy which is available at eap.com.au/shareholder-centre/corporate-governance.

4 Prior to his appointment as a director of the Board, Stuart Nisbett was remunerated for services on investment committees for two of the Responsible Entity's unlisted funds. The Board is of the view that this association does not compromise Stuart Nisbett's independence because one of the investment committees was dissolved in 2017 and he ceased to be remunerated for the other investment committee prior to his appointment as director.

Anti-Bribery and Corruption Policy

The Board is subject to a Fraud and Corruption Policy which is available at eap.com.au/shareholder-centre/corporate-governance.

Unit Trading Policy

The Board of the Responsible Entity has established a Unit Trading Policy set out in Section 6 of the Corporate Governance Charter to apply to trading in the Group's units on the ASX. This policy outlines the permissible dealing of the Group's units while in possession of price-sensitive information and applies to all directors, executives and relevant employees of the Responsible Entity.

The Unit Trading Policy places restrictions and notification requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

Insider Trading Policy

The Board of the Responsible Entity has established an Insider Trading Policy set out in Section 7 of the Corporate Governance Charter to apply to trading in the Group's units on the ASX. This policy applies to all directors, executives and relevant employees of the Responsible Entity. All directors, executives and relevant employees of the Responsible Entity must not deal in the Group's units while in possession of price-sensitive information.

4. Safeguard integrity in financial reporting

Compliance Committee

As a registered managed investment scheme, the Group has a compliance plan that has been lodged with the Australian Securities and Investments Commission (**ASIC**). The compliance plan is reviewed comprehensively every year to ensure that the way in which the Group operates protects the rights and interests of unitholders and that major compliance risks are identified and properly managed. The Responsible Entity has formed a Compliance Committee to ensure the Group complies with the relevant regulations, its compliance plan and its constitution. The Compliance Committee meets and reports to the Board of the Responsible Entity on a quarterly basis.

The Compliance Committee is structured with three members, the majority of which are external. Details of the Compliance Committee members are as follows:

Claire Wivell Plater (External Member) **(Chairperson)**

Claire Wivell Plater LLB., GAICD is a non-executive director and strategic adviser, following 36 years as a financial services and regulatory lawyer with The Fold Legal and Phillips Fox (now DLA Piper). Claire currently chairs the boards of Aware Financial Services and The Fold Legal and is a director of Youi, Athena Home Loans and The Stella Prize. She sits on advisory boards to a number of startups including Ignition Advice, Snug Technologies and Kleu.

Barry Sechos (External Member)

Barry is one of two external members of the Compliance Committee. Barry is a member of the Compliance Committee for the New Energy Solar Fund, the Orca Global Fund, the Orca Global Disruption Fund, the Orca Asia Fund, the CD Private Equity Fund Series, the Venture Capital Opportunities Fund and the FSREC Property Fund. Barry is a Director of Sherman Group Pty Limited, a privately owned investment company, and is responsible for managing the legal, financial and operational affairs of Sherman Group of companies. Barry has 36 years' experience in corporate law and finance having spent seven years as a banking and finance lawyer at Allen Allen & Hemsley (Sydney, Singapore and London), and eight years as a Director of EquitiLink Funds Management and Aberdeen Asset Management Australia. Barry is also a Director of Paddington St Finance Pty Ltd, a specialist structured finance company, See Saw Films, a film production and finance group and winner of the 2011 Academy Award for Best Picture, Concentrated Leaders Fund Limited, an investment company listed on the ASX, Regeneus Limited, an ASX listed biotech company and a Director of the Sherman Centre for Culture and Ideas, a charitable cultural organisation. On 1 February 2021, Barry was appointed to the board of ASX listed Phoslock Environmental Technologies Limited, which provides innovative water technologies and engineering solutions to manage nutrients and other water pollutants.

Mike Adams (Internal Member)

Refer to information on directors on page 8.

Audit Committee

The Group has established an Audit Committee. The members of the Audit Committee during the year were:

Warwick Keneally (Internal Member)

Barry Sechos (External Member) **(Chairperson)**

Claire Wivell Plater (External Member)

The chairperson of the Audit Committee is an external member and is not the chairperson of the Board. The Audit Committee consists of two external members and one internal member. The primary function of the Audit Committee is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the following areas:

- Application of accounting policies to the Group's financial reports and statements
- Monitoring the integrity of the financial information provided to security holders, regulators and the general public
- Corporate conduct and business ethics, including Auditor independence and ongoing compliance with laws and regulations
- Maintenance of an effective and efficient audit
- Appointment, compensation and oversight of the external Auditor, and ensuring that the external Auditor meets the required standards for Auditor independence
- Regularly monitoring and reviewing corporate governance policies and codes of conduct.

The Audit Committee meets a minimum of two times a year. Proceedings of all meetings are minuted and signed by the chairperson of the Audit Committee. Copies of the minutes are provided to each member of the Board. The Audit Committee's Charter is available on the Group website.

5. Making timely and balanced disclosure

The Group is committed to complying with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules, releasing relevant information to the market and unitholders in a timely and direct manner and to promoting investor confidence in the Group and its securities. The Board has adopted a Continuous Disclosure Policy set out in Section 4 of the Corporate Governance Charter to ensure the Group complies with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules. The policy administered by the Board is as follows:

- The Board is involved in reviewing significant ASX announcements and ensuring and monitoring compliance with this policy;
- The Company Secretary is responsible for the overall administration of this policy and all communications with the ASX, and
- Senior management of the Responsible Entity is responsible for reporting any material price-sensitive information to the Company Secretary and observing the Group's no comments policy.

6. Respect the rights of unitholders

Rights of unitholders

The Group promotes effective communication with unitholders. The Board of Directors has developed a strategy within its Continuous Disclosure Policy to ensure that unitholders are informed of all major developments affecting the Group's performance, governance, activities and state of affairs. Each unitholder is also provided online access to the Registry to allow them to receive communications from, and send communication to, the Responsible Entity and the Registry. This also includes using a website to facilitate communication with unitholders via electronic methods. Information is communicated to unitholders through announcements to the ASX, releases to the media and dispatch of financial reports. Unitholders are provided with an opportunity to access such reports and releases electronically; copies of all such ASX announcements are linked to the Group's website **www.usmastersresidential.com.au.**

These include:

- weekly net asset value estimates;
- monthly net tangible asset backing announcements;
- quarterly investment updates;
- monthly property purchasing updates;
- the half-year report;
- the full-year report;
- occasional ASX announcements made to comply with the Group's continuous disclosure requirements; and
- occasional correspondence sent to unitholders on matters of significance to the Group.

The Board encourages full participation of unitholders at the general meetings to ensure a high level of accountability and identification with the Group's strategy. Unitholders who are unable to attend the general meeting are given the opportunity to provide questions or comments ahead of the meeting and where appropriate, these questions are answered at the meeting.

7. Recognise and manage risk

The Board has accepted the role of identifying, assessing, monitoring and managing the significant areas of risk applicable to the Group and its operations. The Board has established an Audit Committee to deal with these matters. The Board also monitors and appraises financial performance, including the approval of annual and half-year financial reports and liaising with the Group's auditors.

In order to evaluate and continually improve the effectiveness of its risk management and internal control processes, the Responsible Entity has adopted a Risk Management Framework. The Board conducts an annual review of the Risk Management Framework to satisfy itself that the Risk Management Framework continues to be sound. The Risk Management Framework is reviewed annually.

The Board is responsible for maintaining proper financial records. In addition, the Board receives a letter half yearly from the Group's external auditor regarding their procedures and reporting that the financial records have been properly maintained and the financial statements comply with the Australian accounting standards (**Accounting Standards**).

The Group does not have any material exposure to environmental or social risks.

The Responsible Entity provides declarations required by Section 295A of the Corporations Act for all financial periods and confirms that in its opinion the financial records of the Group have been properly maintained and that the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view of the financial position and performance of the Group, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Group's external auditor. Details of the Group's financial risk management are set out in the notes to the financial statements in the Annual Report. The Board does not release to the market any periodic corporate reports which are not audited or reviewed by an external auditor.

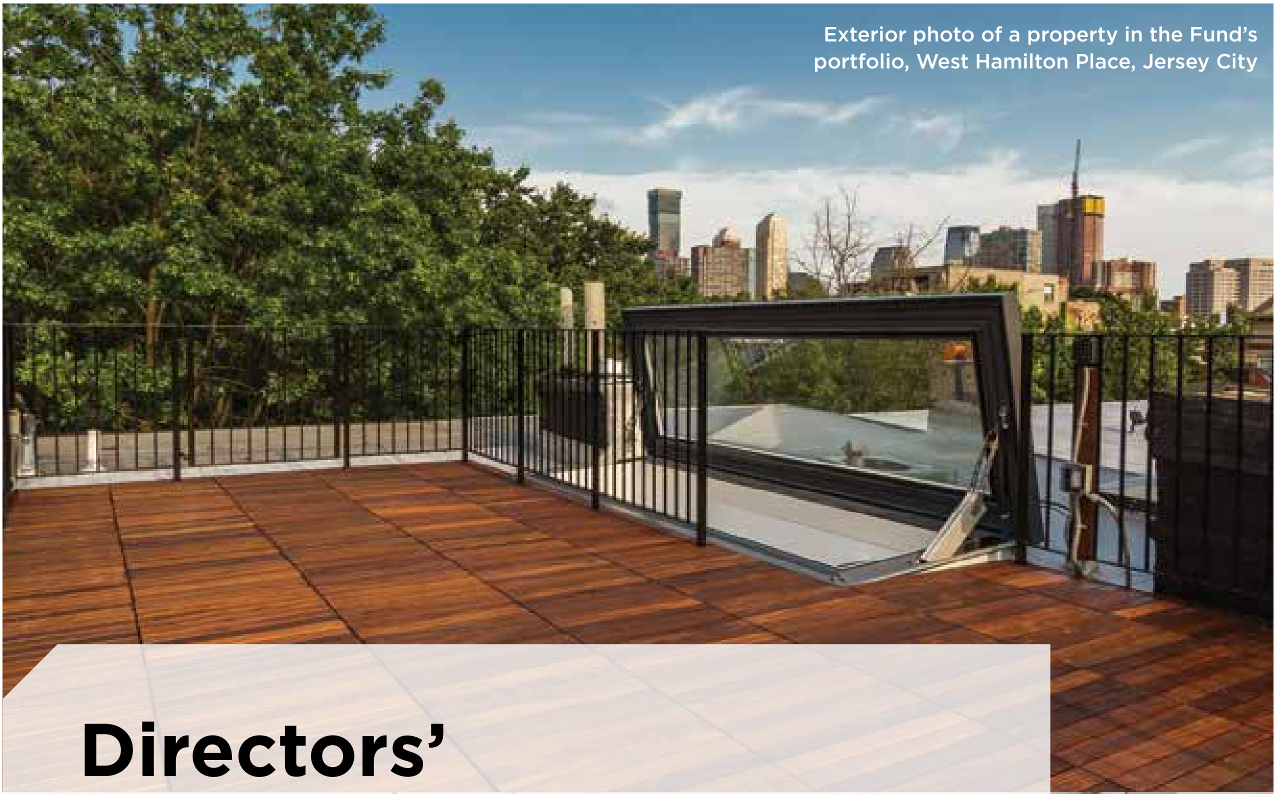
8. Remunerate fairly and responsibly

Remuneration Policies

Due to the relatively small size of the Group and its operations, the Board does not consider it appropriate at this time to form a separate committee to deal with the remuneration of the directors.

No director receives any direct remuneration from the Group.

In accordance with the Group's constitutions, the Responsible Entity is entitled to a management fee for services rendered. Details of the Group's related party transactions are set out in the notes to the financial statements in the Annual Report.



Exterior photo of a property in the Fund's portfolio, West Hamilton Place, Jersey City

Directors' Report

Interior photo of a property in the Fund's portfolio. West Hamilton Place, Jersey City

Directors' Report

For the year ended 31 December 2020

The directors of E&P Investments Limited (formerly Walsh & Company Investments Limited), the Responsible Entity of US Masters Residential Property Fund (the **Fund**) present their report together with the consolidated financial statements of the Fund and the entities it controlled (the **Group**) for the financial year ended 31 December 2020.

The Responsible Entity's registered office and principal place of business is Level 15, 100 Pacific Highway, North Sydney, NSW 2060.

Directors

The directors of the Responsible Entity at any time during or since the end of the financial year are shown below. Directors were in office to the date of the report unless otherwise stated.

Stuart Nisbett BCom, MCom (UNSW)

Chairman

Stuart is currently Executive Director and Principal at Archerfield Capital Partners, a boutique corporate advisory firm specialising in real estate, which he established in 2008. He has more than 30 years' experience in property development, property funds management, equity and debt raising, corporate advisory and project finance.

Previously, Stuart was Executive Director, Head of Property Funds at ANZ Investment Bank. He was also the Managing Director, Head of Property Banking & Property Investment Banking at N M Rothschild & Sons (Australia) Limited. Stuart has also held senior roles at director level at Macquarie Bank Property Investment Banking Division and at Lend Lease Corporation in its development and commercial asset management divisions.

Stuart is a Chartered Accountant and holds a Bachelor of Commerce with Merit and Master of Commerce from the University of NSW. In 2005 he was appointed a Fellow of the Australian Property Institute.

Mike Adams BLaws

Director

Mike has extensive experience across a broad range of corporate, commercial and private client sectors. His core practice areas involve the provision of advice and transactional expertise in relation to new and existing retail and wholesale financial products and the regulatory framework within which they operate, as well as debt and equity financing, intellectual property, and film and television media law among others. Mike has previously worked in private practice, public sector and in-house roles in Australia, New Zealand and the United Kingdom, acting across multiple industries for a variety of clients, including high-net-worth individuals, banks and financial institutions, as well as numerous listed and unlisted corporate entities. Mike was appointed to the Board of E&P Investments Limited on 9 July 2018.

In November 2019 Mike founded MA Law, a Sydney-based legal and consulting practice focusing on financial services and media law. He is admitted as a solicitor of the Supreme Court of NSW and has a Bachelor of Laws from the University of Otago.

Warwick Keneally BCom, BEc, CA

Director

Warwick is Head of Finance at E&P Investments Limited, the Funds Management division of E&P Financial Group Limited (formerly Evans Dixon Limited). Before joining E&P Investments Limited, Warwick worked in chartered accounting firms specialising in turnaround and restructuring. Warwick started his career with KPMG, working in their Canberra, Sydney and London offices and has undertaken a range of complex restructuring and insolvency engagements across Europe, UK and Australia, for a range of Australian, UK, European and US banks.

Warwick has worked with companies and lenders to develop and implement strategic business options, provide advice in relation to continuous disclosure requirements, develop cash forecasting training for national firms, and lectured on cash management.

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

Peter Shear BBus, MBA (Exec), GAICD

Director

Peter has significant expertise in funds management, financial advisory and complex lending arrangements including leveraged finance, property development and debt workout situations. Peter is currently a Managing Partner of Archibald Capital which specialises in Opportunistic Credit and Special Situations. Before that he was Co-Managing Partner of Opportunistic Lending and Special Situations at LIM Advisors. Prior to this role, Peter held the positions of Chief Risk Officer and Managing Director & Head of Corporate and Structured Finance at Lloyds Banking Group (and its predecessor HBOS plc) in Australia. Peter was also previously a Partner in Corporate Finance & Restructuring at Ernst & Young.

Peter has a Bachelor of Business from the University of Technology, an Executive MBA from AGSM, is a member of Chartered Accountants Australia and New Zealand, a Fellow of FINSIA and a Graduate Member of the Australian Institute of Company Directors.

Principal activities and significant changes in the nature of activities

The principal activity of the Group during the course of the financial year was its continued investment in the US residential property market. The Group invests in freestanding and multi-family properties in the New York metropolitan area, specifically Hudson and Essex counties, New Jersey, and Brooklyn, Manhattan, and Queens, New York. There were no significant changes in the nature of the Group's activities during the year.

Results and review of operations

The Group recorded earnings before interest, tax, depreciation & amortisation, currency movements, fair value movement on investment properties, the write-off of unamortised borrowing costs in relation to Wells Fargo and Centennial Bank, and other refinancing costs reflected in the profit and loss of $6.7 million[5] for the year ended 31 December 2020. The comparable figure in 2019 was earnings of $2.3 million[6]. The current year result includes a $4.9 million (25.8%) reduction in investment property expenses.

The Group recorded a pre-tax loss of $90.1 million for the year, or $0.27 basic and diluted loss per unit, and a post-tax loss of $95.5 million, or $0.28 basic and diluted loss per unit. The current year result also includes a fair value decrement on investment properties of $54.5 million (2019: decrement of $150.1 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.

A second distribution of $3.10 per Convertible Preference Unit, totalling $6.2 million was declared on 15 June 2020. After accounting for the Group's Distribution Reinvestment Plan, $5.0 million was paid on 25 August 2020.

A third distribution of $3.15 per Convertible Preference Unit, totalling $6.3 million was declared on 7 December 2020. After accounting for the Group's Distribution Reinvestment Plan, $5.1 million was paid on 23 February 2021.

Significant changes in state of affairs

Other than as noted in "Results and Review of Operations", there were no significant changes in the state of affairs of the Group which occurred during the financial year ended 31 December 2020.

After balance date events

The distribution of $3.15 per Convertible Preference Unit totalling $6,270,727 which was declared on 7 December 2020 was paid to unitholders on 23 February 2021. 363,995 units were issued under the Group's Distribution Reinvestment Plan.

On 26 February 2021, the Group announced the final repayment of the URF Notes III remaining principal of $10 per note, totalling $17,500,000. The final repayment of the remaining principal is scheduled to be paid on 31 March 2021 plus all interest accrued up to the interest payment date.

5 Calculated as: loss for the period of $95.5 million plus; interest expense of $36.5 million, fair value decrement of investment properties of $54.5 million, depreciation and amortisation of $0.6 million, income tax expense of $5.4 million, net foreign currency loss of $0.8 million, the write-off of unamortised borrowing costs in relation to Wells Fargo and Centennial Bank of $2.7 million, certain refinancing costs of $1.7 million.

6 Calculated as: loss for the period of $154.5 million, plus; interest expense of $41.0 million, fair value decrement of investment properties of $150.1 million, depreciation and amortisation of $1.1 million, less; income tax benefit of $33.7 million, net foreign currency gain of $1.7 million.

Other than the matters discussed above, there has not arisen in the interval between the balance date and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity of the Fund, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Future developments, prospects and business strategies

Details of future developments in the Group are contained in the Chairman's Letter and the Chief Executive Officer's Report included in pages (iv) through (vi). To the extent that the disclosure of information regarding developments in the operation of the Group, and the expected results of those operations is likely to result in unreasonable prejudice to the Group, such information has not been disclosed.

Environmental issues

To the best of the directors' knowledge the USA operations have been conducted in compliance with the environmental regulations existing under the USA federal, state and local legislation.

Beneficial and relevant interest of directors of the Responsible Entity in units

As at the date of this report, details of directors of the Responsible Entity who hold units or notes for their own benefit are listed as follows:

Director	No. of units	No. of notes	No. of CPUs
Stuart Nisbett	18,462	–	–
Mike Adams	–	–	–
Warwick Keneally	26,191	–	250
Peter Shear	–	–	–

Other relevant information

The following is a list of other relevant information required to be reported under the *Corporations Act 2001*:

- fees paid to the Responsible Entity — refer to note 24 to the financial statements
- units held by the directors of the Responsible Entity at the reporting date — refer to note 24 to the financial statements
- capital raisings completed during the financial year — refer to note 18 to the financial statements
- the value of the Group's assets and basis of valuation — refer to Consolidated Statement of Financial Position and note 2 respectively, and
- interests in the Group as at 31 December 2020, including movements in units on issue during the year — refer to note 18 to the consolidated financial statements.

Indemnifying officers or auditor

Under the Fund's Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

Insurance premiums have been paid, during or since the end of the financial year for all of the directors of the Responsible Entity of the Group. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for the auditor of the Group.

Non-audit services

During the year Deloitte Touche Tohmatsu (**Deloitte**), the Group's auditor, has performed certain other services in addition to their statutory duties.

The Board of the Responsible Entity has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor, and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, Deloitte, and its related practices for audit and non-audit services provided during the year are set out in note 28.

Auditor's independence declaration

The auditor's independence declaration is set out on page 13 and forms part of the directors' report for the financial year ended 31 December 2020.

Signed in accordance with a resolution of the Directors:

Stuart Nisbett
Director

Dated this 26th day of February 2021

Auditor’s Independence Declaration

For the year ended 31 December 2020

Deloitte.

Deloitte Touche Tohmatsu
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Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
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The Board of Directors
E&P Investments Limited
as Responsible Entity for
US Masters Residential Property Fund
Level 15, 100 Pacific Highway
North Sydney NSW 2060

26 February 2021

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 audit of the financial statements of US Masters Residential Property Fund for the financial year ended 31 December 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 audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

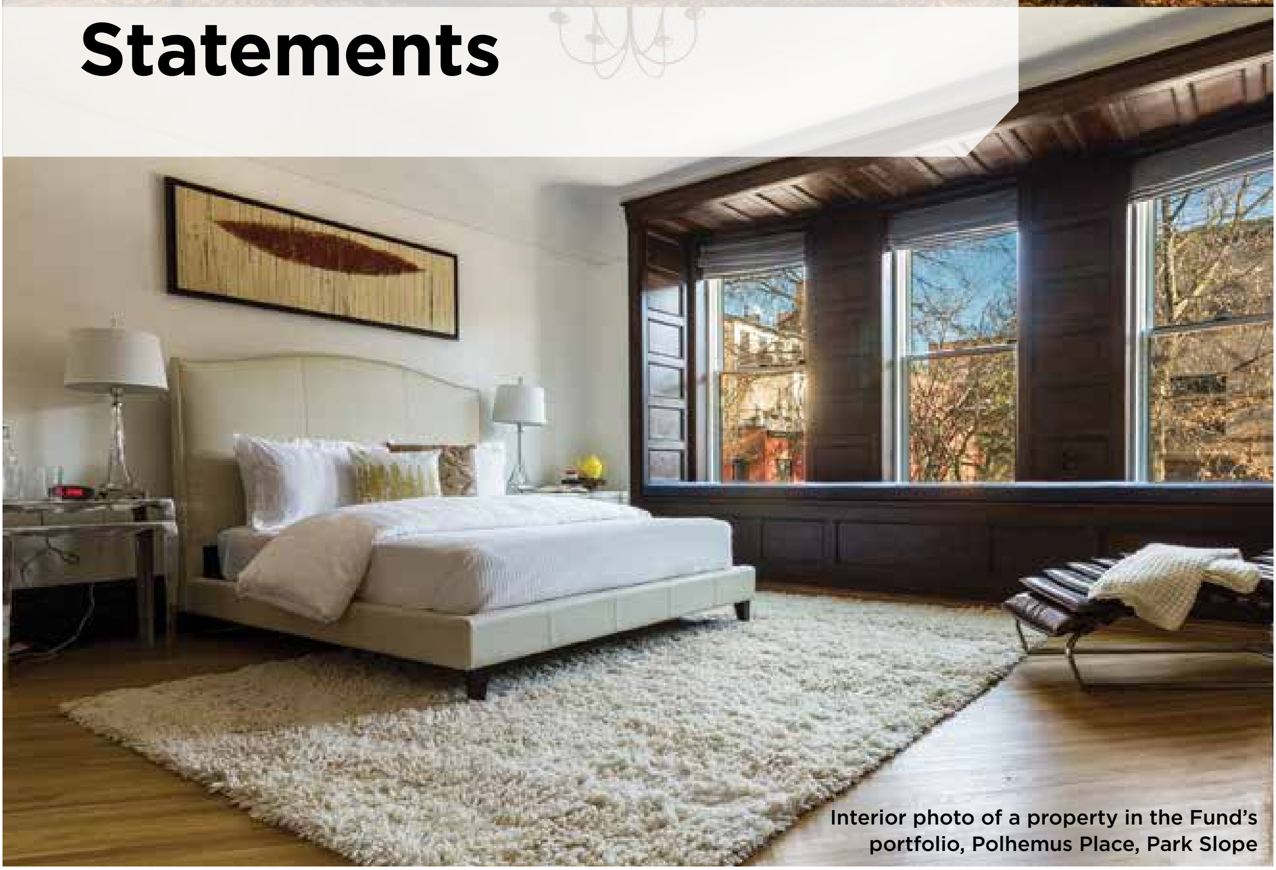
Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

Consolidated Financial Statements

Photo of Jersey City Heights



Interior photo of a property in the Fund's portfolio, Polhemus Place, Park Slope

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 $	2019 $
Investment property rental income		45,155,666	48,288,483
Interest income		498,469	1,289,557
Dividends from equity investments		-	327,195
Other income		218,548	1,107,250
Grant income	*16*	1,876,521	-
Fair value movement of investment properties	*9*	(54,502,742)	(150,094,732)
Fair value movement of equity investments	*6*	(8,414,242)	(4,582,086)
Share of (losses)/profits of jointly controlled entities	*8*	(152,978)	3,662,013
Investment property expenses		(14,148,033)	(19,060,327)
Net foreign currency (loss)/gain		(782,171)	1,664,612
Listing fees		(222,794)	(319,296)
Professional fees		(1,666,054)	(3,484,722)
Marketing		(134,448)	(321,646)
IT expenses		(510,875)	(580,793)
Management fees	*24*	(4,324,856)	(5,228,246)
Salaries and wages		(7,834,197)	(9,039,295)
Administrative costs		(438,857)	(858,056)
Interest expense	*9*	(36,470,372)	(40,959,692)
Investment property disposal costs		(5,663,626)	(4,348,867)
Allowance for expected credit losses		(719,706)	(410,503)
Insurance expense		(772,040)	(834,427)
Depreciation and amortisation expense		(629,316)	(1,116,334)
Impairment reversal/(charge) of right-of-use asset	*12*	95,447	(1,168,723)
Impairment of property, plant and equipment	*11*	-	(1,338,291)
Other expenses		(600,056)	(819,246)
Loss before income tax		**(90,142,712)**	**(188,226,172)**
Income tax (expense)/benefit	*13*	(5,377,012)	33,713,220
Loss for the year attributable to Unitholders		**(95,519,724)**	**(154,512,952)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operation (nil tax)		(45,482,853)	3,830,495
Share of jointly controlled entity's reserve movements (nil tax)	*8*	-	(153,995)
Other comprehensive income for the year, net of tax		**(45,482,853)**	**3,676,500**
Total comprehensive (loss)/income for the year attributable to Unitholders		**(141,002,577)**	**(150,836,452)**
Earnings per unit			
Basic loss per unit (dollars)	*19*	(0.28)	(0.44)
Diluted loss per unit (dollars)	*19*	(0.28)	(0.44)

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

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 $	2019 $
Current assets			
Cash and cash equivalents	*4*	74,720,179	85,875,027
Receivables	*5*	1,692,312	770,822
Prepayments		208,372	1,211,307
Other financial assets	*6*	8,451,331	9,160,343
Other assets	*7*	935,246	2,345,206
Investments in jointly controlled entities	*8*	615,193	5,524,908
Investment properties held for sale	*9*	127,333,702	123,383,421
Total current assets		**213,956,335**	**228,271,034**
Non-current assets			
Investment properties	*9*	790,037,967	1,018,547,242
Other financial assets	*6*	16,696,096	27,153,745
Other assets	*7*	8,072,902	16,576,187
Right-of-use asset	*12*	-	4,811,959
Net investment in sublease	*12*	3,954,222	-
Property, plant and equipment	*11*	106,046	162,155
Security deposits	*10*	396,413	434,411
Total non-current assets		**819,263,646**	**1,067,685,699**
Total assets		**1,033,219,981**	**1,295,956,733**
Current liabilities			
Payables	*14*	10,912,638	14,585,509
Borrowings	*15*	16,418,515	22,494,544
Lease liability	*12*	768,350	789,934
Total current liabilities		**28,099,503**	**37,869,987**
Non-current liabilities			
Deferred tax liabilities	*13*	44,011,090	41,826,121
Borrowings	*15*	547,560,316	649,926,286
Lease liability	*12*	3,700,294	5,328,968
Other non-current liabilities	*17*	172,618	189,164
Total non-current liabilities		**595,444,318**	**697,270,539**
Total liabilities		**623,543,821**	**735,140,526**
Net assets		**409,676,160**	**560,816,207**
Equity			
Unit capital	*18*	450,704,528	448,400,079
Convertible step-up preference units	*18*	194,822,929	194,822,929
Reserves		142,216,620	187,699,473
Accumulated losses		(378,067,917)	(270,106,274)
Total equity		**409,676,160**	**560,816,207**

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Unit capital	Convertible step-up preference units	Foreign currency translation reserve	Share of jointly controlled entity's cash flow hedging reserve	Accumulated losses	Total equity
		$	$	$	$	$	$
Balance at 1 January 2019		**457,711,657**	**194,822,929**	**183,868,978**	**153,995**	**(103,151,403)**	**733,406,156**
Loss for the year		–	–	–	–	(154,512,952)	(154,512,952)
Other comprehensive (loss)/income, net of income tax							
Foreign operation currency translation gain	*18*	–	–	3,830,495	–	–	3,830,495
Jointly controlled entity interest rate swap hedge loss	*18*	–	–	–	(153,995)	–	(153,995)
Total other comprehensive income/(loss)		–	–	3,830,495	(153,995)	–	3,676,500
Total comprehensive income/(loss) for the year		**-**	**-**	**3,830,495**	**(153,995)**	**(154,512,952)**	**(150,836,452)**
Transactions with owners in their capacity as owners							
Issue of ordinary units	*18*	12,883,614	–	–	–	–	12,883,614
Distributions to ordinary unitholders	*18*	(22,195,192)	–	–	–	–	(22,195,192)
Distributions to CPU unitholders		–	–	–	–	(12,441,919)	(12,441,919)
Total transactions with owners		**(9,311,578)**	**-**	**-**	**-**	**(12,441,919)**	**(21,753,497)**
Balance at 31 December 2019		**448,400,079**	**194,822,929**	**187,699,473**	**-**	**(270,106,274)**	**560,816,207**
Balance at 1 January 2020		**448,400,079**	**194,822,929**	**187,699,473**	**-**	**(270,106,274)**	**560,816,207**
Loss for the year		–	–	–	–	(95,519,724)	(95,519,724)
Other comprehensive loss, net of income tax							
Foreign operation currency translation gain	*18*	–	–	(45,482,853)	-	-	(45,482,853)
Total other comprehensive income/(loss)		–	–	(45,482,853)	-	-	(45,482,853)
Total comprehensive loss for the year		**-**	**-**	**(45,482,853)**	**-**	**(95,519,724)**	**(141,002,577)**
Transactions with owners in their capacity as owners							
Issue of ordinary units	*18*	2,304,449	–	–	–	–	2,304,449
Distributions to ordinary unitholders	*18*	–	–	–	–	–	-
Distributions to CPU unitholders		–	–	–	–	(12,441,919)	(12,441,919)
Total transactions with owners		**2,304,449**	**-**	**-**	**-**	**(12,441,919)**	**(10,137,470)**
Balance at 31 December 2020		**450,704,528**	**194,822,929**	**142,216,620**	**-**	**(378,067,917)**	**409,676,160**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Cash receipts from customers		44,009,548	49,014,448
Cash receipts from government grants		1,876,521	-
Cash paid to suppliers and employees		(32,083,056)	(44,736,180)
Interest received		505,471	1,306,424
Interest paid [(i)]		(27,128,560)	(34,671,549)
Net income tax paid		-	(128,460)
Net cash used in operating activities	*4*	**(12,820,076)**	**(29,215,317)**
Cash flows from investing activities			
Payments for improvements to investment properties [(i)]		(19,237,579)	(60,338,322)
Investment in financial assets		-	(385,301)
Refunds for property-related deposits		-	587,317
Proceeds from sale of investment properties		105,381,674	67,408,891
Disposal costs on sale of investment properties		(5,663,626)	(4,348,867)
Distributions received from jointly controlled entity investments		4,775,672	33,006,958
Distributions received from equity investments		-	327,195
Amounts advanced to third parties		(92,250)	(1,821,728)
Net cash provided by investing activities		**85,163,891**	**34,436,143**
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		590,907,775	184,510,106
Bank loan repayments		(476,785,241)	(118,890,683)
Unsecured Note repayments		(180,134,875)	(67,904,625)
Refund of interest reserve and escrow accounts		5,617,794	705,409
Payment of transaction costs related to loans and borrowings		(6,212,279)	(2,381,047)
Distributions paid		(10,143,689)	(21,748,629)
Withholding tax paid		(477,202)	(614,265)
Lease payments		(820,559)	(745,876)
Net cash (used in) financing activities		**(78,048,276)**	**(27,069,610)**
Net decrease in cash and cash equivalent		(5,704,461)	(21,848,784)
Cash and cash equivalents at beginning of year		85,875,027	106,992,735
Effect of exchange rate fluctuations on cash held		(5,450,387)	731,076
Cash and cash equivalents at end of year	*4*	**74,720,179**	**85,875,027**

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

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

Exterior photo of a property in the Fund's portfolio, Barrow Street, Jersey City

Notes To The Consolidated Financial Statements

Interior photo of a property in the Fund's portfolio, Montgomery Street, Jersey City

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. General information

US Masters Residential Property Fund (**the Fund**) is a registered management investment scheme under the *Corporations Act 2001* domiciled in Australia. The financial statements comprise the Fund and its subsidiaries, collectively referred to as **the Group**.

The consolidated financial statements were authorised for issue by the Board of Directors on 26 February 2021. For the purposes of preparing the consolidated financial statements, the Fund is a for-profit entity.

The Group is primarily involved in investing in the US residential property market.

2. Basis of preparation

A) Statement of compliance

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

B) Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and are based on historical cost with the exception of certain financial instruments and investment property assets, which are measured at fair value. All amounts are presented in Australian dollars, unless otherwise noted.

C) Use of estimates and judgements

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies which are subject to significant accounting estimates and judgements at the reporting date and have a significant risk of causing material adjustments to the financial statements in the next annual reporting period include:

i) Fair value of investment property assets

The Fund estimates the fair value of investment properties at each reporting date primarily based on assessment of current market sale prices at or around balance date of comparable properties using available market data. The Fund engages with external licensed property valuers and agents to assist in this assessment – refer note 3D and note 9(i).

ii) Deferred tax liability recognition

The Fund recognises a deferred tax liability in respect of tax obligations which may arise in connection with the realisation and distribution of taxation capital gains associated with its property assets. The US tax consequences relating to property sales are complicated and the tax position which would apply depends on specific circumstances which can only be determined at a future disposal date. The Group has measured its deferred tax liability at balance date at a rate of 24.95% (incorporating both corporate and branch 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 – refer note 3I.

3. Significant accounting policies

The accounting policies set out below have been applied in the preparation of the consolidated financial statements.

A) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund (**its subsidiaries**). Control is achieved when the Fund:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power to affect its returns.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Fund and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

B) Foreign currency

The functional and presentation currency of the Fund is Australian dollars.

In preparing the financial statements of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in the profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items other than fair value gains/losses are translated at the average exchange rates for the period. Fair value gains/losses on non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve.

C) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

i) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (**FVTOCI**):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (**FVTPL**).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met, and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Receivables

Short term trade receivables and short term loan receivables are recognised at amortised cost.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime ECL for trade receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Fund's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Fund recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Equity investments

The Fund's interests in 515 West 168th Venture LLC, 30–58/64 34th Street Venture LLC and 523 West 135th Street Venture LLC (refer to note 6) are designated as financial assets at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'fair value movement of equity investments' line item. Fair value has been determined as outlined in note 6.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

ii) Financial liabilities

Classification of financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

The Group has the following financial liabilities: trade and other payables, borrowings and preference unit capital.

Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, trade and other payables are measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Borrowing costs directly relating to the acquisition or construction of investment properties that take a substantial period of time to get ready for its intended use (i.e., "qualifying assets") are capitalised to the carrying value of the underlying investment property until such time as the assets are considered substantially ready for their intended use. Where funds are borrowed specifically to finance the acquisition or construction of investment properties, the amount capitalised represents the actual borrowing costs incurred.

Where the funds used to finance the acquisition or construction of investment properties form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the year. All other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest rate method.

Preference unit capital

Preference unit capital is classified as a financial liability if it is redeemable on a specific date or at the option of the unitholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

iii) Unit capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Ordinary units

Ordinary units are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Fund. Incremental costs directly attributable to the issue of ordinary units are recognised as a deduction from equity.

Distributions to unitholders

Distributions are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Board of the Responsible Entity.

Convertible step-up preference units (CPUs)

CPUs are recognised as equity at the proceeds received, net of direct costs. Distributions are recognised in the reporting period in accordance with the distribution rate and terms disclosed in Note 18(b). Distributions declared during the year are presented in the Accumulated Losses in the Consolidated Statement of Changes in Equity.

D) Investment property

i) Recognition and measurement

Investment property comprising residential real estate assets held to earn rental income and/or for capital appreciation is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value, representing the assessed amount that would be received to sell the asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Changes in the fair value of investment property are recorded in profit or loss as and when they arise.

As outlined in accounting policy C(ii), borrowing costs incurred in respect of the acquisition or construction of investment properties that are "qualifying assets" are capitalised to the carrying value of investment properties.

ii) Determination of fair value

At each reporting date, the fair values of investment properties are assessed using management's knowledge of relevant market factors impacting the residential markets in which the Fund invests, supported by engagement of suitably qualified external property valuers and agents to assist in determination of active market prices (fair values). Properties are categorised into homogeneous groupings displaying similar characteristics for the purpose of assessing fair value movements.

iii) Held for sale

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

E) Interests in jointly controlled (joint venture) entities

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when key decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 136 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

F) Impairment of assets

The directors of the Responsible Entity assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, through profit or loss.

G) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for distribution is recognised in the Statement of Financial Position if the distribution has been declared or publicly recommended on or before balance date.

H) Income

i) Rental income

Rental income from operating leases is recognised as income over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight- line basis over the lease term. When the Fund provides lease incentives to tenants, the cost of the incentives are initially capitalised and then recognised over the lease term on a straight-line basis, as a reduction in rental income.

Costs that are directly associated with negotiating and executing ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are expensed over the lease term on the same basis as the rental income.

ii) Interest income

Interest income is recognised as the interest accrues using the effective interest rate method.

iii) Grant income

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.

I) Income tax

Under current Australian income tax legislation, the Fund is not liable to pay income tax provided unitholders are presently entitled to the Fund's distributable income and its taxable income (including assessable realised capital gains) is fully distributed to unitholders.

The US subsidiary has elected to be taxed as a US real estate investment trust (**REIT**) under US federal taxation law, and on this basis will generally not be subject to US income taxes on that portion of the US REIT's taxable income or capital gains which are distributed to the US REIT's unitholders, provided that the US REIT complies with the requirements of the Code and maintains its REIT status.

A deferred tax liability is recognised based on the temporary difference arising between the recorded carrying amount of investment property assets in the Consolidated Statement of Financial Position and their associated tax cost bases (refer note 2 C(ii)).

J) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (**GST**), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (**ATO**) is included as a current asset or liability in the consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

The Fund qualifies for reduced input tax credits at a minimum rate of 55%.

K) Earnings per unit

Earnings per unit is calculated by dividing the profit or loss attributable to ordinary unitholders of the Fund (excluding distributions on CPUs) by the weighted average number of ordinary units outstanding during the period.

L) Operating segments

The Group operates in a single operating segment, being in the business of investing in residential real estate assets associated with the New York metropolitan area in the United States of America.

M) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries and annual leave in the period the related service is rendered.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

N) Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment loss.

The depreciation rates for office equipment range from 20% to 33%.

Leasehold improvements are amortised based on the shorter of the lease term of useful lives of the assets.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

O) Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset.

The right-of-use assets are presented as a separate line in the Consolidated Statement of Financial Position. The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 3F.

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortised cost (i.e. after a deduction of the loss allowance).

P) New accounting standards and interpretations

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to their operations and effective for the current year.

Accounting Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The potential impact of the new or revised Standards and Interpretations that will be effective for years ending on or after 31 December 2022 have not yet been determined.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2022	31 December 2022
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements to 2018-2020 and Other Amendments	1 January 2022	31 December 2022

4. Cash and cash equivalents

	2020 $	2019 $
Cash at bank	74,720,179	85,875,027
	74,720,179	**85,875,027**

Cash at bank earns interest at floating rates based on the bank deposit rates. The effective interest rate on bank deposits was 0.25% (2019: 1.21%).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 21.

Reconciliation of cash flows from operating activities	2020 $	2019 $
Loss for the year	(95,519,724)	(154,512,952)
Adjustments for:		
Net unrealised loss on foreign exchange	782,171	(1,664,612)
Change in fair value of investment property	54,502,742	150,094,732
Change in fair value of equity investments	8,414,242	4,582,086
Share of profits of jointly controlled entities	152,978	(3,662,013)
Non-cash interest expense	8,790,153	6,462,677
Investment property disposal costs	5,663,626	4,348,867
Dividends from equity investments	-	(327,195)
Depreciation and amortisation expense	629,316	1,116,334
Impairment of right-of-use asset	(95,447)	1,168,723
Impairment of property, plant and equipment	-	1,338,291
Change in trade and other receivables	(921,490)	(227,938)
Change in other assets	(595,655)	(317,930)
Change in prepayments	1,002,935	(101,204)
Change in trade and other payables	(827,890)	(3,080,081)
Change in deferred tax liability (excluding foreign exchange impact)	5,201,967	(34,433,102)
Net cash used in operating activities	**(12,820,076)**	**(29,215,317)**

Reconciliation of liabilities arising from financing activities

				Non-cash changes			
		1 Jan 2020	Financing cash flows	Payment of transaction costs	Amortisation of borrowing costs	Exchange rate differences on translation	31 Dec 2020
	Note	$	$	$	$	$	$
Secured bank loans	*15*	477,039,142	114,122,534	(6,212,279)	7,925,484	(45,314,565)	547,560,316
Unsecured notes	*15*	195,381,688	(180,134,875)	-	1,078,196	93,506	16,418,515
		672,420,830	**(66,012,341)**	**(6,212,279)**	**9,003,680**	**(45,221,059)**	**563,978,831**

				Non-cash changes			
		1 Jan 2019	Financing cash flows	Payment of transaction costs	Amortisation of borrowing costs	Exchange rate differences on translation	31 Dec 2019
	Note	$	$	$	$	$	$
Secured bank loans	*15*	408,336,779	65,619,423	(2,381,047)	5,137,244	326,743	477,039,142
Unsecured notes	*15*	261,968,994	(67,904,625)	–	1,325,433	(8,114)	195,381,688
		670,305,773	**(2,285,202)**	**(2,381,047)**	**6,462,677**	**318,629**	**672,420,830**

5. Receivables

	2020 $	2019 $
Current		
Receivables – rental debtors	866,553	666,349
Loss allowance for rental debtors	(454,074)	(208,798)
Other receivables	1,279,833	313,271
	1,692,312	**770,822**

Rent is receivable in advance on the first day of each month. Late fees are levied on tenants if rent is not paid by the sixth day of the month, at the discretion of the Group. No interest is charged on trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses (**ECL**). The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. A loss allowance of $454,074 (2019: $208,798) has been recognised in respect of outstanding amounts at balance date that, based on historical experience, are unlikely to be collected at their recorded amounts.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

Amounts owing from tenants that have since departed the property are written off as a bad debt in profit or loss.

Before accepting any new tenants, the Group assesses the prospective tenants ability to pay rent as and when due with reference to the applicants financial position, current earning capacity and previous landlord references.

The Group's exposure to credit and currency risks related to trade and other receivables is disclosed in note 21.

6. Other financial assets

	2020 $	2019 $
Current assets		
Loan to other entity	8,451,331	9,160,343
	8,451,331	**9,160,343**
Non-current assets		
Equity investments – fair value	16,696,096	27,153,745
	16,696,096	**27,153,745**

A) Loan to other entity – amortised cost

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

Subsequent to balance date, the borrower has arranged its refinancing of the loan facility due to the Group. As a result of the borrower's refinancing, a portion of the principal was repaid and the principal balance due to the Group has been reduced to US$1,223,986 (A$1,590,832), and has a revised maturity date of December 22, 2021. The reduced principal balance accrues interest at a rate of 3.75% per annum, and is secured by way of mortgage that ranks second to the new primary lender.

B) Equity investments – fair value

Investee	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest 2020 %	Ownership Interest 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.

515 West 168th Venture LLC

Walker & Dunlop were appointed to value the property owned by 515 West 168th Venture LLC at both 30 June 2020 and 31 December 2020. In determining the fair value of the property at 31 December 2020, the appraiser adopted a capitalisation of income approach.

The fair value of the property at 31 December 2020 was USD$18,720,000 (A$24,330,647), resulting in a total fair value decrement recognised during the year of USD$4,480,000 (A$5,993,990), of which the Group's economic share was USD$2,853,760 (A$3,818,172). The investee had borrowings totalling USD$13,400,000 (A$17,416,168).

30–58/64 34th Street Venture LLC

Walker & Dunlop were appointed to value the property owned by 30-58/64 34th Street Venture LLC at both 30 June 2020 and 31 December 2020. In determining the fair value of the property at 31 December 2020, the appraiser adopted a capitalisation of income approach.

The fair value of the property at 31 December 2020 was USD$16,380,000 (A$21,289,316) resulting in a total fair value decrement recognised during the year of USD$4,130,000 (A$5,771,851), of which the Group's economic share was USD$2,684,500 (A$3,712,703). The investee had borrowings totalling USD$8,045,324 (A$10,456,621).

523 West 135th Street Venture LLC

Walker & Dunlop were appointed to value the property owned by 523 West 135th Street Venture LLC at both 30 June 2020 and 31 December 2020. In determining the fair value of the property at 31 December 2020, the appraiser adopted a capitalisation of income approach.

The fair value of the property at 31 December 2020 was USD$6,230,000 (A$8,097,219), resulting in a total fair value decrement recognised during the year of USD$1,380,000 (A$1,832,238), of which the Group's economic share was USD$892,998 (A$1,185,699). The investee had borrowings totalling USD$4,536,325 (A$5,895,925).

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

Class of investment	Fair value hierachy level	Fair value ($) 2020	Fair value ($) 2019	Inputs
Equity investments - fair value	Level 3	16,696,096	27,153,745	- Net market income of $15.69- $22.46 (2019: $15.91 – $26.00) per square foot - Capitalisation rates of 4.5% - 5% (2019: 3.85% – 4.5%)

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

7. Other assets

	2020 $	2019 $
Current assets		
Deferred leasing fee	45,077	260,522
Other assets (escrow deposits and receivables)	890,169	2,084,684
	935,246	**2,345,206**
Non-current assets		
Facility interest reserve and escrow accounts (i) (ii) (iii)	8,072,902	15,614,785
Other assets (escrow deposits and receivables)	-	961,402
	8,072,902	**16,576,187**

(i) The Group had the following balances held on reserve with Global Atlantic ("**GA**") as required under the terms of the facility (refer note 15(i)):

- An interest reserve totalling US$4,483,170 (A$5,826,839) at balance date.

  On each anniversary of the loan closing date (November 19, 2020), an audit of the interest reserve account will be completed by GA and if the balance of the account exceeds 3 months' worth of debt service payments, the excess will be returned to the Group.

- A property tax reserve totalling US$1,362,417 (A$1,770,753) at balance date.

  Under the terms of the facility, the Group is required to make monthly payments equivalent to 1/12th of the estimated annual property tax liability for deposit into the property tax reserve.

  At the date of review by GA, subject to the Group providing evidence satisfactory to GA that the Group is current with its quarterly property tax obligations and there being no Events of Default, the Group will be reimbursed out of the reserve account for property tax payments made.

- An insurance reserve totalling US$244,120 (A$317,286) at balance date.

  Under the terms of the facility, the Group is required to make monthly insurance premium reserve payments equivalent to 1/12th of the estimated annual premium into the insurance reserve account. At all times, the Group is required to maintain a minimum balance representing two months' worth of insurance premium in the insurance reserve account.

  At the date of review by GA, subject to the Group providing evidence satisfactory to GA that the Group is current with its insurance obligations, a two month minimum reserve balance requirement and there being no Events of Default, the Group will be reimbursed out of the reserve account for insurance premium payments made.

- A capital expenditure reserve totalling US$121,583 (A$158,024) at balance date.

  Each month, the Group is required to make payments into the capital expenditure reserve equivalent to 1/12th of $1,000 multiplied by the number of properties pledged as security under the Term Loan facility. Once the capital expenditure reserve reflects a balance equivalent to $1,000 per Term Loan property, monthly payments of capital expenditure reserve are not required.

  At the date of review by GA, subject to the Group providing evidence acceptable to Lender that capital work has been completed in a satisfactory manner and there being no Events of Default, the Group will be reimbursed out of the capital reserve account for repairs and maintenance work completed on the properties pledged as security under the Term Loan facility.

(ii) Under the terms of the Centennial Bank loan facility, the Group was required to:

- maintain interest reserve accounts equivalent to six months of interest on the outstanding principal loan balances
- maintain a property tax and insurance reserve
- maintain a collection reserve.

The balances of the reserve accounts at the end of the prior year were US$2,452,248 (A$3,492,734), US$619,013 (A$881,659) and US$964,480 (A$1,373,708) respectively. As a result of the refinancing of the Group's senior debt facility referred to in note 15, all amounts on reserve with Centennial Bank were returned to the Group upon settlement of the GA facility.

(iii) Under the terms of the Wells Fargo Bank loan facility, the Group was 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
- maintain a property tax and insurance reserve equivalent to six months worth of tax and insurance expense
- maintain a property management reserve equivalent to 6% of gross rent for a six month period calculated with reference to the current rent roll
- maintain a capital expenditure reserve equivalent to US$2,000 per property.

The balances of the reserve accounts at the end of the prior year were US$2,389,478 (A$3,404,330), US$2,654,167 (A$3,780,326), US$885,754 (A$1,261,578) and US$998,000 (A$1,421,450) respectively. As a result of the refinancing of the Group's senior debt facility referred to in note 15, all amounts on reserve with Wells Fargo Bank were returned to the Group upon settlement of the GA facility.

8. Investments in jointly controlled entities

Jointly controlled entities	Country of incorporation	Principal activity	Principal place of business	Ownership Interest 2020 %	2019 %
Golden Peak II LLC (i) (iii)	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 in prior years. These entities are in the process of being dissolved.

(iii) Golden Peak II LLC.

	2020 $	2019 $
Carrying amount of interest in jointly controlled entities		
Balance at beginning of year	5,524,908	34,562,762
Distributions received and receivable	(4,775,672)	(33,006,958)
Share of (losses)/profits of jointly controlled entities	(152,978)	3,662,013
Share of reserves of jointly controlled entities	-	(153,995)
Exchange rate differences on translation	18,935	461,086
Balance at end of year	**615,193**	**5,524,908**

The entities are in the process of being dissolved and the remaining share of net assets is expected to be received during 2021. Consequently, the balance at period end totalling $615,193 has been recognised as current asset.

Summary of financial information for equity accounted investees presented in Australian dollars in accordance with Australian Accounting Standards, but not adjusted for the percentage ownership held by the Fund, is set out in the following page.

	2020 $ Golden Peak II LLC	2019 $ Golden Peak II LLC
Cash and cash equivalents	1,180,134	10,725,022
Other current assets	67,112	626,978
Current assets	**1,247,246**	**11,352,000**
Non-current assets	**-**	**-**
Total assets	**1,247,246**	**11,352,000**
Other current liabilities	16,859	302,182
Current liabilities	**16,859**	**302,182**
Non-current liabilities	**-**	**-**
Total liabilities	**16,859**	**302,182**
Net assets	**1,230,387**	**11,049,818**
Ownership interest	**67.5%**	**67.5%**
Equity accounted interest before Promote Interest	**830,511**	**7,458,627**
Promote Interest attributable to joint venture partner	**215,318**	**1,933,719**
Equity accounted interest	**615,193**	**5,524,908**
Revenue	3,810	7,337,170
Fair value movement of investment properties	-	6,205,688
Interest income	23,975	24,103
Interest expense	-	(1,116,280)
Other expenses	(333,744)	(5,976,210)
(Loss)/Profit	**(305,959)**	**6,474,471**
Equity accounted interest before Promote Interest	**(206,522)**	**4,370,268**
Promote Interest attributable to joint venture partner	**(53,544)**	**708,255**
Equity accounted interest	**(152,978)**	**3,662,013**
Other comprehensive loss	**-**	**(228,140)**
Equity accounted interest	**-**	**(153,995)**
Total comprehensive (loss)/income before Promote Interest	**(305,959)**	**6,246,331**
Equity accounted interest before Promote Interest	**(206,522)**	**4,216,273**
Promote Interest attributable to joint venture partner	**(53,544)**	**708,255**
Equity accounted interest	**(152,978)**	**3,508,018**
Distributions received	**4,775,672**	**33,006,958**

9. Investment properties

	2020 $	2019 $
Disclosed on the Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	127,333,702	123,383,421
Non-current assets		
Investment properties	790,037,967	1,018,547,242
	917,371,669	**1,141,930,663**

	2020 $	2019 $
At fair value		
Balance at beginning of year	1,141,930,663	1,293,342,805
Payments for improvements to investment properties	18,974,844	62,972,354
Fair value movement of investment properties to market	(54,502,742)	(150,094,732)
Disposals	(104,295,649)	(69,234,600)
Exchange rate differences on translation	(84,735,447)	4,944,836
Balance at end of year	**917,371,669**	**1,141,930,663**

	2020 $	2019 $
Interest expense	39,561,892	48,840,363
Interest capitalised to carrying value of qualifying investment properties	(3,091,520)	(7,880,671)
Interest expense reflected in profit or loss	**36,470,372**	**40,959,692**

The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 0.49% (2019: 1.13%).

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

As disclosed in the Group's half-year financial report for the period to 30 June 2020, as a result of the outbreak of the COVID-19 pandemic in the United States in early 2020, there was significant disruption in the real estate markets in which the Group invests in. Due to the significant reduction in the number of real estate transactions during half year period to 30 June 2020, it was assessed that there were insufficient direct comparable sales transactions during the prior period to enable the external valuation of individual properties using the 'direct comparable sales' approach. To determine the fair value of the Group's entire portfolio of investment properties at 30 June 2020, an alternative market approach according to the portfolio of neighbourhoods was adopted. Subsequent to 30 June 2020, the number of real estate transactions have increased. Since there are sufficient direct comparable transactions during the six months period to 31 December 2020, the Group has adopted its established valuation basis as described overleaf to determine the fair value of the Group's portfolio of investment properties at 31 December 2020.

i) Valuation basis

In determining the fair value of the Group's investment properties at balance date, the portfolio of properties has been dissected into groupings by location (neighbourhood), being the principal characteristic assessed as impacting fair values. A sample of properties within each location grouping was selected for independent appraisal ensuring a representative coverage was obtained. The Group has a policy of ensuring each property is independently appraised on at least a three-year rotation basis.

A panel of the following appraisers was appointed to appraise the residential properties selected for appraisal during the period. The appraisers were selected in consideration of their certification as either licensed residential appraisers or licensed real estate agents, as well as their experience and independence to the Group. Residential appraisals were conducted under the Uniform Standards of Professional Appraisal Practice as required by the Appraisals Standards Board of The Appraisal Foundation in the USA.

- County Appraisals, LLC (licensed residential appraiser)
- Accurate Appraisals Associates, LLC (licensed residential appraiser)
- FJR Appraisal Service (licensed residential appraiser)
- Platinum Coast Appraisal & Co. (licensed residential appraiser)
- Glenn A. Gabberty Appraisals, Inc. (licensed residential appraiser)
- Douglas Elliman Real Estate (licensed real estate agent)
- Eric Sidman Hudson Advisory Team (licensed real estate agent)
- Patrick Southern Coldwell Banker (licensed real estate agent)

The appraisals of all properties have been completed using the "direct comparable sales" approach. Under this approach, the appraiser identifies at least three relevant and appropriate comparable location sales in relative close time proximity to valuation date, which sales evidence is used in conjunction with consideration of other relevant property specific or general market factors to assess the estimated market value of the subject property.

The valuation results of the appraised properties, excluding outliers are used to determine the average result for each neighbourhood. The average result for each neighbourhood is then extrapolated over the properties which were not subject to individual appraisal, thereby achieving an overall valuation outcome for each neighbourhood and accordingly the entire portfolio.

At 31 December 2020, the Group has classified its property portfolio as a Level 2 hierarchy level asset due to its fair value measurement being based on inputs (other than unadjusted quoted prices in active markets for identical assets) that are observable for the assets, either directly or indirectly, as follows:

Class of property	Fair value hierachy level	Fair value ($) 2020	Fair value ($) 2019	Valuation technique	Inputs
Residential use investment property	Level 2	917,371,669	1,141,930,663	Direct comparable sales	- Selling price - Geographic location - Property age and condition - Size of property - Number of rooms

The fair value of the Group's portfolio of investment properties at 31 December 2020 was determined based on market conditions existing at balance date. Due to the impact that the COVID-19 pandemic could have on valuations of investment properties, a sensitivity analysis has been performed on the fair value adopted at 31 December 2020 below to consider the movement in the fair value of the portfolio of investment properties if the percentage fair value movements in each neighbourhood were to increase or decrease.

	Key assumptions	
	5% decrease in % FV movement	**5% increase % FV movement**
Change in total value ($'000)	(46,167)	46,167

ii) Leasing arrangements

Investment properties are leased to tenants under operating leases. Generally, the operating leases have a duration of 12-18 months with rentals payable monthly.

Minimum lease payments receivable on leases of investment properties are as follows:

	2020 $	2019 $
Not later than one year	20,864,145	26,946,855
Later than one year and not later than five years	1,703,522	2,309,219
	22,567,667	**29,256,074**

iii) Contractual obligations

The Group has no contractual obligations in respect of property refurbishments (2019: $8,466,171).

10. Security deposits

	2020 $	2019 $
Security deposits	396,413	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$396,413) deposit.

11. Property, plant and equipment

	2020 $	2019 $
Leasehold improvements and office equipment – at cost	290,721	287,556
Accumulated amortisation and depreciation	(184,675)	(125,401)
	106,046	162,155

12. Leases

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

	2020 $	2019 $
Right-of-use asset		
Opening balance	4,811,959	6,865,755
Depreciation charge	(551,103)	(904,156)
Impairment reversal/(charge)	95,447	(1,168,723)
Reassessment of lease liability	(378,084)	-
Reclassification to net investment in sublease	(3,603,742)	-
Exchange rate differences on translation	(374,477)	19,083
Closing balance	**-**	**4,811,959**

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.

During the year, the Group executed a sublease in respect of its lease at 140 Broadway, New York, New York which commenced 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$95,447) being recognised in the current year. Upon commencement of the sublease, the balance of the right-of-use asset was reclassified to a net investment in sublease receivable as shown below.

Under the terms of the sublease, lease payments by the subtenant commence on April 1, 2021.

	2020 $	2019 $
Net investment in sublease		
Opening balance	-	-
Reclassification of right-of-use asset	3,603,742	-
Initial direct costs	284,886	-
Interest income	73,038	-
Lease payments received	-	-
Exchange rate differences on translation	(7,444)	-
Closing balance	**3,954,222**	**-**

	2020 $	2019 $
Lease liability		
Opening balance	6,118,902	6,865,755
Interest expense	226,679	248,644
Lease repayments	(1,047,238)	(994,520)
Reassessment of lease liability	(378,084)	-
Exchange rate differences on translation	(451,615)	(977)
Closing balance	**4,468,644**	**6,118,902**
Disclosed as:	**$**	**$**
Current	768,350	789,934
Non-current	3,700,294	5,328,968
	4,468,644	**6,118,902**

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

	2020 $	2019 $
Lease liability – contractual undiscounted cash flows		
Not later than one year	940,530	1,030,684
Later than one year and not later than five years	3,877,622	4,195,066
Later than five years	165,005	1,808,218
	4,983,157	**7,033,968**

13. Deferred tax liabilities

	2020 $	2019 $
Investment properties	44,011,090	41,826,121
Movements		
Balance at beginning of year	41,826,121	75,871,554
Debited/(credited) to profit or loss as income tax benefit	5,201,967	(34,433,102)
Taken to profit and loss as unrealised foreign exchange (gain)/loss	(3,016,998)	387,669
Balance at end of year	**44,011,090**	**41,826,121**

Income tax expense is comprised of:

	2020 $	2019 $
Deferred tax debited/(credited) to profit or loss	5,201,967	(34,433,102)
State and withholding tax payable	175,045	719,882
Income tax benefit	**5,377,012**	**(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.

14. Payables

	2020 $	2019 $
Current		
Trade payables	799,958	2,161,016
Distribution payable	6,307,363	6,313,342
Other payables	3,805,317	6,111,151
	10,912,638	**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.

15. Borrowings

	2020 $	2019 $
Current liabilities		
Unsecured notes	16,418,515	22,494,544
	16,418,515	**22,494,544**
Non-current liabilities		
Secured bank loans	547,560,316	477,039,142
Unsecured notes	-	172,887,144
	547,560,316	**649,926,286**

Bank borrowings

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	2020 Principal amount – amortised cost	2019 Principal amount – amortised cost
Global Atlantic	(i)	(i)	(i)	917,371,669	547,560,316	-
Wells Fargo	(ii)	(ii)	(ii)	-	-	370,320,707
Centennial Bank	(iii)	(iii)	(iii)	-	-	106,718,435
					547,560,316	**477,039,142**

Disclosed as:	2020 $	2019 $
Current	–	-
Non-current	547,560,316	477,039,142
	547,560,316	**477,039,142**

(i) In November 2020, the Group refinanced its senior borrowing facilities with Wells Fargo Bank and Centennial Bank with a new Global Atlantic Financial Group ('GA') facility dated November 19, 2020. At inception, the loan facility was US$430,653,586. At balance date, the outstanding loan facility and balance was US$425,496,778.

The GA facility is comprised of a Term Loan component (US$360M at inception, US$359,146,473 at balance date) and a Bridge Loan component (US$70,653,586 at inception, US$66,350,305 at balance date).

Term Loan component

The Term Loan component bears interest at a fixed rate of 4% per annum, and has a maturity date of May 19, 2026.

The facility is interest-only, and other than in specific circumstances (such as the sale of a property), principal repayments are not required.

Under the terms of the facility, there is a limit to the amount of Term Loan component that can be repaid early before incurring a Yield Maintenance Premium (refer paragraph below). This limit is referred to as the Free Prepayment Amount, and is US$54 million during the Yield Maintenance Period of the facility. The US$54 million Free Prepayment Amount is subject to a limit that can be repaid early in any one given year. This limit is referred to as the Free Prepayment Annual Amount, and is calculated as 5% of the initial balance of the Term Loan component, or US$18 million per year. The annual repayment limit is cumulative, meaning that any unused repayment limit of one year is available to be carried forward to increase the Free Prepayment Annual Amount of subsequent years. For example, if in Year 1 the Group made early Term Loan component repayments equivalent to 2% of inception Term Loan component balance, then in Year 2 the Group can make early Term Loan repayments equivalent to 8% of inception Term Loan component balance before triggering a Yield Maintenance Premium.

The Yield Maintenance Premium is applicable only during the Yield Maintenance Period, which period covers the first 4.5 years of the loan facility. No Yield Maintenance Premium is payable on any early repayment following the cessation of the Yield Maintenance Period.

The Yield Maintenance Premium is calculated as the greater of (a) one percent (1%) of the amount of Term Loan component being repaid, and (b) the excess, if any, of (i) the sum of the present values of all then scheduled payments of interest and principal through maturity date over (ii) the principal amount of the Term Loan component being prepaid.

Bridge Loan component

The Bridge Loan bears interest at a fixed rate of 5% per annum and has a maturity date of November 19, 2022. Subject to satisfying certain criteria at the Bridge Loan maturity date, the Group has the option to extend the maturity date twice, each extension for a period of up to six months.

The facility is interest-only, and other than in specific circumstances (such as the sale of a property), principal repayments are not required under the terms of the facility.

There are no penalties associated with an early repayment of the Bridge Loan, or any portion thereof.

Both the Bridge Loan and the Term Loan are secured by the following:

- A charge over the following subsidiaries of the Fund in which collateralised property assets are held:
  - Collingwood URF LLC
  - Carlton URF LLC
  - St Kilda LLC
  - Melbourne LLC
  - Geelong LLC
  - NJ Penelope LLC
  - NRL URF LLC
  - NY Oakland LLC
  - Brisbane URF LLC
  - Essendon LLC
  - Fremantle LLC
- A guarantee given by Jett URF Holdings LLC and Kenny URF Holdings LLC, as Equity Owners of the borrowing entities listed above.
- A guarantee given by US Masters Residential Fund (USA) Fund.
- US$6,211,290 (A$8,072,902) placed in interest, taxes, insurance and capex reserves (refer note 7(i)).

The total value of the security at balance date in respect of the GA facility is $925,444,571 including property assets valued at $917,371,669.

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.

(ii) The Wells Fargo facility was repaid in November 2020 as part of the refinancing outlined in (i) above.

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 have been increased up to US$400,000,000. Amounts available to be drawn under the facility were based on providing collateral property security meeting specified conditions and meeting other facility terms and conditions. The amount available to be drawn under the facility at any point in time was 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 was 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 Fund (USA) Fund

c. A guarantee given by US Masters Residential Property Fund

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 was 1 month LIBOR plus 1.80% (assessed as at the 1st of each month). Other than in specific circumstances, principal repayments were not required under the terms of the facility.

The maturity date of the facility was 15 July 2021.

(iii) The Centennial Bank facility was repaid in November 2020 as part of the refinancing outlined in (i) above:

AThe 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 had 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 were limited to 50% of fair market value (as determined by Centennial Bank). Drawdown of renovation advances was limited to 45% of the renovation cost, subject to limitations imposed by Centennial Bank in certain circumstances.

The facility was subject to specific covenant and other reporting obligations. The facility was 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 was 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. d. An interest rate cap agreement entered into by the Group with SMBC Capital Markets.

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

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	2020 Amortised cost	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	16,418,515	172,887,144
					16,418,515	**195,381,688**

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

Facility	Principal drawn	Principal available	Total
Global Atlantic	553,024,146	–	553,024,146
URF Notes III	17,500,000	–	17,500,000
	570,524,146	**-**	**570,524,146**

16. Grant income

During the year, the Group was eligible and received a forgiveable 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 has met the terms for forgiveness of the loan and accordingly, the total grant income has been recognised in profit or loss during the year on a systematic basis over the periods in which the qualifying expenditures (including payroll costs, interest expense and rent and utilities) were incurred.

17. Other non-current liabilities

	2020 $	2019 $
Redeemable preference units	162,464	178,037
Accrued interest	10,154	11,127
	172,618	**189,164**

Series A Preferred Units	2020 No of units	2020 $	2019 No of units	2019 $
Issued	125	172,618	125	189,164

The holders of the Series A Preferred units are entitled to receive cumulative preferential cash dividends. Such dividends shall accrue on a daily basis and be cumulative from the first date on which any Series A Preferred unit are issued. Series A Preferred units rank ahead of ordinary units, do not carry the right to vote except in relation to Series A Preferred unit matters, and are redeemable at the sole discretion of the Fund. Dividends accruing under the terms of the Series A Preferred units are disclosed as interest expense in the Statement of Profit or Loss and Other Comprehensive Income.

18. Capital and reserves

Ordinary Units

	2020 $	2019 $
385,211,242 fully paid ordinary units (2019: 379,724,845)	450,704,528	448,400,079
(a) Issued ordinary units		
Balance at beginning of the year	448,400,079	457,711,657
January 2019 distribution	-	(18,427,009)
1,782,148 units issued at $1.31	-	2,334,614
June 2019 distribution	-	(3,768,183)
6,495,945 units issued at $1.26	-	8,184,865
1,358,935 units issued at $0.84	-	1,141,495
1,547,629 units issued at $0.79	-	1,222,640
1,345,971 units issued at $0.82	1,103,725	-
4,140,426 units issued at $0.29	1,200,724	-
Balance at end of the year	**450,704,528**	**448,400,079**

(b) Movements in ordinary units

Date	Details	2020 No.	2019 No.
1 January	Balance at beginning of the year	379,724,845	368,540,188
5 February 2019	Distribution reinvestment	-	1,782,148
8 February 2019	Distribution reinvestment	-	6,495,945
23 August 2019	Distribution reinvestment	-	2,906,564
25 February 2020	Distribution reinvestment	1,345,971	-
25 August 2020	Distribution reinvestment	4,140,426	-
31 December		**385,211,242**	**379,724,845**

Convertible Step-Up Preference Units

	2020 $	2019 $
1,990,707 convertible step-up preference units fully paid (2019: 1,990,707)	194,822,929	194,822,929
(a) Issued convertible step-up preference units		
Balance at beginning of the year	194,822,929	194,822,929
Balance at end of the year	**194,822,929**	**194,822,929**

Face value of issued convertible step-up preference units at 31 December 2020: $199,070,700 (2019: $199,070,700).

(b) Movements in convertible step-up preference units

Date	Details	2020 No.	2019 No.
1 January	Balance at beginning of the year	1,990,707	1,990,707
31 December		**1,990,707**	**1,990,707**

The key terms of the CPUs are as follows:

- CPUs are perpetual instruments and remain on issue until converted into ordinary units or otherwise repurchased at their outstanding face value in accordance with the applicable law.
- The distribution rate is 6.25% per annum until 31 December 2022, at which point the rate steps up to 8.75% from 1 January 2023. Distributions are payable semi-annually and are at the discretion of the Responsible Entity. Distributions are cumulative. The Responsible Entity may not pay any distribution on ordinary units for so long as any distribution on CPUs remains outstanding for more than 40 business days after the end of the relevant distribution period (**Distribution Stopper**).
- CPU holders may elect to apply any cash distribution payable in respect of CPUs in subscriptions for ordinary units.
- CPUs may be converted to ordinary units on 1 January 2023, or on the first day of any subsequent distribution period at the election of the Responsible Entity. CPU holders may convert to ordinary units only if the Responsible Entity breaches its obligations under the Distribution Stopper requirement.
- CPUs convert to the aggregate of the number of Units determined by dividing the outstanding face value of the CPUs and any accumulated unpaid distributions by the Volume Weighted Average Price (**VWAP**) over the 10 business days prior to conversion less a discount of 2.50%.
- CPU holders receive distributions of capital on a winding up of the Group in priority to Unitholders up to the outstanding face value of CPUs and any accumulated unpaid distributions.
- CPU holders may elect to apply any cash distribution payable in respect of CPUs in subscription for Ordinary Units.
- CPUs carry the right to attend and vote at meetings of members of the Group.

Ordinary units

All issued units are fully paid. The holders of ordinary units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at meetings of the Fund.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

19. Earnings per unit

(a) Weighted average number of ordinary units	2020 No.	2019 No.
Weighted average number of ordinary units used to calculate basic and diluted earnings per unit	382,312,893	376,983,635

(b) Loss attributable to ordinary unitholders	2020 $	2019 $
Loss for the year attributable to unitholders	(95,519,724)	(154,512,952)
Less: distributions on CPUs	(12,441,919)	(12,441,919)
Loss used in the calculation of basic and diluted loss per unit	**(107,961,643)**	**(166,954,871)**
Basic loss per unit (dollars)	(0.28)	(0.44)
Diluted loss per unit (dollars)	(0.28)	(0.44)

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

Diluted earnings/(loss) per unit amounts are calculated by dividing profit/(loss) for the year attributable to ordinary unit holders (after deducting CPU distributions) by the weighted average number of ordinary units outstanding during the year, plus the weighted average number of ordinary units that would be issued on the conversion of all the dilutive potential ordinary units (from CPUs) into ordinary units. As a result of current and prior year loss for the year, there were no dilutive potential ordinary units.

20. Operating segments

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

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

21. Financial risk management and financial instruments

Overview

The Group's principal financial instruments comprise cash and cash equivalents, receivables, payables, loan notes, bank loans and derivatives. The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market (currency risk and interest rate risk)
- Capital management

Financial risk and risk management framework

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Group's risk management framework.

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Group to make a financial loss. The Group has exposure to credit risk on all its financial assets included in the Group's Statement of Financial Position.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Summary exposure	*Note*	**2020** $	**2019** $
Cash and cash equivalents	*4*	74,720,179	85,875,027
Trade and other receivables	*5*	1,692,312	770,822
Loan receivable	*6*	8,451,331	9,160,343
Interest reserve and security deposit escrows	*7*	8,963,071	18,660,871
Security deposits	*10*	396,413	434,411
Net investment in sublease	*12*	3,954,222	-
		98,177,528	**114,901,474**

Cash and cash equivalents

Cash and cash equivalents are only deposited with reputable financial institutions. The majority of funds at year end were deposited with Macquarie Bank and ANZ in Australia, and Centennial Bank and Investors Bank in the USA.

Trade and other receivables

The Group manages its credit risk by performing credit reviews of prospective tenants and performing detailed reviews on tenant arrears.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. A loss allowance of $454,074 (2019: $208,798) has been recognised in respect of outstanding amounts at balance date that, based on historical experience, are unlikely to be collected at their recorded amounts.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

Amounts owing from tenants that have since departed the property are written off as a bad debt in profit or loss.

Before accepting any new tenants, the Group assesses the prospective tenant's ability to pay rent as and when due with reference to the applicant's financial position, current earning capacity and previous landlord references.

The aging of trade receivables at the reporting date was:

	2020 $	2019 $
Current	327,620	298,174
Past due 31-60 days	145,454	131,387
Past due 61-90 days	1,236	7,603
More than 90 days	392,243	229,185
	866,553	**666,349**

Movement in loss allowance for trade receivables

	2020 $	2019 $
Balance at beginning of the year	208,798	61,998
Increase in loss allowance	719,706	410,503
Amounts written off during the year	(426,266)	(262,519)
Exchange rate differences on translation	(48,164)	(1,184)
Balance at end of the year	**454,074**	**208,798**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following is the contractual maturity of financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

31 December 2020	Carrying amount $	Contractual cash flows $	12 months or less $	1-5 years $	5 years and more $
Payables	10,912,638	10,912,638	10,912,638	-	-
Series A preference units	172,618	264,004	20,308(ii)	81,232(ii)	162,464(ii)
Secured bank loans	547,560,316	661,671,202	22,983,330(i)	164,690,874	473,996,998
Unsecured notes	16,418,515	18,830,240	18,830,240	-	-
Lease liability	4,468,644	4,983,157	940,530	3,877,622	165,005
	579,532,731	**696,661,241**	**53,687,046**	**168,649,728**	**474,324,467**

31 December 2019	Carrying amount $	Contractual cash flows $	12 months or less $	1-5 years $	5 years and more $
Payables	14,585,509	14,585,509	14,585,509	–	-
Series A preference units	189,164	289,311	22,255(ii)	89,019(ii)	178,037(ii)
Secured bank loans	477,039,142	523,621,955	19,970,740(i)	503,651,215	-
Unsecured notes	195,381,688	226,220,333	37,917,936	188,302,397	-
Lease liability	6,118,902	6,491,503	1,030,684	4,195,066	1,265,753
	693,314,405	**771,208,611**	**73,527,124**	**696,237,697**	**1,443,790**

(i) As disclosed on the balance sheet, the Fund has $127,333,702 of properties that are held for sale on the expectation that they will be sold within 12 months. If these sales are successfully executed, $80,371,388 of the sales proceeds may be required to be repaid to Global Atlantic, as applicable.

(ii) Redeemable preference shares are redeemable at the sole discretion of the Fund, and as such only cumulative interest payments accruing under the terms of the instruments have been included in the '12 months or less' and '1-5 years' columns whereas the principal is included in the '5 years and more' column.

Market risk (currency risk and interest rate risk)

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies that are different to the functional currency of the respective entities undertaking the transactions, hence exposures to exchange rate fluctuations arise which are recorded through profit or loss. The Group may use foreign currency exchange contracts to hedge these risks.

The carrying amount of the Group's foreign currency denominated assets and liabilities at the reporting date that are denominated in a currency different to the functional currency of the respective entities holding the monetary assets and liabilities are as follows:

External group exposure*	USD exposure converted to AUD	
	2020 $	2019 $
Assets		
Cash	900,109	864,594
Total assets	**900,109**	**864,594**
Liabilities		
Payables	(387,340)	(443,188)
Total liabilities	**(387,340)**	**(443,188)**
Net external exposure	**512,769**	**421,406**

** External group exposure predominantly relates to external party USD denominated balances recorded in the Australian Parent entity where foreign exchange gains and losses are recognised in profit or loss.*

Internal group exposure**	USD exposure converted to AUD	
	2020	2019
	$	$
USD denominated convertible notes issued by the US REIT to the Australian parent entity	56,845,911	136,143,366
USD denominated interest receivable on convertible note	97,323	2,500,364
Net internal exposure	**56,943,234**	**138,643,730**
Total net exposure	**57,456,003**	**139,065,136**

*** Internal group exposure predominantly relates to inter-group balances where foreign exchange gains and losses are recognised in profit or loss.*

Sensitivity analysis

A 10% movement of the AUD against the USD at 31 December would have increased or decreased profit or loss by the amounts shown below. This analysis is based on foreign exchange rate variances that the Group considered to be reasonable at the end of the reporting period, and includes the effects of currency exposure to profit or loss arising from both internal and external transactions and assumes all other variables, in particular interest rates, remain unchanged.

	2020	2019
	$	$
Impact on profit or (loss)/equity		
+ 10% - Strengthening	(5,228,273)	(12,648,873)
- 10% - Weakening	6,390,111	15,458,504

In addition, the Group's operating subsidiary is based in the USA and has a USD functional currency which is different to the Group's presentation currency of AUD. As stated in the Group's accounting policies in note 3, on consolidation the assets and liabilities of the USD entity are translated into Australian dollars at exchange rates prevailing at balance date. The income and expenses of this entity are translated at the average exchange rate for the year, with the exception of fair value movements recognised in respect of the Group's investment properties and interests in equity investments. Exchange differences arising are classified as equity and are transferred to a foreign currency exchange reserve.

The significant USD denominated assets and liabilities in respect of which the above exposure relates are shown below:

	USD exposure converted to AUD	
	2020	2019
	$	$
Assets		
Cash	65,077,059	76,827,501
Receivables and other assets	23,733,840	35,358,425
Investments in jointly controlled entities	615,193	5,524,908
Other financial assets	16,696,096	27,153,745
Investment properties	917,371,669	1,141,930,663
Total assets	**1,023,493,857**	**1,286,795,242**

	USD exposure converted to AUD	
	2020	**2019**
	$	**$**
Liabilities		
Payables	31,058,969	13,707,782
Borrowings	618,737,774	651,628,728
Other payables	172,618	189,164
Total liabilities	**649,969,361**	**665,525,674**
Net exposure	**373,524,496**	**621,269,568**

Interest rate risk

Management of Interest Rate Risk

As a result of the refinancing of the Wells Fargo and Centennial Bank facilities (refer note 15), the Group is no longer exposed to interest rate risk in respect of bank borrowings. Interest payable on the GA facility is fixed at either 4% or 5% on the Term Loan component and Bridge Loan component respectively. Similarly, interest payable on unsecured notes and redeemable preference shares are fixed at 7.75% and 12.5% respectively and thus do not constitute interest rate risk.

The Group's bank deposits are exposed to variable interest rates.

	2020	**2019**
	$	**$**
Variable rate instruments		
Cash and cash equivalents	74,720,179	85,875,027
Variable rate bank loans (Centennial Bank and Wells Fargo)	-	(477,039,142)
	74,720,179	**(391,164,115)**

Cash flow sensitivity analysis for variable rate instruments

A change of 25 basis points in interest rates (on both cash on hand and borrowings) at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2020	**2019**
	$	**$**
Impact on profit before tax/equity		
+0.25% (25 basis points)	186,800	(977,910)
-0.25% (25 basis points)	(186,800)	977,910

Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to unitholders. The Group is not subject to any externally imposed capital requirements.

The capital structure of the Group consists of net debt (redeemable preference units in note 17 and borrowings as detailed in note 15) and equity of the Group (comprising issued unit capital). The gearing ratio at the end of the reporting period was as follows:

	2020 $	2019 $
Debt	564,151,449	672,609,994
Equity	409,676,160	560,816,207
Debt to equity ratio*	**137.71%**	**119.93%**

** Debt to equity ratio has been calculated based on total equity as reflected in the Consolidated Statement of Financial Position.*

22. Capital commitments

The Group had no capital commitments in respect of properties that are either under construction/ refurbishment or are due to commence construction/refurbishment (2019: $8,466,171).

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

23. Contingent liabilities

The Group is joint lessee of the premises located at 140 Broadway, New York, with E&P Financial Group USA Inc. (formerly Dixon Advisory USA Inc.). The Group is jointly and severally liable for all lease charges, and thus has a contingent liability in respect of E&P Financial Group USA Inc's share of future lease charges which are summarised below:

	2020 $	2019 $
Not later than one year	940,530	1,030,684
Later than one year and not later than five years	3,877,622	4,195,066
Later than five years	165,005	1,808,218
	4,983,157	**7,033,968**

The directors of the Responsible Entity are not aware of any other potential material liabilities or claims against the Group as at balance date.

24. Related parties

During the year, the responsible entity of the Group changed its name from Walsh & Company Investments Limited to E&P Investments Limited (**Responsible Entity**). There has been no change to the services provided by the Responsible Entity as a result of the change in name.

Additionally, Dixon Advisory USA Inc (a subsidiary of the Responsible Entity whom the Group transacts with from time to time) also changed its name to E&P Financial Group USA Inc.

During the year, URF Investment Management Pty Limited ceased to be the Investment Manager of both the Fund and the US REIT.

Key Management Personnel

Mr. Stuart Nisbett, Mr. Mike Adams, Mr. Warwick Keneally and Mr. Peter Shear are directors of the Responsible Entity, E&P Investments Limited and are deemed to be key management personnel. The directors of the Responsible Entity did not receive compensation from the Fund during the year.

Mr. Kevin McAvey and Mr. Brian Disler are joint CEOs of the US REIT from 1 August 2019 and are also deemed to be key management personnel.

At balance date, details of directors who hold units for their own benefit or who have an interest in holdings through a third party and the total number of such units held are listed as follows:

Director	No. of units	No. of notes	No. of CPUs
Stuart Nisbett	18,462	–	–
Mike Adams	–	–	–
Warwick Keneally	26,191	–	250
Peter Shear	–	–	–

Key management personnel remuneration

The remuneration of key management personnel during the year was as follows:

	2020 $	2019 $
Short-term employee benefits	2,470,535	507,886
Post-employment benefits	26,026	25,002
	2,496,561	**532,888**

Payments made to the Responsible Entity and related parties

Management Fees

Responsible Entity fee (payable by the Fund)	**2020:** $4,324,856	**2019:** 5,228,246

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

The amount owed to the Responsible Entity in respect of the responsible entity fee at 31 December 2020 is $332,340 (2019: $404,188).

Debt arranging fee (payable by the US REIT)	**2020:** Nil	**2019:** $738,041

The debt arranging fee was waived for an indefinite period during 2019 and was terminated in June 2020. No debt arranging fee was charged in respect of the Global Atlantic refinancing.

Debt arranging fees incurred during the year was nil (2019: $738,041). 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.

Total debt arranging fees amortised during the year, including fees capitalised in prior years, is $2,773,560 (31 December 2019: $1,985,030).

Other services provided by the Responsible Entity and related parties of the Responsible Entity

Fund administration services (payable by the Fund)	**2020:** $120,000	**2019** $120,000

Australian Fund Accounting Services Pty Limited (a related party of the Responsible Entity) provides administration and accounting services to the Fund. Time spent by staff is charged to the Fund at agreed rates under a Services Agreement.

A total of $120,000 (2019: $120,000) was charged by Australian Fund Accounting Services in relation to fund administration services, pursuant to a Service Agreement. Time spent by administrative staff is charged to the Fund at agreed rates under the agreement, capped at $120,000 (exclusive of unclaimable GST) per annum. This expenditure of $120,000 is included in Office Administration Costs in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Architecture, design and construction services (payable by the US REIT)	**2020:** $2,538,615	**2019:** $12,873,526

At balance date, the renovation of the Group's portfolio has largely been completed and it is the expectation of the Group that the renovation of the portfolio be entirely complete during the first quarter of 2021.

Dixon Projects LLC (a subsidiary of E&P Financial Group USA Inc.) provides architecture, design, and construction services to the Fund, including procurement and inventory management, permitting and approval process management and construction project management. Dixon Projects provides on-site project administration and management, overseeing and coordinating all aspects of the construction process, working closely with contractors to control quality and costs for the Group.

These services are provided under the Property Services and the Design and Architectural Services Master Agreements. Under 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%.

The fee in the current year includes $1,421,671 of General Conditions and insurance costs (2019: $6,201,846), a development fee of $495,150 (2019: $2,160,022), and architectural, quantity surveyor and interior design services of $621,794 (2019: $4,511,958) charged by Dixon Projects. These costs are capitalised to the relevant investment properties.

Recoveries and recharges paid to (or received from) the Responsible Entity

Responsible Entity and E&P Financial Group USA Inc expense recharge (payable by the Fund and the US REIT)	**2020:** ($405,221)	**2019:** ($1,038,842)

From time to time, the Group may share resources with E&P Financial Group USA, Inc and/or the Responsible Entity. Where this occurs, the Group may recover the costs of the resources.

During the year, the Group recovered certain shared payroll and office related costs from E&P Financial Group USA, Inc and its subsidiaries. The total amount owed to the Group at 31 December 2020 is $nil (2019: $289,636).

	2020: $222,377	**2019:** $508,252

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 'Administrative costs' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

	2020: $202,587	**2019:** $33,924

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 E&P Financial Group USA, Inc. The Fund reimbursed E&P Financial Group USA, Inc for its share of the rental expense for the 12 months ended 31 December 2020, totalling $202,587 (2019: $33,924).

Consultancy services	**2020:** $43,080	**2019:** $1,995

Effective 11 November 2019, the Responsible Entity of the Fund entered into an agreement with MA Law to provide advisory and transactional legal services, and legal consultancy services to the Responsible Entity and the investment schemes under its fiduciary. Mike Adams, a director of the Responsible Entity, is also a director of MA Law.

Total consulting fees incurred in respect to the Fund for the year ended 31 December 2020 were $43,080 (31 December 2019: $1,995), exclusive of GST.

25. Controlled entities

E&P Investments Limited is the Responsible Entity of both the Fund and the US REIT. Below is a list of all subsidiaries owned by the Fund.

		Ownership interest	
		2020	2019
Parent entity			
US Masters Residential Property Fund	Australia		
Subsidiary			
US Masters Residential Property (USA) Fund	United States	100%	100%
Melbourne LL	United States	100%	100%
Wallaroo 2 LL	United States	100%	100%
EMU LL	United States	100%	100%
Geelong LL	United States	100%	100%
Hawthorn Properties LL	United States	100%	100%
North Sydney LL	United States	100%	100%
Parramatta LL	United States	100%	100%
South Sydney LL	United States	100%	100%
St Kilda LL	United States	100%	100%
Canberra Raiders LL	United States	100%	100%
Newtown Jets LL	United States	100%	100%
Morben Finance LL	United States	100%	100%
Steuben Morris Lending LL	United States	100%	100%
Morris Finance LL	United States	100%	100%
Essendon LL	United States	100%	100%
Carlton URF LL	United States	100%	100%
Collingwood URF LL	United States	100%	100%
New South Wales URF LL	United States	100%	100%
Freemantle URF LL	United States	100%	100%
Richmond URF LL	United States	100%	100%
AFL URF LLC	United States	100%	100%
NRL URF LLC	United States	100%	100%
Grand Hill URF LLC	United States	100%	100%
Balmain Tigers URF LLC	United States	100%	100%
Newcastle URF LLC	United States	100%	100%
Canterbury URF LLC	United States	100%	100%
Manly Warringah URF LLC	United States	100%	100%
Penrith URF LLC	United States	100%	100%
NJ Prop 1 URF LLC	United States	100%	100%
NY Prop 1 URF LLC	United States	100%	100%

		Ownership interest	
		2020	2019
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%

26. Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2020 the parent entity of the Group was US Masters Residential Property Fund.

	2020 $	2019 $
Result of parent entity		
Loss for the year	(42,718,131)	(22,829,998)
Total comprehensive loss for the year	**(42,718,131)**	**(22,829,998)**
Financial position of parent entity at year end		
Current assets	27,323,448	11,661,855
Total assets	478,319,922	695,573,022
Current liabilities	24,703,441	6,962,624
Total liabilities	68,643,762	245,483,180
Total equity of the parent entity comprising of:		
Unit capital	450,704,528	448,400,079
Convertible step-up preference units	194,822,929	194,822,929
Accumulated losses	(235,851,297)	(193,133,166)
Total equity	**409,676,160**	**450,089,842**

27. Subsequent events

A distribution of $3.15 per Convertible Preference Unit totalling $6,270,727 was declared on 7 December 2020 and was paid to unitholders on 23 February 2021. 363,995 units were issued under the Group's Distribution Reinvestment Plan.

On 26 February 2021, the Group announced the final repayment of the URF Notes III remaining principal of $10 per note, totalling $17,500,000. The final repayment of the remaining principal is scheduled to be paid on 31 March 2021 plus all interest accrued up to the interest payment date.

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.

28. Auditors' remuneration

	2020 $	2019 $
Auditors of the Group		
Deloitte Touche Tohmatsu		
Audit and review of Group financial statements	222,500	215,500
Audit and review of subsidiary financial statements	68,500	52,300
	291,000	**267,800**
Other audit firms		
Deloitte Tax LLP		
Taxation compliance services	248,282	332,555
Taxation advisory services	84,838	131,345
	333,120	**463,900**

Directors' Declaration

For the year ended 31 December 2020

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

1. The financial report as set out in pages 14 to 62, are in accordance with the *Corporations Act 2001*, including:
    a. Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance, for the financial year ended on that date;
    b. In compliance with International Financial Reporting Standards as stated in note 2 to the financial statements; and
    c. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001.*
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001.*
3. As at the date of this declaration, in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors made pursuant to Section 295(5) of the *Corporations Act 2001:*

Signed in accordance with a resolution of directors of the Responsible Entity.

Stuart Nisbett
Director

Dated this 26th day of February 2021

Independent Auditor's Report

Exterior photo of a property in the Fund's portfolio, Prospect Place, Crown Heights

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

Independent Auditor's Report

Deloitte.

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

Opinion

We have audited the financial report of US Masters Residential Property Fund (the "Fund") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E & P Investments Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

continued

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Fair Value of Investment Properties As at 31 December 2020 the Group has determined the fair value of the investment properties to be $917.4 million as disclosed in Note 9. The basis of valuation of the portfolio is disclosed in Note 9(i) and is performed during each reporting period. Significant judgement is required in respect of the following: • The selection by management, of a sample of properties for independent appraisal in each period, within each location grouping; and • Management's extrapolation of these valuations to properties which were not subject to individual independent appraisals.	Our procedures included, but were not limited to: • Obtaining an understanding of the basis of valuation and key processes adopted by management, and engaging our property specialist to assist in our assessment of the appropriateness of management's basis of valuation and processes; • Evaluating management's selection of properties for independent appraisal to assess that appropriate coverage of location groupings is achieved, and, is in compliance with management's policy of independently appraising each property at least once every three years; • Assessing the independence, competence and objectivity of the independent appraisers; • Making enquiries of a selection of the independent appraisers to obtain an understanding of their valuation methodology and prevailing market conditions; • Evaluating on a sample basis, the inputs used by the independent appraisers, including location proximity, selling prices, size and condition of the comparable properties to the property appraised; • Evaluating on a sample basis, management's extrapolation basis for each location grouping applied to the properties which were not subject to individual independent appraisals during the reporting period; • Recalculating the mathematical accuracy of management's extrapolation computation; and • Assessing the appropriateness of the disclosures included in Notes 2(C)(i) and 9 to the financial statements.
Taxation As at 31 December 2020 the Group has recognised a deferred tax liability of $44 million in respect of withholding tax obligations which may arise in connection with the realisation and distribution of capital gains associated with its property assets. As disclosed in Note 2(C)(ii), the timing of the deferred tax liability is dependent on circumstances which can only be determined at future disposal dates which are uncertain at balance date. The deferred tax liability is based on management's judgement on the most likely outcome based on their assessment of the likely disposal outcomes and the likelihood of the Group meeting other relevant qualifying US taxation legislation.	Our procedures included, but were not limited to: • Obtaining an understanding of and evaluating management's assessment and judgements of the most likely disposal outcome of the Group's property assets and the likelihood of the Group meeting other relevant qualifying US taxation legislation; • Making enquiries of management's taxation experts to assist in our assessment of management's application of the applicable US taxation legislation used in management's assessment; and • Assessing the appropriateness of the disclosures included in Notes 2(C)(ii) and 13 to the financial statements.

Independent Auditor's Report

continued

Deloitte.

Other Information

The directors of the responsible entity (the "Directors") are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

Independent Auditor's Report

continued

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

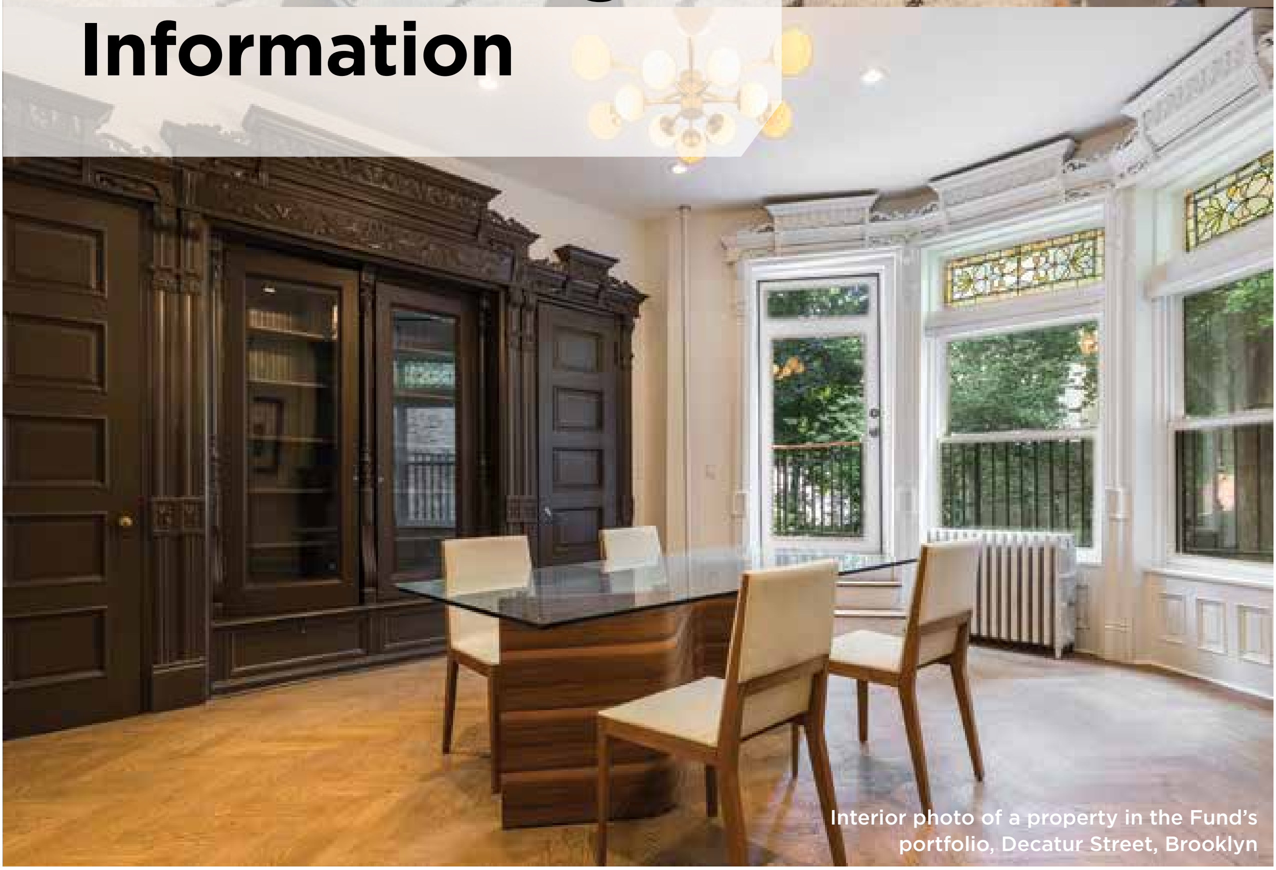
From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants
Sydney, 26 February 2021

Stock Exchange Information

Interior photo of a property in the Fund's portfolio, Decatur Street, Brooklyn



Interior photo of a property in the Fund's portfolio, Decatur Street, Brooklyn

Stock Exchange Information

Statement of quoted securities as at 31 January 2021

Fully paid ordinary units

- There are 4,583 unitholders holding a total 385,211,242 ordinary units
- The 20 largest unitholders between them hold 13.165% of the total units on issue

Convertible Step-Up Preference Units (CPU)

- There are 2,681 CPU holders holding a total 1,990,707 CPUs
- The 20 largest CPU holders between them hold 18.762% of the total CPUs on issue

Distribution of quoted units as at 31 January 2021

Fully paid ordinary units

Distribution of unitholders category (size of holding)	Number of unitholders	%
1 - 1,000	206	0.01
1,001 - 5,000	276	0.20
5,001 - 10,000	214	0.44
10,001 - 100,000	2,791	35.55
100,001 and over	1,096	63.80
Totals	**4,583**	**100.00**

Convertible Step-Up Preference Units

Distribution of unitholders category (size of holding)	Number of unitholders	%
1 - 1,000	2,289	48.39
1,001 - 5,000	375	33.60
5,001 - 10,000	8	2.80
10,001 - 100,000	8	8.98
100,001 and over	1	6.23
Totals	**2,681**	**100.00**

Substantial unitholdings as at 31 January 2021

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

Directors' unitholdings

As at 31 January 2021 directors of the Group held a relevant interest in the following securities on issue by the Group.

Director	Ordinary units	URF notes	URF CPUs
Stuart Nisbett	18,462	–	–
Warwick Keneally	26,191	–	250
Mike Adams	–	–	–
Peter Shear	–	–	–

Restricted Securities

There are no restricted securities on issue by the Group.

Top 20 holders of ordinary units at 31 January 2021

Unitholder Name	Number of units held	% of total
J P Morgan Nominees Australia Pty Limited	12,846,521	3.335
Mr Orange Pty Limited	11,583,621	3.007
Dixon Private Investments Pty Limited	2,772,476	0.720
CS Third Nominees Pty Limited	2,360,906	0.613
BNP Paribas Nominees Pty Ltd	2,268,752	0.589
National Nominees Limited	2,129,388	0.553
Raining Roubles Pty Ltd	2,000,000	0.519
Netwealth Investments Limited	1,867,646	0.485
GB & JA Cameron Holdings Pty Ltd	1,699,710	0.441
HSBC Custody Nominees (Australia) Limited	1,665,790	0.432
Leanganook Pty Ltd	1,573,075	0.408
Assess Pty Ltd	1,136,601	0.295
Cliffjoy Pty Limited	1,000,000	0.260
Sir Ronald Alfred Brierley	1,000,000	0.260
Crimson Permanent Assurance Company Pty Ltd	916,654	0.238
Abstat Pty Limited	900,000	0.234
ISS Nominees Pty Limited	841,999	0.219
J & V King Pty Ltd	731,542	0.190
Mr Damien Joseph Kenneally & Mrs Candace Lynn Kenneally	711,676	0.185
Mr Richard Philip Wilkins	700,000	0.182
Total Securities of Top 20 Holdings	**50,706,357**	**13.165**

Top 20 holders of CPUs at 31 January 2021

Unitholder Name	Number of units held	% of total
J P Morgan Nominees Australia Pty Limited	123,957	6.225
Brispot Nominees Pty Ltd	55,465	2.786
BNP Paribas Nominees Pty Ltd	29,335	1.474
National Nominees Limited	28,671	1.440
Luton Pty Ltd	20,081	1.009
Certane Ct Pty Ltd	12,586	0.632
Netwealth Investments Limited	11,740	0.590
HSBC Custody Nominees (Australia) Limited	10,529	0.529
CS Fourth Nominees Pty Limited	10,342	0.520
Aineko Holdings Pty Ltd	9,523	0.478
CS Fourth Nominees Pty Limited	8,634	0.434
Hoff Company No 1 Pty Limited	7,590	0.381
Lostshamrock Pty Ltd	7,340	0.369
Certane Ct Pty Ltd	6,250	0.314
Summerview Management Pty Ltd	6,000	0.301
Mr Richard Philip Wilkins	5,400	0.271
Mr Christof Burlefinger	5,100	0.256
Di Iulio Homes Pty Limited	5,000	0.251
Mr Mango Pty Ltd	5,000	0.251
Assess Pty Ltd	5,000	0.251
Total Securities of Top 20 Holdings	**373,513**	**18.762**

Corporate Directory

The Group's units are quoted on the official list of the Australian Securities Exchange Limited (**ASX**).

ASX Code is URF.

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Responsible Entity

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F (02) 9279 0664

www.boardroomlimited.com.au

Auditor

Deloitte Touche Tohmatsu

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Sydney NSW 2000

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www.deloitte.com.au

Photo of a courtyard in the Fund's portfolio,
West Hamilton Place, Jersey City

Interior photo of a property in the Fund's
portfolio, Polhemus Place, Park Slope