

29 August 2014

US Masters Residential Property Fund

ASX Code: URF

Half-year results for period ending 30 June 2014

US Masters Residential Property Fund (**URF, Fund or Group**) is pleased to release its financial results for the half-year ending 30 June 2014.

The financial results include:

- Appendix 4D
- Half year financial report

Overview

- As at 30 June 2014, the Fund owned a total of 534 freestanding properties comprising 987 units with a total cost (including acquisition and renovation costs to date) of US\$354.0 million. These properties were independently valued at US\$394.7 million as at 30 June 2014. This represents an increase of 11% over cost and a 3% increase over the 31 December 2013 independent valuation, reflecting the continued strong growth in the Fund's target property market and the value created through the Fund's renovation activities.
- The Fund also owned, with its joint venture partners, 29 apartment blocks with 925 units, for a proportional acquisition cost of US\$94.0 million and a fair market value of US\$98.5 million.
- The Fund continued to selectively add to its investment portfolio during the half-year, with a focus on premium housing in the Brooklyn and Hudson County markets, markets that the Fund believes will deliver strong growth in both rent and capital value. During the half-year, the Fund increased the capital deployed in these markets by 53% and 35%, respectively.

Award winning construction and development activity

- During the first half of 2014, the Group was successfully able to deliver US\$22.2 million of renovations (including work in progress), comprising 30 newly renovated units across 22 properties to the market for rent. This compares to US\$11.0 million of renovations delivered in the prior six months to December 2013.

- During the period, Dixon Advisory & Superannuation Services Limited (Dixon Advisory), as the responsible entity of the Fund, was awarded the Preservation Initiative Award by the Jersey City Landmarks Conservancy. Dixon Advisory was recognised for its efforts to renovate and preserve architecturally significant Jersey City properties acquired by the Fund, including properties outside historic districts. The award reflects the Fund's investment in the betterment of local neighbourhoods and communities as well as the focus on generating strong results for investors. In particular, one of the timber row houses used in the submission for the Preservation Initiative Award was gut renovated by the Fund and appraised at a greater than 40% premium to total cost post renovation.

Financial performance and subsequent events

- The Fund recorded a pre-tax operating profit of \$2,611,208 for the six months ended 30 June 2014.
- Upwards revaluation on the Fund's freestanding properties of \$10,439,492.
- Total comprehensive loss for the Fund for the six months to 30 June 2014 was \$25,630,049. Contributing to this substantially was an unrealised foreign exchange loss on the value of the Group's US based assets of \$23,309,532, which reflects a 5.8% appreciation of the A\$ against the US\$ during the period. This material movement in the A\$/US\$ exchange rate had a significant impact on the A\$ based accounting profit of the Group for the period. Since inception in April 2011, the cumulative unrealised foreign exchange position of the group is a gain of \$18.5 million.
- The Fund continued to generate strong rental growth. Rental income for the period was \$6,663,656, up 52% over the comparative six month period in the prior year. The Fund anticipates rental revenue to continue to grow through the remainder of 2014 as more completed properties are delivered from the renovation pipeline.
- The Fund estimates a total annual gross rental value of its 30 June 2014 properties, assuming those properties were renovated and available for leasing (at 30 June 2014) of approximately US\$27 million. The Fund has a material proportion of properties in the renovation phase. There are 145 of its 534 freestanding properties (at 30 June 2014) yet to undergo extensive renovation and are yet to generate rental income. The Fund expects to complete the renovation works of these 145 properties over the course of the next 24 months.



- In the period since 30 June 2014, the Fund:
 - has completed the renovation of a further 8 properties, adding a further 8 dwellings to the Fund's rental pool with a gross annual rental potential of approximately \$700,000;
 - has achieved district rental records in Jersey Heights ('premium' Hudson County), Crown Heights (Brooklyn) and Bedford Stuyvesant (Brooklyn) districts; and
 - has secured its highest annual rental from its pool of properties from a Park Slope (Brooklyn) property, with an annual gross rent of approximately US\$192,000.
- The Fund anticipates that it will continue to benefit from positive fair market value uplifts in future periods, supported by the completion of renovated properties (being then available for independent appraisal), the strong rental income figures being achieved on recently renovated dwellings and an increasing number of comparable sales transactions in the locations in which the Fund holds properties and from which independent appraisers can appraise the value of the Fund's properties.
- During the six month period to 30 June 2014, the Fund continued to optimise its capital structure, successfully completing an entitlement offer, raising \$87.2 million, and successfully closing on a US\$75 million revolving credit facility, primarily for the financing of renovations to properties owned by the Fund.
- The Fund retained a strong financial position, with net assets of \$404 million and a net tangible asset backing of \$1.53 per Unit as at 30 June 2014. During the period, the Fund declared distributions of 5 cents per Unit.

For more information:

Tom Kline

1300 454 801

US MASTERS RESIDENTIAL PROPERTY FUND
ABN 27 372 102 509

APPENDIX 4D – HALF-YEAR REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2014

(The previous corresponding period is the period from 1 January 2013 to 30 June 2013)

Results for announcement to the market

	Half-year to 30 June 2014	Half-year to 30 June 2013	Change from Previous period (\$)	Change from Previous period (%)
Revenue from ordinary activities	\$6,907,612	\$4,905,044	Up 2,002,568	Up 41%
Profit from ordinary activities before tax attributable to unitholders	\$2,611,208	\$12,630,841	Down \$10,019,633	Down 79%
(Loss) /profit from ordinary activities after tax attributable to unitholders	(\$2,023,359)	\$5,283,833	Down \$7,307,192	Down 138%
(Loss)/profit for the period attributable to unitholders	(\$2,023,359)	\$5,283,833	Down \$7,307,192	Down 138%
Basic (loss)/earnings per unit	(1 cent)	3 cents	Down 4 cents	Down 133%
Diluted (loss)/earnings per unit	(1 cent)	3 cents	Down 4 cents	Down 133%

Distributions

During the period, US Masters Residential Property Fund (**the Fund**) declared a distribution of 5 cents per share, which amounted to a total of \$13,198,646. The Record Date for determining entitlements to the distribution was 30 June 2014. The distribution is expected to be paid on or before 24 September 2014.

The Fund currently operates a Distribution Reinvestment Plan (**DRP**) under which unitholders may elect to have all, or part, of their distribution reinvested in new units. To participate in the DRP, unitholders should elect to participate before the Record Date.

Results for announcement to the market *(continued)*

Explanation of revenue

Revenue from ordinary activities of \$6,907,612 for the half-year ended 30 June 2014 consists entirely of the Fund's investment activities and is made up as follows:

Investment property rental income	\$6,663,656
Interest income	<u>\$ 243,956</u>
Revenue from operating activities	\$6,907,612

Significant features of operating performance

Operations over the half-year resulted in an operating loss after tax of \$2,023,359 (30 June 2013: profit of \$5,283,833). After taking into account the exchange difference on translation of foreign operations and the share of joint venture's reserve movements, the total comprehensive loss after tax was \$25,630,049 (30 June 2013: income of \$42,305,338). Contributing to this substantially was an unrealised foreign exchange loss on the value of the Group's US based assets of \$23,309,532, which reflects a 5.8% appreciation of the A\$ against the US\$ during the period.

	30 June 2014 \$/unit	31 December 2013 \$/unit
Net Tangible Assets per security <i>(After unrealised gains and adjustments for tax)</i>	\$1.53	\$1.65

Events subsequent to the reporting date

Subsequent to balance date, 13 acquisition contracts have been settled with a total consideration of \$17,025,684.

Other information

This report is based on the Half-Year Financial Report which has been subject to review by the Auditors. All documents comprise the information required by Listing Rule 4.2A.

Attachments forming part of Appendix 4D

Attachment 1 – Half-year financial report, including Directors' Report.

Other factors that affected results in the period or which are likely to affect results in the future

The principal activity of the Fund during the course of the financial period was investing in the US residential property market. The Fund invests in free standing and multi-family properties in the New York metropolitan area, specifically Hudson County, New Jersey, and Brooklyn, Manhattan, and Queens, New York. There were no significant changes in the nature of the Fund's activities during the period.

US Masters Residential Property Fund

ABN 27 372 102 509

Interim Financial Report

30 June 2014

US Masters Residential Property Fund

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US Masters Residential Property Fund

Directors' Report

For the half-year ended 30 June 2014

The directors of Dixon Advisory & Superannuation Services Limited, the Responsible Entity of US Masters Residential Property Fund (**the Fund**), are pleased to present their report together with the consolidated financial statements of the Fund and the entities it controlled (**the Group**) for the half-year ended 30 June 2014.

Dixon Advisory & Superannuation Services Limited was appointed the responsible entity at the date the Fund was registered.

Directors

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

Mr Maximilian Sean Walsh
Mr Daryl Albert Dixon
Mr Alan Cochrane Dixon
Mr Tristan Aloysius O'Connell
Mr Christopher Matthew Brown
Mr Alexander Gen MacLachlan

Principal activities and significant changes in nature of activities

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

Freestanding property update

Freestanding portfolio update

The Group continued to incrementally add to its core freestanding residential property portfolio throughout the first half of 2014. The Group focused its freestanding property acquisitions in the premium areas of Hudson County and Brooklyn, and continued to increase the relative weighting of these areas in its portfolio. This is a continuation of the strategy adopted by the Group in 2013 to enter New York City and further diversify the portfolio geographically and by property type.

At 30 June 2014, the Group had closed 534 freestanding properties (31 December 2013: 498 freestanding properties) worth a total book value of \$417,523,059 (31 December 2013: \$351,577,810). This represents a 7% increase in the number of properties and a 19% increase in the book value of freestanding properties closed on since the prior balance date of 31 December 2013. The increase in total book value also includes a \$10,439,492 increase in the fair market value of freestanding properties held at 30 June 2014. The increase in fair market value of the freestanding portfolio reflects the strong real estate market conditions in the New York metropolitan area. In particular, the areas of Bedford-Stuyvesant and Bushwick in Brooklyn, Harlem in Manhattan and Jersey City Heights in the Hudson County were strong performers. All these particular sub-markets are experiencing rapid gentrification which is continuing to drive housing prices and rents in an upward direction.

At 30 June 2014, properties which the Group had successfully renovated and leased totalled a book value of \$198.5 million. A further \$219 million of properties (or 52% of the current book value) were in the process of being renovated. The Group expects that upon completion and tenanting, these properties will contribute a further US\$1.1 million per month of rental revenue. This compares to the Group's current rental revenue per month of approximately US\$1 million.

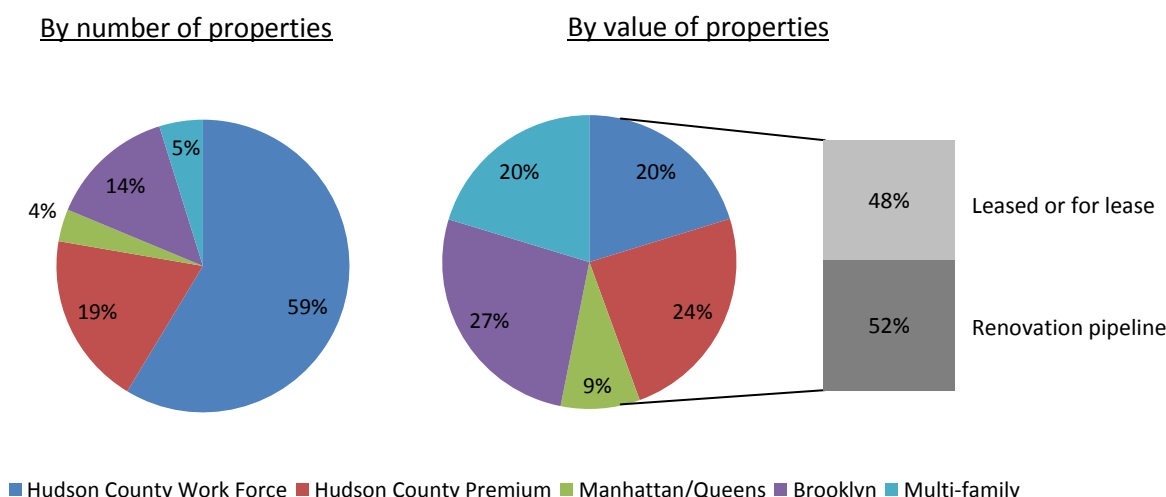
US Masters Residential Property Fund

Directors' Report

For the half-year ended 30 June 2014

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

Figure 1: Property portfolio locations



Freestanding properties construction update

The Group continued to execute its renovation and rehabilitation strategy throughout the first half of 2014. The Group now has a dedicated design and construction management function which is able to seamlessly transition properties from the purchasing phase into the construction phase and then out into the leasing phase. This capability provides the Group with the ability to create substantial value from repositioning the assets and a competitive advantage when bidding for properties in the marketplace.

During the first half of 2014, the Group was successfully able to deliver US\$22.2 million of renovations, including work in progress, and deliver 30 newly renovated units across 22 properties to the market for rent. This compares to US\$11.0 million of renovations delivered in the six months to December 2013. With the Group's focus on premium areas within the Hudson County and Brooklyn, these properties require larger and more complex renovations, and hence have extended the time period that properties take to move from acquisition to leasing.

As at 30 June 2014, the Group had a further 145 properties in the renovation pipeline which are at various stages of completion. Renovation of these properties is expected to be progressively completed over the coming 3 to 24 months.

Multi-family property update

During the first half of 2014, the Group significantly expanded its portfolio of multi-family buildings. The Group acquired a total of eight multi-family buildings with 202 units, located in Brooklyn, NY with its existing joint venture partner Excelsior Equities. The total purchase price of these eight buildings was US\$41.9 million (including closing costs) which equates to a purchase price per unit of approximately US\$207,000. The buildings, located in Bedford-Stuyvesant and Crown Heights, are in close proximity to the Group's existing portfolio of freestanding properties and represent an attractive opportunity to enter the multi-family asset class in Brooklyn and capitalise on the rapid gentrification taking place in this market. The Directors believe that these assets have been under-maintained by their previous owners and as such, there exists significant upside from the renovation and repositioning of these assets.

The Group also closed on an additional multi-family building in West New York with Excelsior Equities. The total purchase price of the building was US\$2 million (including closing costs), which equates to a purchase price per unit of approximately US\$87,000. The building contributes an additional 23 units.

At 30 June 2014 the total book value of the multi-family portfolio was US\$98.5 million. Together with the closing of the Brooklyn properties in the current period, the multi-family portfolio is now more broadly diversified across the New York metropolitan area, with Brooklyn representing 57% of the assets by acquisition value, while West New York and Union City, both in New Jersey, represent 11% and 32%, respectively.

US Masters Residential Property Fund

Directors' Report

For the half-year ended 30 June 2014

Results and review of operations

The Group recorded a pre-tax profit of \$2,611,208 for the six months ended 30 June 2014. Rental income totalled \$6,663,656 for the six months ended 30 June 2014. This equates to a 52% increase in the Group's rental revenue when compared to the prior comparative period. The Group expects rental revenue to continue its strong growth throughout the remainder of 2014 as more completed properties are delivered from the renovation pipeline.

An upward revaluation on the Fund's existing portfolio of freestanding properties of \$10,439,492 also contributed to the pre-tax profit result for the six months ending 30 June 2014.

Investment property expenses for the period were 61% of rental income which is consistent with the expense ratio in the prior comparative period. The Group is confident that this ratio of costs to revenue will decrease as more properties are closed, renovated and tenanted.

Total comprehensive loss of the Group for the six months ended 30 June 2014 amounted to \$25,630,049 (30 June 2013: income of \$42,305,338). Contributing to this substantially was an unrealised foreign exchange loss on the value of the Group's US based assets of \$23,309,532 which reflects the appreciation of the Australian dollar against the US dollar during the period from US\$0.89/A\$ to US\$0.94/A\$. The operating loss of the Group for the six months ended 30 June 2014 after providing for income tax amounted to \$2,023,359 (30 June 2013: profit of \$5,283,833). The Group is in a strong position with net assets of \$404,104,364.

At 30 June 2014, the post tax net asset value (NAV) of the Group was \$1.53 per ordinary unit (31 December 2013: \$1.65 per ordinary unit) after unrealised gains and losses. The pre tax NAV was \$1.61 per ordinary unit (31 December 2013: \$1.73). This is after taking into account a 5 cent distribution that was announced on 23 June 2014. The major drivers of the movement in the NAV per ordinary unit are the unrealised gain recognised in respect of the property portfolio and changes in the Australian and US dollar exchange rate.

During the six months ended 30 June 2014, a total of \$87,230,410 was raised from the issue of 48,461,339 ordinary units. An additional 3,784,176 ordinary units were issued as part of the Group's Distribution Reinvestment Plan amounting to \$7,000,726.

Distributions paid or recommended

A distribution of 5 cents per ordinary unit, totalling \$10,586,370, was declared in the prior year. After accounting for the Group's Distribution Reinvestment Plan, \$3,585,644 was paid on 24 March 2014.

A further distribution of 5 cents per ordinary unit, totalling \$13,198,646, was announced on 23 June 2014. The Distribution Reinvestment Plan is in place in relation to the distribution.

After balance date events

Other than matters disclosed in note 14 of the condensed consolidated financial statements, there has not arisen in the interval between the balance date and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity of the Fund, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

US Masters Residential Property Fund

Directors' Report

For the half-year ended 30 June 2014

Auditor's Independence Declaration

The auditor's independence declaration is set out on Page 6 and forms part of the Directors' Report for the half-year ended 30 June 2014.

Signed in accordance with a resolution of the Directors made pursuant to s306(3) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'M. S. Walsh', with a stylized flourish at the end.

Mr Maximilian Sean Walsh

Director

Dated this 29th day of August 2014

The Board of Directors
Dixon Advisory and Superannuation Services Limited
as Responsible Entity for:
US Masters Residential Property Fund
Level 15, 100 Pacific Highway
North Sydney NSW 2060

29 August 2014

Dear Board Members

US Masters Residential Property Fund

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of US Masters Residential Property Fund.

As lead audit partner for the review of the financial statements of US Masters Residential Property Fund for the financial half-year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountants

US Masters Residential Property Fund

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For the half-year ended 30 June 2014

	Note	30 June 2014	30 June 2013
		\$	\$
Investment property rental income		6,663,656	4,392,948
Insurance proceeds		-	167,801
Interest income		243,956	281,572
Other income		-	62,723
Total revenue		6,907,612	4,905,044
Fair value movement of investment properties	5	10,439,492	14,985,243
Share of (losses)/profits of jointly controlled entities	4	(1,412,675)	2,056,123
Investment property expenses		(4,094,701)	(2,475,279)
Net foreign currency gain/(loss)		1,017,122	(905,775)
Management fees	12	(3,419,132)	(1,732,954)
Investment property disposal costs		(803,154)	(1,428)
Listing fees		(96,857)	(50,471)
Professional fees		(1,341,138)	(176,359)
Marketing		(80,991)	(69,786)
Responsible Entity and related entity recharges - salaries & wages	12	(2,776,470)	(1,722,791)
Responsible Entity and related entity recharges - office administration	12	(1,539,411)	(1,319,237)
Interest expense	5	(33,274)	(151,743)
Bad debt expense		(90,223)	(137,408)
Impairment of investment property	5	-	(511,683)
Other expenses		(64,992)	(60,655)
Profit before income tax		2,611,208	12,630,841
Income tax expense		(4,634,567)	(7,347,008)
(Loss)/profit for the period		(2,023,359)	5,283,833
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operations (nil tax)		(23,309,532)	36,388,891
Share of joint venture's reserve movements (nil tax)		(297,158)	632,614
Other comprehensive (loss)/income for the period, net of tax		(23,606,690)	37,021,505
Total comprehensive (loss)/income for the period attributable to unitholders		(25,630,049)	42,305,338
(Loss)/earnings per unit			
Basic (loss)/earnings per unit		(0.01)	0.03
Diluted (loss)/earnings per unit		(0.01)	0.03

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements on pages 11 to 22.

US Masters Residential Property Fund

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

	<i>Note</i>	30 June 2014	31 December 2013
		\$	\$
Current assets			
Cash and cash equivalents	2	49,399,210	42,772,500
Receivables		294,051	327,253
Prepayments		795,324	1,284,549
Other assets	3	5,791,437	2,693,805
Investment properties held for sale	5	2,899,396	2,854,099
Total current assets		59,179,418	49,932,206
Non-current assets			
Investments in jointly controlled entities	4	51,352,323	31,407,471
Investment properties	5	414,623,663	348,723,711
Security deposits	6	265,027	280,363
Other assets	3	1,114,690	-
Total non-current assets		467,355,703	380,411,545
Total assets		526,535,121	430,343,751
Current liabilities			
Payables	8	24,866,355	16,730,689
Borrowings	9	3,592,595	1,259,129
Total current liabilities		28,458,950	17,989,818
Non-current liabilities			
Deferred tax liabilities	7	21,074,815	17,450,157
Other non-current liabilities		132,513	148,943
Borrowings	9	72,764,479	45,510,792
Total non-current liabilities		93,971,807	63,109,892
Total liabilities		122,430,757	81,099,710
Net assets		404,104,364	349,244,041
Equity			
Unit capital	10	387,473,457	306,983,085
Reserves		18,654,266	42,260,956
Accumulated losses		(2,023,359)	-
Total equity		404,104,364	349,244,041

The Condensed Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements on pages 11 to 22.

US Masters Residential Property Fund

Condensed Consolidated Statement of Changes in Equity For the half-year ended 30 June 2014

	Note	Unit capital	Foreign currency translation reserve	Share of joint venture's cash flow hedging reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$
Balance at 1 January 2013		243,054,627	(2,838,876)	(222,180)	(1,699,491)	238,294,080
Profit for the period		-	-	-	5,283,833	5,283,833
Other comprehensive income						
Foreign currency translation gain		-	36,388,891	-	-	36,388,891
Joint venture interest rate swap hedge gain		-	-	632,614	-	632,614
Total other comprehensive income		-	36,388,891	632,614	-	37,021,505
Total comprehensive income for the period		-	36,388,891	632,614	5,283,833	42,305,338
Transactions with owners in their capacity as owners						
Issue of ordinary units	10	74,464,240	-	-	-	74,464,240
Issue costs		(3,076,407)	-	-	-	(3,076,407)
Distributions to unitholders		(6,806,550)	-	-	(3,584,342)	(10,390,892)
Total contributions and distributions		64,581,283	-	-	(3,584,342)	60,996,941
Balance at 30 June 2013		307,635,910	33,550,015	410,434	-	341,596,359
Balance at 1 January 2014		306,983,085	41,761,143	499,813	-	349,244,041
Loss for the period		-	-	-	(2,023,359)	(2,023,359)
Other comprehensive loss						
Foreign currency translation loss		-	(23,309,532)	-	-	(23,309,532)
Joint venture interest rate swap hedge loss		-	-	(297,158)	-	(297,158)
Total other comprehensive loss		-	(23,309,532)	(297,158)	-	(23,606,690)
Total comprehensive loss for the period		-	(23,309,532)	(297,158)	(2,023,359)	(25,630,049)
Transactions with owners in their capacity as owners						
Issue of ordinary units	10	94,231,136	-	-	-	94,231,136
Issue costs		(542,118)	-	-	-	(542,118)
Distributions to unitholders		(13,198,646)	-	-	-	(13,198,646)
Total contributions and distributions		80,490,372	-	-	-	80,490,372
Balance at 30 June 2014		387,473,457	18,451,611	202,655	(2,023,359)	404,104,364

The Condensed Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements on pages 11 to 22.

US Masters Residential Property Fund

Condensed Consolidated Statement of Cash Flows For the half-year ended 30 June 2014

	<i>Note</i>	30 June 2014	30 June 2013
		\$	\$
Cash flows from operating activities			
Cash receipts from customers		6,658,680	4,560,959
Cash paid to suppliers		(13,002,441)	(8,979,505)
Insurance proceeds		-	55,636
Interest received		243,956	379,886
Interest paid		(28,376)	(129,816)
Net cash used in operating activities		(6,128,181)	(4,112,840)
Cash flows from investing activities			
Acquisition of investment property, including improvements		(81,558,701)	(98,813,932)
Investment in joint ventures		(22,557,006)	-
Payments for property-related deposits		(4,792,430)	(9,584,219)
Distributions received from joint venture investments		208,333	522,836
Proceeds from sale of investment properties		10,973,973	8,436
Disposal costs on sale of investment properties		(890,369)	-
Net cash used in investing activities		(98,616,200)	(107,866,879)
Cash flows from financing activities			
Proceeds from issue of unit capital		87,230,410	70,520,904
Payment of issue costs		(542,118)	(3,076,407)
Payment of transaction costs related to loans and borrowings		(2,142,071)	-
Gross proceeds from secured bank loans		38,039,187	-
Payment of security deposits		-	(273,583)
Payment of interest reserve		(1,142,700)	-
Distributions paid		(3,581,034)	(4,325,890)
Bank loan repayments		(3,206,235)	(54,689)
Net cash from financing activities		114,655,439	62,790,335
Net increase/(decrease) in cash and cash equivalents		9,911,058	(49,189,384)
Cash and cash equivalents at beginning of period		42,772,500	122,880,426
Effect of exchange rate fluctuations on cash held		(3,284,348)	10,349,577
Cash and cash equivalents at end of period		49,399,210	84,040,619

The Condensed Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements on pages 11 to 22.

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

1. Basis of preparation

Statement of compliance

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

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

These half-year financial statements were approved by the Board of Directors of the Responsible Entity on 29 August 2014.

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

The following new and revised Standards and Interpretations have been adopted in the current period and have only affected disclosure and presentation in these financial statements.

- AASB 1031 'Materiality' (2013)
- AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'
- AASB 2013-5 'Amendments to Australian Accounting Standards – 'Investment Entities'
- AASB 2013-7 'Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders'
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'
- Interpretation 21 'Levies'

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

2. Cash and cash equivalents

	30 June 2014	31 December 2013
	\$	\$
Cash at bank	45,216,727	42,772,500
Restricted cash	4,182,483	-
	<u>49,399,210</u>	<u>42,772,500</u>

Restricted cash relates to the sale of property via a 1031 exchange. In a 1031 exchange, the proceeds due on sale of property are held in escrow and must be used to purchase additional property. A 1031 exchange transaction preserves the REIT status of US Masters Residential Property (USA) Fund for US tax purposes, and allows the Group to defer realisation of any capital gains tax.

3. Other assets

	\$	\$
Current assets		
Property related deposits	4,792,430	1,641,908
Deferred leasing fee	396,313	520,358
Other assets	602,694	531,539
	<u>5,791,437</u>	<u>2,693,805</u>
	\$	\$
Non-current assets		
Interest reserve	<u>1,114,690</u>	<u>-</u>

Under the terms of the Doral Bank loan facility (refer to Note 9), the Group is required to maintain an interest reserve equivalent to six months of interest on the outstanding principal loan balance. The interest reserve account does not bear interest.

4. Investments in jointly controlled entities

Jointly controlled entities	Country of Incorporation	Principal activity	Principal place of business	Ownership interest	
				30 June 2014 %	31 December 2013 %
Golden Peak LLC	United States	Property Investment	Hudson County, New Jersey	67.5%	67.5%
Hudson Gardens LLC	United States	Property Investment	Hudson County, New Jersey	90.0%	90.0%
Gold Coast Equities LLC	United States	Property Investment	Hudson County, New Jersey	92.5%	92.5%
DXEX Brooklyn I LLC	United States	Property Investment	Brooklyn, New York	92.5%	-
DXEX Brooklyn II LLC	United States	Property Investment	Brooklyn, New York	92.5%	-
DXEX Brooklyn III LLC	United States	Property Investment	Brooklyn, New York	92.5%	-

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

4. Investments in jointly controlled entities (*continued*)

	30 June 2014 (6 months movement) \$	31 December 2013 (12 months movement) \$
Carrying amount of interest in jointly controlled entities		
Beginning of period	31,407,471	14,571,696
Investments made	23,729,254	9,020,060
Distribution received	(208,333)	(814,627)
Share of (losses)/profits	(1,412,675)	5,048,639
Share of reserves	(297,158)	721,993
Exchange rate difference arising on translation	(1,866,236)	2,859,710
Balance at end of period	<u>51,352,323</u>	<u>31,407,471</u>

During the period, Jones Lang LaSalle was appointed to value the investment properties owned by the Hudson Gardens LLC joint venture entity. In determining the fair value of the portfolio, Jones Lang LaSalle adopted a direct capitalisation of net income approach. The capitalisation rate used to value the property portfolio owned by Hudson Gardens LLC was 5.25%. The fair value derived under this method was cross checked with a discounted cash flow model, using a discount rate of 8.97%. The fair value assigned to the property portfolio by Jones Lang LaSalle was US\$13,940,000 (A\$14,777,907), of which the Group's economic interest is US\$12,546,000 (A\$13,300,117).

Jones Lang LaSalle was also appointed to value five of the six investment properties owned by the Gold Coast Equities LLC joint venture entity. In determining the fair value of the portfolio, Jones Lang LaSalle adopted a direct capitalisation of net income approach. The capitalisation rate used to value the property portfolio owned by Gold Coast Equities, LLC was 5.25%. The fair value derived under this method was cross checked with a discounted cash flow model, using a discount rate of 7.57%. The fair value assigned to the property portfolio by Jones Lang LaSalle was US\$17,310,000 (A\$18,350,472), of which the Group's economic interest is US\$16,011,750 (A\$16,974,186). In respect of its investment in Gold Coast Equities LLC, the Group decided to recognise an impairment loss of US\$2,023,572 (A\$2,145,205). This comes as a result of changes to the rent stabilization laws enacted by the City of Union City on 17 June 2014 which impose stricter limits on the amount rents can be increased on certain properties. The impairment relates to four of the 11 properties the Group owns in Union City, New Jersey. All other properties in Union City were unaffected. Post balance sheet date the Group has commenced actions in an effort to mitigate the impact of these changes through improvements to the properties including converting unused space to new apartments and lobbying government bodies.

Jones Lang LaSalle is independent of the Group, Hudson Gardens LLC and Gold Coast Equities LLC.

Due to the close proximity of purchase date to balance date, the fair value of investment properties owned by the Group's DXEX Brooklyn I LLC, DXEX Brooklyn II LLC and DXEX Brooklyn III LLC joint venture entities were assessed at their carrying values at balance date.

The Group has not incurred any contingent liabilities in relation to its interest in the jointly controlled entities, nor do the jointly controlled entities themselves have any contingent liabilities. The jointly controlled entities do not have any capital commitments at period end.

The Group has a capital commitment at 30 June 2014 to its Hudson Gardens LLC joint venture entity for US\$938,737 (A\$995,163) to fund working capital requirements (31 December 2013: US\$938,737 (A\$1,052,750)).

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

5. Investment properties

	30 June 2014 \$	31 December 2013 \$
Disclosed on the Condensed Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	2,899,396	2,854,099
Non-current assets		
Investment properties	414,623,663	348,723,711
	<u>417,523,059</u>	<u>351,577,810</u>
	30 June 2014 (6 months movement) \$	31 December 2013 (12 months movement) \$
At fair value		
Beginning of period	351,577,810	116,149,363
Acquisitions, including improvements	87,235,721	176,425,780
Fair value movement of investment properties to market	10,439,492	27,329,208
Disposals	(11,052,374)	(2,786,627)
Impairment of investment properties due to damage	-	(511,198)
Renovations in progress	728,324	1,049,065
Exchange rate differences on translation	(21,405,914)	33,922,219
Balance at end of period	<u>417,523,059</u>	<u>351,577,810</u>
	\$	\$
Interest expense	1,637,636	703,406
Interest capitalised to carrying value of qualifying investment properties	1,604,362	-
Interest expense reflected in profit or loss	<u>33,274</u>	<u>703,406</u>

Valuation basis

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

A panel of the following appraisers was appointed to value the residential properties selected for valuation during the financial period. The appraisers were selected in consideration of their certification as licensed residential appraisers, their experience and independence to the Group. Residential appraisals were conducted under the Uniform Standards of Professional Appraisal Practice as required by the Appraisals Standard Board of The Appraisal Foundation in the USA.

- County Appraisals, LLC
- Accurate Appraisals Associates, LLC
- Malone Appraisals, LLC
- Platinum Coast Appraisal & Co.
- Glenn A. Gabberty Appraisals, Inc.

For selected commercial zoned properties in New York City which were acquired for intended residential use, the assessments were conducted by a registered real estate agent with expertise in the neighbourhood areas relevant to the Group.

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

5. Investment properties (*continued*)

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

The valuation results for each location grouping have been assessed with the average result for each grouping, excluding outliers, then being extrapolated over the properties which were not subject to individual valuation, thereby achieving an overall valuation outcome for each grouping and therefore the entire portfolio.

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

Class of Property	Fair Value Hierarchy Level	Fair value 30 Jun 2014	Fair value 31 Dec 2013	Valuation Technique	Inputs
Residential use investment property	Level 2	\$417,523,059	\$351,577,810	Direct comparison	- Geographic location - Property age and condition - Size of property - Number of rooms

There were no transfers between Hierarchy Level 1 and Hierarchy Level 2 asset categories during the period.

Contractual obligations

Refer to Note 11 for contractual obligations in respect of property purchases.

6. Security deposit

	30 June 2014	31 December 2013
	\$	\$
Security deposit	265,027	280,363

The Group is party to a letter of credit arrangement with Investors Bank. Under the terms of the facility, the Group is required to provide security in the form of a US\$250,000 deposit (30 June 2014: A\$265,027; 31 December 2013: A\$280,363).

7. Deferred tax liabilities

	\$	\$
Deferred tax liabilities	21,074,815	17,450,157

The deferred tax liability represents temporary differences arising on differences between the tax cost base and the carrying value of the investment properties.

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

8. Payables

	30 June 2014	31 December 2013
	\$	\$
Current		
Trade payables	9,749,307	4,355,372
Distribution payable	13,228,638	10,611,751
Other payables	1,888,410	1,763,566
	<u>24,866,355</u>	<u>16,730,689</u>

The average credit period on trade payables is 30 days. No interest is charged on trade payables from the date of invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

9. Borrowings

	\$	\$
Current liabilities		
Current portion of secured bank loans - at amortised cost	3,592,595	771,132
Finance insurance premiums	-	487,997
	<u>3,592,595</u>	<u>1,259,129</u>
	\$	\$
Non-current liabilities		
Secured bank loans - at amortised cost	<u>72,764,479</u>	<u>45,510,792</u>

During the period, the Group secured an additional US\$75,000,000 (AUD\$79,508,110) in borrowings with Doral Bank. At balance date, US\$40,000,000 (AUD \$42,404,325) remained undrawn on the facility. The purpose of this facility is to provide growth capital including financing properties that are undergoing renovation. As properties are fully renovated and tenanted these are then refinanced in a long term facility such as those provided by Investors Bank (see page 17).

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

9. Borrowings (*continued*)

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

Financial Institution	30 June 2014	31 December 2013	Security	Property Security Value -		Interest Rate
	Principal Amount - Amortised Cost	Principal Amount - Amortised Cost		Fair Value	Maturity Date	
Investors Bank	2,958,040	3,153,105	Investment property (v)	8,817,682	June 2022	3.99% (i)
Investors Bank	3,174,764	3,384,896	Investment property (v)	8,982,710	November 2022	3.75% (ii)
Investors Bank	6,052,632	6,455,203	Investment property (v)	14,976,793	July 2025	3.75% (iii)
Investors Bank	14,551,576	15,524,158	Investment property (v)	36,217,085	November 2023	3.63% (iv)
Investors Bank	10,167,540	10,845,446	Investment property (v)	23,946,423	November 2023	3.63% (iv)
Investors Bank	6,487,332	6,919,117	Investment property (v)	14,288,311	November 2023	3.63% (iv)
Doral Bank	32,965,189	-	(vi)	217,558,789	March 2017	LIBOR (vii) plus 5.75%

- (i) Resets to a new fixed interest rate in June 2017 for the remaining term
- (ii) Resets to a new fixed interest rate in October 2017 for the remaining term
- (iii) Resets to a new fixed interest rate in July 2020 for the remaining term
- (iv) Resets to a new fixed interest rate in November 2018 for the remaining term
- (v) Loans are secured by first mortgage security over specified secured property assets, assignment of borrower's right; title and interest in present and future property leases, and indemnity executed by US Masters Residential Property (USA) Fund in connection with specified non-recourse exclusions. Loans are subject to Default Event clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable.
- (vi) The Doral Bank loan is secured by way of charge over the following subsidiaries of the Fund:
 - AFL URF LLC
 - Newtown Jets LLC
 - South Sydney LLC
 - North Sydney LLC
 - Canberra Raiders LLC
 - Hawthorn Properties LLC
 - Richmond URF LLC
 - Freemantle URF LLC

The total value of the security at balance date is \$233,322,721.

US Masters Residential Property (USA) Fund has guaranteed the loan.

- (vii) Facility is subject to a LIBOR floor of 0.160%

LIBOR as of 30 June 2014 was 0.152%.

10. Capital and reserves

Issuance of ordinary units

On 25 February 2014, the Fund raised \$87,230,410 from its 1 for 3 pro rata non-renounceable entitlement offer. The 48,461,339 new and top up units were allotted on 5 March 2014.

In relation to the distribution paid on 24 March 2014, 3,784,176 units were issued as part of the Fund's distribution reinvestment plan, for an amount of \$7,000,726.

The total number of ordinary units issued as at 30 June 2014 was 263,972,915.

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

11. Balance date capital commitments

As at balance date, the Group has paid deposits totalling \$4,417,682 in respect of contracts for the purchase of 49 residential properties with a combined purchase consideration of \$50,039,435.

Subsequent to balance date after further property specific diligence, 16 contracts with a combined purchase consideration of \$8,776,846 were cancelled. Such cancellations were conducted in line with the ordinary operations of the Group and normal market practices.

The Group has a capital commitment at 30 June 2014 to its Hudson Gardens LLC joint venture entity for US\$938,737 (A\$995,163) to fund working capital requirements as shown in Note 4.

There are no further contributions required to be made to the Group's other joint venture entities.

12. Related parties

Ongoing management fees payable to the Responsible Entity

Responsible Entity fee (payable by the Fund)

The Responsible Entity is entitled to receive annualised management fees (referred to as the responsible entity fee and administration fee), in aggregate, of up to 0.50% p.a. (exclusive of GST) of the gross asset value of the Group. The Responsible Entity has elected to reduce the annualised management fees to 0.33% p.a. (exclusive of GST) for an indefinite period.

Total fee expensed during the period is \$783,420 (30 June 2013: \$460,958) included in management fees expense in the profit or loss.

The amount owed to the Responsible Entity in respect of the Responsible Entity fee at 30 June 2014 is \$138,264 (31 December 2013: \$251,363).

Investment Management fee (payable by the US REIT)

The Responsible Entity is entitled to receive an annualised investment management fee of 2% of the gross asset value of the Group in its capacity as Investment Manager. The Responsible Entity has elected to reduce the annualised management fee to 1.24% p.a. for an indefinite period. Additionally, the Responsible Entity has elected to waive this fee for an indefinite period for the first \$100 million of gross assets.

Total fee expensed during the period is \$2,286,024 (30 June 2013: \$1,057,751) included in management fees expense in the profit or loss.

The amount owed to the Responsible Entity in respect of the investment management fee at 30 June 2014 is \$418,950 (31 December 2013: \$651,975).

Leasing fee (payable by the US REIT)

The Responsible Entity is entitled to receive 3 months' gross rent on new leases entered into by the US REIT in its capacity as Investment Manager. The Responsible Entity has elected to set the fee at 1 month's gross rent. The fee is capitalised and expensed over the lease period.

Total leasing fee incurred during the period is \$263,740 (30 June 2013: \$261,493).

The amount owed to the Responsible Entity in respect of the leasing fee at 30 June 2014 is \$47,166 (31 December 2013: \$72,323).

Total leasing fee expensed during the period, including fees capitalised in prior periods, is \$262,473 (30 June 2013: \$214,245) included in management fees expense in the profit or loss.

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

12. Related parties (*continued*)

Ongoing management fees payable to the Responsible Entity (*continued*)

Asset disposal fee (payable by the US REIT)

The Responsible Entity is entitled to receive an asset disposal fee of 2.49% of the sale price of assets disposed of by the US REIT in its capacity as Investment Manager.

The amount owed to the Responsible Entity in respect of the asset disposal fee at 30 June 2014 is \$30,092 (31 December 2013: nil). In its discretion, management charged a disposal fee on only three property disposals.

Total fee expensed in the period is \$87,215 (30 June 2013: nil) included in management fees expense in the profit or loss.

Other fees payable to the Responsible Entity

Asset acquisition fee (payable by the US REIT)

The Responsible Entity is entitled to receive an asset acquisition fee of 1.99% of the purchase price of assets acquired by the US REIT in its capacity as Investment Manager. This fee of \$1,891,575 (30 June 2013: \$1,816,728) is included in the acquisition cost of investment properties, or where relevant, in the carrying value of the Group's investments in jointly controlled entities.

The amount owed to the Responsible Entity in respect of the asset acquisition fee at 30 June 2014 is \$1,335,691 (31 December 2013: \$289,684).

Structuring and handling fee (payable by the Fund)

The Responsible Entity is entitled to receive (i) structuring & arranging fees equal to 2% (exclusive of GST), and (ii) handling fees equal to 2% (exclusive of GST), of the total funds raised in connection with the provision of services as Issue Manager in its capacity as Investment Manager. This fee during the period is nil (30 June 2013: \$2,947,774).

The total of structuring & arranging and handling fees are recognised as a reduction in issued unit capital. Nil amount owing at 30 June 2014 (31 December 2013: nil).

Debt arranging fee (payable by the US REIT)

The Responsible Entity is entitled to receive a debt arranging fee of 2% of the gross amount of external borrowings obtained by the US REIT in its capacity as Investment Manager. 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 jointly controlled entities where applicable. The capitalised fee is amortised over the loan expiry period.

Total debt arranging fee incurred during the period is \$1,323,698 (30 June 2013: nil).

The amount owed to the Responsible Entity in respect of the debt arranging fee at 30 June 2014 is \$541,978 (31 December 2013: \$78,579).

Total debt arranging fee amortised during the period, including fees capitalised in prior periods, is \$142,639 (30 June 2013: \$30,229).

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

12. Related parties (*continued*)

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

The Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) are entitled, pursuant to the management agreements, to recover certain direct expenses incurred in the management of the Group's activities. For the period ended 30 June 2014, expenses incurred of \$143,851 (30 June 2013: \$187,832) and \$4,210,162 (30 June 2013: \$2,854,196) were recovered by the Responsible Entity and Dixon Advisory USA Inc, respectively. The expenses recovered from the Group (inclusive of amounts capitalised to investment properties) are primarily in respect of the Group's payroll related expenses, office lease and depreciation recoveries. The amount recovered by Dixon Advisory USA Inc includes an administrative fee of 9.25% being \$356,619 (30 June 2013: 8.60% being \$226,513) permitted under the Administrative Services Agreement on actual costs incurred. This amount has been included in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of Responsible Entity and related entity recharges – office administration costs. No fee was charged by the Responsible Entity in this regard. Certain payroll and overhead expenses that are not recovered from the Group are borne by Dixon Advisory USA with the intention that such ongoing costs are met by the Management fees paid by the Group.

Fund administration fee (payable by the Fund)

During the period, the Responsible Entity charged a total of \$40,107 (30 June 2013: nil) 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.

Property services (payable by the US REIT)

Under the terms of the Property Services Master Agreement, Dixon Projects, LLC (a subsidiary of Dixon Advisory Group Limited, who is the parent of the Responsible Entity) is entitled to on-charge the cost of renovations plus a margin on these costs of up to 30%. The total margin charged during the period was \$4,605,110 (30 June 2013: \$921,590). The margin was calculated at 22.5% (2013: 22.5%) instead of 30%. These costs are capitalised to the relevant investment properties.

Dixon Projects, LLC has been established to provide the Group with access to the necessary skill and expertise to oversee the renovation works for the Group's properties. To date (and for the foreseeable future) Dixon Projects, LLC has acted for no other party than the Group. The oversight of the Group's renovation construction works by Dixon Projects, LLC provides the Group with an efficient delivery of renovation works, assists in mitigating the inherent risks of design and construction activities and provides unfettered access to the Dixon Projects, LLC team which comprises 22 project managers and assistant project managers, 6 architects, 5 interior designers and 6 management, support and administrative staff. All expenses relating to Dixon Projects LLC, including salaries and overheads, are borne by that entity and are not recovered from the Group. The total margin charged by Dixon Projects LLC is intended to cover these expenses.

Design and architectural services (payable by the US REIT)

Under the terms of the Design and Architectural Services Master Agreement with Dixon Projects, LLC, architectural and quantity surveyor services are charged to the Group at agreed rates under the agreement. The total amount charged to the Group during the period amounted to \$2,661,189 (30 June 2013: \$431,362). These costs are capitalised to the relevant investment properties.

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

13. Controlled entities

Dixon Advisory & Superannuation Services Limited is the Responsible Entity of the Fund and manages the investments of both the Fund and the US REIT.

		Ownership interest	
		30 June 2014	30 June 2013
Parent entity			
US Masters Residential Property Fund	Australia		
Subsidiary			
US Masters Residential Property (USA) Fund	United States	100%	100%
US Master Residential Property LLC	United States	100%	100%
Melbourne, LLC	United States	100%	100%
Wallaroo 2, LLC	United States	100%	100%
EMU, LLC	United States	100%	100%
Geelong, LLC	United States	100%	100%
Hawthorn Properties, LLC	United States	100%	100%
North Sydney, LLC	United States	100%	100%
Parramatta, LLC	United States	100%	100%
South Sydney, LLC	United States	100%	100%
St Kilda, LLC	United States	100%	100%
Canberra Raiders, LLC	United States	100%	100%
Newtown Jets, LLC	United States	100%	100%
Morben Finance, LLC	United States	100%	100%
Steuben Morris Lending, LLC	United States	100%	100%
Morris Finance, LLC	United States	100%	100%
Essendon, LLC	United States	100%	100%
Carlton URF, LLC	United States	100%	-
Collingwood URF, LLC	United States	100%	-
Cronulla URF, LLC	United States	100%	-
New South Wales URF, LLC	United States	100%	-
Freemantle URF, LLC	United States	100%	-
Richmond URF, LLC	United States	100%	-
AFL URF LLC	United States	100%	-
Decatur URF LLC	United States	100%	-
MacDonough URF LLC	United States	100%	-
NRL URF LLC	United States	100%	-
Grand Hill URF LLC	United States	100%	-
Rogers Marks URF LLC	United States	100%	-

14. Subsequent events

Subsequent to balance date, 13 acquisition contracts have been settled with a total consideration of \$17,025,684.

Other than the matter 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.

US Masters Residential Property Fund

Notes to the Financial Statements For the half-year ended 30 June 2014

15. Segment note

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

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

US Masters Residential Property Fund

Directors' Declaration

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

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

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

On behalf of the Directors



Mr Maximilian Sean Walsh
Director

Dated this 29th day of August 2014

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

We have reviewed the accompanying half-year financial report of US Masters Residential Property Fund (the "Fund"), which comprises the condensed statement of financial position as at 30 June 2014, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 23.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the US Masters Residential Property Fund's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of US Masters Residential Property Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

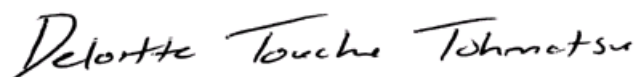
Auditor's Independence Declaration

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Michael Kaplan

Partner

Chartered Accountants

Sydney, 29 August 2014