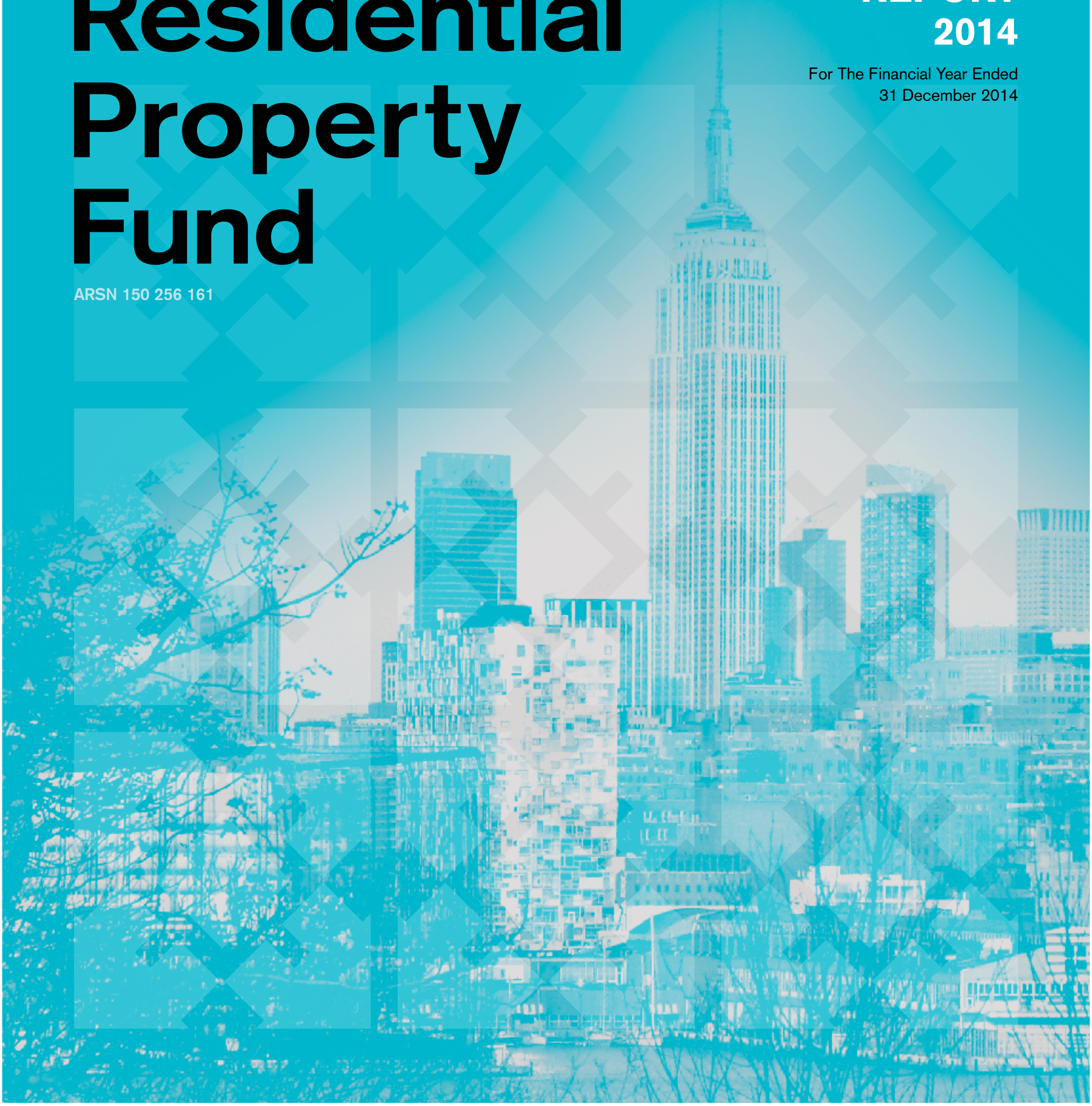
US Masters Residential Property Fund

ARSN 150 256 161

ANNUAL REPORT 2014

For The Financial Year Ended
31 December 2014

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US Masters Residential Property Fund

Chairman's Letter

Dear Unitholders,

It is our pleasure to welcome you to the Annual Report for the US Masters Residential Property Fund (the **Group** or **Fund**) for the financial year ended 31 December 2014.

This year marked the third full year of operations for the Group. The Group produced a strong result for Unitholders in 2014 which was driven by increases in our net property income, rising residential property prices in the US and a falling Australian dollar. Overall the Group's pre-tax net asset value (when adjusted for distributions declared during 2014) increased by 12.7%.

The year also saw the Group successfully complete two public market capital raisings. In February, the Group completed an Entitlement Offer, raising $87 million, while in December the Group completed a Notes Offer, raising $150 million. In addition, the Group raised $15 million through its regular distribution reinvestment plan and successfully closed on US$92 million of additional bank financing. These raisings allowed the Group to continue to grow and diversify its portfolio. Today, the Group's portfolio of New York metropolitan area residential housing and apartments consists of some 2,000 housing units across 534 freestanding houses and 27 apartment buildings.

Our primary investment focus remains historic townhouses located in neighborhoods that are rapidly gentrifying and within an hour's commute via public transport to Downtown Manhattan. Where an attractive opportunity has existed, we have supplemented our core investment approach with select investments in multi-family properties located in the same areas. The Directors believe that these assets will achieve superior risk-adjusted returns in the medium to long term.

The fundamentals of our local market remain very strong. New York City is one of the world's premier cities and is the fastest growing major city in the US. It has added as many people to its population since 2010 as it did during the previous decade, and it continues to create private sector jobs at record pace.

Residential housing supply continues to remain extremely tight following the virtual cessation of any real estate development in New York City during 2009 and 2010. Although levels of building activity have now started to recover, they still remain well below historical norms. Furthermore, historic townhouses remain a highly sought after and extremely scarce form of housing. It is estimated that today, approximately 55,000 pre-World War I townhouses are all that remain across New York City and Hudson County, an area with a local population of over 9 million people.

Property market conditions in the US continued to improve throughout 2014, building on the recovery which took hold at the beginning of the prior year. US national house prices, as recorded by the S&P/Case-Shiller Composite 20-City Home Price Index, posted a solid 4.3% gain over the past year, based on the latest available data. Despite two years of growth, US national house prices as measured by this index still remain 16% below the peak recorded in 2006.

Consistent with the national data, we continue to see a resurgence in the local real estate market with some sub-markets experiencing double digit growth in both capital values and rents. Our results reflect this strength with a fair value increase in our property portfolio of 7.6% based on average invested capital and before the impact of exchange rates.

Despite this strong performance, target properties in our local markets continue to trade below replacement cost, at prices that are anywhere from 20% to 40% below the prior valuation peak in 2006. As we look towards 2015, we believe that even after recent gains, there remains opportunity to make selective acquisitions at prices which can create long term value for Unitholders.

Our thanks go to fellow Board members, as well as the local US management team for their dedicated efforts throughout the year. We also thank our Unitholders for their continued support as we look to build the Fund into the leading US residential property fund.

Yours faithfully,

Daryl Dixon
Dixon Advisory & Superannuation Services Limited

Maximilian Walsh
Dixon Advisory & Superannuation Services Limited

US Masters Residential Property Fund

Managing Director's Report

Freestanding property update

FREESTANDING PORTFOLIO UPDATE

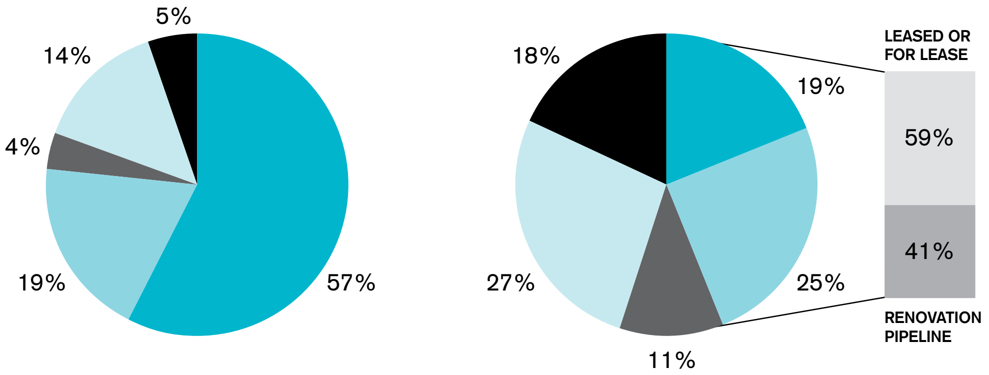
The Group continued to incrementally add to its core freestanding residential property portfolio throughout 2014. The Group focused its freestanding property acquisitions in the premium areas of Hudson County and Brooklyn and continued to increase the relative weighting of these areas in its portfolio. 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 31 December 2014, the Group owned 534 freestanding properties with a total book value of $561.5 million. This represents a 60% increase in the book value of freestanding properties closed on since the prior balance date of 31 December 2013 ($351.6 million). The increase in total book value also includes a $31.7 million increase in the fair market value of freestanding properties held at 31 December 2014. The increase in fair market value of the freestanding portfolio reflects the positive 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 Downtown Jersey City and Jersey City Heights in 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 31 December 2014, properties which the Group had successfully renovated and leased had a book value of $332.7 million. A further $228.7 million of properties (or 41% of the current book value) were in the process of being renovated.

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

FIGURE 1: PROPERTY PORTFOLIO LOCATIONS



BY NUMBER OF PROPERTIES
Hudson County Workforce
Hudson County Premium
Manhattan/Queens
Brooklyn
Multi-family

BY VALUE OF PROPERTIES
Hudson County Workforce
Hudson County Premium
Manhattan/Queens
Brooklyn
Multi-family

As part of its regular capital management program, the Group also completed the sale of 27 properties during 2014. The total sale price achieved for these 27 properties was US$19.4 million which in aggregate reflected a 2.1% premium to mark-to-market book value (inclusive of renovation cost and previous fair value movements recognised) and a 11.9% premium to total asset cost, including purchase price, closing costs, and renovation expenditure. The assets selected to be sold form part of the ongoing management of the portfolio. All property sales were conducted as 1031 like-kind exchanges which results in the deferral of any capital gains tax until such time as the sale of the replacement property takes place.

FREESTANDING PROPERTIES CONSTRUCTION UPDATE

The Group continued to execute its renovation and rehabilitation strategy throughout 2014. This process is managed by Dixon Projects LLC, whose role it is to renovate properties acquired by the Group into highly desirable rental properties that attract premium rents and deliver long term capital growth. Dixon Projects has built a highly experienced and talented team of 35 professionals who oversee the entire renovation process from start to finish including planning, permitting, interior design, procurement and construction management. The efforts of the Dixon Projects team were formally recognised by the Jersey City Landmarks Conservancy during 2014 when it awarded the Group the Preservation Initiative Award which acknowledged the efforts of the Group to renovate and preserve architecturally significant properties located both inside and outside historic districts in Jersey City.

During 2014 the Group was successfully able to complete US$53.0 million of renovations which brought 57 newly renovated units and 97 turnover units across 132 properties to the market for rent.

As at 31 December 2014, there remained a further 116 properties in the renovation pipeline which are at various stages of completion. The majority of these properties are located in premium areas within Brooklyn, Manhattan and Hudson County and are often located in historic districts. Many of these properties require larger and more complex renovations and hence have an extended time period to move from acquisition to leasing. Renovation of the vast majority of these properties is expected to be progressively completed over the coming 3 to 18 months.

Multi-family property update

The Group significantly expanded its portfolio of multi-family buildings during 2014. The Group acquired a total of six multi-family buildings with 202 units, located in Brooklyn, NY with its existing joint venture partner Excelsior Equities. The total purchase price of these six 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, Bushwick 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 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 31 December 2014 the total book value of the multi-family portfolio was US$102.3 million based on the Group's proportionate share. With the closing of the new Brooklyn properties during 2014, the multi-family portfolio is now more broadly diversified across the New York metropolitan area, with Brooklyn representing 40% of the assets by book value and Hudson County representing 60%.

Financial performance and position

The Group recorded a pre-tax profit of $11,474,314 for the year ended 31 December 2014. Rental income totalled $13,843,113 for the year ended 31 December 2014. This equates to a 36% increase in the Group's rental revenue when compared to the prior period. The Group expects continued rental revenue growth throughout the remainder of 2015 as more completed properties are delivered from the renovation pipeline.

An upward revaluation on the Fund's existing portfolio of freestanding properties of $31,653,406 also contributed to the pre-tax profit result for the twelve months ending 31 December 2014.

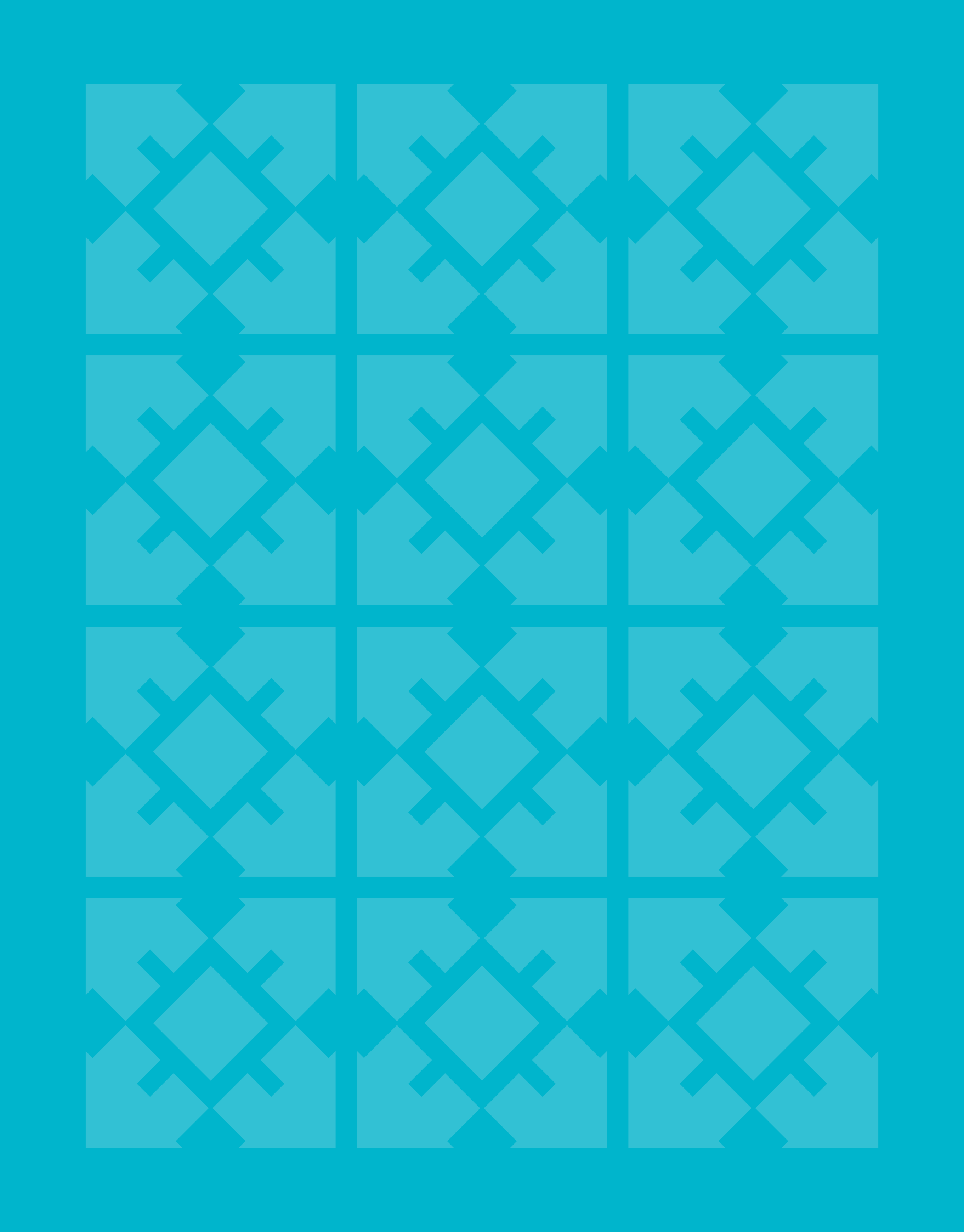
Investment property expenses for the period were 63% of rental income which increased slightly when compared to the prior period. The Group is confident that this ratio of costs to revenue will decrease as more renovated properties are delivered to market and tenanted.

Total comprehensive income for the year, after taking into account exchange rate differences, deferred tax expenses and joint venture reserves, was $37,474,017 (31 December 2013: $53,502,177). This result was aided by the depreciation of the Australian dollar, particularly in the latter part of the year, which increased the value of the Fund's US dollar assets when translated into Australian dollars.

The Group retained a strong financial position with net assets of $461,715,521, a pre-tax net tangible asset backing of $1.85 per ordinary unit and a post-tax net tangible asset backing of $1.72 per ordinary unit at 31 December 2014.

The Group paid a distribution of 5 cents per ordinary unit on 23 September 2014. A further distribution of 5 cents per ordinary unit was declared on 17 December 2014 and paid on 6 February 2015.

Alan Dixon
Dixon Advisory & Superannuation Services Limited



1. Corporate Governance Statement

For the year ended 31 December 2014

US Masters Residential Property Fund (**the Fund**) and the entities it controls (**the Group**) is a listed managed investment scheme whose units are traded on the Australian Securities Exchange (**ASX**). The Group has no employees and its day-to-day functions and investment activities are managed by Dixon Advisory & Superannuation Services Limited and Dixon Advisory USA Inc, in accordance with the relevant management agreements.

The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* provides guidelines for good corporate governance. The directors of the Responsible Entity (**the Board**), Dixon Advisory & Superannuation Services Limited, 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 **usmastersresidentialfund.com.au**.

A description of the Group's adopted practices in respect of the eight Principles and Recommendations from the 2nd Edition of the ASX *Corporate Governance Principles and 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;
- 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*; and
- Communicating with and protecting the rights and interests of all unitholders.

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 at the date of this report are:

- **Daryl Dixon** (Non Independent) (Chairman)
- **Maximilian Walsh** (Non Independent) (Deputy Chairman)
- **Alan Dixon** (Non Independent) (CEO)
- **Chris Brown** (Non Independent)
- **Alex MacLachlan** (Non Independent)
- **Tristan O'Connell** (Non Independent)

The Board of Directors work closely with the Compliance Committee and the Advisory Board, 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 6 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 Group is committed to diversity in the composition of the Board. The current composition is well-balanced and it remains the Group's objective to maintain diversity as well as including members who can add to the skill set of the Group's Board. The directors will continue to monitor the composition of the Board.

The Group recognises the ASX Recommendations with respect to establishing audit, 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 Listing Rules and the *Corporations Act 2001*. In accordance with the corporate governance policy, 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.

PERFORMANCE EVALUATION

The Board conducts a review of its collective performance and the performance of the Board at intervals considered appropriate.

3. Promote ethical and responsible decision making

CODE OF CONDUCT

The Board of the Responsible Entity has adopted a Code of Conduct 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.

UNIT TRADING POLICY

The Board of the Responsible Entity has established a Unit Trading Policy 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 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 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.

DIVERSITY

The Board recognises the ASX Recommendations in respect of diversity. The Board considers the current composition to be well-balanced. The directors will continually assess the appropriate size, skills, balance and diversity of the Board.

4. Safeguard integrity in financial reporting

AUDIT COMMITTEE

Effective 1 January 2014, the Board of the Responsible Entity has established an Audit Committee. It has two independent members and one director of the Responsible Entity. The committee is also chaired by an independent chair, who is not chair of the Board. The role of the Audit Committee is set out in the Audit Committee Charter.

ADVISORY BOARD

The Responsible Entity has established an Investment Advisory Board to provide the Responsible Entity with expert advice in relation to commercial matters regarding the Group. The independent directors of the Advisory Board are highly experienced senior US based investment professionals.

5. Making timely and balanced disclosure

The Group is committed to complying with its continuous disclosure obligations under the *Corporations Act 2001* and the Listing Rules and 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 to ensure the Group complies with its continuous disclosure obligations under the *Corporations Act* and the 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, activities and state of affairs. This 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 at **usmastersresidential.com.au**.

These include:

- weekly net asset value estimates;
- 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.

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. It has not established a separate committee to deal with these matters as the directors consider the size of the Group and its operations does not warrant a separate committee at this time. The Board liaises with the Advisory Board to identify and manage risk. 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.

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 Accounting Standards.

The Responsible Entity receives half yearly assurances that the declarations made under Section 295A of the *Corporations Act 2001* are founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks.

Details of the Group's financial risk management are set out in the notes to the financial statements in the Annual Report.

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 constitution, 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.

2. Directors' Report

For the year ended 31 December 2014

The directors of Dixon Advisory & Superannuation Services 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 2014.

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.

DARYL DIXON MA (HONS), BA (HONS) EXECUTIVE CHAIRMAN

Daryl is a graduate in economics of Cambridge and Queensland Universities and the founder of Dixon Advisory. Daryl has extensive experience in the areas of taxation, retirement incomes and social welfare policy. He is known in Australia as a leading financial expert, particularly in the area of superannuation.

Daryl has special expertise in personal and self managed super fund strategies, as well as extensive experience as a direct share investor in his own right.

Daryl is a director of the Australian Masters Yield Fund (**AMYF**) Series and the Australian Masters Corporate Bond Fund (**AMCBF**) Series. Daryl has worked previously for the International Monetary Fund, the Federal Treasury, Department of Finance and the Social Welfare Policy Secretariat. Daryl was also a member of the Fraser Government's Occupational Superannuation Task Force.

During the past three years, Daryl has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010)
- Australian Masters Yield Fund No 2 Limited (since 2011)
- Australian Masters Yield Fund No 3 Limited (since 2011)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014)

MAXIMILIAN WALSH AM, BEC DEPUTY EXECUTIVE CHAIRMAN

Max is regarded as one of Australia's leading economists and business journalists. He has specialised experience in the areas of business, economics and politics in a journalistic career spanning nearly 50 years.

He has been editor and managing editor of The Australian Financial Review and Editor-in-Chief of The Bulletin. He also served on the board of Northern Star TV (predecessor to Channel Ten) and is presently Chairman of the AMYF Series, the AMCBF Series, and serves as Non Executive Chairman of Asian Masters Fund Limited and Global Resource Masters Fund Limited. Max also serves as a director of Australian Governance Masters Index Fund Limited.

During the past three years, Max has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Asian Masters Fund Limited (since 2007)
- Australian Governance Masters Index Fund Limited (since 2009)
- Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010)
- Australian Masters Yield Fund No 2 Limited (since 2010)
- Australian Masters Yield Fund No 3 Limited (since 2011)
- Global Resource Masters Fund Limited (since 2008)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014)

ALAN DIXON BCOMM, CA MANAGING DIRECTOR & CEO, DIXON ADVISORY USA

Alan Dixon has been providing financial advisory services to corporations, institutions and individuals for more than 20 years. Until December 2000, he worked for various investment banks, including ABN AMRO (where he was an Associate Director in Mergers and Acquisitions and Equity Capital Markets) and Ord Minnett Corporate Finance. From January 2001, he operated as Group Managing Director of the Dixon Advisory Group. Dixon Advisory provides a complete suite of financial services, employs more than 300 people and has close to $5 billion of funds under administration across over 4,500 self managed super funds.

During 2012, Alan re-located to New York and is now the Managing Director and CEO, Dixon Advisory USA. His primary executive responsibility is the day to day management of US Masters Residential Property Fund.

Alan is a director of the AMCBF Series and the AMCBF Series. Alan has a Bachelor of Commerce from the Australian National University, is a Member of the Institute of Chartered Accountants in Australia and is also a SPAA Accredited SMSF Specialist Advisor.

During the past three years, Alan has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010)
- Australian Masters Yield Fund No 2 Limited (since 2011)
- Australian Masters Yield Fund No 3 Limited (since 2011)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014)

CHRIS BROWN BCHEM ENG HONS, BCOMM MANAGING DIRECTOR & CEO

Chris Brown is a director of the AMCBF Series and AMYF Series. Chris also serves as the Chief Executive Officer at Dixon Advisory, Australia.

Prior to joining Dixon Advisory, Chris was an Executive Director at UBS AG in the Investment Banking Division in Sydney. Over his eight years at UBS, he provided capital markets and M&A advice to many different public and private companies in Australia and overseas. Chris specialised in providing this advice to industrial, utility, infrastructure, property and financial companies. Chris spent several years in the UBS Mergers & Acquisitions Group in New York working on transactions in chemicals, healthcare, consumer products, media, telecoms, technology, insurance and utilities.

Before joining UBS, Chris also worked in the Investment Banking division of ABN AMRO as well as for a Sydney-based property funds management company and a chemical engineering and design company. Chris has a Bachelor of Engineering with 1st class honours and a Bachelor of Commerce, both from the University of Sydney.

During the past three years, Chris has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

– Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)
– Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
– Australian Masters Yield Fund No 1 Limited (since 2010)
– Australian Masters Yield Fund No 2 Limited (since 2010)
– Australian Masters Yield Fund No 3 Limited (since 2011)
– Australian Masters Yield Fund No 4 Limited (since 2011)
– US Select Private Opportunities Fund (since 2012 until 23 April 2014)

ALEX MACLACHLAN BA, MBA CEO – FUNDS MANAGEMENT

Alex MacLachlan is currently Chairman of the Responsible Entity for Australian Property Opportunities Fund, Australian Property Opportunities Fund II, US Select Private Opportunities Fund, US Select Private Opportunities Fund II and Emerging Markets Masters Fund and Managing Director of Global Resource Masters Fund Limited. Alex also serves as a director of the AMYF series, AMCBF series and Asian Masters Fund Limited.

Alex joined Dixon Advisory in 2008 to lead the Funds Management division, currently the CEO of Funds Management for Dixon Advisory.

Before joining Dixon Advisory, Alex was a senior investment banker specialising in the natural resources sector, most recently serving as head of energy, Australasia, for UBS AG in Sydney and prior to that as an investment banker at Credit Suisse Boston. During his career as an investment banker, Alex advised many of Australia's and the world's leading natural resources companies, working with over 30 companies on more than $100 billion in announced mergers and acquisitions and capital markets transactions.

Before specialising in natural resources investment banking, Alex worked in the Japanese Government Bond derivatives markets in London, New York and Sydney.

He has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

During the past three years, Alex has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Asian Masters Fund Limited (since 2009)
- Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010)
- Australian Masters Yield Fund No 2 Limited (since 2010)
- Australian Masters Yield Fund No 3 Limited (since 2011)
- Australian Masters Yield Fund No 4 Limited (since 2011)
- Emerging Markets Masters Fund (since 2012)
- Global Resource Masters Fund Limited (since 2008)
- US Select Private Opportunities Fund (since 2012)
- US Select Private Opportunities Fund II (since 2013)

TRISTAN O'CONNELL BCOMM, CPA, F FIN FINANCE DIRECTOR

Tristan joined Dixon Advisory in 2005 after 10 years' experience in corporate financial and management roles within the wholesale markets industry and is a director of the Responsible Entity of US Select Private Opportunities Fund, US Select Private Opportunities Fund II and Emerging Markets Masters Fund. Tristan's previous roles included being financial controller of Tullett Prebon in Australia, one of the world's leading inter-dealer broker firms specialising in over the counter interest rate, foreign exchange, energy and credit derivatives. Tristan subsequently held senior finance roles for the Tullett Prebon Group in Singapore and London.

Tristan returned to Australia to be responsible for the financial management and growth of Dixon Advisory. Tristan has a Bachelor of Commerce from the Australian National University, and is a member of CPA Australia and is a fellow of the Financial Services Institute of Australasia.

During the past three years, Tristan has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Emerging Markets Masters Fund (since 2012)
- US Select Private Opportunities Fund (since 2012)
- US Select Private Opportunities Fund II (since 2013)

Principal activities and significant changes in nature of activities

The principal activity of the Group during the course of the financial year was investing in the US residential property market. Other than noted below under Results and Review of Operations, there were no significant changes in the nature of the Group's activities during the year.

Results and review of operations

Total comprehensive income of the Group for the twelve months ended 31 December 2014 amounted to $37,474,017 (2013: income of $53,502,177). Contributing to this substantially was an unrealised foreign exchange gain on the value of the Group's US based assets of $41,707,176 which reflects the depreciation of the Australian dollar against the US dollar during the period from US$0.8917/A$ to US$0.8175/A$. The operating loss of the Group for the year ended 31 December 2014 after providing for income tax amounted to $3,889,598 (2013: profit of $8,180,165). The Group is in a strong position with net assets of $461,715,521.

At 31 December 2014, the net asset value (**NAV**) of the Group was $1.72 per ordinary unit, after unrealised gains and losses, and adjustments for tax (2013: $1.65 per ordinary unit). This is after taking into account a 5 cent distribution that was announced on 17 December 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 rates.

During the year ended 31 December 2014, a total of $87,230,410 was raised from the issue of 48,461,339 ordinary units in March 2014. An additional 8,290,455 ordinary units were issued during 2014 as part of the Group's Distribution Reinvestment Plan amounting to $14,931,777.

The Group also raised a total of $150,000,000 from the issue of URF Notes which were allotted on 24 December 2014. In addition, the Group successfully closed on US$92 million of additional bank financing.

Distributions paid or recommended

Two distributions of 5 cents per ordinary unit totalling $10,586,370 and $13,198,646 were paid on 24 March 2014 and 23 September 2014 respectively.

A further distribution of 5 cents per ordinary unit totalling $13,423,960 was announced on 17 December 2014. A distribution reinvestment plan is in place in relation to the distribution.

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 2014.

After balance date events

Other than matters disclosed in note 23 of the consolidated financial statements, there has not arisen in the interval between the end of the financial year 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 development in the Group are contained in the Chairman's Letter and the Managing Directors report included in pages (i), (ii) and (iii).

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
Daryl Dixon	648,900	4,000
Maximilian Walsh	400,822	3,300
Alan Dixon	5,998,977	2,750
Chris Brown	91,414	100
Alex MacLachlan	52,210	300
Tristan O'Connell	14,729	150

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 20 to the financial statements;
- units held by the directors of the Responsible Entity at the reporting date – refer to note 20 to the financial statements;
- capital raisings completed during the financial year – refer to note 14 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 2014, including movements in units on issue during the year – refer to note 14 to the 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 24.

Auditor's independence declaration

The auditor's independence declaration is set out on page 17 and forms part of the directors' report for the financial year ended 31 December 2014.

Signed in accordance with a resolution of the Directors:

M. S. Walsh

Mr Maximilian Sean Walsh
Director

Dated this 20th day of February 2015

3. Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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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

20 February 2015

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Michael Kaplan
Partner
Chartered Accountants


PORT AUTHORITY

4. Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	2014	2013
		$	$
Investment property rental income		13,843,113	10,191,588
Insurance proceeds		–	427,571
Interest income		545,347	530,652
Other income		–	62,723
Total revenue		**14,388,460**	**11,212,534**
Fair value movement of investment properties	8	31,653,406	27,398,433
Fair value movement of forward foreign currency derivative	17	(724,465)	–
Share of (losses)/profits of jointly controlled entities	7	(361,153)	5,048,639
Investment property expenses		(8,785,982)	(6,200,117)
Net foreign currency loss		(2,584,521)	(1,150,937)
Management fees	20	(7,786,968)	(4,425,702)
Listing fees		(193,818)	(116,958)
Professional fees		(2,850,619)	(600,620)
Marketing		(249,611)	(98,610)
Responsible Entity and related entity recharges – salaries & wages	20	(6,009,850)	(4,360,969)
Responsible Entity and related entity recharges – office administration costs	20	(3,106,102)	(2,800,542)
Interest expense	8	(183,967)	(703,406)
Impairment of investment property	8	–	(511,198)
Investment property disposal costs		(1,473,967)	(69,225)
Bad debt expense		(163,904)	(206,867)
Other expenses		(92,625)	(185,753)
Profit before income tax		**11,474,314**	**22,228,702**
Income tax expense	3(l), 10	(15,363,912)	(14,048,537)
(Loss)/profit for the year attributable to unitholders		**(3,889,598)**	**8,180,165**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operation (nil tax)		41,707,176	44,600,019
Share of jointly controlled entity's reserve movements (nil tax)	7	(343,561)	721,993
Other comprehensive income for the year, net of tax		**41,363,615**	**45,322,012**
Total comprehensive income for the year attributable to unitholders		**37,474,017**	**53,502,177**
Earnings per unit			
Basic (loss)/earnings per unit (dollars)	15	(0.015)	0.042
Diluted (loss)/earnings per unit (dollars)	15	(0.015)	0.042

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

5. Consolidated Statement of Financial Position

As at 31 December 2014

	Note	2014	2013
		$	$
Current assets			
Cash and cash equivalents	4	191,280,901	42,772,500
Receivables	5	580,705	327,253
Prepayments		772,475	1,284,549
Other assets	6	3,087,171	2,693,805
Investment properties held for sale	8	18,443,553	2,854,099
Total current assets		**214,164,805**	**49,932,206**
Non-current assets			
Investments in jointly controlled entities	7	60,159,752	31,407,471
Investment properties	8	543,058,098	348,723,711
Security deposits	9	305,810	280,363
Other assets	6	1,035,006	–
Total non-current assets		**604,558,666**	**380,411,545**
Total assets		**818,723,471**	**430,343,751**
Current liabilities			
Payables	11	37,224,886	16,730,689
Forward foreign currency derivative		724,465	–
Borrowings	12	797,107	1,259,129
Total current liabilities		**38,746,458**	**17,989,818**
Non-current liabilities			
Deferred tax liabilities	10	35,303,707	17,450,157
Borrowings	12	282,795,323	45,510,792
Other non-current liabilities	13	162,462	148,943
Total non-current liabilities		**318,261,492**	**63,109,892**
Total liabilities		**357,007,950**	**81,099,710**
Net assets		**461,715,521**	**349,244,041**
Equity			
Unit capital	14	381,980,548	306,983,085
Reserves		83,624,571	42,260,956
Accumulated losses		(3,889,598)	–
Total equity		**461,715,521**	**349,244,041**

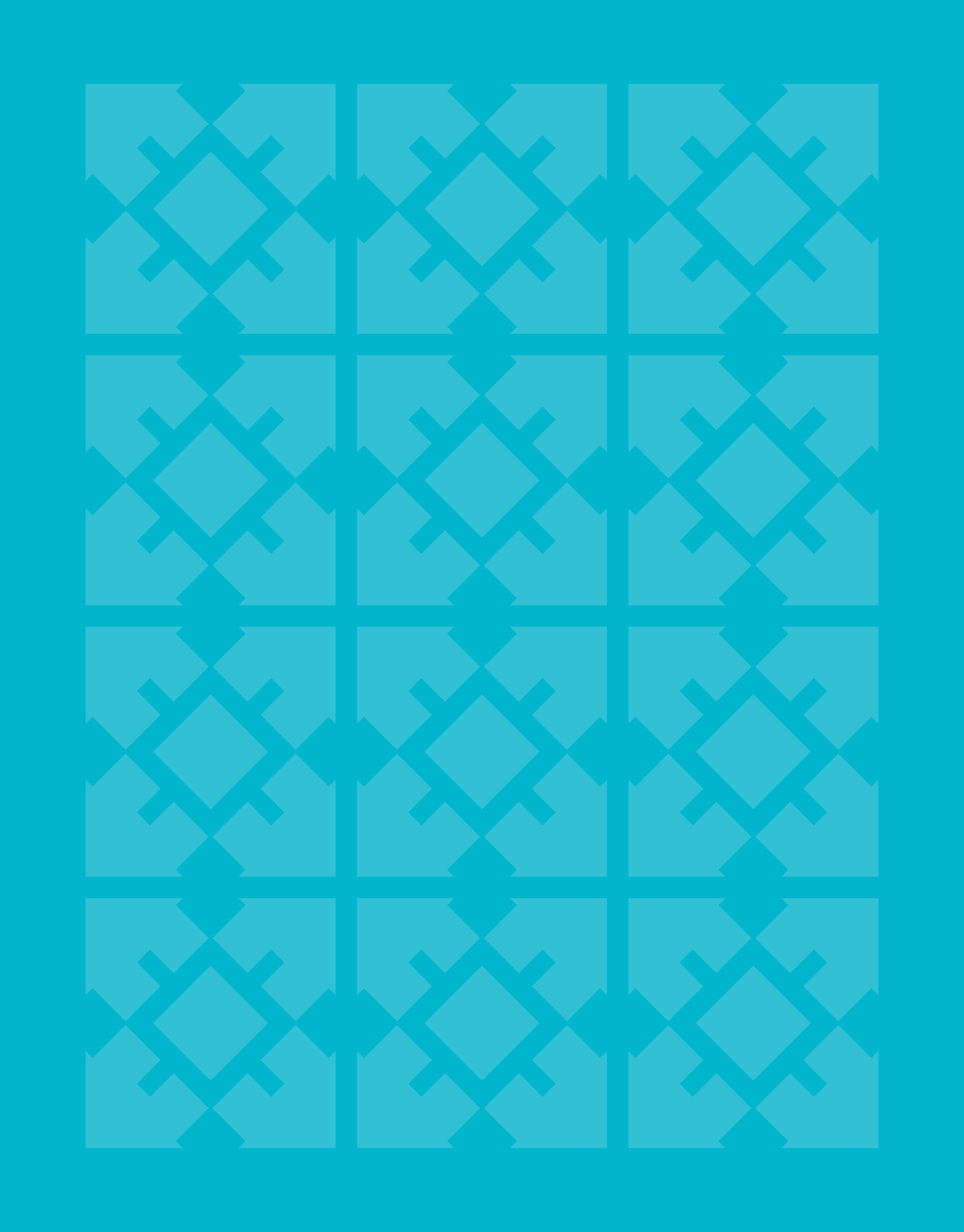
The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

6. Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Note	Unit capital	Foreign currency translation reserve	Share of joint venture's cash flow hedging reserve	Retained earnings/ (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 year		–	–	–	8,180,165	8,180,165
Other comprehensive income, net of income tax						
Foreign operation currency translation gain	14	–	44,600,019	–	–	44,600,019
Jointly controlled entity interest rate swap hedge gain	14	–	–	721,993	–	721,993
Total other comprehensive income		–	44,600,019	721,993	–	45,322,012
Total comprehensive income for the year		**–**	**44,600,019**	**721,993**	**8,180,165**	**53,502,177**
Transactions with owners in their capacity as owners						
Issue of ordinary units	14	81,501,453	–	–	–	81,501,453
Issue costs		(3,076,407)	–	–	–	(3,076,407)
Distributions to unitholders		(14,496,588)	–	–	(6,480,674)	(20,977,262)
Total transactions with owners		**63,928,458**	**–**	**–**	**(6,480,674)**	**57,447,784**
Balance at 31 December 2013		**306,983,085**	**41,761,143**	**499,813**	**–**	**349,244,041**
Balance at 1 January 2014		**306,983,085**	**41,761,143**	**499,813**	**–**	**349,244,041**
Loss for the year		–	–	–	(3,889,598)	(3,889,598)
Other comprehensive income, net of income tax						
Foreign operation currency translation gain	14	–	41,707,176	–	–	41,707,176
Jointly controlled entity interest rate swap hedge loss	14	–	–	(343,561)	–	(343,561)
Total other comprehensive income/(loss)		**–**	**41,707,176**	**(343,561)**	**–**	**41,363,615**
Total comprehensive income/(loss) for the year		**–**	**41,707,176**	**(343,561)**	**(3,889,598)**	**37,474,017**
Transactions with owners in their capacity as owners						
Issue of ordinary units	14	102,162,187	–	–	–	102,162,187
Issue costs		(542,118)	–	–	–	(542,118)
Distributions to unitholders		(26,622,606)	–	–	–	(26,622,606)
Total transactions with owners		**74,997,463**	**–**	**–**	**–**	**74,997,463**
Balance at 31 December 2014		**381,980,548**	**83,468,319**	**156,252**	**(3,889,598)**	**461,715,521**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.



7. Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014	2013
		$	$
Cash flows from operating activities			
Cash receipts from customers		13,949,327	10,438,623
Cash paid to suppliers		(20,004,049)	(17,943,198)
Insurance proceeds		–	381,031
Interest received		420,003	628,966
Interest paid [i]		(33,051)	(499,462)
Net cash used in operating activities	4	**(5,667,770)**	**(6,994,040)**
Cash flows from investing activities			
Distributions received from jointly controlled entity investments		453,025	814,627
Investment in jointly controlled entities		(22,616,539)	(8,815,903)
Acquisition of investment property, including improvements [i]		(147,296,784)	(173,279,457)
Payments for property-related deposits		(1,564,402)	(1,641,908)
Proceeds from sale of investment properties		21,571,532	2,877,687
Disposal costs on sale of investment properties		(1,473,967)	(69,225)
Net cash used in investing activities		**(150,927,135)**	**(180,114,179)**
Cash flows from financing activities			
Proceeds from issue of unit capital		87,230,410	70,520,904
Payments of issue costs		(542,118)	(3,076,407)
Payment of transaction costs related to loans and borrowings		(2,142,071)	(1,207,230)
Gross proceeds from secured bank loans and loan notes		237,125,513	38,585,793
Payment of security deposits		–	(280,363)
Payment of interest reserve		(871,310)	–
Distributions paid		(8,856,257)	(7,669,732)
Bank loan repayments		(8,739,780)	(794,513)
Net cash from financing activities		**303,204,387**	**96,078,452**
Net increase/(decrease) in cash and cash equivalents		146,609,482	(91,029,767)
Cash and cash equivalents at beginning of period		42,772,500	122,880,426
Effect of exchange rate fluctuations on cash held		1,898,919	10,921,841
Cash and cash equivalents at end of period	4	**191,280,901**	**42,772,500**

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 the notes to the financial statements.

8. Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 20 February 2015.

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 property investment assets, which are measured at fair value.

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 estimation of fair values of investment properties.

D) REMOVAL OF PARENT ENTITY FINANCIAL STATEMENTS

The Group has applied amendments to the *Corporations Act 2001* that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 22.

3. Significant accounting policies

The accounting policies set out below have been applied in the preparation of the 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

i) Translation of foreign currency transactions

The functional and presentation currency of US Masters Residential Property Fund is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies that are outstanding at the reporting date are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

Exchange differences on monetary items are recognised in the profit or loss in the period in which they arise. Differences arising on a monetary item forming part of the net investment in a foreign operation are taken to the foreign currency translation reserve on consolidation.

ii) Translation of financial reports of foreign operations

The functional currency of US Masters Residential Property Fund's subsidiaries is United States dollars. As at the reporting date, the assets and liabilities of those entities are translated into Australian dollars at the rate of exchange ruling at the Statement of Financial Position date, and other than fair value gains/losses on investment properties, the Statement of Profit or Loss and Other Comprehensive Income is translated at the average exchange rates for the period. Fair value gains/losses on investment properties are translated using the exchange rate prevailing on the date the directors of the Group determined the fair value of the underlying properties.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

C) FINANCIAL INSTRUMENTS

i) Non-derivative financial assets

All financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: receivables and cash and cash equivalents.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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.

ii) Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: Borrowings and preference unit capital.

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.

iii) Unit capital

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.

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. The best evidence of fair value is given by current prices in an active market for a similar property in the same location and condition. 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, and 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 are otherwise 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 a 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

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) REVENUE

i) Rental income

Rental income from operating leases where the Group is a lessor is recognised in profit or loss on a straight-line basis over the lease term.

Costs that are directly associated with negotiating and executing the ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are deferred and amortised on a straight-line basis over the lease term.

ii) Interest income

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

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.

The US REIT may ultimately realise a capital gain or loss on disposal of investment properties which may result in a US income tax liability if the proceeds from disposal are not reinvested in a qualifying asset. If the capital gain is realised, it may give rise to a foreign income tax offset which would be available to unitholders. A deferred tax liability is recognised at 35% based on the temporary difference between the carrying amount of the investment property assets in the Statement of Financial Position and their associated tax cost bases.

A current tax liability is recognised in the financial statements for realised gains on disposals of US investment properties, except where the proceeds of such disposals are reinvested in a qualifying asset.

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 reduce input tax credits at a rate of 75%. Hence, expenses are recognised net of the amount of GST recoverable from the ATO.

K) EARNINGS PER UNIT

Earnings per unit is calculated by dividing the profit or loss attributable to ordinary unitholders of the Fund by the weighted average number of ordinary units outstanding during the period. Diluted earnings per unit are the same as ordinary earnings per unit because there are no dilutive potential ordinary units.

L) OPERATING SEGMENTS

The Group operates in a single operating segment, being in the business of investing in residential real estate assets in the United States of America.

M) DERIVATIVE FINANCIAL INSTRUMENTS

The Group may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 17.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

N) 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.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

– AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'

– AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'

– AASB 2012-3 'Amendments to Australian Accounting Standards – 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'

– Interpretation 21 'Levies'

– AASB 1031 'Materiality'

– AASB 2013-9 'Amendments to Australian Accounting Standards' – Part B: Materiality

No new or revised Standards and Interpretations effective for the current year are considered to materially impact the Fund.

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 has not yet been determined, but is not expected to be material.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	31 December 2018
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part A: 'Annual Improvements 2010–2012 and 2011–2013 Cycles' – Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)' – Part C: 'Materiality'	1 July 2014	31 December 2015
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	31 December 2016
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 December 2016
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	31 December 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	31 December 2016
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016	31 December 2016
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	31 December 2016

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Disclosure Initiative (Amendments to IAS 1)	1 January 2016	31 December 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016	31 December 2016

4. Cash and cash equivalents

	2014	2013
	$	$
Cash at bank	182,345,886	42,772,500
Restricted cash	8,935,015	–
	191,280,901	**42,772,500**

Cash at bank earns interest at floating rates based on the bank deposit rates. The effective interest rate on bank deposits was 0.73% (2013: 0.66%).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 17.

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 replacement 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.

RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2014	2013
	$	$
Cash flows from operating activities		
(Loss)/profit for the year	(3,889,598)	8,180,165
Adjustments for:		
Net unrealised loss on foreign exchange	2,584,521	1,150,937
Change in fair value of forward foreign currency derivative	724,465	–
Impairment loss on investment property	–	511,198
Non cash interest expense	–	56,024
Other non cash expenses	188,076	263,824
Change in fair value of investment property	(31,653,406)	(27,398,433)
Share of (losses)/profit of joint venture entities	361,153	(5,048,639)
Investment property disposal costs	1,473,967	69,225
Change in trade and other receivables	(253,452)	230,554
Change in other assets	(470,871)	(658,461)
Change in prepayments	682,136	(289,839)
Change in trade and other payables	9,221,327	1,869,703
Change in other liabilities	–	21,165
Change in deferred tax liability (excluding foreign exchange impact)	15,363,912	14,048,537
Net cash (used in) operating activities	**(5,667,770)**	**(6,994,040)**

5. Receivables

	2014	2013
	$	$
Current		
Receivables – rental debtors	176,294	181,248
Allowance for doubtful debts	(13,672)	(24,875)
GST receivable	49,853	58,752
Interest receivable	125,344	–
Other receivables	242,886	112,128
	580,705	**327,253**

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 6th day of the month. No interest is charged on trade receivables.

Management of the Group regularly reviews the trade debtors ledger for recoverability of outstanding balances. A provision of $13,672 (2013: $24,875) 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.

Amounts owing from tenants that have since departed the property are written off as a bad debt in profit and 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 17.

6. Other assets

	2014	2013
	$	$
Current assets		
Property related deposits	1,564,402	1,641,908
Deferred leasing fee	699,951	520,358
Property tax escrow deposits	632,219	398,628
Other assets	190,599	132,911
	3,087,171	**2,693,805**
Non-current assets		
Interest reserve account	**1,035,006**	**–**

Under the terms of the Doral Bank loan facility (refer to Note 12), the Group is required to maintain an interest reserve account equivalent of two to six months of interest on the outstanding principal loan balance. The interest reserve account does not bear interest.

7. Investments in jointly controlled entities

Jointly controlled entities	Country of incorporation	Principal activity	Principal place of business	Ownership interest 2014 %	Ownership interest 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%	–

* The Fund does not have existing rights that give it the current ability to direct the relevant activities of the joint venture and therefore does not exercise control of the joint venture entity.

	2014	2013
	$	$
Carrying amount of interest in jointly controlled entities		
Beginning of year	31,407,471	14,571,696
Investments made	24,085,867	9,020,060
Distributions received	(453,025)	(814,627)
Share of (losses)/profits of jointly controlled entities	(361,153)	5,048,639
Share of reserves of jointly controlled entities	(343,561)	721,993
Exchange rate differences on translation	5,824,153	2,859,710
Balance at end of year	**60,159,752**	**31,407,471**

Summary of unaudited 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 below.

	2014						
	$	$	$	$	$	$	$
	Golden Peak II LLC	**Hudson Gardens LLC**	**Gold Coast Equities LLC**	**DXEX I**	**DXEX II**	**DXEX III**	**Total**
Cash and cash equivalents	1,139,695	127,545	1,127,284	1,719,230	1,674,483	2,834,112	8,622,349
Other current assets	307,193	139,710	286,970	278,412	22,386	296,028	1,330,699
Current assets	**1,446,888**	**267,255**	**1,414,254**	**1,997,642**	**1,696,869**	**3,130,140**	**9,953,048**
Investment properties – fair value	56,220,184	17,053,420	23,914,277	17,235,474	3,951,070	32,636,086	151,010,511
Derivatives	231,483	–	–	–	–	–	231,483
Other non-current assets	–	5,971	11,927	2,096	–	–	19,994
Non-current assets	**56,451,667**	**17,059,391**	**23,926,204**	**17,237,570**	**3,951,070**	**32,636,086**	**151,261,988**
Total assets	**57,898,555**	**17,326,646**	**25,340,458**	**19,235,212**	**5,647,939**	**35,766,226**	**161,215,036**
Borrowings	518,556	211,319	214,287	84,135	59,670	–	1,087,967
Other current liabilities	493,794	244,471	215,786	63,966	24,551	117,832	1,160,400
Current liabilities	**1,012,350**	**455,790**	**430,073**	**148,101**	**84,221**	**117,832**	**2,248,367**
Borrowings	26,709,527	10,023,838	15,280,963	10,543,392	2,832,387	17,876,625	83,266,732
Non-current liabilities	**26,709,527**	**10,023,838**	**15,280,963**	**10,543,392**	**2,832,387**	**17,876,625**	**83,266,732**
Total liabilities	**27,721,877**	**10,479,628**	**15,711,036**	**10,691,493**	**2,916,608**	**17,994,457**	**85,515,099**
Net assets	**30,176,678**	**6,847,018**	**9,629,422**	**8,543,719**	**2,731,331**	**17,771,769**	**75,699,937**
Ownership interest	**67.5%**	**90.0%**	**92.5%**	**92.5%**	**92.5%**	**92.5%**	
Equity accounted interest before Promote Interest	**20,369,258**	**6,162,316**	**8,907,215**	**7,902,940**	**2,526,481**	**16,438,886**	**62,307,096**
Promote Interest attributable to joint venture partner	**1,386,804**	**590,514**	**–**	**139,611**	**–**	**30,415**	**2,147,344**
Equity accounted interest	**18,982,454**	**5,571,802**	**8,907,215**	**7,763,329**	**2,526,481**	**16,408,471**	**60,159,752**

	2014						
	$	$	$	$	$	$	$
	Golden Peak II LLC	Hudson Gardens LLC	Gold Coast Equities LLC	DXEX I	DXEX II	DXEX III	Total
Revenue	5,078,115	1,541,181	1,819,218	597,556	104,696	868,389	10,009,155
Fair value movement of investment properties	185,212	77,902	(2,322,342)	808,767	(199,827)	515,020	(935,268)
Interest income	2,302	22	54	778	604	1,174	4,934
Interest expense	(903,399)	(374,423)	(545,894)	(211,896)	(52,886)	(331,709)	(2,420,207)
Other expenses	(2,595,916)	(887,494)	(1,109,743)	(545,997)	(117,049)	(896,373)	(6,152,572)
Profit/(loss)	**1,766,314**	**357,188**	**(2,158,707)**	**649,208**	**(264,462)**	**156,501**	**506,042**
Equity accounted interest before Promote Interest	**1,192,262**	**321,469**	**(1,996,804)**	**600,517**	**(244,627)**	**144,763**	**17,580**
Promote Interest attributable to joint venture partner	**100,255**	**124,427**	**–**	**126,494**	**–**	**27,557**	**378,733**
Equity accounted interest	**1,092,007**	**197,042**	**(1,996,804)**	**474,023**	**(244,627)**	**117,206**	**(361,153)**
Other comprehensive income	**(508,979)**	**–**	**–**	**–**	**–**	**–**	**(508,979)**
Equity accounted interest	**(343,561)**	**–**	**–**	**–**	**–**	**–**	**(343,561)**
Total comprehensive income before Promote Interest	**1,257,335**	**357,188**	**(2,158,707)**	**649,208**	**(264,462)**	**156,501**	**(2,937)**
Equity accounted interest before Promote Interest	**848,701**	**321,469**	**(1,996,804)**	**600,517**	**(244,627)**	**144,763**	**(325,981)**
Promote Interest attributable to joint venture partner	**100,255**	**124,427**	**–**	**126,494**	**–**	**27,557**	**378,733**
Equity accounted interest	**748,446**	**197,042**	**(1,996,804)**	**474,023**	**(244,627)**	**117,206**	**(704,714)**
Distributions received – 2014	**224,433**	**228,592**	**–**	**–**	**–**	**–**	**453,025**
Distributions received – 2013	**645,062**	**169,564**	**–**	**–**	**–**	**–**	**814,626**

	2013			
	$	$	$	$
	Golden Peak II LLC	Hudson Gardens LLC	Gold Coast Equities LLC	Total
Cash and cash equivalents	1,141,286	144,795	1,113,571	2,399,652
Other current assets	282,167	91,363	151,339	524,869
Current assets	**1,423,453**	**236,158**	**1,264,910**	**2,924,521**
Investment properties - fair value	50,622,407	15,390,922	21,547,739	87,561,068
Derivatives	740,462	–	–	740,462
Other non-current assets	–	4,472	–	4,472
Non-current assets	**51,362,869**	**15,395,394**	**21,547,739**	**88,306,002**
Total assets	**52,786,322**	**15,631,552**	**22,812,649**	**91,230,523**
Borrowings	502,680	–	–	502,680
Other current liabilities	521,876	118,547	68,124	708,547
Current liabilities	**1,024,556**	**118,547**	**68,124**	**1,211,227**
Borrowings	25,001,116	9,375,635	12,576,058	46,952,809
Non-current liabilities	**25,001,116**	**9,375,635**	**12,576,058**	**46,952,809**
Total liabilities	**26,025,672**	**9,494,182**	**12,644,182**	**48,164,036**
Net assets	**26,760,650**	**6,137,370**	**10,168,467**	**43,066,487**
Ownership interest	**67.5%**	**90.0%**	**92.5%**	
Equity accounted interest before Promote Interest	**18,063,439**	**5,523,633**	**9,405,832**	**32,992,904**
Promote Interest attributable to joint venture partner	**1,169,960**	**415,473**	**–**	**1,585,433**
Equity accounted interest	**16,893,479**	**5,108,160**	**9,405,832**	**31,407,471**
Revenue	6,350,162	1,592,156	193,459	8,135,777
Fair value movement of investment properties	3,794,323	1,800,819	–	5,595,142
Interest income	2,178	35	5	2,218
Interest expense	(926,766)	(358,249)	(69,864)	(1,354,879)
Other expenses	(2,411,142)	(811,396)	(94,318)	(3,316,856)
Profit/(loss)	**6,808,755**	**2,223,365**	**29,282**	**9,061,402**
Equity accounted interest before Promote Interest	**4,595,909**	**2,001,029**	**27,086**	**6,624,024**
Promote Interest attributable to joint venture partner	**1,169,960**	**405,425**	**–**	**1,575,385**
Equity accounted interest	**3,425,949**	**1,595,604**	**27,086**	**5,048,639**
Other comprehensive income	**1,069,619**	**–**	**–**	**1,069,619**
Equity accounted interest	**721,993**	**–**	**–**	**721,993**
Total comprehensive income before Promote Interest	**7,878,374**	**2,223,365**	**29,282**	**10,131,021**
Equity accounted interest before Promote Interest	**5,317,902**	**2,001,029**	**27,086**	**7,346,017**
Promote Interest attributable to joint venture partner	**1,169,960**	**405,425**	**–**	**1,575,385**
Equity accounted interest	**4,147,942**	**1,595,604**	**27,086**	**5,770,632**

The fair value of investment properties owned by the Group's joint venture entities has been determined as follows:

GOLDEN PEAK II, LLC

During the year, Jones Lang LaSalle was appointed to value the investment properties owned by the Golden Peak, LLC joint venture entity. In determining the fair value of the portfolio owned by Golden Peak II, LLC, Jones Lang LaSalle adopted a direct capitalisation of net income approach. The capitalisation rate used to value the property portfolio owned by Golden Peak II, LLC ranged from 5.0% – 5.5%. The fair value derived under this method was cross checked with a discounted cash flow model, using discount rates ranging from of 7.0% to 11.40%. The fair value assigned to the property portfolio as of 31 December 2014 was US$45,960,000 (A$56,220,184), of which the Group's economic interest is US$31,023,000 (A$37,948,624).

HUDSON GARDENS LLC

During the year, 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 as at 30 June 2014 was US$13,940,000 (A$17,051,988), of which the Group's economic interest is US$12,546,000 (A$15,346,789). The directors of the Group are satisfied that the valuation completed at 30 June 2014 reflects the fair value of the property portfolio at balance date.

GOLD COAST EQUITIES LLC

During the year, Jones Lang LaSalle was 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 group of properties that were appraised, Jones Lang LaSalle adopted a direct capitalisation of net income approach. The capitalisation rate used to value the properties 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 group of properties that was valued by Jones Lang LaSalle as at 30 June 2014 was US$17,310,000 (A$21,174,312), of which the Group's economic interest is US$16,011,750 (A$19,586,239). 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. All other properties in Union City were unaffected. The directors of the Group are satisfied that the valuation completed at 30 June 2014 reflects the fair value of the property portfolio at balance date. The directors of the Group are also satisfied that the purchase price of 111 61st Street, West New York of US$1,880,000 (A$2,299,694) reflects the fair value of the property at balance date.

DXEX BROOKLYN I LLC

During the year, Jones Lang LaSalle was appointed to value the investment properties owned by DXEX Brooklyn I LLC. In determining the fair value of the portfolio, Jones Lang LaSalle adopted a discounted cash flow approach. The discount rate used to determine the fair value of the portfolio was 7%. The fair value derived under this method was cross checked with a sales comparables approach. The fair value assigned to the property portfolio as of 31 December 2014 was US$14,090,000 (A$17,235,474), of which the Group's economic interest is US$13,033,250 (A$15,942,813).

DXEX BROOKLYN II LLC

During the year, Jones Lang LaSalle was appointed to value the investment property owned by DXEX Brooklyn II LLC. In determining the fair value of the portfolio, Jones Lang LaSalle adopted a discounted cash flow approach. The discount rate used to determine the fair value of the portfolio was 7%. The fair value derived under this method was cross checked with a sales comparables approach. The fair value assigned to the property portfolio as of 31 December 2014 was US$3,230,000 (A$3,951,070), of which the Group's economic interest is US$2,987,750 (A$3,654,740).

DXEX BROOKLYN III LLC

During the year, Jones Lang LaSalle was appointed to value the investment properties owned by DXEX Brooklyn III LLC. In determining the fair value of the portfolio, Jones Lang LaSalle adopted a discounted cash flow approach. The discount rate used to determine the fair value of the portfolio was 7%. The fair value derived under this method was cross checked with a sales comparables approach. The fair value assigned to the property portfolio as of 31 December 2014 was US$26,680,000 (A$32,636,086), of which the Group's economic interest is US$24,679,000 (A$30,188,379).

Jones Lang LaSalle is independent of the Group, and all joint venture entities to which the Group is a joint venturer.

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 balance sheet date.

The Group has a capital commitment at 31 December 2014 to its Hudson Gardens LLC joint venture entity for US$938,737 (A$1,148,302) to fund working capital requirements.

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

8. Investment properties

	2014	2013
	$	$
Disclosed on the Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	18,443,553	2,854,099
Non-current assets		
Investment properties	543,058,098	348,723,711
	561,501,651	**351,577,810**

	2014	2013
Reconciliation		
Beginning of year	351,577,810	116,149,363
Acquisitions, including improvements	152,400,862	176,425,780
Fair value movement of investment properties to market	31,653,406	27,398,433
Disposals	(21,309,087)	(2,786,627)
Impairment of investment properties due to damage	–	(511,198)
Improvements in progress	–	1,049,065
Exchange rate differences on translation	47,178,660	33,852,994
Balance at 31 December	**561,501,651**	**351,577,810**

	2014	2013
Interest expense	5,308,128	703,406
Interest capitalised to carrying value of qualifying investment properties	(5,124,161)	–
Interest expense reflected in profit or loss	**183,967**	**703,406**

The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.84% (2013: nil).

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. No impairment loss was recognised on reclassification of investment properties held for sale.

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 value the residential properties selected for valuation during the financial year. The appraisers were selected in consideration of their certification as either licensed residential appraisers or licensed real estate agents, their experience and independence to the Group. Where completed by a licensed appraiser, residential appraisals were conducted under the Uniform Standards of Professional Appraisal Practice as required by the Appraisals Standards Board of The Appraisal Foundation in the USA.

- County Appraisals, LLC
- Accurate Appraisals, LLC
- Platinum Coast Appraisals & Co.
- Malone Appraisals, LLC
- Glenn A. Gabberty Appraisals, Inc.
- Douglas Elliman Real Estate

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 31/12/2014	Fair value 31/12/2013	Valuation technique	Inputs
Residential use investment property	Level 2	$561,501,651	$351,577,810	Direct comparable sales	– Selling price – Geographic location – Property age and condition – Size of property – Number of rooms

There were no transfers between Hierarchy Level 1 and Hierarchy Level 2 asset categories during the year. There were no significant unobservable inputs in the valuation technique applied.

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:

	2014	2013
	$	**$**
Not later than one year	6,984,310	5,321,806
Later than one year and not later than five years	1,141,563	445,727
Later than five years	–	–
	8,125,873	**5,767,533**

iii) Contractual obligations

As at balance date, the Group has paid property related deposits totalling $1,564,402 in respect of commitments to purchase 11 residential properties with a combined purchase consideration of $15,488,318.

9. Security deposits

	2014	2013
	$	$
Security deposits	305,810	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 (A$305,810) deposit.

10. Deferred tax liabilities

	2014	2013
	$	$
Deferred tax liabilities comprise:		
Investment properties	35,303,707	17,450,157
Movements		
Balance at beginning of year	17,450,157	2,536,687
Charged to the profit and loss	15,363,912	14,048,537
Unrealised foreign exchange loss	2,489,638	864,933
Balance at end of year	**35,303,707**	**17,450,157**

The deferred tax liability represents temporary differences at 35% arising on differences between the tax cost base and the carrying value of the investment properties. Refer to note 3(l).

11. Payables

	2014	2013
	$	$
Current		
Trade payables	18,625,612	4,355,372
Distribution payable	13,446,323	10,611,751
Other payables	5,152,951	1,763,566
	37,224,886	**16,730,689**

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.

12. Borrowings

	2014	2013
	$	$
Current liabilities		
Secured bank loans – at amortised cost	610,021	771,132
Financed insurance premiums	187,086	487,997
	797,107	**1,259,129**
Non-current liabilities		
Unsecured notes	146,872,789	–
Secured bank loans – at amortised cost	135,922,534	45,510,792
	282,795,323	**45,510,792**

During the year, the Group secured an additional bank loan of US$17,000,000 (A$19,322,573) from Investors Bank.

In addition, the Group secured a US$75,000,000 (A$82,708,425) facility with Doral Bank, of which US$56,611,984 (A$69,250,133) was drawn at 31 December 2014. Subsequent to settlement, the facility limit has been reduced to US$58,000,000 (A$70,948,012). 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.

During the year, the Group also issued 1,500,000 unsecured notes with a total face value of $150,000,000. The unsecured notes bear interest at a rate of 7.75% per annum and have a maturity date of 24 December 2019. The Responsible Entity has an option to redeem or partially redeem the notes on 24 December 2017, or on any quarterly Interest Payment Date thereafter.

Bank borrowings and unsecured notes are carried at amortised cost.

Details of maturity dates and security for bank facilities are set out below:

Financial institution	31 December 2014 Principal amount – amortised cost	31 December 2013 Principal amount – amortised cost	Security	Property security value – fair value	Maturity date	Interest rate
Investors Bank	$3,386,879	$3,153,105	Investment property (vii)	$10,660,198	June 2022	3.99% (i)
Investors Bank	$3,634,185	$3,384,896	Investment property (vii)	$10,783,222	November 2022	3.75% (ii)
Investors Bank	$6,601,104	$6,455,203	Investment property (vii)	$17,649,308	July 2025	3.75% (iii)
Investors Bank	$16,647,271	$15,524,158	Investment property (vii)	$46,758,637	November 2023	3.63% (iv)
Investors Bank	$11,633,678	$10,845,446	Investment property (vii)	$30,735,904	November 2023	3.63% (iv)
Investors Bank	$7,423,622	$6,919,117	Investment property (vii)	$17,558,320	November 2023	3.63% (iv)
Investors Bank	$20,161,870	–	Investment property (vii)	$56,644,936	November 2024	3.63% (v)
Doral Bank	$67,043,946	–	(viii)	$237,669,018	March 2017	LIBOR plus 5.75% (vi)

i) Resets to a new fixed interest rate in June 2017 for the remaining term

ii) Resets to a new fixed interest rate in November 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) Resets to a new fixed interest rate in November 2019 for the remaining term

vi) Facility is subject to a LIBOR floor of 0.160%
LIBOR as of 31 December 2014 was 0.161%

vii) Investor Bank loans are secured by first mortgage security over specified secured property assets, assignment of borrower's rights; 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.

viii) The Doral Bank loan is secured by way of a charge in favour of the lender on all rights, title and interests in 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

The total value of the security at balance date is $241,550,190, including property assets valued at $237,669,018.

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

13. Other non-current liabilities

	2014	2013
	$	$
Redeemable preference units	152,905	140,182
Accrued interest	9,557	8,761
	162,462	**148,943**

Series A Preferred Units	2014		2013	
	No of units	$	No of units	$
Issued	125	162,462	125	148,943

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 the 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.

14. Capital and reserves

	2014	2013
	$	$
268,479,194 fully paid ordinary units (2013: 211,727,400)	381,980,548	306,983,085

a) Issued units		
Balance at beginning of the year	306,983,085	243,054,627
1,317,394 units issued at $1.56	–	2,055,135
2,266,285 units issued at $1.74	–	3,943,336
38,682,059 units issued at $1.77	–	68,465,769
3,909,563 units issued at $1.80	–	7,037,213
48,461,339 units issued at $1.80	87,230,410	–
3,784,176 units issued at $1.85	7,000,726	–
4,506,279 units issued at $1.76	7,931,051	–
June 2013 distribution	–	(6,806,550)
December 2013 distribution	–	(7,690,038)
June 2014 distribution	(13,198,646)	–
December 2014 distribution	(13,423,960)	–
Issue costs	(542,118)	(3,076,407)
Balance at end of the year	**381,980,548**	**306,983,085**

b) Movements in ordinary units

		2014	2013
Date	**Details**	**No.**	**No.**
1 January	Balance at beginning of the year	211,727,400	165,552,099
25 January 2013	Ordinary units issue	–	1,317,394
14 March 2013	Distribution reinvestment	–	2,266,285
23 May 2013	Ordinary units issue	–	38,682,059
25 September 2013	Distribution reinvestment	–	3,909,563
5 March 2014	Ordinary units issue	48,461,339	–
24 March 2014	Distribution reinvestment	3,784,176	–
23 September 2014	Distribution reinvestment	4,506,279	–
31 December		**268,479,194**	**211,727,400**

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.

SHARE OF JOINT VENTURE'S CASH FLOW HEDGING RESERVE

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the effective interest rate swap held by Golden Peak II, an entity over which the Group has joint control (refer note 7). The Group accounts for its share of fair value movements through reserves.

15. Earnings per unit

	2014	2013
	No.	No.
a) Weighted average number of ordinary units		
Weighted average number of ordinary units outstanding during the year used to calculate basic earnings per unit	255,837,324	193,158,438
	$	$
b) (Loss)/profit attributable to ordinary unitholders		
(Loss)/profit attributable to ordinary unitholders	(3,889,598)	8,180,165
Basic (loss)/earnings per unit (dollars)	(0.015)	0.042
(Loss)/earnings used in the calculation of basic (loss)/earnings per unit	(3,889,598)	8,180,165

Diluted earnings per unit is the same as basic earnings per unit as there are no dilutive units on issue.

16. Operating segments

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

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

17. 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		2014	2013
	Note	$	$
Cash and cash equivalents	4	191,280,901	42,772,500
Trade and other receivables	5	405,508	268,501
Property related deposits	6	1,564,402	1,641,908
GST receivable	5	49,853	58,752
Interest receivable	5	125,344	–
Property tax escrow deposits	6	632,219	398,628
Interest reserve	6	1,035,006	–
		195,093,233	**45,140,289**

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 Australia and New Zealand Bank in Australia 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.

Management of the Group regularly reviews the trade debtors ledger for recoverability of outstanding balances. A provision of $13,672 (2013: $24,875) 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.

Amounts owing from tenants that have since departed the property are written off as a bad debt in profit and 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 aging of trade receivables at the reporting date was:

	2014	2013
	$	$
Current	120,602	113,631
Past due 31 – 60 days	42,020	42,741
Past due 61 – 90 days	700	6,989
More than 90 days	12,972	17,887
	176,294	**181,248**
Movement in allowance for doubtful debts		
Balance at beginning of the year	24,875	18,852
Increase in doubtful debt allowance	163,904	206,867
Amounts written off during the year as uncollectible	(176,097)	(204,195)
Exchange rate differences on translation	990	3,351
Balance at end of the year	**13,672**	**24,875**

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 non-derivative 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.

	Carrying amount	Contractual cash flows	12 months or less	1-5 years	5 years and more
	$	$	$	$	$
31 December 2014					
Payables	37,224,886	37,224,886	37,224,886	–	–
Interest on series A preference units*	162,461	162,461	19,113	95,566	47,782
Financed insurance premiums	187,086	192,053	192,053	–	–
Secured bank loans**	136,532,555	194,367,161	8,506,679	89,686,585	96,173,897
Unsecured notes	146,872,789	208,125,000	11,625,000	196,500,000	–
	320,979,777	**440,071,561**	**57,567,731**	**286,282,151**	**96,221,679**
31 December 2013					
Payables	16,730,689	16,730,689	16,730,689	–	–
Interest on series A preference units*	148,943	148,943	17,523	87,614	43,806
Financed insurance premiums	487,997	544,687	544,687	–	–
Secured bank loans**	46,281,924	78,439,936	2,646,965	10,587,858	65,205,113
	63,649,553	**95,864,255**	**19,939,864**	**10,675,472**	**65,248,919**

* Redeemable preference shares are redeemable at the sole discretion of the Fund, and as such have not been included as a contractual liability in the table above. Only cumulative interest payments accruing under the terms of the instruments have been included.

** Interest rates on secured bank loans are reset to market as shown in note 12. It is assumed that reset rates are equivalent to current rates.

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

Currency risk is the risk that changes in foreign exchange rates will change the Australian dollar value of the Group's net assets or its Australian dollar earnings. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Fund's functional currency.

The Group is exposed to USD currency risk predominantly through holding US$ cash balances and investing in USA based investment property and deriving rental income from those properties.

The Group generally does not hedge foreign currency risk. However, as at year end, the Group held a forward foreign currency contract to hedge a transfer of funds by the Group's parent entity to its subsidiary US Masters Residential Property (USA) Fund for settlement on 2 January 2015. The Fund has not applied hedge accounting to the foreign currency contract.

The Group's exposure to currency risk at balance date was as follows, converted to Australian dollars at the balance date exchange rate of 0.8175 (2013: 0.8917).

FOREIGN CURRENCY ASSETS/LIABILITIES

	US dollar exposure converted to AUD	
	2014	2013
	$	$
Assets		
Cash	34,659,271	31,590,759
Receivables and other assets	5,577,227	4,502,300
Investments in jointly controlled entities	60,159,752	31,407,471
Investment properties	561,501,651	351,577,810
Total assets	**661,897,901**	**419,078,340**
Liabilities		
Payables	20,090,750	5,556,732
Borrowings	136,719,641	46,769,921
Other payables	162,462	148,943
Total liabilities	**156,972,853**	**52,475,596**
Net exposure	**504,925,048**	**366,602,744**

FOREIGN CURRENCY INCOME

Through investing in overseas assets, the Group earns foreign denominated income ($US), offset by local currency expenses. The Group does not hedge against this exposure.

SENSITIVITY ANALYSIS

A 10% movement of the AUD against the USD at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014	2013
	$	$
Impact on profit before tax (i)		
+10% – Strengthening	142,392	(789)
-10% – Weakening	(120,277)	964
Impact on equity (ii)		
+10% – Strengthening	(45,912,864)	(33,327,522)
-10% – Weakening	56,115,723	40,733,638

i) The financial assets and liabilities exposing foreign currency profit or loss sensitivity to the Group are USD denominated cash balances and USD denominated payable balances held in the Australian parent entity and AUD denominated payables held in the subsidiary entities, totalling a combined net liability position of USD $1,329,020 (A$1,625,713).

ii) Assets/liabilities exposing equity sensitivity to the Group are shown above.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts. During the year, on 23 December 2014, the Group's parent entity entered into a forward foreign currency contract arrangement value dated 2 January 2015 to hedge a committed investment in its subsidiary, US Masters Residential Property (USA) Fund.

The following table details the forward foreign currency contract outstanding at the end of the reporting period:

	Exchange rate 31/12/2014	Foreign currency 31/12/2014	Notional value 31/12/2014	Spot conversion at 31/12/2014
		USD	AUD	AUD
Outstanding contracts				
Buy USD currency	0.81175	83,610,250	103,000,000	102,275,535

The following table details the Group's liquidity analysis for its derivative financial instrument. The table has been drawn up based on the undiscounted gross cash flows on those derivatives that require gross settlement.

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
31 December 2014					
Foreign exchange forward contracts					
Inflow settlement	102,275,535	–	–	–	–
Outflow settlement	(103,000,000)	–	–	–	–

At 31 December 2014, the aggregate amount of losses under forward foreign exchange contracts recognised in profit or loss was $724,465.

Fair value of financial instruments measured at fair value on an ongoing basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31/12/2014	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Foreign currency forward contracts	Liability – $724,465	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various conterparties.	N/A	N/A

Fair value of the Group's financial assets and liabilities that are not measured at fair value on an ongoing basis

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis materially approximates their carrying amount at the reporting date.

INTEREST RATE RISK

Management of interest rate risk

The Group has both fixed interest rate and variable interest rate bank loans. Loans payable to Investors Bank are fixed rate loans, and have fixed rates of 3.63%, 3.75% and 3.99%. The loan payable to Doral Bank is a variable rate loan, with an interest rate of LIBOR plus 5.75%. In addition, interest payable on the redeemable preference shares and the unsecured notes are fixed for the term of the loans at 12.5% and 7.75% respectively, and accordingly do not constitute an interest rate risk. The Group's bank deposits are exposed to variable rates of interest.

	2014	2013
	$	$
Variable rate instruments		
Cash and cash equivalents	182,345,886	42,772,500
Variable rate bank loans	(67,043,946)	–
	115,301,940	**42,772,500**

Cash flow sensitivity analysis for variable rate instruments

A change of 25 basis points in interest rates 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.

	2014	2013
	$	$
Impact on profit before tax/equity		
+0.25% (25 basis points)	288,255	106,931
-0.25% (25 basis points)	(288,255)	(106,931)

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 13 and borrowings as detailed in note 12) and equity of the Group (comprising issued unit capital). The gearing ratio at the end of the reporting period was as follows:

	2014	2013
	$	$
Debt	283,754,892	46,918,864
Equity	381,980,548	306,983,085
Debt to equity ratio	74.29%	15.28%

18. Capital commitments

The Group has capital commitments in respect of investment property acquisitions totalling $15,488,318 as shown in Note 8(iii).

The Group has a capital commitment at 31 December 2014 to its Hudson Gardens LLC joint venture entity for US$938,737 (A$1,148,302) to fund working capital requirements as shown in Note 7.

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

19. Contingent liabilities

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

20. Related parties

KEY MANAGEMENT PERSONNEL COMPENSATION AND UNITHOLDINGS

Mr Maximilian Walsh, Mr Daryl Dixon, Mr Alan Dixon, Mr Tristan O'Connell, Mr Christopher Brown and Mr Alexander MacLachlan are directors of the Responsible Entity, Dixon Advisory & Superannuation Services Limited, and deemed to be key management personnel.

The key management personnel receive no direct compensation from the Group in relation to the management of the Group.

As at the reporting 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
Daryl Dixon	644,937	4,000
Maximilian Walsh	391,278	3,300
Alan Dixon	5,998,977	2,750
Chris Brown	89,238	100
Alex MacLachlan	52,210	300
Tristan O'Connell	14,378	150

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 year is $1,800,188 (2013: $1,132,580) 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 31 December 2014 is $1,309,685 (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. (exclusive of GST) 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 year is $5,271,369 (2013: $2,813,783) 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 31 December 2014 is $3,742,614 (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 year is $598,007 (2013: $545,830).

The amount owed to the Responsible Entity in respect of the leasing fee at 31 December 2014 is $419,231 (2013: $72,323).

Total leasing fee expensed during the year, including fees capitalised in prior periods, is $530,668 (2013: $477,795) included in management fees expense in the profit or loss.

Leasing fee deferred in other assets is $415,590 (2013: $312,843).

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.

Total fee expensed in the year is $184,626 (2013: $1,544) included in management fees expense in the profit or loss.

The amount owed to the Responsible Entity in respect of the asset disposal fee at 31 December 2014 is $140,873 (2013: nil). In its discretion, management charged a disposal fee on 12 property disposals out of 27 total property disposals.

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 $2,502,614 (2013: $3,656,322) 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 31 December 2014 is $2,120,705 (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 year is nil (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 31 December 2014 (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. At its discretion, the Responsible Entity waived its right to a debt arranging fee in connection with the $150,000,000 loan note issue completed in December 2014.

Total debt arranging fee incurred during the year is $2,228,170 (2013: $979,141).

The amount owed to the Responsible Entity in respect of the debt arranging fee at 31 December 2014 is $1,602,957 (2013: $78,579).

Total debt arranging fee amortised during the year, including fees capitalised in prior periods, is $356,689 (2013: $96,320). To the extent the associated borrowing relates to qualifying assets, the amortisation charge has been capitalised to the asset.

Stamping fee (payable by the Fund)

Under the terms of the URF Notes Replacement Prospectus, the Responsible Entity is entitled to a stamping fee of 2% (exclusive of GST) of the amounts raised and allocated under Applications bearing the stamp of AFSL Holder. This fee of $3,091,747 (2013: nil) forms part of the amortised cost of the unsecured notes referred to in Note 12. The capitalised fee is amortised over the note expiry period.

Total stamping fees amortised during the year is $13,508 (2013: nil).

Total stamping fee included in trade and other payables at 31 December 2014 is $3,091,747 (2013: nil).

Responsible Entity and Dixon Advisory (USA) Inc expense recharges (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 year ended 31 December 2014, expenses incurred of $651,448 (2013: $431,026) and $8,856,732 (2013: $6,754,593) were recovered by the Responsible Entity and Dixon Advisory USA Inc, respectively. The expenses recovered from the Group are primarily in respect of the Group related payroll expenses, office lease and depreciation recoveries. The amount recovered by Dixon Advisory USA Inc includes an administrative fee mark up of 9.53% on actual costs incurred being $770,757 (2013: 8.8% being $545,121) permitted under the Administrative Services Agreement. This amount has been included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of Responsible Entity and related entity recharges – office administration costs. No administration 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 out of the Management fees paid by the Group.

Fund administration fee (payable by the Fund)

During the year, the Responsible Entity charged a total of $98,353 (2013: $85,293) 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 year was $10,045,825 (2013: $2,716,448). 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, 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 18 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 bourne by that entity and are not recovered from the Group.

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, quantity surveyor, design, and property management services are charged to the Group at agreed rates under the agreement. The total amount charged to the Group during the year amounted to $5,561,928 (2013: $1,759,831).

21. 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.

	Country of establishment	Ownership interest	
		2014	2013
Parent entity			
US Masters Residential Property Fund	Australia		
Subsidiaries			
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%	100%
Collingwood URF, LLC	United States	100%	100%
Cronulla URF, LLC	United States	100%	100%
New South Wales URF, LLC	United States	100%	100%
Freemantle URF, LLC	United States	100%	100%
Richmond URF, LLC	United States	100%	100%
AFL URF LLC	United States	100%	–
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%	–
Balmain Tigers URF LLC	United States	100%	–

22. Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2014 the parent entity of the Group was US Masters Residential Property Fund.

	2014	2013
	$	$
Result of parent entity		
Loss for the year	(21,513,090)	(16,925,102)
Other comprehensive income	–	–
Total comprehensive loss for the year	(21,513,090)	(16,925,102)
Financial position of parent entity at year end		
Current assets	156,835,045	11,274,088
Total assets	535,348,938	309,143,898
Current liabilities	19,168,285	11,173,956
Total liabilities	201,344,781	28,624,114
Total equity of the parent entity comprising of:		
Share capital	381,980,548	306,983,085
Accumulated losses	(47,976,391)	(26,463,301)
Total equity	**334,004,157**	**280,519,784**

23. Subsequent events

A distribution of 5 cents per ordinary unit totalling $13,423,960 was declared on 17 December 2014 and was paid to unitholders on 6 February 2015. 3,781,955 units were issued under the Fund's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled two property purchase contracts with a total consideration of $3,494,109. In addition, the Group disposed of five properties for total consideration of $2,766,285.

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.

24. Auditors' remuneration

	2014	2013
	$	$
Auditors of the Group		
Deloitte Touche Tohmatsu		
Audit and review of Group financial statements	181,000	154,000
Audit and review of subsidiary financial statements	82,000	–
Other audit services – relating to US GAAP accounting	71,400	–
Corporate advisory services	50,000	–
Taxation services	387,951	2,993
Other services	18,785	–
	791,136	**156,993**
Other Audit Firms		
Deloitte Tax LLP		
Taxation services	71,108	52,790


CAUTION

9. Directors' Declaration

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 19 to 69, 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 2014 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.

M. S. Walsh

Mr Maximilian Sean Walsh
Director

Dated this 20th day of February 2015


STATUE CRUISES

10. Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Sydney NSW 2000
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Independent Auditor's Report to the Unitholders of US Masters Residential Property Fund

We have audited the accompanying financial report of US Masters Residential Property Fund ('the Fund'), which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the Fund and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 19 to 71.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity of the Fund 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 Note 2 (A), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, 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 report.

Opinion

In our opinion,

(a) the financial report of US Masters Residential Property Fund is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

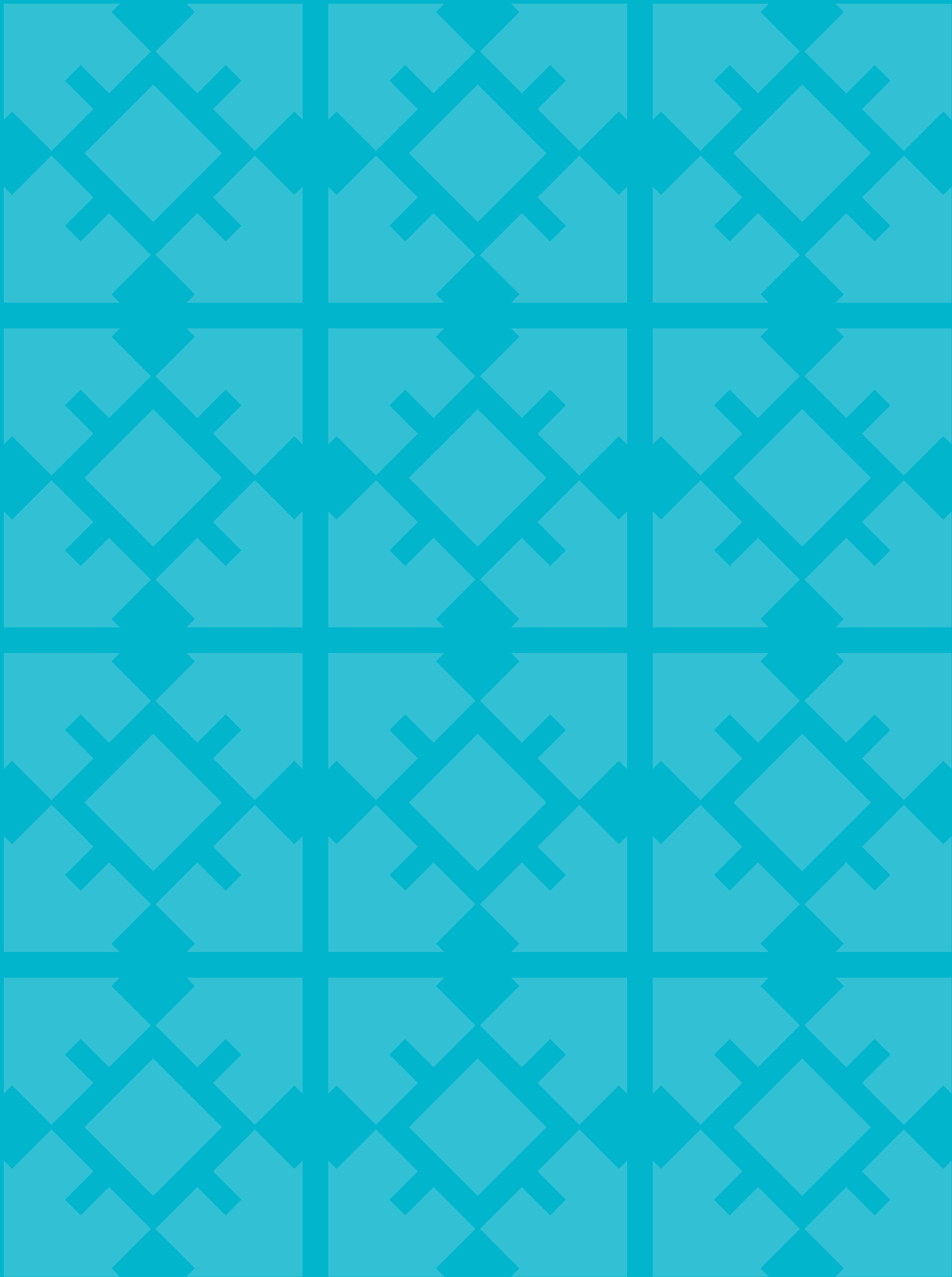
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2(A).

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Michael Kaplan
Partner
Chartered Accountants
Sydney, 20 February 2015



11. Stock Exchange Information

Statement of quoted securities as at 31 January 2015

- There are 4,251 unitholders holding a total 268,479,194 ordinary units
- The 20 largest unitholders between them hold 6.097% of the total units on issue

Distribution of quoted units as at 31 January 2015

Distribution of unitholders category (size of holding)	Number of unitholders
1-1,000	163
1,001-5,000	259
5,001-10,000	219
10,001-100,000	2,853
100,001 and over	757
Totals	**4,251**

Substantial unitholdings as at 31 January 2015

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

Directors' unitholdings

As at 31 January 2015 directors of the Group held a relevant interest in the following securities on issue by the Group.

Director	Ordinary units	URF notes
Daryl Dixon	644,937	4,000
Maximilian Walsh	391,278	3,300
Alan Dixon	5,998,977	2,750
Chris Brown	89,238	100
Alex MacLachlan	52,210	300
Tristan O'Connell	14,378	150

Restricted Securities

There are no restricted securities on issue by the Group.

Top 20 holders of ordinary units at 31 January 2015

Unitholder name	Number of units held	% of total
Mr Orange Pty Limited	3,335,389	1.242
Mr Orange Pty Limited	1,569,355	0.585
Yarraandoo Pty Ltd	1,386,337	0.516
GB & JA Cameron Holdings Pty Ltd	1,069,545	0.398
Assess Pty Ltd	943,721	0.352
J & V King Pty Ltd	895,321	0.333
JLWA Holdings Pty Ltd	621,119	0.231
Mr Alan Cochrane Dixon & Mrs Katharine Dixon	611,769	0.228
C & J Vonwiller 2 Pty Ltd	553,904	0.206
ISS Nominees Pty Limited	542,897	0.202
CG & KJ Forbes Pty Ltd	536,029	0.200
Aldwood Investments Pty Ltd	515,699	0.192
Mr Andrew Alexander Lindberg & Mrs Leigh Christine Lindberg	504,699	0.188
Duntex Manufacturing Co Pty Limited	504,292	0.188
Mrs Lorraine Mary Hawes & Mr David Charles Hawes	494,563	0.184
Aldack Pty Ltd	482,464	0.180
Silkzinc Pty Ltd	477,236	0.178
T H H Nominees Pty Limited	451,947	0.168
Mr Neil Clifford Barrett & Mrs Heather Maeve Barrett	439,484	0.164
Mr Ernest Yuet Ning Shaw & Mrs Elizabeth Pui Chi Shaw	432,707	0.161
Total held by top 20 holders of ordinary units	**16,368,477**	**6.097**

12. Additional Disclosures

Transactions

There were no transactions in securities during the reporting year.

US REIT management agreement

Dixon Advisory has entered into a management agreement with the US REIT to manage and supervise all investments for the term of the Management Agreement. Under the terms of the US REIT Management Agreement, Dixon Advisory, as investment manager for the US REIT (**Investment Manager**) will, among other things:

a) provide compliance, accounting and other administrative services reasonably required by the US REIT from time to time;

b) assess residential property market conditions and opportunities in the US and review information, research and analysis and perform property due diligence;

c) select and recommend residential properties in which to invest;

d) monitor the US REIT's portfolio of residential properties;

e) determine and recommend the sale or disposition of properties in the US REIT's portfolio and coordinate any such sale or disposition; and

f) manage the US REIT's surplus capital and related accounts.

In return for the performance of its duties as Investment Manager of US REIT, the Investment Manager is entitled to be paid, and US REIT must pay to the Investment Manager, a management fee as disclosed in Note 20. The Investment Manager is also entitled to fees for the acquisition, disposal and leasing of property assets and the arranging of debt financing as disclosed in Note 20.

The US REIT will indemnify the Investment Manager against any losses or liabilities reasonably incurred by the Investment Manager as a result of providing the management services to the US REIT, except for any loss or liability caused by the negligence, default, fraud or dishonesty of the Investment Manager or its officers or employees.

The Investment Manager is entitled to be reimbursed out of the US REIT's assets, for all out-of-pocket expenses properly incurred in operating and administering the US REIT.

The US REIT Investment Management Agreement has a term 10 years. Either party may terminate the US REIT Management Agreement upon 90 days prior written notice.

The Investment Manager may terminate the US REIT Management Agreement immediately if the US REIT becomes insolvent or unable to pay its debts as they become due. Either party may terminate the US REIT Management Agreement upon a material default or breach by the other party of its obligations thereunder if not remedied upon a 30 day cure period after receiving notice of the default or breach.

Property administrative services agreement

Dixon Advisory USA is a wholly owned subsidiary of Dixon Advisory Group Limited. Under the terms of the administrative services agreement, Dixon Advisory USA provides services to the Responsible Entity including employing all office personnel (excluding investment management personnel who will be remunerated out of fees already paid to the Responsible Entity), providing office space, office facilities and paying for all other expenses incidental to the Responsible Entity's operations.

This administrative services agreement provides that Dixon Advisory USA will be reimbursed for all expenses incurred during the performance of these administrative services.

In return for the performance of its duties under this administrative services agreement, Dixon Advisory USA is entitled to be paid, and the Responsible Entity must pay to Dixon Advisory USA, an administrative fee that will not exceed 20% of the cost of each service.

Administrative services agreement

Dixon Advisory USA is a wholly owned subsidiary of Dixon Advisory Group Limited. Under the terms of the administrative services agreement between the US REIT and Dixon Advisory USA, Dixon Advisory USA provides all services reasonably required by the US REIT in connection with the lease of office space and the management of the US REIT's property Dixon Advisory USA will be reimbursed for all costs and expenses incurred, including costs and expenses incurred in respect of:

a) acquiring and maintaining office space and related office facilities;

b) employing office personnel;

c) book keeping;

d) acquiring and maintaining appropriate levels of insurance; and

e) other corporate expenses incidental to the performance of such services.

Dixon Advisory USA also coordinates the procurement of third party contractor services in connection with the service of properties held directly or indirectly by the US REIT, and provides such other services as requested by the US REIT from time to time. In addition, Dixon Advisory USA advises and assists the trustees and officers of US REIT in taking such steps as are necessary or appropriate to carry out the decision of US REIT's board of trustees with respect to these matters and the conduct of US REIT's business.

In return for the performance of its duties under this administrative services agreement, Dixon Advisory USA is entitled to be paid, and US REIT must pay to Dixon Advisory USA, a service fee based on cost plus an administrative fee that will not exceed 20% of the cost of each service.

The administrative services agreement has an initial term of 20 years, unless earlier terminated. The initial 20 year term will be reduced to 10 years if the Fund is admitted to the Official List. The initial term will be automatically extended after the initial 10-year period for further one-year terms if not terminated earlier. Either party may terminate the administrative services agreement upon 90 days' prior written notice. Dixon Advisory USA may terminate the administrative services agreement immediately if US REIT becomes insolvent or unable to pay its debts as they become due. Either party may terminate the administrative services agreement upon a material default or breach of the agreement by the other party if the breach is not remedied upon a 30-day cure period of receiving notice of the default or breach.

Other

Since admission to the ASX on 23 July 2012 to the date of the financial report, the Group has used the cash assets at the time of admission in a way consistent with its business objectives.

13. Corporate Directory

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

ASX Code is URF.

US Masters Residential Property Fund (ARSN 150 256 161)

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Secretaries

Tristan O'Connell
Hannah Chan

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