

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

**APPENDIX 4E – PRELIMINARY FINAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

(The previous corresponding period is the period from 1 January 2014 to 31 December 2014)

**Results for announcement to the market**

	Year ended 31 December 2015 (\$)	Year ended 31 December 2014 (\$)	Change from Previous period (\$)	Change from Previous period (%)
Revenue from ordinary activities	\$23,413,597	\$14,388,460	Up \$9,025,137	Up 63%
Profit from ordinary activities before tax attributable to unitholders	\$25,374,515	\$11,474,314	Up \$13,900,201	Up 121%
Profit/(loss) from ordinary activities after tax attributable to unitholders	\$63,986	(\$3,889,598)	Up \$3,953,584	Up 102%
Net profit/(loss) for the period attributable to unitholders	\$63,986	(\$3,889,598)	Up \$3,953,584	Up 102%
Basic earnings/(loss) per unit	0.0 cents	(1.5 cents)	Up 1.5 cents	Up 100%
Diluted earnings/(loss) per unit	0.0 cents	(1.5 cents)	Up 1.5 cents	Up 100%

At 31 December 2015, the pre tax net tangible asset backing per ordinary unit was \$2.11 (2014: \$1.85) and the post tax net tangible asset backing per ordinary unit was \$1.87 (2014: \$1.72).

***Distribution Information***

Two distributions of 5 cents per ordinary unit totalling \$13,423,960 and \$13,613,057 were paid on 6 February 2015 and 10 August 2015, respectively.

A further distribution of 5 cents per ordinary unit totalling \$14,274,574 was announced on 18 December 2015. The Record Date for determining entitlements to the distribution was 31 December 2015. The distribution was paid on 29 January 2016.

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

## Results for announcement to the market (*continued*)

### Commentary on results

#### ***Explanation of Revenue***

Revenue from ordinary activities of \$23,413,597 for the year ended 31 December 2015 consists entirely of the Group's investment activities and is made up as follows:

Investment property rental income	\$ 21,959,735
Insurance proceeds	140,950
Interest income	1,312,912
<b>Revenue from operating activities</b>	<b>\$ 23,413,597</b>

#### ***Significant features of operating performance***

Operations for the year resulted in a profit after tax of \$63,986 (2014: loss of \$3,889,598). After taking into account the exchange difference on translation of foreign operations and the share of jointly controlled entity's reserve movements, the total comprehensive income after tax was \$66,750,174 (2014: \$37,474,017). Contributing to this substantially was an unrealised foreign exchange gain on the value of the Group's US based net assets of \$66,843,499 which reflects the depreciation of the Australian dollar against the US dollar during the year from US\$0.8175/A\$ to US\$0.7286/A\$.

During the year ended 31 December 2015, a total of \$19,462,000 was raised from the issue of 9,731,000 ordinary units in August 2015. An additional 7,281,279 ordinary units were issued during 2015 as part of the Group's Distribution Reinvestment Plan amounting to \$15,101,588.

The Group also raised a total of \$90,539,500 from the issue of URF Notes II which were allotted on 23 October 2015. In addition, the Group successfully closed on US\$164.5 million of additional bank financing.

#### ***Matters Subsequent to the End of the Financial Year***

A distribution of 5 cents per ordinary unit totalling \$14,274,574 was declared on 18 December 2015 and was paid to unitholders on 29 January 2016. 3,769,080 units were issued under the Group's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled two property purchase contracts with a total consideration of \$6,121,389.

Subsequent to balance date, the properties located at 1511 Summit Avenue, 506-08 26th Street, 309-15 11th Street, 1405-1415 Palisade Avenue, and 1700 Bergenline Avenue (all located in Union City, New Jersey) and the properties located at 5907 Boulevard East and 111 61st Street (both located in West New York, New Jersey) were disposed of for total proceeds of US\$36.1 million.

Other than the matters discussed above, there have been no events subsequent to balance date which would have a material effect on the Group's financial statements at 31 December 2015.

## Results for announcement to the market *(continued)*

### ***Other factors that affected results in the year or which are likely to affect results in the future***

As at December 2015, the Group owned 565 freestanding properties with a total book value of \$862.5 million. This represents a 54% increase in the book value of freestanding properties closed on since the prior balance date of 31 December 2014 (\$561.5 million). The increase in total book value includes a \$40.8 million increase in the fair market value of freestanding properties held at 31 December 2015.

During 2015, the Group was successfully able to complete US\$62.2 million of renovations which brought 67 large scale renovations and 104 small scale renovations across 154 properties to the market for rent. The renovations completed during the year contributed, or are expected to contribute, an additional US\$5.7 million of rental income.

As at 31 December 2015, there remained a further 94 properties in the renovation pipeline which are at various stages of completion.

The Group entered into an agreement to dispose of its multi-family properties owned jointly with Excelsior Equities, LLC. At balance date, the property located at 75 MacDonough Street, Bedford Stuyvesant had been disposed of for US\$4.2 million.

During the year, the multi-family property portfolio owned by the Group's Golden Peak II LLC joint venture entity was independently appraised at US\$49.6 million, reflecting an 8% fair value uplift from the 31 December 2014 book value of US\$46.0 million and a 30% uplift from purchase price of US\$38 million in May 2012.

As at 31 December 2015, the total book value of the multi-family portfolio was US\$114.7 million based on the Group's proportionate share.

### ***Other Information***

Refer to the Group's Annual Financial Report for the year ended 31 December 2015 for a Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Equity and all relevant notes to the financial statements.

This report is based on the Annual Financial Report which has been subject to audit by the Independent Auditor.

All the documents comprise the information required by Listing Rule 4.3A.

### ***Attachments forming part of Appendix 4E***

Annual Financial Report, including Directors' Report and Independent Auditor's Report.



Alex MacLachlan  
Director

Date: 24 February 2016

**US Masters Residential Property Fund**  
**ARSN 150 256 161**

**FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2015**

**US MASTERS RESIDENTIAL PROPERTY FUND**  
**ARSN 150 256 161**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**CONTENTS**

Chairman's Letter	i
Investment Manager's Report	iii
Corporate Governance Statement	1
Directors' Report	7
Auditor's Independence Declaration	15
Consolidated Statement of Profit or Loss and Other Comprehensive Income	16
Consolidated Statement of Financial Position	17
Consolidated Statement of Changes in Equity	18
Consolidated Statement of Cash Flows	19
Notes to the Financial Statements	20
Directors' Declaration	63
Independent Auditor's Report	64
Stock Exchange Information	66
Additional Disclosures	68
Corporate Directory	70

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

**CHAIRMAN'S LETTER**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

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 2015.

This year marked the fourth full year of operations for the Group. The Group produced a strong result for Unitholders in 2015 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 2015) increased by 19.1% to \$2.11 per ordinary unit.

The year also saw the Group raise an additional \$15 million through its regular distribution reinvestment plan and \$19 million through a unit purchase plan. The Group also completed a second Notes offer, raising \$90.5 million, and successfully closed on additional bank financing of US\$165 million. 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 1,950 housing units across 565 freestanding houses and 26 apartment buildings.

The US housing market continues to benefit from strength in the underlying US economy. Labour market conditions continue to improve, with job openings at their highest levels in 15 years. Moreover, employment growth relative to demographics is exceptional. The US economy is creating more jobs than there are people coming into the labour force. The ratio of jobs growth to labour force growth of roughly four to one is stronger than in any period since the 1950's.

At the same time, initial jobless claims are close to their lowest levels in 40 years. Taken together, this means that the unemployment rate has come down sharply over the past five years, with the US now rapidly approaching full employment.

Reflecting these strong conditions, the Census Bureau's national median asking rent for the quarter ended December 2015 was up 11% from a year ago. Vacancy rates in the US also continue to show steady improvement, with national rental vacancy rates decreasing to 7%, down from over 11% in 2009, even as multi-family construction is at its highest levels in nearly 30 years.

Our primary investment focus remains historic townhouses located in neighbourhoods that are rapidly gentrifying and within an hour's commute via public transport to Downtown Manhattan. Our focus on this segment reflects several trends in the New York City housing market that we identified early in the Fund's life and that have supported the Fund's solid performance since inception.

Firstly, we identified early on that the housing recovery in New York City, and more broadly across the United States, was likely to be unevenly distributed amongst market segments. Specifically, we formed the view that top-tier sub-markets would outperform the overall market, and we made our first move into higher-end housing in early 2012. This proved prescient. Overall, since we started the Fund in mid-2011, top-tier housing values in New York City have grown by some 9% per annum, whereas mid-tier housing has grown by just over 3% per annum and lower-tier housing by under 1% per annum.

Secondly, we identified several neighbourhoods in Brooklyn as prime candidates for gentrification and capital growth. Again, we purchased our first Brooklyn properties in mid-2012, and since the Fund's inception our target markets within Brooklyn have outperformed the broader New York City market by some 7% per annum.

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

**CHAIRMAN'S LETTER**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

Lastly, we identified a shortage of family housing in New York City. Far from the 'only-child paradise' of the 1990s, New York City today is increasingly home to both dual-income couples with two or more children and groups of young professionals in the early stages of their careers. In fact, several neighbourhoods, for example Bedford-Stuyvesant and Park Slope in Brooklyn, have seen double digit increases in the number of families with two or more children and the number of young professionals since 1990. For the Fund, this has created the opportunity to convert multi-family townhouses into single-family residences to redefine the family and share house living experience and provide a suburban floor plan in a city environment. This, in turn, has allowed the Fund to achieve record rents in several of the neighbourhoods in which we operate, while allowing us to introduce new, high quality housing stock back into the community. Reflecting our work in the community, during the year Dixon Advisory USA was honoured with the "Rising Star" award at the New York Construction Awards, an annual event which honours valuable contributions to New York City by industry leaders in construction, design, and development.

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,



---

**Alex MacLachlan**  
Walsh & Company Investments Limited

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

**INVESTMENT MANAGER'S REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Freestanding property update**

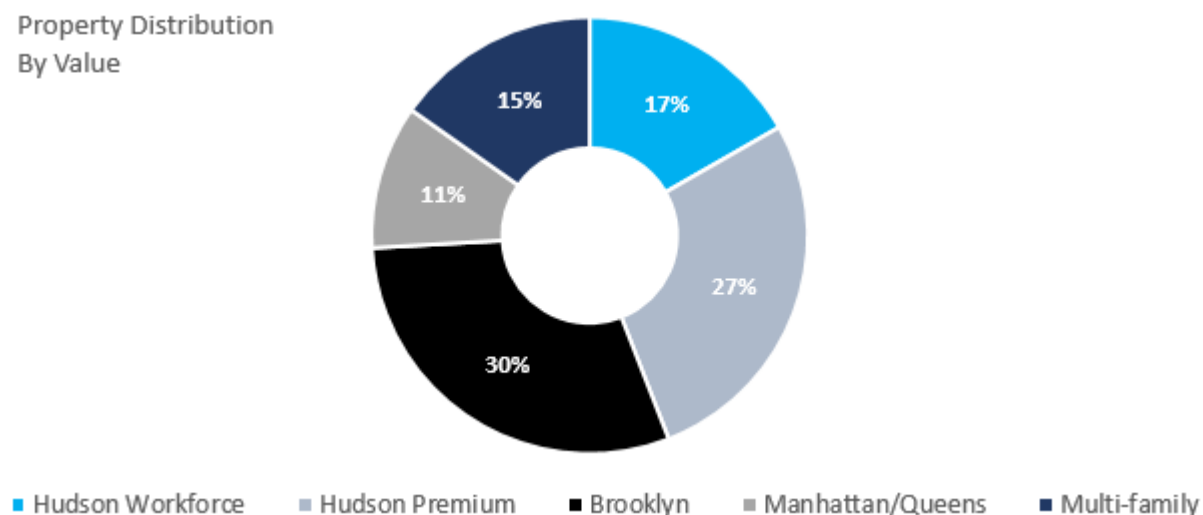
***Freestanding portfolio update***

The Group continued to selectively add to its core freestanding residential property portfolio throughout 2015. The Group focused its freestanding property acquisitions in the premium areas of Hudson County and selected areas of Brooklyn and Manhattan. This is a continuation of the strategy adopted by the Group. The directors believe that these areas provide the most attractive investment opportunities for both rental and capital growth.

As at December 2015, the Group owned 565 freestanding properties with a total book value of \$862.5 million. This represents a 54% increase in the book value of freestanding properties closed on since the prior balance date of 31 December 2014 (\$561.5 million). The increase in total book value includes a \$40.8 million increase in the fair market value of freestanding properties held at 31 December 2015, which represents a 4.8% increase for the year. The increase in fair market value of the freestanding portfolio reflects the positive real estate market conditions in the New York metropolitan area.

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

**Property Distribution  
By Value**



As part of its regular capital management program, the Group also completed the sale of 18 properties during 2015. The total sales price achieved for these 18 properties was US\$9.7 million which in aggregate reflected a 12.9% premium to total asset cost, including purchase price, closing costs, renovation expenditure, and capitalised interest (where applicable). 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 resulting tax until such time as the sale of the replacement property occurs.



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

**INVESTMENT MANAGER'S REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

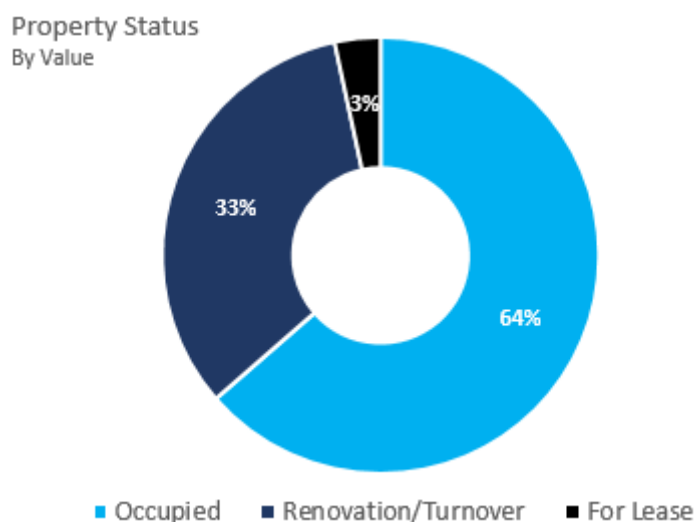
***Freestanding properties construction update***

The Group continued to execute its renovation and rehabilitation strategy throughout 2015. This process is managed by Dixon Projects LLC, whose role 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 LLC has built a highly experienced and talented team of 40 professionals who oversee the entire renovation process from start to finish including planning, permitting, interior design, procurement and construction management. Reflecting the quality of its renovation work and continued growth of the business, the Group was honoured with the "Rising Star" award at the New York Construction Awards, an annual event which honours valuable contributions to New York City by industry leaders in construction, design and development.

During 2015, the Group was successfully able to complete US\$62.2 million of renovations which brought 67 large scale renovations and 104 small scale renovations across 154 properties to the market for rent. The renovations completed during the year contributed, or are expected to contribute, an additional US\$5.7 million of rental income.

As at 31 December 2015, there remained a further 94 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. Renovations of the majority of these properties are expected to be progressively completed over the coming 3 to 24 months and are expected to contribute additional annual rent of approximately US\$11.4 million.

The property status of freestanding properties as at 31 December 2015 is depicted below.



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

**INVESTMENT MANAGER'S REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Multi-family property update**

In order to take advantage of attractive market opportunities and as part of its strategic capital management program, the Group entered into an agreement to dispose of its multi-family properties owned jointly with Excelsior Equities, LLC. At balance date, the property located at 75 MacDonough Street, Bedford Stuyvesant had been disposed of for US\$4.2 million. This compares to a purchase price (inclusive of closing costs) of US\$3.3 million in June 2014. Subsequent to balance date, the properties located at 1511 Summit Avenue, 506-08 26<sup>th</sup> Street, 309-15 11<sup>th</sup> Street, 1405-1415 Palisade Avenue, and 1700 Bergenline Avenue (all located in Union City, New Jersey) and the properties located at 5907 Boulevard East and 111 61<sup>st</sup> Street (both located in West New York, New Jersey) were disposed of for total proceeds of US\$36.1 million, reflecting a 25% premium to purchase price of US\$20.5 million (inclusive of closing costs). As of the date of this report, other properties owned jointly with Excelsior Equities LLC were at various stages in the disposal process.

During the year, the multi-family property portfolio owned by the Group's Golden Peak II LLC joint venture entity was independently appraised at US\$49.6 million, reflecting an 8% fair value uplift from the 31 December 2014 book value of US\$46.0 million and a 30% uplift from purchase price of US\$38 million in May 2012.

As at 31 December 2015, the total book value of the multi-family portfolio was US\$114.7 million based on the Group's proportionate share.

**Financial performance and position**

The Group recorded a pre-tax profit of \$25,374,515 for the year ended 31 December 2015. Rental income totalled \$21,959,735, representing a 59% increase in the Group's rental revenue when compared to the prior period. The Group expects continued rental revenue growth throughout the remainder of 2016 as more completed properties are delivered from the renovation pipeline.

An upward revaluation on the Fund's existing portfolio of freestanding properties of \$40,763,092 also contributed to the pre-tax profit result for the twelve months ending 31 December 2015.

Investment property expenses for the year remained consistent with prior period at 63% of rental income. 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 expense and joint venture reserves, was \$66,750,174 (December 2014: \$37,474,017). 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 Group's US dollar assets when translated into Australian dollars.

The Group retained a strong financial position with net assets of \$535,141,652, a pre-tax net tangible asset backing of \$2.11 per ordinary unit and a post-tax net tangible asset backing of \$1.87 per ordinary unit at 31 December 2015.

The Group paid a distribution of 5 cents per ordinary unit on 10 August 2015. A further distribution of 5 cents per ordinary unit was declared on 18 December 2015 and paid on 29 January 2016.

# US MASTERS RESIDENTIAL PROPERTY FUND ARSN 150 256 161

## CORPORATE GOVERNANCE STATEMENT

### FOR THE YEAR ENDED 31 DECEMBER 2015

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 were managed by Dixon Advisory & Superannuation Services Limited (**DASS**) as Responsible Entity of the Group and Dixon Advisory USA Inc, in accordance with the relevant management agreements.

Effective 22 June 2015, the Responsible Entity of the Group changed from DASS to Walsh & Company Investments Limited (**Walsh & Co**). Walsh & Co, a related entity of DASS, is the Responsible Entity of six other registered managed investment schemes. On the same date, the manager of the assets of the Group and the Group's underlying primary investment, the US Masters Residential Property (USA) Fund (**US REIT**), changed from DASS to URF Investment Management Pty Limited (**URF IM**). URF IM is also a member of the Dixon Advisory Group Limited, the parent company of DASS and Walsh & Co. URF IM will utilise the same resources of the Dixon Advisory Group Limited as available to DASS to manage the Group.

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**), Walsh & Co, 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](http://usmastersresidentialfund.com.au).

A description of the Group's adopted practices in respect of the eight Principles and Recommendations from the 3rd 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;
- Overseeing the integrity of the Group's accounting and corporate reporting systems, including the external audit
- Ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance;
- Reviewing and overseeing internal compliance and legal regulatory compliance;
- Ensuring compliance with the Group's Constitution and with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act*;
- Overseeing the Group's process for making timely and balanced disclosures of all material information concerning the Group, and
- Communicating with and protecting the rights and interests of all unitholders.

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.

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

**CORPORATE GOVERNANCE STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**2. Structure the Board to Add Value**

**Board Composition**

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

The directors of the Responsible Entity during the 2015 financial year and as at the date of this report are :

<b>DASS</b>	<b>Walsh &amp; Co.</b>
Daryl Dixon	Alex MacLachlan
Maximilian Walsh	Tristan O'Connell
Alan Dixon	Tom Kline
Chris Brown	
Alex MacLachlan	
Tristan O'Connell	

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 3 members is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Group. However, the composition of the Board will be reviewed periodically.

The current Board is not Independent. The Board however has established a Compliance Committee with a majority of Independent members who are responsible for; monitoring the extent to which the Responsible Entity complies with the Group's relevant regulations, compliance plan, constitution and report the findings to the Board, reporting to ASIC if the Committee is of the view that the Responsible Entity has not complied with the Compliance Plan or any relevant laws, and to assess at regular intervals whether the Group's compliance plan is adequate and make recommendations to Responsible Entity about any changes that the Committee considers should be made to the compliance plan.

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

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

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case-by-case basis and in conformity with the requirements of the 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.

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

**CORPORATE GOVERNANCE STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**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.

**4. Safeguard integrity in Financial Reporting**

**Compliance Committee**

As a registered managed investment scheme, the Group has a compliance plan that has been lodged with the Australian Securities and Investments Commission (ASIC). The compliance plan is reviewed comprehensively every year to ensure that the way in which the Group operates protects the rights and interests of unitholders and that major compliance risks are identified and properly managed.

The Responsible Entity has formed a Compliance Committee to ensure the Group complies with the relevant regulations, its compliance plan and its constitution. The Committee meets and reports to the Board of the Responsible Entity on a quarterly basis.

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

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

Claire Wivell Plater LLB. is Managing Director and majority owner of The Fold Legal which has provided specialist regulatory, legal and commercial advice to financial services businesses since 2002. Claire was an insurance law specialist with Phillips Fox (now DLA Piper) for 17 years (including 11 years as partner) and spent three years in Corporate Development with ING before founding The Fold. Claire is a long standing member of the Business Advisory Committee to ASIC's Licensing Division and sits on the Board of Holdsworth Community, a leading community services organisation in Sydney's Eastern Suburbs (including serving as Chair for 10 years). She is a prolific author, commentator and public speaker on regulatory and legal issues.

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

**CORPORATE GOVERNANCE STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Barry Sechos** (Independent Member)

Barry is a Director of Sherman Group Limited, a privately owned investment company, and is responsible for managing the legal, financial and operational affairs of Sherman Group Limited. Barry has 25 years experience in corporate law and finance, having spent seven years as a banking and finance lawyer at Allen Allen & Hemsley (Sydney, Singapore and London), and eight years as a Director of EquitiLink Funds Management and Aberdeen Asset Management Australia. Barry is also a Director of See-Saw Films, a film production and finance group and winner of the 2011 Academy Award for Best Picture, Transmission Films, an Australian film distribution company; Regeneus Limited, an Australian based regenerative medicine company listed on ASX, Aberdeen Leaders Limited an ASX-listed investment company and DirectCash Payments Inc, a financial transaction payments processing company listed on the Toronto Stock Exchange. He is also director of Sherman Contemporary Art Foundation, a charitable cultural organisation.

**Tristan O'Connell** (Internal Member)

Refer to information on directors on page 11.

**Audit & Risk Committee**

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

**Tristan O'Connell** (Internal Member)

**Barry Sechos** (Independent Member) (**Chairperson**)

**Claire Wivell Plater** (Independent Member)

The chairperson of the Audit & Risk Committee is an independent non-executive director and is not the chairperson of the Board. The Committee consists of non-executive directors.

The primary function of the Audit & Risk Committee is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the following areas:

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

The Audit & Risk Committee meets four times a year. The chairperson of the Audit & Risk Committee will report to the Board at a minimum of two times a year.

During the year the Audit & Risk Committee met four times and all members of the Audit & Risk Committee were present in the meetings.

The Audit & Risk Committee's Charter is available on the Group website.

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

**CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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, governance, activities and state of affairs. This also includes using a website to facilitate communication with unitholders via electronic methods. Information is communicated to unitholders through announcements to the ASX, releases to the media and dispatch of financial reports. Unitholders are provided with an opportunity to access such reports and releases electronically; copies of all such ASX announcements are linked to the Group's website at [www.usmastersresidential.com.au](http://www.usmastersresidential.com.au). Each unitholder is also provided online access to the Registry to allow them to receive communications from, and send communication to, the Responsible Entity and the Registry.

These include:

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

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

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

**CORPORATE GOVERNANCE STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**7. Recognise and Manage Risk**

The Board has accepted the role of identifying, assessing, monitoring and managing the significant areas of risk applicable to the Group and its operations. The Board has established an Audit & Risk Committee to deal with these matters. The Board liaises with the Advisory Board and the Audit & Risk Committee 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.

In order to evaluate and continually improve the effectiveness of its risk management and internal control processes, the Responsible Entity has adopted a set of Risk Management Guidelines for the Group. The Board conducts an annual review of the Group's Risk Management Guideline to satisfy itself that the Risk Management framework continues to be sound. The last review took place on 27 April 2015.

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 provides declarations required by Section 295A of the Corporations Act 2001 for all financial periods and confirms that in its opinion the financial records of the Group have been properly maintained and that the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view of the financial position and performance of the Group, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Group's external auditor.

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

**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.



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

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

The directors of Walsh & Company Investments Limited, the Responsible Entity of US Masters Residential Property Fund (**the Fund**) present their report together with the consolidated financial statements of the Fund and the entities it controlled (**the Group**) for the financial year ended 31 December 2015.

Effective 22 June 2015, the Responsible Entity of the Group changed from Dixon Advisory & Superannuation Services Limited (**DASS**) to Walsh & Company Investments Limited (**Walsh & Co**). Walsh & Co, a related entity of DASS, is the Responsible Entity of six other registered managed investment schemes. On the same date, the manager of the assets of the Group and the Group's underlying primary investment, the US Masters Residential Property (USA) Fund (**US REIT**), changed from DASS to URF Investment Management Pty Limited (**URF IM**). URF IM is also a member of Dixon Advisory Group Pty Limited, the parent company of DASS and Walsh & Co. URF IM utilises the same resources of Dixon Advisory Group Pty Limited as available to DASS to manage the Group. There was no change in the fee structure as a result of the change in the Responsible Entity and Investment Manager.

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.

<b>Name, qualifications and independence status</b>	<b>Experience, special responsibilities and other directorships</b>
Daryl Dixon MA (Hons), BA (Hons) Executive Chairman <i>Resigned effective 22 June 2015</i>	<p>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.</p> <p>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.</p> <p>Daryl is a director of the Australian Masters Yield Fund (<b>AMYF</b>) Series and the Australian Masters Corporate Bond Fund (<b>AMCBF</b>) 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.</p> <ul style="list-style-type: none"><li>• 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:<ul style="list-style-type: none"><li>- Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)</li><li>- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)</li><li>- Australian Masters Yield Fund No 1 Limited (since 2010)</li><li>- Australian Masters Yield Fund No 2 Limited (since 2011)</li><li>- Australian Masters Yield Fund No 3 Limited (since 2011)</li><li>- US Select Private Opportunities Fund (since 2012 until 23 April 2014)</li></ul></li></ul>

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

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Name, qualifications  
and independence  
status**

Alan Dixon  
BComm, CA  
Managing Director &  
CEO, Dixon Advisory  
USA

**Experience, special responsibilities and other directorships**

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)

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

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

<b>Name, qualifications and independence status</b>	<b>Experience, special responsibilities and other directorships</b>
<p>Maximilian Walsh AM, BEc Deputy Executive Chairman <i>Resigned effective 22 June 2015</i></p>	<p>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.</p> <p>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.</p> <ul style="list-style-type: none"> <li>• 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: <ul style="list-style-type: none"> <li>- Asian Masters Fund Limited (since 2007)</li> <li>- Australian Governance Masters Index Fund Limited (since 2009)</li> <li>- Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)</li> <li>- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)</li> <li>- Australian Masters Yield Fund No 1 Limited (since 2010)</li> <li>- Australian Masters Yield Fund No 2 Limited (since 2010)</li> <li>- Australian Masters Yield Fund No 3 Limited (since 2011)</li> <li>- Global Resource Masters Fund Limited (since 2008)</li> <li>- US Select Private Opportunities Fund (since 2012 until 23 April 2014)</li> </ul> </li> </ul>
<p>Chris Brown BChem Eng Hons, BComm Managing Director &amp; CEO <i>Resigned effective 22 June 2015</i></p>	<p>Chris Brown is a director of the AMCBF Series and AMYF Series. Chris also serves as the Chief Executive Officer at Dixon Advisory, Australia.</p> <p>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&amp;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 &amp; Acquisitions Group in New York working on transactions in chemicals, healthcare, consumer products, media, telecoms, technology, insurance and utilities.</p> <p>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.</p> <ul style="list-style-type: none"> <li>• 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: <ul style="list-style-type: none"> <li>- Australian Masters Corporate Bond Fund No 4 Limited (since 2008, delisted 14 January 2013)</li> <li>- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)</li> <li>- Australian Masters Yield Fund No 1 Limited (since 2010)</li> <li>- Australian Masters Yield Fund No 2 Limited (since 2010)</li> <li>- Australian Masters Yield Fund No 3 Limited (since 2011)</li> <li>- Australian Masters Yield Fund No 4 Limited (since 2011)</li> <li>- Australian Masters Yield Fund No 5 Limited (since 2012)</li> <li>- US Select Private Opportunities Fund (since 2012 until 23 April 2014)</li> </ul> </li> </ul>

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

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Name, qualifications  
and independence  
status**

Alex MacLachlan  
BA, MBA  
CEO  
– Funds Management  
*Appointed effective  
22 June 2015 through  
Walsh & Co.*

**Experience, special responsibilities and other directorships**

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, Emerging Markets Masters Fund and New Energy Solar Fund and Managing Director of Global Resource Masters Fund Limited. Alex also serves as a director of the AMYF series, AMCBF series, Asian Masters Fund Limited and New Energy Solar Limited.

Alex joined Dixon Advisory in 2008 to lead the Funds Management division and is currently the CEO of Walsh & Co.

Before joining Walsh & Co, 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)
  - Australian Masters Yield Fund No 5 Limited (since 2012)
  - 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)

# US MASTERS RESIDENTIAL PROPERTY FUND ARSN 150 256 161

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2015

**Name, qualifications and independence status**

Tristan O'Connell  
BComm, CPA, F Fin  
Finance Director  
*Appointed effective  
22 June 2015 through  
Walsh & Co.*

**Experience, special responsibilities and other directorships**

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, Emerging Markets Masters Fund and New Energy Solar Fund. Tristan also serves as a director of the New Energy Solar Limited. 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)

Tom Kline  
BCom, LLB (Hons)  
Director  
*Appointed effective  
22 June 2015 through  
Walsh & Co.*

Tom Kline is chairman of Australian Masters Yield Fund No 4 Limited, Australian Masters Yield Fund No 5 Limited, Fort Street Real Estate Capital and a director of the responsible entity for Emerging Markets Masters Fund, New Energy Solar Fund, US Select Private Opportunities Fund, US Select Private Opportunities Fund II, US Masters Residential Property Fund, Australian Property Opportunities Fund and Australian Property Opportunities Fund II. Tom also serves as a director of the New Energy Solar Limited.

Tom Kline joined Dixon Advisory in 2009 as Chief Operating Officer, Funds Management, and is currently the Chief Operating Officer of Walsh & Co.

Before joining Dixon Advisory, Tom was at UBS AG in Sydney. During his time at UBS, he was a member of the Infrastructure and Utilities team and advised on a wide range of public and private mergers & acquisitions and capital market transactions. Prior to joining UBS AG, Tom worked at Deloitte in the Corporate Finance division, working in the Transaction Services, Business Modelling and Valuation teams.

Tom has a Bachelor of Commerce and a Bachelor of Laws (with honours) from Australian National University.

- During the past three years Tom has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:
  - Australian Masters Yield Fund No 4 Limited (since 2012)
  - Australian Masters Yield Fund No 5 Limited (since 2012)
  - Emerging Markets Masters Fund (since 2012)
  - US Masters Residential Property Fund (since 2015)
  - US Select Private Opportunities Fund (since 2014)
  - US Select Private Opportunities Fund II (since 2013).

# **US MASTERS RESIDENTIAL PROPERTY FUND**

## **ARSN 150 256 161**

### **DIRECTORS' REPORT**

#### **FOR THE YEAR ENDED 31 DECEMBER 2015**

##### **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 2015 amounted to \$66,750,174 (2014: \$37,474,017). Contributing to this substantially was an unrealised foreign exchange gain on the value of the Group's US based net assets of \$66,843,499 which reflects the depreciation of the Australian dollar against the US dollar during the year from US\$0.8175/A\$ to US\$0.7286/A\$. The operating profit of the Group for the year ended 31 December 2015 after providing for income tax amounted to \$63,986 (2014: loss of \$3,889,598). The Group is in a strong position with net assets of \$535,141,652.

At 31 December 2015, the net asset value (NAV) of the Group was \$1.87 per ordinary unit, after unrealised gains and losses, and adjustments for tax (2014: \$1.72 per ordinary unit). This is after taking into account a 5 cent distribution that was announced on 18 December 2015. 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 2015, a total of \$19,462,000 was raised from the issue of 9,731,000 ordinary units in August 2015. An additional 7,281,279 ordinary units were issued during 2015 as part of the Group's Distribution Reinvestment Plan amounting to \$15,101,588.

The Group also raised a total of \$90,539,500 from the issue of URF Notes II which were allotted on 23 October 2015. In addition, the Group successfully closed on US\$164.5 million of additional bank financing.

##### **Distributions paid or recommended**

Two distributions of 5 cents per ordinary unit totalling \$13,423,960 and \$13,613,057 were paid on 6 February 2015 and 10 August 2015 respectively.

A further distribution of 5 cents per ordinary unit totalling \$14,274,574 was announced on 18 December 2015. 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 2015.

##### **After balance date events**

A distribution of 5 cents per ordinary unit totalling \$14,274,574 was declared on 18 December 2015 and was paid to unitholders on 29 January 2016. 3,769,080 units were issued under the Group's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled two property purchase contracts with a total consideration of \$6,121,389.

Subsequent to balance date, the properties located at 1511 Summit Avenue, 506-08 26<sup>th</sup> Street, 309-15 11<sup>th</sup> Street, 1405-1415 Palisade Avenue, and 1700 Bergenline Avenue (all located in Union City, New Jersey) and the properties located at 5907 Boulevard East and 111 61<sup>st</sup> Street (both located in West New York, New Jersey) were disposed of for total proceeds of US\$36.1 million.

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

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

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Future developments, prospects and business strategies**

Details of future developments in the Group are contained in the Chairman's Letter and the Managing Directors report included in pages (i) through (v). To the extent that the disclosure of information regarding developments in the operation of the Group, and the expected results of those operations is likely to result in unreasonable prejudice to the Group, such information has not been disclosed.

**Environmental issues**

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

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

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

<b>Director</b>	<b>No. of units</b>	<b>No. of notes</b>
Tom Kline	115,588	1,360
Alex MacLachlan	61,195	800
Tristan O'Connell	23,142	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 21 to the financial statements;
- units held by the directors of the Responsible Entity at the reporting date - refer to note 21 to the financial statements;
- capital raisings completed during the financial year - refer to note 15 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 2015, including movements in units on issue during the year – refer to note 15 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.

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

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 25.

**Auditor's independence declaration**

The auditor's independence declaration is set out on page 15 and forms part of the directors' report for the financial year ended 31 December 2015.

Signed in accordance with a resolution of the Directors:



Mr Alex MacLachlan  
Director

**Dated this 24<sup>th</sup> day of February 2016**



The Board of Directors  
Walsh & Company Investments Limited  
as Responsible Entity for:  
US Masters Residential Property Fund  
Level 15, 100 Pacific Highway  
North Sydney NSW 2060

24 February 2016

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 2015, 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



Michael Kaplan  
Partner  
Chartered Accountants

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<i>Note</i>	<b>2015</b> \$	<b>2014</b> \$
Investment property rental income		21,959,735	13,843,113
Insurance proceeds		140,950	-
Interest income		1,312,912	545,347
<b>Total revenue</b>		<u>23,413,597</u>	<u>14,388,460</u>
Fair value movement of investment properties	9	40,763,092	31,653,406
Fair value movement of forward foreign currency derivative		1,087,365	(724,465)
Share of profits/(losses) of jointly controlled entities	8	13,712,689	(361,153)
Investment property expenses		(13,757,763)	(8,785,982)
Net foreign currency gain/(loss)		1,960,771	(2,584,521)
Management fees	21	(14,420,588)	(7,786,968)
Listing fees		(311,199)	(193,818)
Professional fees		(2,341,085)	(2,850,619)
Marketing		(363,917)	(249,611)
Responsible Entity and related entity recharges - salaries & wages	21	(7,736,917)	(6,009,850)
Responsible Entity and related entity recharges - office administration costs	21	(4,609,471)	(3,106,102)
Interest expense	9	(10,311,037)	(183,967)
Impairment of investment property	9	(183,364)	-
Investment property disposal costs		(946,753)	(1,473,967)
Bad debt expense		(107,416)	(163,904)
Other expenses		(473,489)	(92,625)
<b>Profit before income tax</b>		<u>25,374,515</u>	<u>11,474,314</u>
Income tax expense	3(i), 11	(25,310,529)	(15,363,912)
<b>Profit/(loss) for the year attributable to unitholders</b>		<u>63,986</u>	<u>(3,889,598)</u>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operation (nil tax)		66,843,499	41,707,176
Share of jointly controlled entity's reserve movements (nil tax)	8	(157,311)	(343,561)
<b>Other comprehensive income for the year, net of tax</b>		<u>66,686,188</u>	<u>41,363,615</u>
<b>Total comprehensive income for the year attributable to unitholders</b>		<u>66,750,174</u>	<u>37,474,017</u>
<b>Earnings per unit</b>			
Basic earnings/(loss) per unit (dollars)	16	0.00	(0.02)
Diluted earnings/(loss) per unit (dollars)	16	0.00	(0.02)

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

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2015**

	<i>Note</i>	<b>2015</b> \$	<b>2014</b> \$
<b>Current assets</b>			
Cash and cash equivalents	4	133,557,456	191,280,901
Receivables	5	589,778	580,705
Other financial assets	6	19,091,341	-
Prepayments		320,994	772,475
Other assets	7	5,774,827	3,087,171
Investment properties held for sale	9	-	18,443,553
<b>Total current assets</b>		<u>159,334,396</u>	<u>214,164,805</u>
<b>Non-current assets</b>			
Investments in jointly controlled entities	8	81,194,726	60,159,752
Investment properties	9	862,538,836	543,058,098
Security deposits	10	343,124	305,810
Other assets	7	3,904,919	1,035,006
<b>Total non-current assets</b>		<u>947,981,605</u>	<u>604,558,666</u>
<b>Total assets</b>		<u>1,107,316,001</u>	<u>818,723,471</u>
<b>Current liabilities</b>			
Payables	12	30,644,646	37,224,886
Borrowings	13	24,653,907	797,107
Forward foreign currency derivative		-	724,465
<b>Total current liabilities</b>		<u>55,298,553</u>	<u>38,746,458</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	11	65,868,122	35,303,707
Borrowings	13	450,825,390	282,795,323
Other non-current liabilities	14	182,284	162,462
<b>Total non-current liabilities</b>		<u>516,875,796</u>	<u>318,261,492</u>
<b>Total liabilities</b>		<u>572,174,349</u>	<u>357,007,950</u>
<b>Net assets</b>		<u>535,141,652</u>	<u>461,715,521</u>
<b>Equity</b>			
Unit capital	15	388,720,491	381,980,548
Reserves		150,310,759	83,624,571
Accumulated losses		(3,889,598)	(3,889,598)
<b>Total equity</b>		<u>535,141,652</u>	<u>461,715,521</u>

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<i>Note</i>	<b>Unit capital</b> \$	<b>Foreign currency translation reserve</b> \$	<b>Share of joint venture's cash flow hedging reserve</b> \$	<b>Retained earnings/ (Accumulated losses)</b> \$	<b>Total equity</b> \$
<b>Balance at 1 January 2014</b>		<b>306,983,085</b>	<b>41,761,143</b>	<b>499,813</b>	<b>-</b>	<b>349,244,041</b>
Loss for the year		-	-	-	(3,889,598)	(3,889,598)
<b><i>Other comprehensive income, net of income tax</i></b>						
Foreign operation currency translation gain	15	-	41,707,176	-	-	41,707,176
Jointly controlled entity interest rate swap hedge loss	15	-	-	(343,561)	-	(343,561)
Total other comprehensive income/(loss)		-	41,707,176	(343,561)	-	41,363,615
<b>Total comprehensive income/(loss) for the year</b>		<b>-</b>	<b>41,707,176</b>	<b>(343,561)</b>	<b>(3,889,598)</b>	<b>37,474,017</b>
<b><i>Transactions with owners in their capacity as owners</i></b>						
Issue of ordinary units	15	102,162,187	-	-	-	102,162,187
Issue costs		(542,118)	-	-	-	(542,118)
Distributions to unitholders		(26,622,606)	-	-	-	(26,622,606)
<b>Total transactions with owners</b>		<b>74,997,463</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>74,997,463</b>
<b>Balance at 31 December 2014</b>		<b>381,980,548</b>	<b>83,468,319</b>	<b>156,252</b>	<b>(3,889,598)</b>	<b>461,715,521</b>
<b>Balance at 1 January 2015</b>		<b>381,980,548</b>	<b>83,468,319</b>	<b>156,252</b>	<b>(3,889,598)</b>	<b>461,715,521</b>
Profit for the year		-	-	-	63,986	63,986
<b><i>Other comprehensive income, net of income tax</i></b>						
Foreign operation currency translation gain	15	-	66,843,499	-	-	66,843,499
Jointly controlled entity interest rate swap hedge loss	15	-	-	(157,311)	-	(157,311)
Total other comprehensive income/(loss)		-	66,843,499	(157,311)	-	66,686,188
<b>Total comprehensive income/(loss) for the year</b>		<b>-</b>	<b>66,843,499</b>	<b>(157,311)</b>	<b>63,986</b>	<b>66,750,174</b>
<b><i>Transactions with owners in their capacity as owners</i></b>						
Issue of ordinary units	15	34,563,588	-	-	-	34,563,588
Distributions to unitholders		(27,823,645)	-	-	(63,986)	(27,887,631)
<b>Total transactions with owners</b>		<b>6,739,943</b>	<b>-</b>	<b>-</b>	<b>(63,986)</b>	<b>6,675,957</b>
<b>Balance at 31 December 2015</b>		<b>388,720,491</b>	<b>150,311,818</b>	<b>(1,059)</b>	<b>(3,889,598)</b>	<b>535,141,652</b>

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

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<i>Note</i>	<b>2015</b> \$	<b>2014</b> \$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		22,676,375	13,949,327
Cash paid to suppliers		(44,826,721)	(20,004,049)
Insurance proceeds		140,950	-
Interest received		1,192,421	420,003
Interest paid <sup>(i)</sup>		(9,794,370)	(33,051)
<b>Net cash used in operating activities</b>	<b>4</b>	<b>(30,611,345)</b>	<b>(5,667,770)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment property, including improvements (i)		(195,873,635)	(147,296,784)
Investment in jointly controlled entities		(1,847,516)	(22,616,539)
Payments for property-related deposits		(3,332,967)	(1,564,402)
Distributions received from jointly controlled entity investments		653,093	453,025
Proceeds from sale of investment properties		12,451,221	21,571,532
Investment in term deposits		(19,091,341)	-
Disposal costs on sale of investment properties		(946,753)	(1,473,967)
<b>Net cash used in investing activities</b>		<b>(207,987,898)</b>	<b>(150,927,135)</b>
<b>Cash flows from financing activities</b>			
Gross proceeds from secured bank loans and loan notes		253,537,079	237,125,513
Proceeds from issue of unit capital		19,462,000	87,230,410
Payments of issue costs		-	(542,118)
Payment of transaction costs related to loans and borrowings		(17,729,727)	(2,142,071)
Payment of interest reserve and escrow accounts		(2,744,977)	(871,310)
Distributions paid		(11,926,992)	(8,856,257)
Bank loan repayments		(70,072,262)	(8,739,780)
<b>Net cash from financing activities</b>		<b>170,525,121</b>	<b>303,204,387</b>
Net (decrease)/increase in cash and cash equivalents		(68,074,122)	146,609,482
Cash and cash equivalents at beginning of year		191,280,901	42,772,500
Effect of exchange rate fluctuations on cash held		10,350,677	1,898,919
<b>Cash and cash equivalents at end of year</b>	<b>4</b>	<b>133,557,456</b>	<b>191,280,901</b>

<sup>(i)</sup> - 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 24 February 2016. For the purposes of preparing the consolidated financial statements, the Fund is a for-profit entity.

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

**2. Basis of preparation**

**A) Statement of compliance**

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

**B) Basis of measurement**

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

**C) Use of estimates and judgements**

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

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

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

**i) Fair value of investment property assets**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**2. Basis of preparation (*continued*)**

**C) Use of estimates and judgements (*continued*)**

**ii) Deferred tax liability recognition**

The Fund recognises a deferred tax liability in respect of withholdings tax obligations which may arise in connection with the realisation and distribution of taxation capital gains associated with its property assets. The US tax consequences relating to property sales are complicated and the tax position which would apply depends on specific circumstances which can only be determined at a future disposal date. The tax position can vary from a zero tax liability position to the 35% withholding rate tax position which management have applied in its accounting policy. Furthermore, under recent legislation passed by the US government, the rate of withholding tax obligations on distribution of property asset gains may be reduced from the present rate of 35% to a lower rate of 15% if certain qualifying criteria are satisfied. The Fund has assessed that historically it has not consistently satisfied the relevant qualifying criteria and, on the expectation of the future improbability of meeting these criteria, has continued to recognise the deferred tax liability at the present rate of 35% on the differences arising between the carrying value and tax cost base of its property assets – refer note 3I.

**iii) Identification of ‘qualifying assets’**

The Fund is required to exercise judgement in identifying properties that will take a substantial period of time to get ready for their intended use (qualifying assets). Generally the Fund adopts a twelve month time estimate in undertaking this identification assessment. Borrowing costs directly relating to the acquisition or construction of such assets are capitalised to the carrying value of the underlying assets until they are ready for their intended use – refer note 3C(ii).

**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 23.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**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.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**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: Trade and other payables, borrowings and preference unit capital.

**Trade and other payables**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**C) Financial instruments (*continued*)**

**ii) Non-derivative financial liabilities (*continued*)**

**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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**D) Investment property (*continued*)**

**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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**E) Interests in jointly controlled (joint venture) entities (*continued*)**

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**I) Income tax**

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

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

A deferred tax liability is recognised at 35% based on the temporary difference arising between the recorded carrying amount of investment property assets in the Consolidated Statement of Financial Position and their associated tax cost bases. The US tax consequences relating to property sales are complicated and the tax position which would apply depends on specific circumstances which can only be determined at a future disposal date. The tax position can vary from a zero tax liability position to the 35% withholding rate tax position adopted, which would apply if the REIT were to make a distribution to its parent during the year in which a capital gain is realised on disposal of investment property assets. Furthermore, during the year, the U.S. government passed legislation that has the potential to eliminate or significantly reduce withholding tax on distributions of capital gains made by the US REIT, provided certain specified criteria are satisfied. If all qualifying criteria are satisfied in a year where a capital gain is realised and distributed, then such distribution would be subject to withholding at the lower operating profit distribution rate of 15% rather than the 35% rate currently applied. The Fund has not met the eligibility criteria on a consistent basis in historical years, and based on the assessed improbability of meeting these criteria in future years, it has continued to recognise a deferred tax liability based on the current 35% withholding tax rate applied.

**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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**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.

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.

**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 18.

**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 2014-1 'Amendments to Australian Accounting Standards' (Part A : Annual Improvements 2010 – 2012 and 2011 – 2013 Cycles)

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**N) New accounting standards and interpretations (*continued*)**

**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.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' and 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15'	1 January 2018	31 December 2018
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 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' and AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	31 December 2018
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	31 December 2016
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	31 December 2016
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 July 2015	31 December 2016
AASB 2015-4 'Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'	1 July 2015	31 December 2016
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	31 December 2016
AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	1 January 2016	31 December 2016

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3. Significant accounting policies (*continued*)**

**N) New accounting standards and interpretations (*continued*)**

**Accounting Standards and Interpretations issued but not yet effective (*continued*)**

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.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
IFRS 16 Leases	1 January 2019	31 December 2019
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017	31 December 2017
Disclosure Initiative (Amendments to IAS 7)	1 January 2017	31 December 2017



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**4. Cash and cash equivalents**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	133,557,456	182,345,886
Restricted cash	-	8,935,015
	<u>133,557,456</u>	<u>191,280,901</u>

Cash at bank earns interest at floating rates based on the bank deposit rates. The effective interest rate on bank deposits was 1.13% (2014: 0.73%).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 18.

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.

<b>Reconciliation of cash flows from operating activities</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Profit/(loss) for the year	63,986	(3,889,598)
Adjustments for:		
Net unrealised loss on foreign exchange	(1,960,771)	2,584,521
Change in fair value of forward foreign currency derivative	(1,087,365)	724,465
Impairment loss on investment property	183,364	-
Other non cash expenses	-	188,076
Change in fair value of investment property	(40,763,092)	(31,653,406)
Share of (profits)/losses of joint venture entities	(13,712,689)	361,153
Investment property disposal costs	946,753	1,473,967
Change in trade and other receivables	(9,073)	(253,452)
Change in other assets	(919,091)	(470,871)
Change in prepayments	451,481	682,136
Change in trade and other payables	1,098,433	9,221,327
Change in deferred tax liability (excluding foreign exchange impact)	25,096,719	15,363,912
<b>Net cash (used in) operating activities</b>	<u>(30,611,345)</u>	<u>(5,667,770)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015	2014
	\$	\$
<b>Current</b>		
Receivables - rental debtors	146,740	176,294
Allowance for doubtful debts	(21,987)	(13,672)
GST receivable	215,702	49,853
Interest receivable	245,835	125,344
Other receivables	3,488	242,886
	<u>589,778</u>	<u>580,705</u>

	2015 \$	2014 \$
Term deposits	19,091,341	
	<u>19,091,341</u>	

Other assets	2015	2014
	\$	\$
<b>Current assets</b>		
Property related deposits	3,332,967	1,564,402
Deferred leasing fee	1,053,317	699,951
Property tax escrow deposits	842,430	632,219
Other assets	546,113	190,599
	<u>5,774,827</u>	<u>3,087,171</u>
	2015	2014
	\$	\$
<b>Non-current assets</b>		
Facility interest reserve and escrow accounts	<u>3,904,919</u>	<u>1,035,006</u>
	3,904,919	1,035,006

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**8. Investments in jointly controlled entities**

Jointly controlled entities	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest	
				2015 %	2014 %
Golden Peak II, LLC (i)	United States	Property Investment	Hudson County, New Jersey	67.5%	67.5%
Hudson Gardens, LLC (i) (ii)	United States	Property Investment	Hudson County, New Jersey	90.0%	90.0%
Gold Coast Equities, LLC (i) (ii)	United States	Property Investment	Hudson County, New Jersey	92.5%	92.5%
DXEX Brooklyn I, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn II, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn III, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%

- (i) The Fund does not have existing rights that give it the current ability to direct the relevant activities of the joint venture and therefore does not exercise control of the joint venture entity.
- (ii) During the year, the investment properties owned by all Excelsior joint venture entities were put on the market for sale. As of balance date, the investment property owned by DXEX Brooklyn II, LLC located at 75 MacDonough Street, Bedford-Stuyvesant, New York had been disposed of and a number of other properties were under contract for sale (see page 36). The Group has entered into an agreement whereby if the properties are not sold within an agreed timeline, the Group will purchase the properties from its joint venture partner at an agreed upon price.

	2015 \$	2014 \$
<b>Carrying amount of interest in jointly controlled entities</b>		
Beginning of year	60,159,752	31,407,471
Investments made	292,348	24,085,867
Distributions received	(653,093)	(453,025)
Share of profits/(losses) of jointly controlled entities	13,712,689	(361,153)
Share of reserves of jointly controlled entities	(157,311)	(343,561)
Exchange rate differences on translation	7,840,341	5,824,153
Balance at end of year	<u>81,194,726</u>	<u>60,159,752</u>

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015						
	\$ Golden Peak II LLC	\$ Hudson Gardens LLC	\$ Gold Coast Equities LLC	\$ DXEX Brooklyn I	\$ DXEX Brooklyn II	\$ DXEX Brooklyn III	\$ Total
Cash and cash equivalents	1,122,998	28,629	690,245	1,607,012	2,923,693	2,985,672	9,358,249
Investment properties held for sale at fair value	-	21,832,041	29,559,669	23,744,740	-	41,732,682	116,869,132
Other current assets	614,610	133,020	170,233	446,901	57,035	412,919	1,834,718
<b>Current assets</b>	<b>1,737,608</b>	<b>21,993,690</b>	<b>30,420,147</b>	<b>25,798,653</b>	<b>2,980,728</b>	<b>45,131,273</b>	<b>128,062,099</b>
Investment properties at fair value	68,089,487	-	-	-	-	-	68,089,487
<b>Non-current assets</b>	<b>68,089,487</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,089,487</b>
<b>Total assets</b>	<b>69,827,095</b>	<b>21,993,690</b>	<b>30,420,147</b>	<b>25,798,653</b>	<b>2,980,728</b>	<b>45,131,273</b>	<b>196,151,586</b>
Borrowings	656,518	244,798	338,785	233,806	-	159,878	1,633,785
Other current liabilities	769,069	212,464	187,621	59,886	3,837	117,844	1,350,721
<b>Current liabilities</b>	<b>1,425,587</b>	<b>457,262</b>	<b>526,406</b>	<b>293,692</b>	<b>3,837</b>	<b>277,722</b>	<b>2,984,506</b>
Borrowings	29,300,081	11,011,913	16,841,666	11,616,153	-	19,944,224	88,714,037
Derivatives	1,201	-	-	-	-	-	1,201
<b>Non-current liabilities</b>	<b>29,301,282</b>	<b>11,011,913</b>	<b>16,841,666</b>	<b>11,616,153</b>	<b>-</b>	<b>19,944,224</b>	<b>88,715,238</b>
<b>Total liabilities</b>	<b>30,726,869</b>	<b>11,469,175</b>	<b>17,368,072</b>	<b>11,909,845</b>	<b>3,837</b>	<b>20,221,946</b>	<b>91,699,744</b>
<b>Net assets</b>	<b>39,100,226</b>	<b>10,524,515</b>	<b>13,052,075</b>	<b>13,888,808</b>	<b>2,976,891</b>	<b>24,909,327</b>	<b>104,451,842</b>
<b>Ownership interest</b>	<b>67.5%</b>	<b>90.0%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.5%</b>	
<b>Equity accounted interest before Promote Interest</b>	<b>26,392,653</b>	<b>9,472,064</b>	<b>12,073,169</b>	<b>12,847,147</b>	<b>2,753,624</b>	<b>23,041,127</b>	<b>86,579,784</b>
<b>Promote Interest attributable to joint venture partner</b>	<b>2,241,456</b>	<b>1,532,541</b>	<b>-</b>	<b>884,521</b>	<b>-</b>	<b>726,540</b>	<b>5,385,058</b>
<b>Equity accounted interest</b>	<b>24,151,197</b>	<b>7,939,523</b>	<b>12,073,169</b>	<b>11,962,626</b>	<b>2,753,624</b>	<b>22,314,587</b>	<b>81,194,726</b>
Revenue	6,319,862	1,726,763	2,212,546	1,176,856	134,395	1,902,596	13,473,018
Fair value movement of investment properties	4,364,438	2,578,197	2,392,915	4,193,478	666,879	4,696,263	18,892,170
Interest income	2,264	35	93	3,661	856	5,559	12,468
Interest expense	(1,061,341)	(430,862)	(687,905)	(438,700)	(131,242)	(752,405)	(3,502,455)
Other expenses	(3,360,570)	(1,078,784)	(1,787,035)	(830,590)	(859,887)	(1,249,275)	(9,166,141)
<b>Profit/(loss)</b>	<b>6,264,653</b>	<b>2,795,349</b>	<b>2,130,614</b>	<b>4,104,705</b>	<b>(188,999)</b>	<b>4,602,738</b>	<b>19,709,060</b>
<b>Equity accounted interest before Promote Interest</b>	<b>4,228,641</b>	<b>2,515,814</b>	<b>1,970,818</b>	<b>3,796,852</b>	<b>(174,824)</b>	<b>4,257,533</b>	<b>16,594,834</b>
<b>Promote Interest attributable to joint venture partner</b>	<b>663,888</b>	<b>842,625</b>	<b>-</b>	<b>704,990</b>	<b>-</b>	<b>670,642</b>	<b>2,882,145</b>
<b>Equity accounted interest</b>	<b>3,564,753</b>	<b>1,673,189</b>	<b>1,970,818</b>	<b>3,091,862</b>	<b>(174,824)</b>	<b>3,586,891</b>	<b>13,712,689</b>
<b>Other comprehensive loss</b>	<b>(233,054)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(233,054)</b>
<b>Equity accounted interest</b>	<b>(157,311)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(157,311)</b>
<b>Total comprehensive income before Promote Interest</b>	<b>6,031,599</b>	<b>2,795,349</b>	<b>2,130,614</b>	<b>4,104,705</b>	<b>(188,999)</b>	<b>4,602,738</b>	<b>19,476,006</b>
<b>Equity accounted interest before Promote Interest</b>	<b>4,071,330</b>	<b>2,515,814</b>	<b>1,970,818</b>	<b>3,796,852</b>	<b>(174,824)</b>	<b>4,257,533</b>	<b>16,437,523</b>
<b>Promote Interest attributable to joint venture partner</b>	<b>663,888</b>	<b>842,625</b>	<b>-</b>	<b>704,990</b>	<b>-</b>	<b>670,642</b>	<b>2,882,145</b>
<b>Equity accounted interest</b>	<b>3,407,442</b>	<b>1,673,189</b>	<b>1,970,818</b>	<b>3,091,862</b>	<b>(174,824)</b>	<b>3,586,891</b>	<b>13,555,378</b>
<b>Distributions received - 2015</b>	<b>538,383</b>	<b>114,710</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>653,093</b>
<b>Distributions received - 2014</b>	<b>224,433</b>	<b>228,592</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>453,025</b>

Investment properties in which the Group has an economic interest via investments in joint venture entities that are either under contract for sale or that are actively being marketed for sale at balance date have been classified as "Investment properties held for sale" and are shown as a current asset in the table above.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

	2014						
	\$	\$	\$	\$	\$	\$	
	Golden Peak II LLC	Hudson Gardens LLC	Gold Coast Equities LLC	DXEX Brooklyn I	DXEX Brooklyn II	DXEX Brooklyn 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
<b>Current assets</b>	<b>1,446,888</b>	<b>267,255</b>	<b>1,414,254</b>	<b>1,997,642</b>	<b>1,696,869</b>	<b>3,130,140</b>	<b>9,953,048</b>
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
<b>Non-current assets</b>	<b>56,451,667</b>	<b>17,059,391</b>	<b>23,926,204</b>	<b>17,237,570</b>	<b>3,951,070</b>	<b>32,636,086</b>	<b>151,261,988</b>
<b>Total assets</b>	<b>57,898,555</b>	<b>17,326,646</b>	<b>25,340,458</b>	<b>19,235,212</b>	<b>5,647,939</b>	<b>35,766,226</b>	<b>161,215,036</b>
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
<b>Current liabilities</b>	<b>1,012,350</b>	<b>455,790</b>	<b>430,073</b>	<b>148,101</b>	<b>84,221</b>	<b>117,832</b>	<b>2,248,367</b>
Borrowings	26,709,527	10,023,838	15,280,963	10,543,392	2,832,387	17,876,625	83,266,732
<b>Non-current liabilities</b>	<b>26,709,527</b>	<b>10,023,838</b>	<b>15,280,963</b>	<b>10,543,392</b>	<b>2,832,387</b>	<b>17,876,625</b>	<b>83,266,732</b>
<b>Total liabilities</b>	<b>27,721,877</b>	<b>10,479,628</b>	<b>15,711,036</b>	<b>10,691,493</b>	<b>2,916,608</b>	<b>17,994,457</b>	<b>85,515,099</b>
<b>Net assets</b>	<b>30,176,678</b>	<b>6,847,018</b>	<b>9,629,422</b>	<b>8,543,719</b>	<b>2,731,331</b>	<b>17,771,769</b>	<b>75,699,937</b>
<b>Ownership interest</b>	<b>67.5%</b>	<b>90.0%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.5%</b>	
<b>Equity accounted interest before Promote Interest</b>	<b>20,369,258</b>	<b>6,162,316</b>	<b>8,907,215</b>	<b>7,902,940</b>	<b>2,526,481</b>	<b>16,438,886</b>	<b>62,307,096</b>
<b>Promote Interest attributable to joint venture partner</b>	<b>1,386,804</b>	<b>590,514</b>	<b>-</b>	<b>139,611</b>	<b>-</b>	<b>30,415</b>	<b>2,147,344</b>
<b>Equity accounted interest</b>	<b>18,982,454</b>	<b>5,571,802</b>	<b>8,907,215</b>	<b>7,763,329</b>	<b>2,526,481</b>	<b>16,408,471</b>	<b>60,159,752</b>
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)
<b>Profit/(loss)</b>	<b>1,766,314</b>	<b>357,188</b>	<b>(2,158,707)</b>	<b>649,208</b>	<b>(264,462)</b>	<b>156,501</b>	<b>506,042</b>
<b>Equity accounted interest before Promote Interest</b>	<b>1,192,262</b>	<b>321,469</b>	<b>(1,996,804)</b>	<b>600,517</b>	<b>(244,627)</b>	<b>144,763</b>	<b>17,580</b>
<b>Promote Interest attributable to joint venture partner</b>	<b>100,255</b>	<b>124,427</b>	<b>-</b>	<b>126,494</b>	<b>-</b>	<b>27,557</b>	<b>378,733</b>
<b>Equity accounted interest</b>	<b>1,092,007</b>	<b>197,042</b>	<b>(1,996,804)</b>	<b>474,023</b>	<b>(244,627)</b>	<b>117,206</b>	<b>(361,153)</b>
<b>Other comprehensive income</b>	<b>(508,979)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(508,979)</b>
<b>Equity accounted interest</b>	<b>(343,561)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(343,561)</b>
<b>Total comprehensive income before Promote Interest</b>	<b>1,257,335</b>	<b>357,188</b>	<b>(2,158,707)</b>	<b>649,208</b>	<b>(264,462)</b>	<b>156,501</b>	<b>(2,937)</b>
<b>Equity accounted interest before Promote Interest</b>	<b>848,701</b>	<b>321,469</b>	<b>(1,996,804)</b>	<b>600,517</b>	<b>(244,627)</b>	<b>144,763</b>	<b>(325,981)</b>
<b>Promote Interest attributable to joint venture partner</b>	<b>100,255</b>	<b>124,427</b>	<b>-</b>	<b>126,494</b>	<b>-</b>	<b>27,557</b>	<b>378,733</b>
<b>Equity accounted interest</b>	<b>748,446</b>	<b>197,042</b>	<b>(1,996,804)</b>	<b>474,023</b>	<b>(244,627)</b>	<b>117,206</b>	<b>(704,714)</b>
Distributions received - 2014	224,433	228,592	-	-	-	-	453,025
Distributions received - 2013	645,062	169,564	-	-	-	-	814,626

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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

The fair value of investment properties owned by the Group's joint venture entities as at 31 December 2015 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 II, LLC joint venture entity. In determining the fair value of the portfolio owned by Golden Peak II, LLC, Jones Lang LaSalle adopted a combination of direct capitalisation of net income approach and a discounted cash flow model approach. Where a direct capitalisation of net income approach was used, capitalisation rates ranging from 5% to 5.50% were applied to year one pro-forma income. Where a discounted cash flow model approach was used, discount rates ranging from 8% to 9% were applied to projected cash flows.

Hudson Gardens LLC

At balance date, both investment properties owned by Hudson Gardens, LLC were under separate contracts for sale. The carrying value of both properties recorded in the Consolidated Statement of Financial Position reflect the contracted sales price.

Gold Coast Equities LLC

At balance date, five of the six properties owned by Gold Coast Equities were under contract for sale. The carrying value of properties under contract for sale are recorded in the Consolidated Statement of Financial Position at the contracted sales values.

The remaining property owned by Gold Coast Equities LLC (508 Monastery Place, Union City, New Jersey) was valued by Jones Lang LaSalle during the year. In determining the fair value of the property, Jones Lang LaSalle adopted a direct capitalisation of net income approach. The capitalisation rate used to value the property was 5.25%. The fair value derived under this method was cross checked with a discounted cash flow model, using a discount rate of 7.20%. The directors of the Group are satisfied that the valuation completed at 30 June 2015 reflects the fair value of the property as at 31 December 2015.

At balance date, the property located at 508 Monastery Place, Union City, New Jersey was on the market for sale.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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

DXEX Brooklyn I LLC

At balance date, the property located at 442-446 Decatur Street, Bedford Stuyvesant, New York was under contract for sale. The carrying value of the property recorded in the Consolidated Statement of Financial Position reflects the contracted sales amount.

The remaining property owned by DXEX Brooklyn I LLC (located at 255-265 Linden Street, Bushwick, New York) was appraised by Jones Lang LaSalle during the year. In determining the fair value of the property, Jones Lang LaSalle adopted a discounted cash flow model approach. The discount rate used to value the property was 7%. The fair value derived under this approach was cross checked with a direct capitalisation of net income approach using a capitalization rate of 4.04%. The directors of the Group are satisfied that the valuation completed at 30 June 2015 reflects the fair value of the property at 31 December 2015.

At balance date, the property located at 255-265 Linden Street, Bushwick, New York was on the market for sale.

DXEX Brooklyn II LLC

During the year, DXEX Brooklyn II LLC sold the property located at 75 MacDonough Street, Bedford-Stuyvesant, New York for US\$4,175,000 (A\$5,730,167). The Group's economic interest in the sales proceeds is US\$3,861,875 (A\$5,300,405).

DXEX Brooklyn III LLC

At balance date, the property located at 770 St. Marks Avenue, Crown Heights, New York was under contract for sale. The carrying value of 770 St Marks Avenue, Brooklyn at balance date reflects the contracted sales amount.

The remaining properties owned by DXEX Brooklyn III LLC were appraised by Jones Lang LaSalle during the year. In determining the fair value of the properties, Jones Lang LaSalle adopted a discounted cash flow model approach. The discount rate used to value the properties owned by DXEX Brooklyn III LLC was 7%. The fair value derived under this method was cross checked with a direct capitalisation of net income model, using capitalisation rates ranging from 3.59% to 4.72%. The directors of the Group are satisfied that the valuation completed at 30 June 2015 reflects the fair value of the properties as at 31 December 2015.

At balance date, the investment properties owned by the DXEX Brooklyn III LLC joint venture that were not under contract for sale were on the market for sale.

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

Other than noted above, 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 2015 to its Hudson Gardens LLC joint venture entity for US\$873,731 (A\$1,133,685) to fund working capital requirements.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**9. Investment properties**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Disclosed on the Consolidated Statement of Financial Position as:		
<b>Current assets</b>		
Investment properties held for sale	-	18,443,553
<b>Non-current assets</b>		
Investment properties	862,538,836	543,058,098
	<u>862,538,836</u>	<u>561,501,651</u>
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>At fair value</b>		
Balance at beginning of year	561,501,651	351,577,810
Acquisitions, including improvements and interest on qualifying properties	198,119,085	152,400,862
Fair value movement of investment properties to market	40,763,092	31,653,406
Disposals	(12,476,110)	(21,309,087)
Impairment of investment properties due to damage	(183,364)	-
Exchange rate differences on translation	74,814,482	47,178,660
Balance at end of year	<u>862,538,836</u>	<u>561,501,651</u>
	<b>\$</b>	<b>\$</b>
Interest expense	26,648,436	5,308,128
Interest capitalised to carrying value of qualifying investment properties	(16,337,399)	(5,124,161)
Interest expense reflected in profit or loss	<u>10,311,037</u>	<u>183,967</u>

The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.35% (2014: 5.84%).

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.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**9. Investment properties (*continued*)**

**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 were appointed in respect of the residential properties selected for independent appraisal during the financial year. The appraisers were selected in consideration of their certification as either licensed residential appraisers or licensed real estate agents, as well as their experience and independence to the Group. 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 (licensed residential appraiser)
- Accurate Appraisals Associates, LLC (licensed residential appraiser)
- F J R Appraisal Service (licensed residential appraiser)
- Platinum Coast Appraisal & Co. (licensed residential appraiser)
- Glenn A. Gabberty Appraisals, Inc. (licensed residential appraiser)
- Douglas Elliman Real Estate (licensed real estate agent)

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 appraised value of the subject property.

The appraisal 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 appraisal, 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:

<i>Class of Property</i>	<i>Fair Value Hierarchy Level</i>	<i>Fair Value 31/12/2015</i>	<i>Fair Value 31/12/2014</i>	<i>Valuation Technique</i>	<i>Inputs</i>
Residential use investment property	Level 2	\$862,538,836	\$561,501,651	Direct comparable sales	<ul style="list-style-type: none"> <li>- Selling price</li> <li>- Geographic location</li> <li>- Property age and condition</li> <li>- Size of property</li> <li>- Number of rooms</li> </ul>

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**9. Investment properties (continued)**

**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:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Not later than one year	14,433,933	6,984,310
Later than one year and not later than five years	1,222,595	1,141,563
Later than five years	-	-
	<u>15,656,528</u>	<u>8,125,873</u>

**iii) Contractual obligations**

As at balance date, the Group has paid property related deposits totalling \$3,332,967 in respect of commitments to purchase 11 residential properties with a combined purchase consideration of \$29,934,120.

The Group also has contracted to spend an amount of \$26,262,690 in respect of property refurbishments.

**10. Security deposits**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Security deposits	<u>343,124</u>	<u>305,810</u>

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\$343,124) deposit.

**11. Deferred tax liabilities**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Investment properties	<u>65,868,122</u>	<u>35,303,707</u>
<b>Movements</b>		
Balance at beginning of year	35,303,707	17,450,157
Charged to profit and loss as income tax expense	25,096,719	15,363,912
Charged to profit and loss as unrealised foreign exchange loss	5,467,696	2,489,638
Balance at end of year	<u>65,868,122</u>	<u>35,303,707</u>

Income tax expense is comprised of:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Deferred tax charged to profit or loss	25,096,719	15,363,912
Withholding tax payable	213,810	-
Income tax expense	<u>25,310,529</u>	<u>15,363,912</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**11. Deferred tax liabilities (*continued*)**

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 31.

During the year, the U.S. government passed legislation that has the potential to eliminate or significantly reduce withholding tax on distributions of capital gains made by the US REIT, provided certain specified criteria are satisfied. If all qualifying criteria are satisfied in a year where a capital gain is realised and distributed, then such distribution would be subject to withholding at the lower operating profit distribution rate of 15%, instead of the current rate of 35%. Historically, the Group has not consistently satisfied all of the criteria necessary to qualify for the reduction in the rate of withholding tax, but may do so in the future. However, because based on historical experience the Group is not presently expected to satisfy all necessary criteria in future years to qualify for the reduced withholding tax rate, a deferred tax liability at 35% in respect of the temporary differences has continued to be recognised in the Consolidated Statement of Financial Position at balance date.

**12. Payables**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade payables	12,828,668	18,625,612
Distribution payable	14,305,374	13,446,323
Other payables	3,510,604	5,152,951
	<u>30,644,646</u>	<u>37,224,886</u>

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

**13. Borrowings**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Current liabilities</b>		
Secured bank loans - at amortised cost	24,653,907	610,021
Financed insurance premiums	-	187,086
	<u>24,653,907</u>	<u>797,107</u>
<b>Non-current liabilities</b>		
Unsecured notes	235,774,089	146,872,789
Secured bank loans - at amortised cost	215,051,301	135,922,534
	<u>450,825,390</u>	<u>282,795,323</u>

Secured bank loans

During the year, the Group secured an additional loan facility of US\$14,500,000 (A\$18,651,917) from Investors Bank. The amount drawn (amortised cost) at balance date is shown below.

The Group also increased the Centennial Bank facility from US\$58,000,000 (A\$82,574,032) to US\$75,000,000 (A\$106,776,765). The amount drawn (amortised cost) at balance date is shown below.

In addition, the Group secured a US\$150,000,000 (A\$193,423,598) facility with FCCD Limited. Drawdowns under the facility are subject to provision of approved collateral property security and compliance with facility terms and conditions. The purpose of this facility is to provide growth capital including to finance the acquisition and renovation of properties. As properties are fully renovated and tenanted, associated facility drawdowns from FCCD Limited are required to be repaid, and the intention is to refinance such properties in a long term facility such as those provided by Investors Bank (see page 42). The amount drawn (amortised cost) at balance date is shown below.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**13. Borrowings (continued)**

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

Financial Institution	Interest Rate	Maturity Date	Security	Property Security Value - Fair Value	31 Dec 2015 Principal Amount - Amortised Cost	31 Dec 2014 Principal Amount - Amortised Cost
Investors Bank	3.99% (i)	June 2022	Investment property (vii)	14,800,820	3,738,174	3,386,879
Investors Bank	3.75% (ii)	November 2022	Investment property (vii)	13,770,513	3,589,463	3,634,185
Investors Bank	3.75% (iii)	July 2025	Investment property (vii)	23,170,893	6,863,293	6,601,104
Investors Bank	3.63% (iv)	November 2023	Investment property (vii), (vii)*	63,878,990	18,360,724	16,647,271
Investors Bank	3.63% (iv)	November 2023	Investment property (vii)	37,935,714	11,934,592	11,633,678
Investors Bank	3.63% (iv)	November 2023	Investment property (vii)	22,933,404	7,861,359	7,423,622
Investors Bank	3.63% (v)	November 2024	Investment property (vii)	72,818,527	22,256,362	20,161,870
Investors Bank	3.63% (viii)	April 2025	Investment property (vii)	71,846,517	18,573,792	-
Centennial Bank	LIBOR (vi) 1 Month (x) + 5.75%	March 2017	(ix)	58,294,623	18,352,937	67,043,946
FCCD Limited	LIBOR (x) 3 Month (xi) + 5.50%	(xi)	(xi)	406,660,747	128,174,512	-
					<b>239,705,208</b>	<b>136,532,555</b>

**Disclosed as:**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Current	24,653,907	610,021
Non-Current	215,051,301	135,922,534
	<b>239,705,208</b>	<b>136,532,555</b>

(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%.

(vii) Loans are secured by first mortgage security over specified secured property assets, assignment of borrower's right; title and interest in present and future property leases, and indemnity executed by US Masters Residential Property (USA) Fund in connection with specified non-recourse exclusions. Loans are subject to Default Event clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable.

(vii) \* In addition to the security referred to in (vii), US Masters Residential Property (USA) Fund has guaranteed the loan and US\$1,999,990 (A\$2,744,977) has been placed in escrow with Investors Bank.

(viii) Resets to a new fixed interest rate in April 2020 for the remaining term.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**13. Borrowings (continued)**

- (ix) On 2 April 2015, Centennial Bank (a member of NASDAQ-listed Home BankShares) acquired Doral Bank's real estate lending platform and associated loan portfolio, inclusive of the Group's existing US\$58 million revolver loan facility. Pursuant to this acquisition, Centennial Bank is the lender of this facility to the Group. Amounts available to be drawn against the facility are based on providing approved collateral property and meeting other facility terms and conditions.

The Centennial Bank loan is secured by way of charge over the following subsidiaries of the Fund in which collateralised property assets are held:

- AFL URF LLC
- Newtown Jets LLC
- South Sydney LLC
- North Sydney LLC
- Canberra Raiders LLC
- Hawthorn Properties LLC
- Richmond URF LLC
- New South Wales URF LLC

The total value of the security provided at balance date is A\$59,670,613, including property assets valued at \$58,294,623. US Masters Residential Property (USA) Fund has guaranteed the loan.

- (x) As of 31 December 2015, LIBOR 1 Month was 0.3305% and LIBOR 3 Month was 0.2315%.
- (xi) The facility with FCCD Limited dated 11 June 2015 is comprised of a Term Loan and a Revolver Note. The Term Loan of US\$65,000,000 (A\$83,816,892) has a maturity date of July 10, 2020. The Revolver Note of US\$85,000,000 (A\$109,606,705) has a maturity date of July 10, 2018. The Revolver Note is limited in drawdown to US\$50,000,000 (A\$64,876,087) during the first 12 months of the agreement. Amounts available to be drawn under the facility are based on providing collateral property security meeting specified conditions and meeting other facility terms and conditions. Both the cost and subsequent renovation costs pertaining to such properties are eligible for funding based on a 60% loan to value ratio. Once funded properties are stabilised (ie post renovation), funding is required to be repaid within a specified period and collateral properties are released. It is the Fund's intention that as properties are released from the facility collateral pool that these are refinanced in a long term facility such as those provided by Investors Bank. The facility is subject to specified covenant and other reporting obligations. The facility is 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. The facility is secured by way of charge over the following subsidiaries of the Fund which own the funded pool of properties:
- Newcastle URF LLC
  - Canterbury URF LLC
  - Penrith URF LLC
  - Manly Warringah URF LLC

The total value of the security at balance date is \$407,613,525, including property assets valued at \$406,660,747. US Masters Residential Property (USA) Fund and US Masters Residential Property Fund have each guaranteed the loan in limited circumstances.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**13. Borrowings (continued)**

Unsecured Notes

In addition to the bank facilities listed above, the Group also issued 905,395 unsecured notes during the year with a total face value of \$90,539,500. The unsecured notes bear interest at a rate of 7.75% per annum and have a maturity date of 24 December 2020. The Responsible Entity has an option to redeem or partially redeem the notes on 24 December 2018, or on any quarterly Interest Payment Date thereafter.

Details of unsecured notes outstanding at balance date are set out below:

Notes Issue	Interest Rate	Maturity Date	Early Redemption Date at Discretion of Issuer	Security	31 Dec 2015 - Amortised Cost	31 Dec 2014 - Amortised Cost
URF Notes	7.75%	24 December 2019	24 December 2017	Unsecured	147,372,572	146,872,789
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	88,401,517	-
					<u>235,774,089</u>	<u>146,872,789</u>

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

Facility	Principal Drawn	Principal Available	Total
Investors Bank	96,334,643		96,334,643
Centennial Bank	19,907,752	83,029,388 *	102,937,140
FCCD Limited	137,249,520	68,624,759 * ^	205,874,279
URF Notes	150,000,000	-	150,000,000
URF Notes II	90,539,500	-	90,539,500
	<u>494,031,415</u>	<u>151,654,147</u>	<u>645,685,562</u>

\* Available facilities are subject to provision of eligible property security meeting conditions set by lenders and meeting other conditions as noted in (ix) and (xi) above.

^ Available amount is limited to \$20,587,428 drawdown during the period ending 11 June 2016.

**14. Other non-current liabilities**

	2015 \$	2014 \$
Redeemable preference units	171,562	152,905
Accrued interest	10,722	9,557
	<u>182,284</u>	<u>162,462</u>

Series A Preferred Units	2015 No of units	2015 \$	2014 No of units	2014 \$
Issued	125	182,284	125	162,462

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 & Loss and Other Comprehensive Income.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**15. Capital and reserves**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
285,491,473 fully paid ordinary units (2014: 268,479,194)	388,720,491	381,980,548
<b>(a) Issued Units</b>		
Balance at beginning of the year	381,980,548	306,983,085
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
3,781,955 units issued at \$2.05	7,753,008	-
3,499,324 units issued at \$2.10	7,348,580	-
9,731,000 units issued at \$2.00	19,462,000	-
June 2014 distribution	-	(13,198,646)
December 2014 distribution	-	(13,423,960)
June 2015 distribution	(13,613,057)	-
December 2015 distribution	(14,210,588)	-
Issue costs	-	(542,118)
<b>Balance at end of the year</b>	<b>388,720,491</b>	<b>381,980,548</b>

<b>(b) Movements in ordinary units</b>		<b>2015</b>	<b>2014</b>
<b>Date</b>	<b>Details</b>	<b>No.</b>	<b>No.</b>
1 January	Balance at beginning of the year	268,479,194	211,727,400
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
6 February 2015	Distribution reinvestment	3,781,955	-
10 August 2015	Distribution reinvestment	3,499,324	-
13 August 2015	Ordinary units issue	9,731,000	-
<b>31 December</b>		<b>285,491,473</b>	<b>268,479,194</b>

**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, LLC an entity over which the Group has joint control (refer note 8). The Group accounts for its share of fair value movements through reserves.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**16. Earnings per unit**

<b>(a) Weighted average number of ordinary units</b>	<b>2015 No.</b>	<b>2014 No.</b>
Weighted average number of ordinary units outstanding during the year used to calculate basic earnings per unit	276,981,179	256,047,198
<hr/>		
<b>(b) Profit/(loss) attributable to ordinary unitholders</b>	<b>2015 \$</b>	<b>2014 \$</b>
Profit/(loss) attributable to ordinary unitholders	63,986	(3,889,598)
Basic earnings/(loss) per unit (dollars)	0.000	(0.015)
Earnings/(loss) used in the calculation of basic earnings/(loss) per unit	63,986	(3,889,598)
<hr/>		

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

**17. 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 & Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

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



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**18. 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:

<b>Summary exposure</b>		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	4	133,557,456	191,280,901
Trade and other receivables	5	128,241	405,508
GST receivable	5	215,702	49,853
Interest receivable	5	245,835	125,344
Other financial assets	6	19,091,341	-
Property tax escrow deposits	7	842,430	632,219
Interest reserve and security deposit escrows	7	3,904,919	1,035,006
Property related deposits	7	3,332,967	1,564,402
Security deposits	10	343,124	305,810
		<b>161,662,015</b>	<b>195,399,043</b>

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**18. Financial risk management and financial instruments (*continued*)**

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 review the trade debtors ledger for recoverability of outstanding balances. A provision of \$21,987 (2014: \$13,672) 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:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Current	111,081	120,602
Past due 31-60 days	13,672	42,020
Past due 61-90 days	336	700
More than 90 days	21,651	12,972
	<u>146,740</u>	<u>176,294</u>

Movement in allowance for doubtful debts

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of the year	13,672	24,875
Increase in doubtful debt allowance	107,416	163,904
Amounts written off during the year as uncollectible	(100,977)	(176,097)
Exchange rate differences on translation	1,876	990
Balance at end of the year	<u>21,987</u>	<u>13,672</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**18. Financial risk management and financial instruments (*continued*)**

**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.

<b>31 December 2015</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>12 mths or less</b>	<b>1-5 years</b>	<b>5 years and more</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Payables	30,644,646	30,644,646	30,644,646	-	-
Interest on series A preference units*	182,284	182,284	21,445	107,226	53,613
Secured bank loans**	239,705,208	343,818,636	42,114,064	175,114,412	126,590,160
Unsecured notes	235,774,089	321,766,042	18,641,811	303,124,231	-
	<b>506,306,227</b>	<b>696,411,608</b>	<b>91,421,966</b>	<b>478,345,869</b>	<b>126,643,773</b>

<b>31 December 2014</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>12 mths or less</b>	<b>1-5 years</b>	<b>5 years and more</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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	-
	<b>320,979,777</b>	<b>440,071,561</b>	<b>57,567,731</b>	<b>286,282,151</b>	<b>96,221,679</b>

\* 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 13. 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**18. Financial risk management and financial instruments (*continued*)**

**Currency risk**

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

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

<u>External group exposure *</u>	<b>USD exposure converted to AUD</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Cash	10,651	9,475
<b>Total assets</b>	<u>10,651</u>	<u>9,475</u>
<b>Liabilities</b>		
Payables	(728,165)	(984,182)
<b>Total liabilities</b>	<u>(728,165)</u>	<u>(984,182)</u>
<b>Net external exposure</b>	<u>(717,514)</u>	<u>(974,707)</u>

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

<u>Internal group exposure **</u>	<b>USD exposure converted to AUD</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
USD denominated convertible note issued by the US REIT to the Australian parent entity	121,141,154	-
USD denominated interest receivable on convertible note	1,993,076	-
<b>Net internal exposure</b>	<u>123,134,230</u>	<u>-</u>
<b>Net profit or loss exposure</b>	<u>122,416,716</u>	<u>(974,707)</u>

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**18. Financial risk management and financial instruments (*continued*)**

**Currency risk (*continued*)**

**Sensitivity analysis**

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b><i>Impact on profit or loss / equity</i></b>		
+10% - Strengthening	(11,139,614)	142,392
-10% - Weakening	13,613,025	(120,277)

In Management's opinion the above sensitivity analysis is not representative of the inherent foreign exchange risk as the year end exposure does not necessarily reflect the exposure during the course of the year.

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

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

	<b>USD exposure converted to AUD</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Cash	101,882,155	34,659,271
Receivables and other assets	10,389,452	5,577,227
Investments in jointly controlled entities	81,194,726	60,159,752
Investment properties	862,538,836	561,501,651
<b>Total assets</b>	<b>1,056,005,169</b>	<b>661,897,901</b>
<b>Liabilities</b>		
Payables	15,005,524	20,090,750
Borrowings	414,982,743	136,719,641
Other payables	182,284	162,462
<b>Total liabilities</b>	<b>430,170,551</b>	<b>156,972,853</b>
<b>Net exposure</b>	<b>625,834,618</b>	<b>504,925,048</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**18. Financial risk management and financial instruments (*continued*)**

**Currency risk (*continued*)**

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. At year end, there were no outstanding forward foreign exchange contracts. Details of outstanding forward foreign exchange contracts at the comparative balance date (31 December 2014) are provided below.

Outstanding contracts	Exchange rate 31/12/2014	Foreign currency 31/12/2014	Notional Value 31/12/2014	Spot Conversion at 31/12/2014
		USD	AUD	AUD
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)	-	-	-	-

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). Information below is in respect of forward foreign exchange contracts on hand at the comparative balance date.

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
1) 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 counterparties.	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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**18. Financial risk management and financial instruments (*continued*)**

**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%. These fixed rates are reset at forward dates as shown in note 13. 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 thus do not constitute an interest rate risk. The loans payable to Centennial Bank and FCCD Limited are variable rate loans, with interest rates of LIBOR 1 Month plus 5.75% and LIBOR 3 Month plus 5.50%, respectively. The Group's bank deposits are exposed to both variable rates of interest and fixed rates of interest.

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Variable rate instruments</b>		
Cash and cash equivalents	133,557,456	182,345,886
Variable rate bank loans (Centennial Bank and FCCD Limited)	(146,527,449)	(67,043,946)
	<u>(12,969,993)</u>	<u>115,301,940</u>

**Cash flow sensitivity analysis for variable rate instruments**

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Impact on profit before tax / equity</b>		
+0.25% (25 basis points)	(32,425)	288,255
-0.25% (25 basis points)	32,425	(288,255)

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Debt	475,661,581	283,754,892
Equity	535,141,652	461,715,521
Debt to equity ratio *	<u>88.89%</u>	<u>61.46%</u>

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**19. Capital commitments**

The Group has capital commitments in respect of investment property acquisitions totalling \$29,934,120 as shown in Note 9(iii).

The Group also has a capital commitment of \$26,262,690 in respect of properties that are under construction/refurbishment.

The Group has a capital commitment at 31 December 2015 to its Hudson Gardens LLC joint venture entity for US\$873,731 (A\$1,133,685) to fund working capital requirements as shown in Note 8.

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

**20. 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.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**21. Related parties**

**Key management personnel compensation and unitholdings**

Effective 22 June 2015, the Responsible Entity of the Fund changed from Dixon Advisory & Superannuation Services Limited (DASS) to Walsh & Company Investments Limited (Walsh & Co.), a subsidiary of Dixon Advisory Group Pty Limited. On the same date, the Investment Manager of the Fund changed from DASS to URF Investment Management Pty Limited. URF Investment Management Pty Limited is also a subsidiary of Dixon Advisory Group Pty Limited, the parent company of DASS and utilises the same resources of Dixon Advisory Group Pty Limited as available to DASS to manage the Fund. There was no change in the fee structure for the change in the Responsible Entity and Investment Manager.

The directors of the Responsible Entity listed below are deemed to be key management personnel.

<b>DASS (resigned effective 22 June 2015)</b>	<b>Walsh &amp; Co. (appointed effective 22 June 2015)</b>
Daryl Dixon	Alex MacLachlan
Maximilian Walsh	Tristan O'Connell
Alan Dixon	Tom Kline
Chris Brown	
Alex MacLachlan	
Tristan O'Connell	

The key management personnel do not receive compensation from the Fund or from the Responsible Entity directly for their management function performed for the Fund.

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:

<b>Director</b>	<b>No. of units</b>	<b>No. of notes</b>
Tom Kline	112,783	1,360
Alex MacLachlan	59,710	800
Tristan O'Connell	22,580	150

**Management fees payable to the Responsible Entity**

**Responsible Entity fee (payable by the Fund)**

The Responsible Entity's duties include establishing the Group's compliance plan and procedures and monitoring against regulatory and legislative requirements, the issuance of disclosure documents, the appointment and monitoring of external service providers to the Group and overall administration of the Group.

For these services, the Responsible Entity charged a Responsible Entity fee of 0.08% (exclusive of GST) of the gross assets of the Fund and an administration fee of 0.25% (exclusive of GST) of the gross assets of the Fund.

Total Responsible Entity and administration fee incurred during the year was \$3,238,357 (2014: \$1,800,188) and is included in management fees expense in the profit or loss. Of the total fee for the year, \$1,390,213 is in relation to amounts invoiced by DASS during its period as the Responsible Entity (2014: \$1,800,188) and \$1,848,144 is in relation to amounts invoiced by Walsh & Co. during its period as the Responsible Entity (2014: nil).

The amount owed to the Responsible Entity in respect of the responsible entity fee at 31 December 2015 is \$665,197 (2014: \$1,309,685 owed to DASS, the previous Responsible Entity).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**21. Related parties (*continued*)**

**Management fees payable to the Investment Manager**

***Investment management fee (payable by US Masters Residential Property (USA) Fund (the “US REIT”))***

The Investment Manager provides investment management services to the Group, including overseeing the assessment of market conditions and investment opportunities, and the selection and recommendation of properties for investment, monitoring the Group's property portfolio, and determining and recommending the sale of properties in the Group's portfolio.

For these services, the Investment Manager charged no fee on the first \$100 million of gross assets of the Fund and 1.24% (exclusive of GST) of the gross asset value of the Group thereafter during the year.

Total investment management fee incurred during the year was \$10,229,015 (2014: \$5,271,369) and is included in management fees expense in the profit or loss. Of the total fee incurred for the year, \$4,306,624 is in relation to amounts invoiced by DASS during its period as Investment Manager (2014: \$5,271,369) and \$5,922,391 is in relation to amounts invoiced by URF Investment Management Pty Limited during its period as Investment Manager (2014: nil).

The amount owed to the Investment Manager in respect of the investment management fee at 31 December 2015 is \$2,993,205 (2014: \$3,742,614 owed to DASS, the previous Investment Manager).

***Leasing fee (payable by the US REIT)***

The Investment Manager oversees the provision of tenant leasing services to the Group, including coordinating marketing campaigns, stagings, showings, administering inquiries, conducting background checks including criminal, eviction, and financial history, evaluating tenant applications, and negotiating and executing leases.

For this service, the Investment Manager charged a leasing fee of 1 month's rent on new leases entered into by the US REIT. The fee is capitalised and expensed over the lease period.

During the year, the Investment Manager successfully oversaw the screening of over 10,000 lease inquiries and successful letting of 267 units representing gross annual rent income to the Fund of \$13.4 million.

Total leasing fee incurred during the year was \$1,227,379 (2014: \$598,007). Of the total fee for the year, \$481,761 is in relation to amounts invoiced by DASS during its period as Investment Manager (2014: \$598,007) and \$745,618 is in relation to amounts invoiced by URF Investment Management Pty Limited during its period as Investment Manager (2014: nil).

The amount owed to the Investment Manager in respect of the leasing fee at 31 December 2015 is \$266,295 (2014: \$419,231 owed to DASS, the previous Investment Manager).

Total leasing fee expensed during the year, including fees capitalised in prior years, is \$912,022 (2014: \$530,668) included in management fees expense in the profit or loss.

Leasing fee deferred in other assets is \$791,893 (2014: \$415,590).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**21. Related parties (*continued*)**

**Management fees payable to the Investment Manager (*continued*)**

***Asset disposal fee (payable by the US REIT)***

The Investment Manager oversees the provision of disposal execution services by the Group.

For this service, the Investment Manager 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 discretion, management charged a disposal fee on only 3 property disposals out of 18 total property disposals during the period.

During the year, the Investment Manager oversaw the successful disposition of 18 properties for total sale proceeds of \$12.4 million, which represented a 12.9% premium to total asset cost, including purchase price, closing costs, renovation expenditure and capitalised interest.

Total asset disposal fee incurred in the year was \$41,194 (2014: \$184,626) included in management fees expense in the profit or loss. The asset disposal fee incurred by the Group during the year is in relation to amounts invoiced by DASS during its period as Investment Manager (2014: \$184,626).

The amount owed to the Investment Manager in respect of the asset disposal fee at 31 December 2015 is nil (2014: \$140,873 owed to DASS, the previous Investment Manager).

***Asset acquisition fee (payable by the US REIT)***

The Investment Manager oversees the provision of property acquisition services to the Group, including property negotiations, conducting due diligence, coordinating title searches, insurance, and third-party reports and inspections, organising all documentation and the closing process.

For this service, the Investment Manager is entitled to receive an asset acquisition fee of 1.99% of the purchase price of assets acquired by the US REIT.

During the year, the Investment Manager oversaw the inspection of over 873 potential property acquisitions, the bidding on 102 properties, and the acquisition of 48 properties for a total acquisition cost of \$95.6 million.

Total asset acquisition fee incurred during the year was \$1,764,680 (2014: \$2,502,614) and 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. Of the total fee for the year, \$843,641 is in relation to amounts invoiced by DASS during its period as Investment Manager (2014: \$2,502,614) and \$921,039 is in relation to amounts invoiced by URF Investment Management Pty Limited during its period as Investment Manager (2014: nil).

The amount owed to the Investment Manager in respect of the asset acquisition fee at 31 December 2015 is \$364,392 (2014: \$2,120,705 owed to DASS, the previous Investment Manager).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**21. Related parties (*continued*)**

***Debt arranging fee (payable by the US REIT)***

The Investment Manager oversees the provision of debt arranging services to the Group, including contacting and liaising with capital providers, negotiating borrowing terms, and executing documentation. The Investment Manager has been successful in securing debt at very attractive terms for the Group, providing significant diversification to the Group's capital sources.

For this service, the Investment Manager is entitled to receive a debt arranging fee of 2% of the gross amount of external borrowings obtained by the US REIT.

During the year, the Investment Manager oversaw the successful negotiation of new debt facilities totalling \$212 million across two tranches and two lenders.

Total debt arranging fee incurred during the year was \$4,826,605 (2014: \$2,228,170). 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 forms part of the effective interest rate of the associated borrowing and is amortised over the loan expiry period. To the extent the associated borrowing relates to qualifying assets, the amortisation charge is capitalised to the qualifying asset. The debt arranging fee during the year was in relation to amounts invoiced by DASS during its period as Investment Manager (2014: \$2,228,170).

The amount owed to the Investment Manager in respect of the debt arranging fee at 31 December 2015 is nil (2014: \$1,602,957 owed to DASS, the previous Investment Manager).

Total debt arranging fee amortised during the year, including fees capitalised in prior years, is \$1,485,661 (2014: \$356,689).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**21. Related parties (*continued*)**

**Other fees and Recoveries**

***Stamping fee (payable by the Fund)***

Under the terms of the URF Notes II Prospectus dated 29<sup>th</sup> September 2015, DASS 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. In respect of URF Notes II, this fee amounted to \$1,889,959, and forms part of the amortised cost of the unsecured notes balance referred to in Note 13. The capitalised fee is amortised over the note expiry period. In 2014, a stamping fee of \$3,091,747 was paid to DASS in respect of the first issue of URF Notes.

Total stamping fees amortised during the year is \$687,370 (2014: \$13,508). Total stamping fee included in trade and other payables at 31 December 2015 is nil (2014: \$3,091,747).

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

The Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) are entitled, pursuant to the management agreements, to recover certain direct expenses incurred in the management of the Group's activities. For the year ended 31 December 2015, expenses incurred of \$317,022 (2014: \$651,448) and \$11,959,295 (2014: \$8,856,732) were recovered by the Responsible Entity and Dixon Advisory USA Inc, respectively. The expenses recovered from the Group (inclusive of amounts capitalised to investment properties) are primarily in respect of the Group's payroll related expenses, office lease and depreciation recoveries. The amount recovered by Dixon Advisory USA Inc includes an administrative fee of 8.86% being \$973,356 (2014: 9.53% being \$770,757) permitted under the Administrative Services Agreement on actual costs incurred by Dixon Advisory USA Inc. This amount has been included in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of Responsible Entity and related entity recharges – office administration costs. No fee was charged by the Responsible Entity in this regard. Certain payroll and overhead expenses that are not recovered from the Group are borne by Dixon Advisory USA with the intention that such ongoing costs are met by the Management fees paid by the Group.

***Fund administration fee (payable by the Fund)***

Australian Fund Accounting Services Pty Limited (a subsidiary of Dixon Advisory Group Pty Limited) provides administration and accounting services to the Fund. Time spent by staff is charged to the Fund at agreed rates under a Services Agreement. A total of \$120,000 (2014: \$98,353) was charged by Australian Fund Accounting Services in relation to fund administration services, pursuant to a Service Agreement. Time spent by administrative staff is charged to the Fund at agreed rates under the agreement, capped at \$120,000 per annum.

***Architecture, Design and Construction Services (payable by the US REIT)***

Dixon Projects, LLC (a subsidiary of Dixon Advisory Group Pty Limited, who is the parent entity of the Responsible Entity) provides architecture, design, and construction services to the Fund, including procurement and inventory management, permitting and approval process management and construction project management. Dixon Projects provides on-site project administration and management, overseeing and coordinating all aspects of the construction process, working closely with contractors to control quality and costs for the Group.

These services are provided under the Property Services and the Design and Architectural Services Master Agreements. Under these agreements, Dixon Projects is entitled to on charge the cost of renovations plus a development fee of 5% and architectural and quantity surveyor services at agreed hourly rates. Costs of renovations include direct labour and materials and an on-cost charge of 16.25% on direct labour and materials, represented by General Conditions fees of 15% and insurance fees of 1.25%.

During the year, Dixon Projects completed US\$62.2 million, or \$82.0 million, of renovation work for the Fund across 67 large-scale renovations and 104 small-scale renovations. The renovation costs comprised of \$60.7 million of labour and materials (2014: \$51.3 million), \$10.0 million of General Conditions and insurance charges (2014: \$8.7 million), a development fee of \$3.5 million (2014: \$3.0 million), and architectural and quantity surveyor services of \$7.8 million (2014: \$5.6 million). These costs are capitalised to the relevant investment properties.

All expenses relating to Dixon Projects, including salaries for all architecture, design, and construction professionals as well as all overheads, are borne by Dixon Projects.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**22. Controlled entities**

Walsh & Co. is the Responsible Entity of both the Fund and the US REIT. URF Investment Management Pty Limited is the Investment Manager of both the Fund and the US REIT.

		<b>Ownership interest</b>	
		<b>2015</b>	<b>2014</b>
<b>Parent entity</b>			
US Masters Residential Property Fund	Australia		
<b>Subsidiary</b>			
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%	100%
Decatur URF LLC	United States	100%	100%
MacDonough URF LLC	United States	100%	100%
NRL URF LLC	United States	100%	100%
Grand Hill URF LLC	United States	100%	100%
Rogers Marks URF LLC	United States	100%	100%
Balmain Tigers URF LLC	United States	100%	100%
Newcastle URF LLC	United States	100%	-
Canterbury URF LLC	United States	100%	-
Manly Warringah URF LLC	United States	100%	-
Penrith URF LLC	United States	100%	-
NJ Prop 1 URF LLC	United States	100%	-
NY Prop 1 URF LLC	United States	100%	-
NY Prop 2 URF LLC	United States	100%	-

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**23. Parent entity disclosures**

As at, and throughout, the financial year ended 31 December 2015 the parent entity of the Group was US Masters Residential Property Fund.

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Result of parent entity</b>		
Loss for the year	(26,798,866)	(21,513,090)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(26,798,866)</u>	<u>(21,513,090)</u>
 <b>Financial position of parent entity at year end</b>		
Current assets	53,261,357	156,835,045
Total assets	631,099,526	535,348,938
 Current liabilities	15,576,069	19,168,285
Total liabilities	317,218,281	201,344,781
 <b>Total equity of the parent entity comprising of:</b>		
Share capital	388,720,491	381,980,548
Accumulated losses	(74,839,246)	(47,976,391)
<b>Total equity</b>	<u>313,881,245</u>	<u>334,004,157</u>

**24. Subsequent events**

A distribution of 5 cents per ordinary unit totalling \$14,274,574 was declared on 18 December 2015 and was paid to unitholders on 29 January 2016. 3,769,080 units were issued under the Group's Distribution Reinvestment Plan.

Subsequent to year end, the Group settled two property purchase contracts with a total consideration of \$6,121,389.

Subsequent to balance date, the properties located at 1511 Summit Avenue, 506-08 26th Street, 309-15 11th Street, 1405-1415 Palisade Avenue and 1700 Bergenline Avenue (all located in Union City, New Jersey) and the properties located at 5907 Boulevard East and 111 61<sup>st</sup> Street (both located in West New York, New Jersey) were disposed of for total proceeds of US\$36.1 million.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**25. Auditors' remuneration**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Auditors of the Group</b>		
<i>Deloitte Touche Tohmatsu</i>		
Audit and review of Group financial statements	192,500	181,000
Audit and review of subsidiary financial statements	47,400	82,000
Other advisory services - predominantly relating to US GAAP accounting	176,084	90,185
Corporate advisory services	-	50,000
Taxation services	114,472	387,951
	<u>530,456</u>	<u>791,136</u>
<b>Other Audit Firms</b>		
<i>Deloitte Tax LLP</i>		
Taxation services	185,259	71,108
	<u>185,259</u>	<u>71,108</u>



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

**DIRECTORS' DECLARATION**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

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 16 to 62, are in accordance with the *Corporations Act 2001*, including:
  - a. Giving a true and fair view of the Group's financial position as at 31 December 2015 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.



Mr Alex McLachlan  
Director

**Dated this 24th day of February 2016**

## **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 2015, 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 16 to 63.

### *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.


## *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 2015 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



Michael Kaplan  
Partner  
Chartered Accountants  
Sydney, 24 February 2016

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

**STOCK EXCHANGE INFORMATION**

**Statement of quoted securities as at 31 January 2016**

- There are 4,423 unitholders holding a total 289,260,553 ordinary units
- The 20 largest unitholders between them hold 5.816% of the total units on issue

**Distribution of quoted units as at 31 January 2016**

Distribution of unitholders category (size of holding)	Number of unitholders
1-1,000	154
1,001-5,000	259
5,001-10,000	198
10,001-100,000	2,968
100,001 and over	844
<b>Totals</b>	<b>4,423</b>

**Substantial unitholdings as at 31 January 2016**

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

**Directors' unitholdings**

As at 31 January 2016 directors of the Group held a relevant interest in the following securities on issue by the Group.

Director	Ordinary units	URF notes
Tom Kline	115,588	1,360
Alex MacLachlan	61,195	800
Tristan O'Connell	23,142	150

**Restricted Securities**

There are no restricted securities on issue by the Group.

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

**STOCK EXCHANGE INFORMATION**

**Top 20 holders of ordinary units at 31 January 2016**

<b>Unitholder name</b>	<b>Number of units held</b>	<b>% of total</b>
Mr Orange Pty Limited	3,426,045	1.184
Mr Orange Pty Limited	1,616,080	0.559
Yarraandoo Pty Ltd	1,490,131	0.515
Gb & Ja Cameron Holdings Pty Ltd	1,158,109	0.400
Assess Pty Ltd	1,014,378	0.351
J & V King Pty Ltd	686,548	0.237
Iss Nominees Pty Limited	640,033	0.221
Mr Alan Cochrane Dixon & Mrs Katharine Dixon	627,500	0.217
Jlwa Holdings Pty Ltd	621,119	0.215
C & J Vonwiller 2 Pty Ltd	595,375	0.206
Mr Andrew Alexander Lindberg & Mrs Leigh Christine Lindberg	550,173	0.190
Cg & Kj Forbes Pty Ltd	536,029	0.185
Aldwood Investments Pty Ltd	515,699	0.178
Duntex Manufacturing Co Pty Limited	504,292	0.174
Mrs Lorraine Mary Hawes & Mr David Charles Hawes	494,563	0.171
Aldack Pty Ltd	489,964	0.169
Mr Neil Clifford Barrett & Mrs Heather Maeve Barrett	472,388	0.163
Mr Ernest Yuet Ning Shaw & Mrs Elizabeth Pui Chi Shaw	466,117	0.161
Barracuda Investments Super Pty Ltd	460,846	0.159
T H H Nominees Pty Limited	457,446	0.158
<b>Total held by top 20 holders of ordinary units</b>	<b>16,822,835</b>	<b>5.816</b>

# **US MASTERS RESIDENTIAL PROPERTY FUND**

## **ARSN 150 256 161**

### **ADDITIONAL DISCLOSURES**

#### **Transactions**

There were no transactions in securities during the reporting year.

#### **US REIT Management Agreement**

URF Investment Management Pty Limited (**URF IM**) 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, URF IM, 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 21. 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 21.

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 Pty 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.

## **US MASTERS RESIDENTIAL PROPERTY FUND**

### **ARSN 150 256 161**

#### **Administrative Services Agreement**

Dixon Advisory USA is a wholly owned subsidiary of Dixon Advisory Group Pty 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.

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

**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)  
Level 15  
100 Pacific Highway  
North Sydney NSW 2060

Telephone                      Facsimile  
1300 454 801                  1300 457 349  
Email  
info@usmrpf.com  
Website: www.usmastersresidential.com.au

**Responsible Entity**

Walsh & Company Investments Limited  
(ACN 103 071 665) (AFSL 231 143)  
Level 15  
100 Pacific Highway  
North Sydney NSW 2060

Telephone                      Facsimile  
1300 883 158                  1300 883 159  
Email  
info@dixon.com.au  
Website: www.dixon.com.au

**Unit Register managed by**

Boardroom Limited  
Level 7  
207 Kent Street  
Sydney NSW 2000

Telephone                      Facsimile  
(02) 9290 9600              (02) 9279 0664  
Website: www.boardroomlimited.com.au

**Auditor**

Deloitte Touche Tohmatsu  
Grosvenor Place  
225 George Street  
Sydney NSW 2000

Telephone                      Facsimile  
(02) 9322 7000              (02) 9322 7001  
Website: www.deloitte.com.au

**Australian Legal Adviser**

Watson Mangioni Lawyers Pty Limited  
Level 13  
50 Carrington Street  
Sydney NSW 2000

Telephone                      Facsimile  
(02) 9262 6666              (02) 9262 2626  
Website: www.wmlaw.com.au

**US Legal Adviser**

Blank Rome LLP  
405 Lexington Avenue  
New York, New York 10174

Telephone                      Facsimile  
+1 212 885 5000              +1 212 885 5001  
Website: www.blankrome.com