US Masters Residential Property Fund

28 August 2017

ASX Code: URF

US Masters Residential Property Fund (Fund)

US Masters Residential Property Fund 2017 Half Year Results and Fund Update

Strategy Update Leads to Management Fee Waiver

The US Masters Residential Property Fund and controlled entities (the Group) has grown assets in its portfolio to over $1 billion as at 30 June 2017 from $69 million at the time of the IPO in 2011. The initial phase of the strategy sought to capitalize on the weak state of the US housing market and the record value of the Australian dollar and entailed accumulating a high quality portfolio of residential property assets in the New York metropolitan area. At the same time as the portfolio was being acquired, the Group managed the assets to achieve rental yields and property price appreciation through renovation and improvement of the individual properties. The strategy delivered strong compound annual returns for unitholders of 9.5% in the five years to 30 June 2017.

While the Group will continue to acquire properties that meet the portfolio's characteristics and value parameters, in order to position the Fund to continue to deliver strong returns and to provide long term value for unitholders in varying market conditions, the next phase of the strategy will focus on the following:

- **Complete the renovation pipeline and maximise rental income**

Ninety-two properties comprising 31% of the total asset value of the portfolio are currently being renovated. The Group is aiming to complete these properties within the next 24 months in order to tenant and gain an estimated US$13 million in additional rental income.

- **Optimise capital structure**

The increasing proportion of completed and tenanted properties in the portfolio will enable the Fund to restructure its lending facilities to lower cost facilities. This will allow the Group to lower its interest expense and better manage its capital and gearing.

- **Continue to drive cost efficiencies to maximise rental yields**

As more properties are delivered from the renovation pipeline, the Group will continue to leverage available economies of scale to drive further cost efficiencies for the portfolio. The Group has consistently reduced the investment property cost to income ratio of the portfolio over time (reduced to 46% as at 30 June 2017 vs 51% as at 31 December 2016 and 63% as at 30 December 2015) and has maintained a bad debts expense of less than 0.4% of rental income.

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The next phase of the strategy involves less active portfolio management in identifying and acquiring portfolio properties and accordingly, the Investment Manager (URF Investment Management Pty Limited), will waive the investment management fee currently charged to the Group, indefinitely. For the period ended 30 June 2017, this fee was $7.4 million, equivalent to 1.24% (excluding GST) of the gross assets of the Group (no fee charged on the first $100 million of gross assets). The Investment Manager will continue to provide all the services set out in the Investment Management Agreement and all other fees paid by the Group remain unchanged.

Quality Renovation Processes Recognised

Walsh & Co is also pleased to announce that Dixon Projects LLC, whose role is to renovate properties acquired by the Fund into highly desirable rental properties that attract premium rents and deliver long term capital growth, was the recipient of 12 awards at the American Residential Design Awards (**ARDA**), including the coveted Global Choice award for excellence in residential design for the renovation work completed at 272 Ogden Avenue, Jersey City, New Jersey.

The ARDA awards were chosen from over 140 projects submitted by 35 design firms from 17 states. Dixon Projects LLC was the country's most awarded firm. In addition to the Global Choice award, Dixon Projects LLC also won awards in the following categories:

- Best Renovation
- Conceptual Designs
- Outdoor Living
- Indoor Living
- Design Detail

The ARDA awards, in addition to the Fund's previous receipt of the Jersey City Landmark's Conservancy "Excellence in Preservation" award and the Anchin's "Rising Star Award" reflect the quality of the Fund's renovation work and its expertise in the various phases of the renovation process.

Half Year Results

While total revenue for the Fund has increased 13.0% to $17.2 million compared to $15.2 million in the same period to 30 June 2016, the loss for the period attributable to unitholders has increased to $28.4 million ($0.08 per unit) compared to a loss of $12.2 million ($0.04 per unit) in the first half of FY2016. The items that contributed to the increased loss included lower growth in property valuations, $12.3 million compared to $22.5 million in the prior corresponding period, as well as higher interest expenses.

The depreciation in the US dollar (A$/US$ exchange rate 0.72 as at 31 December 2016 compared to 0.77 at 30 June 2017) in the period also impacted the translation of the results into Australian dollars for reporting purposes.

US Masters Residential Property Fund

Distributions Paid and Recommended

A distribution of 5 cents per ordinary unit, totalling $17.3 million, was declared in the prior year. After accounting for the Group's Distribution Reinvestment Plan, $7.9 million was paid on 3 February 2017.

A further distribution of 5 cents per ordinary unit, totalling $17.5 million, was announced on 26 June 2017. The Distribution Reinvestment Plan is in place in relation to the distribution.

For further information, contact:

Fleur Jouault
0405 669 632

Appendix 4D

Interim Financial Report
For the half-year ended 30 June 2017

Name of entity

US Masters Residential Property Fund

ARSN	Reporting period	Previous corresponding period
150 256 161	1 January 2017 to 30 June 2017	1 January 2016 to 30 June 2016

Results for announcement to the market

		30-Jun-17
Total revenue ("revenue from ordinary activites")	Up by 13% to	$17,169,949
Net operating loss for the period ("loss from ordinary activites after tax attributable to unitholders")	Down by 133% to	($28,403,611)
Total comprehensive loss ("net loss for the period attributable to unitholders")	Down by 181% to	($76,618,595)

Commentary on results

Refer to attached Interim Financial Report, including the Directors' Report to Unitholders. Additional Appendix 4D disclosure requirements can be found in the notes to the financial statements.

Distributions

	Amount per unit
Interim distribution (paid 3 February 2017)	5 cents
Final distribution (paid on 1 August 2017)	5 cents
Total distribution	10 cents

Final distribution dates:

Ex-Distribution date:	Thursday, 29 June, 2017
Record date:	Friday, 30 June, 2017
Payment date:	Tuesday, 01 August, 2017

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

Net tangible assets per unit	**30 June 2017**	**30 June 2016**
Pre-tax	$1.68	$2.00
Post-tax	$1.42	$1.73

Loss per unit	**30 June 2017**	**30 June 2016**
Basic loss per unit	(8.1 cents)	(4.2 cents)
Diluted loss per unit	(8.1 cents)	(4.2 cents)

Interim Financial Report

This report is based on the 30 June 2017 Interim Financial Report and has been reviewed by Deloitte Touche Tohmatsu.

US Masters
Residential
Property Fund

ARSN 150 256 161

Interim Financial Report

For the half-year ended
30 June 2017

Responsible Entity:
WALSH & COMPANY
INVESTMENTS LIMITED
ACN 152 367 649 | AFSL 410 433

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

FOR THE HALF-YEAR ENDED 30 JUNE 2017

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US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2017

The directors of Walsh & Company Investments Limited (**Walsh & Co.**), the Responsible Entity of US Masters Residential Property Fund (**the Fund**), are pleased to present their report together with the consolidated financial statements of the Fund and the entities it controlled (**the Group**) for the half-year ended 30 June 2017. The directors of the Responsible Entity at any time during, or since the end of, the financial period are shown below:

Alex MacLachlan
Tristan O'Connell
Warwick Keneally (appointment effective 16 May 2017)
Tom Kline (resigned effective 16 May 2017)

Directors have held office since the start of the half-year to the date of this report unless otherwise stated.

All figures referred to below and in the financial report are in Australian dollars, unless otherwise stated.

Principal activities and significant changes in the nature of activities

The principal activity of the Group during the course of the financial period was its continued investment in the US residential property market. The Group invests in freestanding and multi-family properties in the New York metropolitan area, specifically Hudson County, New Jersey, and Brooklyn, Manhattan, and Queens, New York.

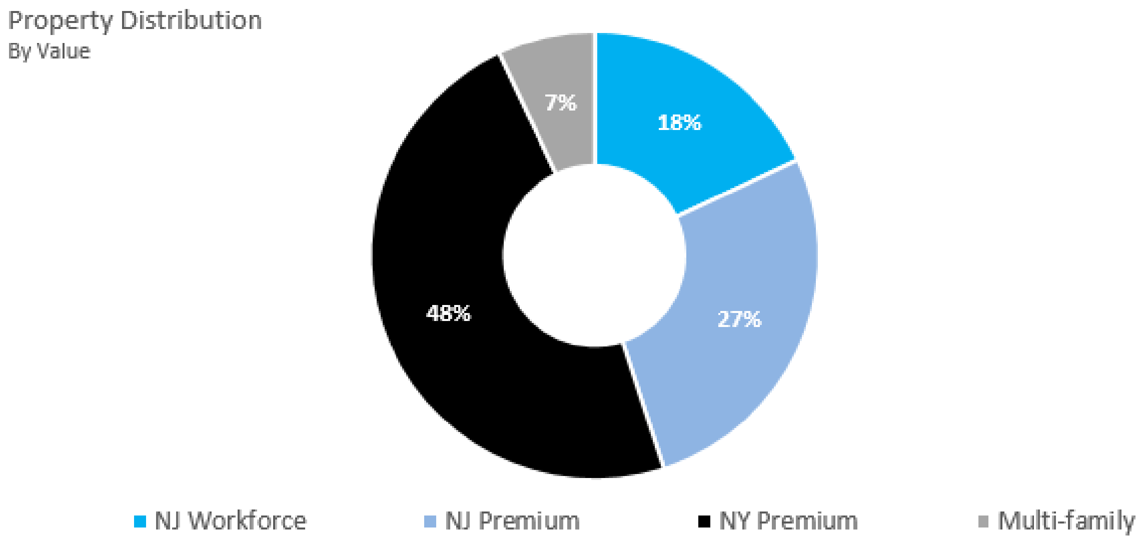
Freestanding portfolio update

The Group continued to selectively add to its core freestanding residential property portfolio throughout the half-year ended 30 June 2017. The Group focused its efforts on acquiring freestanding property in the premium areas of Hudson County, as well as select areas of Brooklyn and Manhattan, a continuation of the core strategy previously adopted by the Group.

The Group also opportunistically purchased eight freestanding properties in Essex County, New Jersey through foreclosure auctions. Within Essex County, the Group targeted freestanding homes that were in need of interior renovation that could be purchased below replacement cost and which offer the Group a substantial value-add opportunity. The Group may continue to acquire such properties in low volumes on an opportunistic basis.

During the half-year to 30 June 2017, the Group increased its total freestanding property count by 36, growing to 637. The total book value of these properties at 30 June 2017 was $1.1 billion, which included a $12.3 million (net of capitalised interest) increase in the value of freestanding properties over the half-year to 30 June 2017 reflecting the positive, stable real estate market conditions in the New York metropolitan area. This increase was offset by an increase in the A$/US$ exchange rate from 0.72 at 31 December 2016 to 0.77 at 30 June 2017.

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



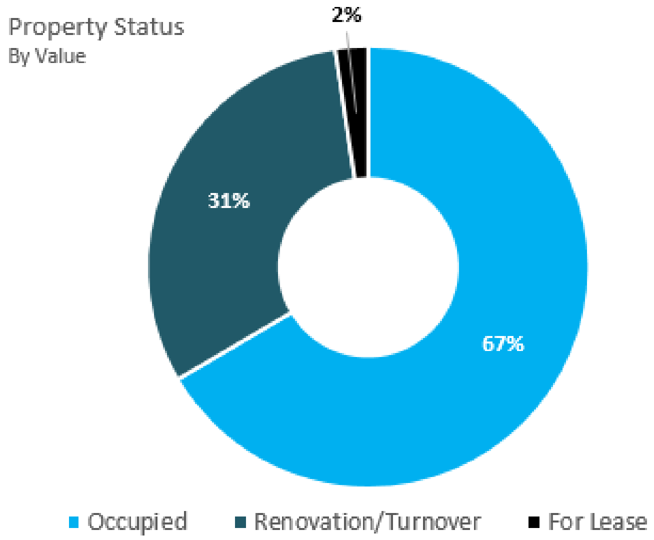
Freestanding properties construction update

The Group continued to execute its renovation and rehabilitation strategy throughout the first half of 2017. This process is managed by Dixon Projects LLC, whose role it is to renovate properties acquired by the Group into highly desirable rental properties that attract premium rents and deliver long-term capital growth. Dixon Projects LLC has built a highly experienced and talented team of 60 professionals who oversee the entire renovation process including planning, permitting, interior design, procurement and construction management. Subsequent to balance date, the Group won 12 awards at the American Residential Design Awards, including the coveted Global Choice award for excellence in residential design. The awards, in addition to the Group's previous receipt of the Jersey City Landmark's Conservancy's "Excellence in Preservation" award and Anchin's "Rising Star Award" reflect the quality of the Group's renovation work and its expertise in the various phases of the renovation process.

During the first half of 2017, the Group was successfully able to complete US$27.2 million of renovation work, bringing 11 large-scale renovations and 30 small-scale renovations across 41 properties to the market for rent. The renovations completed during the period contributed, or are expected to contribute, an additional US$2.4 million of annual rental income.

As at 30 June 2017, there remained a further 92 properties in the renovation pipeline at various stages of completion. The majority of these properties are located in premium areas within Brooklyn, Manhattan and Hudson County and are often located in historic districts. Many of these properties require larger and more complex renovations and hence have an extended time period to move from acquisition to leasing. Renovation of the majority of these properties are expected to be progressively completed over the coming three to 24 months and are expected to contribute additional annual rent of approximately US$13.0 million.

The property status of freestanding properties as at 30 June 2017 is depicted below.



DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2017

Multi-family property update

As outlined in the Group's 2016 annual report and as a part of its strategic investment approach, the Group made an equity investment in December 2016 to acquire an 84 apartment multi-family property located at 515 West 168th Street in Washington Heights, New York. The investment – which represents a 63.7% economic interest in the underlying property – was an expansion of the Group's existing relationship with multi-family operator and Golden Peak joint venture partner Urban American.

On 19 May 2017, the Group further expanded its multi-family holdings with Urban American, making an equity investment of US$9.7 million to acquire two 35 unit properties located at 30–58 and 30–64 34th Street in Astoria, Queens. The aggregate purchase price of the buildings was US$20.5 million (US$292,000 per unit), with the Group's investment representing an economic interest of 65%.

Also during the period, the aforementioned property at 515 West 168th Street was independently appraised at US$20.3 million, representing an 11.6% increase over December's purchase price of US$18.2 million. The carrying value of the Hudson County multi-family properties owned with Urban American in the jointly controlled Golden Peak II, LLC at 30 June 2017 is $54.5 million, representing a 44% premium to acquisition cost.

Financial performance and position

The Group recorded earnings before interest, tax, and currency movements of $1.9 million for the period ended 30 June 2017. This compares with the prior period earnings before interest, tax, and currency movements of $11.9 million. While rental revenue increased by 12% to $16.5 million, this was offset by a smaller positive fair value movement on the Group's freestanding portfolio ($12.3 million in the current period compared with $22.5 million in the prior period).

The Group recorded a pre-tax loss of $17.6 million for the period, or $0.05 per share and a post-tax loss of $28.4 million, or $0.08 per share.

Asset values were negatively impacted by the appreciation of the Australian dollar during the period from 72.08 cents to 76.89 cents. This appreciation resulted in a decrease in the gross assets of the Group of $48.3 million, or 3.6%.

US MASTERS RESIDENTIAL PROPERTY FUND
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DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2017

Strategy update

Since inception, the Group has grown from its initial $69 million IPO in 2011 to over $1 billion in asset value as at 30 June 2017. The Group is the largest institutional owner of brownstone properties in the New York Metropolitan area and remains the only ASX listed REIT focused on the US residential housing market.

The period since the Group's inception has proven to be an excellent opportunity to acquire a high-quality portfolio of residential property assets in the New York metropolitan area. The returns achieved from rental yields and property price appreciation has been supplemented by the depreciation of the Australian dollar from its record high of $1.10 in July 2011 to $0.77 as at 30 June 2017. These factors have been reflected in the historical returns to Unitholders. Over the five years to 30 June 2017, the Group has delivered compound annual returns to Unitholders of 9.5% in the form of Unit price appreciation and distributions.

In order to best position the Fund to continue to deliver strong returns and provide a high quality long-term store of value for Unitholders that is resilient to changing market conditions, the Group will look to implement a strategy with the following principles:

1. **Complete the renovation pipeline and maximise rental income**

   The Group currently has 92 properties in the renovation pipeline which represents 31% of total asset value of the portfolio. The Dixon Projects team remains highly focussed on delivering the remaining properties to the rental market. It is estimated that these additional 92 properties, once fully tenanted, will add US$13.0 million per annum to the rental income of the Group. The Group is aiming to have these properties substantially completed within 24 months.

2. **Optimise capital structure**

   As the Group completes its renovation pipeline and tenants more properties it will seek to refinance its existing debt facilities. Properties which are completely renovated and tenanted are lower risk from a lending perspective and can be financed at lower interest rates than properties which are undergoing renovation. This will allow the Group to reduce its interest expenses. The Group may also elect to sell properties in instances where the property does not fit the long-term objectives of the Group. Proceeds from the sale of any properties will be used to pay down debt and/or fund the renovations works on any remaining properties.

3. **Continue to drive cost efficiencies to maximise rental yields**

   The Group will seek to continue delivering cost savings to maximise the rental yields obtained on the portfolio. The Group has consistently reduced the investment property cost to income ratio of the portfolio over time (reduced to 46% as at 30 June 2017 vs 51% as at 31 December 2016 and 63% as at 30 December 2015) and has maintained a bad debts expense of less than 0.4% of rental income. This coupled with a retention focussed leasing strategy has allowed the Group to increase the net rental yield of the portfolio. As more properties are delivered from the renovation pipeline, the Group will continue to leverage available economies of scale to drive further cost efficiencies for the portfolio. The Group will also examine how best to reduce general and administrative expenses to bring down the Group's overall management expense.

Investment management fee waiver

As part of the repositioning of the portfolio and the strategy to drive cost efficiencies for the Group, the Investment Manager (URF Investment Management Pty Limited), has decided to waive the investment management fee which is currently charged to the Group. For the period ended 30 June 2017, this fee totalling $7.4 million was equivalent to 1.24% (excluding GST) of the gross assets of the Group with no fee charged on the first $100 million of gross assets. From 1 July 2017, the fee waiver is for an indefinite period and the Investment Manager will continue to provide all the services set out in the Investment Management Agreement. All other fees paid by the Group remain unchanged.

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2017

Distributions paid or recommended

A distribution of 5 cents per ordinary unit, totalling $17.3 million, was declared in the prior year. After accounting for the Group's Distribution Reinvestment Plan, $7.9 million was paid on 3 February 2017.

A further distribution of 5 cents per ordinary unit, totalling $17.5 million, was announced on 26 June 2017. The Distribution Reinvestment Plan is in place in relation to the distribution.

After balance date events

Other than matters disclosed in Note 15 of the condensed consolidated financial statements, there has not arisen in the interval between the balance date and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity of the Fund, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Auditor's independence declaration

The auditor's independence declaration is set out on page seven and forms part of the Directors' Report for the half-year ended 30 June 2017.

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

Mr Alex MacLachlan
Walsh & Company Investments Limited

Dated this 28th day of August 2017

Deloitte Touche Tohmatsu
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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

28 August 2017

Dear Board Members

US Masters Residential Property Fund

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

As lead audit partner for the review of the financial statements of US Masters Residential Property Fund for the financial half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 30 JUNE 2017

	Note	30 Jun 2017	30 Jun 2016
		$	$
Investment property rental income		16,498,007	14,685,069
Interest income		671,942	516,091
Total revenue		17,169,949	15,201,160
Fair value movement of investment properties	*6*	12,266,283	22,465,336
Fair value movement of equity investments		479,064	-
Share of profits of jointly controlled entities	*5*	738,957	888,652
Investment property expenses		(7,633,406)	(7,397,535)
Net foreign currency loss		(2,210,430)	(1,294,550)
Listing fees		(175,504)	(120,238)
Professional fees		(960,500)	(1,202,323)
Marketing		(82,820)	(103,078)
Management fees	*13*	(10,398,287)	(9,936,719)
Salaries and wages	*13*	(5,101,369)	(4,278,177)
Office administration costs	*13*	(3,121,316)	(2,983,063)
Administration fees	*13*	(637,671)	(534,772)
Interest expense	*6*	(17,264,067)	(10,588,635)
Investment property disposal costs		(525,934)	(10,261)
Bad debt expense		(63,331)	(78,936)
Other expenses		(43,058)	(55,918)
Loss before income tax		(17,563,440)	(29,057)
Income tax expense	*8*	(10,840,171)	(12,164,103)
Loss for the period attributable to Unitholders		(28,403,611)	(12,193,160)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operation (nil tax)		(48,254,217)	(14,686,667)
Share of jointly controlled entity's reserve movements (nil tax)	*5*	39,233	(407,705)
Other comprehensive loss for the year, net of tax		(48,214,984)	(15,094,372)
Total comprehensive loss for the period attributable to Unitholders		(76,618,595)	(27,287,532)
Earnings per unit			
Basic loss per unit (dollars)		(0.08)	(0.04)
Diluted loss per unit (dollars)		(0.08)	(0.04)

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	**30 Jun 2017**	**31 Dec 2016**
		$	**$**
Current assets			
Cash and cash equivalents	*2*	179,462,522	123,212,092
Receivables		245,328	377,171
Prepayments		347,844	382,176
Other assets	*3*	6,954,389	7,210,625
Investment properties held for sale	*6*	31,592,716	17,192,733
Total current assets		218,602,799	148,374,797
Non-current assets			
Investment properties	*6*	1,047,638,939	1,049,977,873
Investments in jointly controlled entities	*5*	26,963,858	28,347,843
Other financial assets	*4*	21,530,565	8,382,656
Other assets	*3*	8,329,771	8,349,252
Prepayments	*13*	2,128,799	2,520,037
Security deposits	*7*	325,140	346,837
Total non-current assets		1,106,917,072	1,097,924,498
Total assets		1,325,519,871	1,246,299,295
Current liabilities			
Payables	*9*	25,664,550	30,470,707
Borrowings	*10*	10,607,006	6,694,658
Total current liabilities		36,271,556	37,165,365
Non-current liabilities			
Deferred tax liabilities	*8*	90,250,645	84,989,435
Borrowings	*10*	699,720,485	540,116,329
Other non-current liabilities		162,570	184,257
Total non-current liabilities		790,133,700	625,290,021
Total liabilities		826,405,256	662,455,386
Net assets		499,114,615	583,843,909
Equity			
Unit capital		464,558,584	472,669,283
Reserves		111,976,866	160,191,850
Accumulated losses		(77,420,835)	(49,017,224)
Total equity		499,114,615	583,843,909

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2017

	Unit capital $	Foreign currency translation reserve $	Share of jointly controlled entity's cash flow hedging reserve $	Accumulated losses $	Total equity $
Balance at 1 January 2016	**388,720,491**	**150,311,818**	**(1,059)**	**(3,889,598)**	**535,141,652**
Loss for the period	-	-	-	(12,193,160)	(12,193,160)
Other comprehensive loss, net of income tax					
Foreign operation currency translation loss	-	(14,686,667)	-	-	(14,686,667)
Jointly controlled entity interest rate swap hedge loss	-	-	(407,705)	-	(407,705)
Total other comprehensive loss	-	(14,686,667)	(407,705)	-	(15,094,372)
Total comprehensive loss for the period	**-**	**(14,686,667)**	**(407,705)**	**(12,193,160)**	**(27,287,532)**
Transactions with owners in their capacity as owners					
Issue of ordinary units	7,575,851	-	-	-	7,575,851
Distributions to unitholders	(14,463,028)	-	-	-	(14,463,028)
Total transactions with owners	**(6,887,177)**	**-**	**-**	**-**	**(6,887,177)**
Balance at 30 June 2016	**381,833,314**	**135,625,151**	**(408,764)**	**(16,082,758)**	**500,966,943**
Balance at 1 January 2017	**472,669,283**	**160,150,311**	**41,539**	**(49,017,224)**	**583,843,909**
Loss for the period	-	-	-	(28,403,611)	(28,403,611)
Other comprehensive (loss)/income, net of income tax					
Foreign operation currency translation loss	-	(48,254,217)	-	-	(48,254,217)
Jointly controlled entity interest rate swap hedge gain	-	-	39,233	-	39,233
Total other comprehensive (loss)/income	-	(48,254,217)	39,233	-	(48,214,984)
Total comprehensive (loss)/income for the period	**-**	**(48,254,217)**	**39,233**	**(28,403,611)**	**(76,618,595)**
Transactions with owners in their capacity as owners					
Issue of ordinary units	9,408,450	-	-	-	9,408,450
Distributions to unitholders	(17,519,149)	-	-	-	(17,519,149)
Total transactions with owners	**(8,110,699)**	**-**	**-**	**-**	**(8,110,699)**
Balance at 30 June 2017	**464,558,584**	**111,896,094**	**80,772**	**(77,420,835)**	**499,114,615**

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 30 JUNE 2017

	Note	30 Jun 2017 $	30 Jun 2016 $
Cash flows from operating activities			
Cash receipts from customers		16,197,273	14,823,233
Cash paid to suppliers		(28,143,999)	(29,136,372)
Interest received		701,969	598,230
Interest paid (i)		(18,941,816)	(10,487,563)
Net cash used in operating activities		(30,186,573)	(24,202,472)
Cash flows from investing activities			
Acquisition of investment property, including improvements (i)		(71,401,564)	(78,819,271)
Investment in financial assets		(14,091,152)	-
Payments for property-related deposits		(1,729,094)	(3,371,225)
Proceeds from sale of investment properties		6,610,600	532,263
Disposal costs on sale of investment properties		(525,934)	(10,261)
Distributions received from jointly controlled entity investments		384,741	29,110,338
Investment in term deposits		(77,703,814)	(12,010,748)
Proceeds from term deposits		79,060,431	19,091,341
Investment in jointly controlled entities		-	(1,641)
Net cash used in investing activities		(79,395,786)	(45,479,204)
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		188,015,749	97,595,056
Bank loan repayments		(4,474,828)	(36,508,246)
Payment of interest reserve and escrow accounts		(615,011)	(3,132,244)
Payment of transaction costs related to loans and borrowings		(3,754,978)	(4,967,228)
Distributions paid		(7,871,571)	(6,695,854)
Withholding tax paid		(508,639)	-
Net cash from financing activities		170,790,722	46,291,484
Net increase/(decrease) in cash and cash equivalents		61,208,363	(23,390,192)
Cash and cash equivalents at beginning of period		123,212,092	133,557,456
Effect of exchange rate fluctuations on cash held		(4,957,933)	(2,155,637)
Cash and cash equivalents at end of period	*2*	179,462,522	108,011,627

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2017

1. Basis of preparation

Statement of compliance

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

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

These half-year financial statements were approved by the Board of Directors of the Responsible Entity on 28 August 2017.

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

The following new and revised Standards and Interpretations have been adopted in the current period, and where applicable only affect disclosure and presentation in the most recent annual financial statements.

- AASB 2016-1 ‘Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses’
- AASB 2016-2 ‘Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107’
- AASB 2017-2 ‘Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016’

2. Cash and cash equivalents

	30 Jun 2017	31 Dec 2016
	$	$
Cash at bank	179,462,522	123,138,163
Restricted cash	-	73,929
	179,462,522	123,212,092

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 (CGT).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2017

3. Other assets

	30 Jun 2017	31 Dec 2016
	$	$
Current assets		
Property related deposits	1,729,094	3,718,091
Deferred leasing fee	937,339	1,130,980
Property tax escrow deposits	916,741	927,200
Other assets (escrow deposits and receivables)	3,371,215	1,434,354
	6,954,389	7,210,625

	30 Jun 2017	31 Dec 2016
	$	$
Non-current assets		
Facility interest reserve and escrow accounts (i) (ii)	8,288,023	8,184,045
Interest rate cap derivative instrument	41,748	44,534
Other assets (escrow deposits and receivables)	-	120,673
	8,329,771	8,349,252

(i) Under the terms of the Centennial Bank loan facilities, the Group is required to:

- maintain interest reserve accounts equivalent to six months of interest on the outstanding principal loan balances. At balance date, the amount of interest on reserve with Centennial Bank was US$3,003,055 (A$3,905,650).
- maintain a property tax and insurance reserve. At balance date, the amount on reserve with Centennial Bank in relation to property taxes and insurance was US$407,548 (A$530,041). The account does not bear interest.
- maintain a collection reserve. At balance date, the amount on reserve with Centennial Bank in relation to collection reserves was US$962,068 (A$1,251,227).

(ii) The Group was also required to place US$1,999,990 (A$2,601,105) in escrow with Investors Bank.

4. Other financial assets

	30 Jun 2017 $	31 Dec 2016 $
Non-current assets		
Equity investments - fair value	21,530,565	8,382,656
	21,530,565	8,382,656

Investee	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest 30 Jun 2017 %	Ownership Interest 31 Dec 2016 %
515 West 168th Venture LLC (i)	USA	Property investment	Washington Heights, NY	63.7%	63.7%
30–58/64 34th Street Venture LLC (i)	USA	Property investment	Astoria, NY	65.0%	-

(i) The Fund does not have existing rights that give it the current ability to direct the relevant activities of the Investee and therefore does not exercise control of the Investee. Similarly, the Fund does not have significant influence over the Investee. Accordingly, the investment has been designated as a financial asset at fair value through profit or loss.

<u>515 West 168th Venture LLC</u>

During the period, Jones Lang LaSalle was appointed to value the investment property owned by 515 West 168th Venture LLC. In determining the fair value of the property, Jones Lang LaSalle adopted a discounted cash flow approach. The discount rate used to determine the fair value of the property was 5%. The fair value assigned to the property as of 30 June 2017 was US$20,310,000 (A$26,414,358), of which the Group's economic interest was US$12,937,470 (A$16,825,946).

<u>30–58/64 34th Street Venture LLC</u>

On 19 May 2017, the Group made an equity investment in 30–58/64 34th Street Venture LLC ('Investee'). On the same date, the Investee acquired two 35 apartment multi-family properties located at 30–58 & 30–64 34th Street, Astoria, New York. The Group's economic interest in the venture is 65.0%.

Given the proximity of the property acquisition date to balance date, the fair value of the investment property owned by the Investee has been assessed at its purchase price of US$20,936,724 (A$27,229,450). The Investee had borrowings totalling US$8,500,000 (A$11,054,754) at balance date.

5. Investments in jointly controlled entities

Jointly controlled entities	Country of incorporation	Principal activity	Principal place of business	Ownership Interest 30 Jun 2017 %	Ownership Interest 31 Dec 2016 %
Golden Peak II LLC (i)	USA	Property Investment	Hudson County, NJ	67.5%	67.5%
Hudson Gardens LLC (i) (ii)	USA	Property Investment	Hudson County, NJ	90.0%	90.0%
Gold Coast Equities LLC (i) (ii)	USA	Property Investment	Hudson County, NJ	92.5%	92.5%
DXEX Brooklyn I LLC (i) (ii)	USA	Property Investment	Brooklyn, NY	92.5%	92.5%
DXEX Brooklyn II LLC (i) (ii)	USA	Property Investment	Brooklyn, NY	92.5%	92.5%
DXEX Brooklyn III LLC (i) (ii)	USA	Property Investment	Brooklyn, NY	92.5%	92.5%

(i) The Fund does not have existing rights that give it the current ability to direct the relevant activities of the jointly controlled entity and therefore does not exercise control of the jointly controlled entity.
(ii) The investment properties owned by all Excelsior jointly controlled entities have been disposed of and the net assets of each jointly controlled entity have been fully distributed to the joint venture partners. The jointly controlled entities will be dissolved upon completion of the 2016 tax returns in September 2017.

Carrying amount of interest in jointly controlled entities	30 Jun 2017 (6 months) $	31 Dec 2016 (12 months) $
Balance at beginning of period	28,347,843	81,194,726
Investments made	-	1,641
Distributions received and receivable (net of promote interest)	(384,741)	(55,442,901)
Share of profits of jointly controlled entities	738,957	3,463,533
Share of reserves of jointly controlled entities	39,233	42,598
Exchange rate differences on translation	(1,777,434)	(911,754)
Balance at end of period	26,963,858	28,347,843

The fair value of the property portfolio owned by Golden Peak II, LLC has been determined by Management with reference to an appraisal completed by Jones Lang LaSalle at 31 December 2016. The directors of the Group are satisfied that the valuation completed at 31 December 2016 reflects the fair value of the properties at 30 June 2017.

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 reporting date.

There are no contributions contractually required to be made by the Group to any of the jointly controlled entities.

6. Investment properties

	30 Jun 2017 $	31 Dec 2016 $
Disclosed on the Condensed Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	31,592,716	17,192,733
Non-current assets		
Investment properties	1,047,638,939	1,049,977,873
	1,079,231,655	1,067,170,606

	30 Jun 2017 (6 months) $	31 Dec 2016 (12 months) $
At fair value		
Balance at beginning of year	1,067,170,606	862,538,836
Acquisitions, including improvements and interest on qualifying properties	75,945,428	177,105,137
Fair value movement of investment properties to market	12,266,283	13,902,787
Disposals	(8,042,330)	(1,867,962)
Exchange rate differences on translation	(68,108,332)	15,491,808
Balance at end of year	1,079,231,655	1,067,170,606

	30 Jun 2017 (6 months) $	31 Dec 2016 (12 months) $
Interest expense	26,905,328	40,921,454
Interest capitalised to carrying value of qualifying investment properties	(9,641,261)	(19,398,477)
Interest expense reflected in profit or loss	17,264,067	21,522,977

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 to appraise the residential properties selected for appraisal during the period. The appraisers were selected in consideration of their certification as either licensed residential appraisers or licensed real estate agents, as well as their experience and independence to the Group. 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)
- FJR Appraisal Service (licensed residential appraiser)
- Platinum Coast Appraisal & Co. (licensed residential appraiser)
- Glenn A. Gabberty Appraisals, Inc. (licensed residential appraiser)
- Douglas Elliman Real Estate (licensed real estate agent)
- Madison Appraisal Group, LLC (licensed residential appraiser)

6. Investment properties *(continued)*

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

The average result of appraised properties for each location grouping, excluding outliers has then been 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:

Class of property	Fair value hierachy level	Fair value ($) 30/06/2017	Fair value ($) 30/06/2016	Valuation technique	Inputs
Residential use investment property	Level 2	1,079,231,655	1,067,170,606	Direct comparable sales	- Selling price - Geographic location - Property age and condition - Size of Property - Number of rooms

There were no transfers between hierarchy level 1 and hierarchy level 2 asset categories during the period. There were no significant unobservable inputs in the valuation technique applied.

Contractual obligations
Refer to Note 12 for contractual obligations in respect of property purchases.

7. Security deposits

	30 Jun 2017	31 Dec 2016
	$	$
Security deposits	325,140	346,837

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$325,140) deposit.

8. Deferred tax liabilities

	30 Jun 2017 $	31 Dec 2016 $
Investment properties	90,250,645	84,989,435
Movements		
Balance at beginning of period	84,989,435	65,868,122
Charged to profit and loss as income tax expense	10,654,420	17,844,989
Taken to profit and loss as unrealised foreign exchange loss	(5,393,210)	1,276,324
Balance at end of period	90,250,645	84,989,435

Income tax expense is comprised of:

	30 Jun 2017 $	31 Dec 2016 $
Deferred tax charged to profit or loss	10,654,420	17,844,989
Withholding tax payable	185,751	303,358
Income tax expense	10,840,171	18,148,347

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.

During 2015, the US 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 Condensed Consolidated Statement of Financial Position at balance date.

9. Payables

	30 Jun 2017 $	31 Dec 2016 $
Current		
Trade payables	5,169,746	4,696,849
Distribution payable	17,552,055	17,312,928
Other payables	2,942,749	8,460,930
	25,664,550	30,470,707

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.

10. Borrowings

	30 Jun 2017 $	31 Dec 2016 $
Current liabilities		
Secured bank loans - at amortised cost	10,607,006	6,694,658
	10,607,006	6,694,658
Non-current liabilities		
Secured bank loans - at amortised cost	290,799,368	303,257,364
Unsecured notes	408,921,117	236,858,965
	699,720,485	540,116,329

Secured Bank Loans

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

Financial institution	Interest rate		Maturity date	Security	Property security value – fair value	30 Jun 2017 Principal amount – amortised cost	30 Dec 2016 Principal amount – amortised cost
Investors Bank	3.88%	(i)	Jun 2022	Investment property (vi)	16,350,882	3,448,560	3,713,132
Investors Bank	3.75%	(ii)	Nov 2022	Investment property (vi)	15,902,800	3,312,270	3,566,006
Investors Bank	3.75%	(iii)	Jul 2025	Investment property (vi)	25,458,346	6,290,388	6,788,118
Investors Bank	3.63%	(iv)	Nov 2023	Investment property (vi), (vi)*	66,495,522	16,910,535	18,217,407
Investors Bank	3.63%	(iv)	Nov 2023	Investment property (vi)	43,038,126	10,521,813	11,346,287
Investors Bank	3.63%	(iv)	Nov 2023	Investment property (vi)	25,260,798	7,221,450	7,786,686
Investors Bank	3.63%	(v)	Nov 2024	Investment property (vi)	76,029,784	20,157,263	21,710,361
Investors Bank	3.63%	(vii)	Apr 2025	Investment property (vi)	74,958,903	17,221,310	18,510,142
Investors Bank	3.75%	(x)	Jun 2026	Investment property (vi)	54,331,258	11,275,518	12,650,461
Centennial Bank	(xi)	(viii)	Feb 2021	(xi)	374,520,208	121,194,140	117,639,433
FCCD Limited	LIBOR 3 month + 5.50%	(viii)	(ix)	(ix)	228,335,013	83,853,127	88,023,989
						301,406,374	309,952,022

Disclosed as:	30 Jun 2017 $	31 Dec 2016 $
Current	10,607,006	6,694,658
Non-current	290,799,368	303,257,364
	301,406,374	309,952,022

10. Borrowings *(continued)*

(i) Effective June 2017, the interest rate was reset to 3.875%. Commencing June 2018, and each successive June thereafter, the interest rate will be reset to the 1 Year US Treasury securities yield plus 2.75%.

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

(vi) * In addition to the security referred to in (vi), US Masters Residential Property (USA) Fund has guaranteed the loan and US$1,999,990 (A$2,601,105) has been placed in escrow with Investors Bank.

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

(viii) As of 30 June 2017, LIBOR one Month was 1.15889% and LIBOR three Month was 1.04467%.

(ix) The facility with FCCD Limited is comprised of a Term Loan and a Revolver Note. The Term Loan of US$65,000,000 has a maturity date of 10 July 2020. The Revolver Note of US$85,000,000 has a maturity date of 10 July 2018. 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 (i.e. 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 and Centennial Bank (refer (xi)). 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 A$229,251,256, including property assets valued at A$228,335,013. US Masters Residential Property (USA) Fund and US Masters Residential Property Fund have each guaranteed the loan in limited circumstances.

10. Borrowings *(continued)*

(x) Resets to a new fixed interest rate in June 2021 for the remaining term.

(xi) The facility with Centennial Bank dated 23 February 2016 has a maturity date of 22 February 2021. Subject to satisfying certain criteria, the Group has an option to extend the maturity date for an additional year. The facility was amended in August 2016 to increase the limit from US$75,000,000 to US$125,000,000, as well as to allow for the inclusion of non-stabilised properties in the security pool. Amounts available to be drawn under the facility are based on pledged properties that meet specified conditions and meeting other facility terms and conditions. Funding against pledged properties is provided in accordance with the following:

- Stabilised Property Advances: The lower of 50% of fair market value (as determined by Centennial Bank), and 65% of total cost (as determined by Centennial Bank) for stabilised (i.e. tenanted) properties.
- Non-Stabilised Property Advances: The lower of 50% of fair market value (as determined by Centennial Bank), and 60% of total cost (as determined by Centennial Bank) for non-stabilised properties. The total amount advanced in respect of non-stabilised properties is limited to US$50,000,000.
- Renovation Advances: 45% of the renovation cost, subject to limitations imposed by Centennial Bank in certain circumstances.

The facility is subject to specific covenant and other reporting obligations. The facility is also subject to Event of Default clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable.

The facility is secured by the following:

a. A charge over the following subsidiaries of the Fund in which collateralised property assets are held:
    - USM URF AT Holdings LLC
    - USM Asset Trust
b. A guarantee given by US Masters Residential Property (USA) Fund.
c. A guarantee given by US Masters Residential Property Fund in limited circumstances.
d. US$4,372,671 (A$5,686,918) placed in interest, taxes and insurance and collection reserves. The interest reserve is non-interest bearing and is required to cover six-monthly instalments of interest at the interest rate for the advances outstanding. Refer Note 3(i).
e. An interest rate cap agreement entered into by the Group with SMBC Capital Markets. The carrying value of the interest rate cap is included in other non-current assets. Refer Note 3.

The total value of the security at balance date in respect of the Centennial Bank loan is A$380,922,595, including property assets valued at A$374,520,208.

Quarterly principal repayments are required based on a 30-year amortisation period. The facility bears interest at one month LIBOR plus 4.95% for stabilised properties and one month LIBOR plus 5.60% for non-stabilised properties. LIBOR is subject to a floor of 0.25%.

10. Borrowings *(continued)*

Unsecured Notes

The Group issued 1,750,000 unsecured notes during the period with a total face value of $175,000,000. The unsecured notes bear interest at a rate of 7.75% per annum and have a maturity date of 24 December 2021. The Responsible Entity has an option to redeem or partially redeem the notes on 24 December 2019, 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	30 Jun 2017 Amortised cost	31 Dec 2016 Amortised cost
URF Notes	7.75%	24 December 2019	24 December 2017	Unsecured	148,363,300	148,033,120
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	89,039,168	88,825,845
URF Notes III	7.75%	24 December 2021	24 December 2019	Unsecured	171,518,649	-
					408,921,117	236,858,965

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

Facility	Principal drawn	Principal available		Total
Investors Bank	99,189,187	-		99,189,187
Centennial Bank	126,705,940	35,863,965	*	162,569,905
FCCD Limited	88,463,478	106,620,408	*	195,083,886
URF Notes	150,000,000	-		150,000,000
URF Notes II	90,539,500	-		90,539,500
URF Notes III	175,000,000	-		175,000,000
	729,898,105	**142,484,373**		**872,382,478**

* 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.

11. Capital and reserves

Issuance of ordinary units

In relation to the distribution paid on 3 February 2017, 4,704,225 units were issued as part of the Fund's distribution reinvestment plan, for an amount of $9,408,450.

The total number of ordinary units issued as at 30 June 2017 was 350,382,982.

12. Balance date capital commitments

As at balance date, the Group has paid deposits totalling $1,729,094 in respect of contracts for the purchase of nine residential properties with a combined purchase consideration of $14,026,531.

The Group also has a capital commitment of $60,296,619 in respect of properties that are under construction/refurbishment.

There are no contributions contractually required to be made by the Group to any of the jointly controlled entities.

13. Related parties

Key management personnel

Mr Alexander MacLachlan, Mr Tristan O'Connell and Mr Warwick Keneally (appointment effective 16 May 2017) are directors of the Responsible Entity, Walsh & Company Investments Limited (**Walsh & Co.**), and are deemed to be key management personnel. Mr. Tom Kline resigned as a director of the Responsible Entity effective 16 May 2017.

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.

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 period was $2,223,525 (30 June 2016: $1,856,833) and is included in management fees expense in the profit or loss.

13. 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, 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 period.

Total investment management fee incurred during the period was $7,406,722 (30 June 2016: $6,115,800) and is included in management fees expense in the profit or loss.

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 one month's rent on new leases entered into by the US REIT. The fee is capitalised and expensed over the lease period.

During the period, the Investment Manager successfully oversaw the screening of over 8,000 lease inquiries and successful letting of 96 units representing gross annual rent income to the Fund of $5.5 million.

Total leasing fee incurred during the period was $516,842 (30 June 2016: $586,515).

Asset disposal fee (payable by the US REIT)

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

During the period, the Investment Manager oversaw the successful disposition of seven properties for total sale proceeds of $8.4 million, which represented a 10% premium to total asset cost, including purchase price, closing costs, and renovation expenditure.

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 six property disposals out of seven total property disposals during the period.

Total asset disposal fee incurred in the period was $192,080 (30 June 2016: $1,329,083) included in management fees expense in the profit or loss.

Of the total number of property disposals during the period, Dixon Realty Advisory LLC ('Dixon Realty', a wholly owned subsidiary of Dixon Advisory USA Inc) acted as real estate broker on seven transactions. On disposal transactions where Dixon Realty acts as broker on behalf of the Group, the Group pays a total brokerage commission based on 4% of the sales price, which is split between participating brokers (where relevant). All brokerage commission paid to Dixon Realty by the Group was subsequently passed on to the relevant sales agents who are unrelated to both the Responsible Entity and the Investment Manager. No profit was made by Dixon Realty on the sale of Group properties.

During the period, the Group paid brokerage commission of $185,325 (30 June 2016: nil) to Dixon Realty.

13. Related parties *(continued)*

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

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 period, the Investment Manager oversaw the inspection of over 559 potential property acquisitions, the bidding on 280 properties, and the acquisition of 43 properties for a total acquisition cost of $28.3 million.

Total asset acquisition fee incurred during the period was $898,988 (30 June 2016: $708,557) and is included in the acquisition cost of investment properties, or where relevant, in the carrying value of the Group's investments in financial assets.

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 2.00% of the gross amount of external borrowings obtained by the US REIT.

During the period, the Investment Manager oversaw the successful negotiation of URF Notes III ($175 million), as well as the debt facility for the 30–58/64 34th Street Investment. At the discretion of the Investment Manager, the debt arranging fee in respect of URF Notes III was calculated based on 1.00% of total proceeds raised.

Total debt arranging fee incurred during the period was $1,902,961 (30 June 2016: $2,301,326). Debt arranging fees form part of the amortised cost of the underlying loan balance, or are added to the carrying value of the Group's investments in financial assets where applicable. The capitalised fee forms part of the effective interest rate of the associated borrowing and is amortised over the loan expiry period. To the extent the associated borrowing relates to qualifying assets, the amortisation charge is capitalised to the qualifying asset.

Other fees and recoveries

Stamping fee (payable by the Fund)

Under the terms of the URF Notes III Supplementary Prospectus dated 30 January 2017, Dixon Advisory & Superannuation Services Limited (**DASS**) is entitled to a stamping fee of 1.025% (inclusive of GST) of the amounts raised and allocated under Applications bearing the stamp of AFSL Holder. In respect of URF Notes III, this fee amounted to $1,752,174 (inclusive of GST), and forms part of the amortised cost of the unsecured notes balance referred to in Note 10. The capitalised fee is amortised over the Note expiry period. No stamping fees were paid to DASS in 2016. Total stamping fees amortised during the period is $620,525 (30 June 2016: $498,131).

Fund administration fee (payable by the Fund)

Australian Fund Accounting Services Pty Limited (a related party of the Responsible Entity) provides administration and accounting services to the Fund. Time spent by staff is charged to the Fund at agreed rates under a Services Agreement. A total of $61,261 (30 June 2016: $68,100) 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. The expenditure of $61,261 (30 June 2016: $68,100) is included in Office Administration Costs in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.

13. Related parties *(continued)*

Other fees and recoveries *(continued)*

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

In an effort to minimise structural complexity and operating costs for the US REIT, the Group does not employ staff or management personnel and accordingly, has engaged the Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) to provide administrative and management services to the Fund and the US REIT.

Pursuant to the management agreements, the Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) recover certain direct expenses incurred in the management of the Group's activities.

The expenses recovered from the Group are primarily in respect of the Group's direct payroll and payroll related expenditure and the Group's share of office lease and depreciation recoveries.

For the period ended 30 June 2017, the Group's direct expenditure relating to salaries and wages totalling $5,101,369 (30 June 2016: $4,278,177) was recharged to the Group by Dixon Advisory USA Inc and the Group's share of office administration expenditure totalling $2,821,973 (30 June 2016: $2,914,963) was recharged to the Group by Dixon Advisory USA Inc ($2,341,644) and the Responsible Entity ($480,329). Included in the office administration costs is the amortisation for the current period of $238,082 in relation to the Group's upfront payment to Dixon USA Inc in the prior year totalling $2,783,342 towards its share of the new office fit-out and related office equipment. The amortisation is determined based on the useful lives of the underlying assets. The unamortised balance is included in prepayments in the Condensed Consolidated Statement of Financial Position.

For the period ended 30 June 2017, an administrative fee of 8.30% being $637,671 (30 June 2016: 7.89% being $534,772) permitted under the Administrative Services Agreement on actual costs incurred by Dixon Advisory USA Inc was charged by Dixon Advisory USA Inc. 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 Inc with the intention that such ongoing costs are met by the Management fees paid by the Group.

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 direct 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 period, Dixon Projects completed $36,017,587 (30 June 2016: $32,923,462), of renovation work for the Fund across 11 large-scale renovations and 30 small-scale renovations.

The renovation costs comprised of $26,106,769 of direct labour and materials (30 June 2016: $23,574,226) incurred by Dixon Projects and recharged to the Group.

The renovation costs also include $4,383,648 of General Conditions and insurance charges (30 June 2016: $3,891,892), a development fee of $1,348,815 (30 June 2016: $1,355,495), and architectural, quantity surveyor and interior design services of $4,178,355 (30 June 2016: $4,101,848) charged by Dixon Projects.

These costs are capitalised to the relevant investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2017

14. 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.

		Ownership interest	
		30 Jun 2017	31 Dec 2016
Parent entity			
US Masters Residential Property Fund	Australia		
Subsidiary			
US Masters Residential Property (USA) Fund	United States	100%	100%
US Masters Residential Property LLC	United States	100%	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%	100%
Canterbury URF LLC	United States	100%	100%
Manly Waringah URF LLC	United States	100%	100%
Penrith URF LLC	United States	100%	100%
NJ Prop 1 URF LLC	United States	100%	100%
NY Prop 1 URF LLC	United States	100%	100%
NY Prop 2 URF LLC	United States	100%	100%
NY Prop 3 URF LLC	United States	100%	100%
Brisbane URF LLC	United States	100%	100%
USM URF AT Holdings LLC	United States	100%	100%
USM Asset Trust	United States	100%	100%
TRS URF LLC	United States	100%	100%
W168 Investors LLC	United States	100%	100%
34 Astoria Investors LLC	United States	100%	-
Essex URF LLC	United States	100%	-

15. Subsequent events

Subsequent to balance date, the Group settled 13 property acquisition contracts with a total consideration of $6,616,725. In addition, the Group disposed of five properties for total consideration of $8,260,871.

In addition, URF Investment Management Pty Limited (the Investment Manager), has decided to waive the investment management fee with effect from 1 July 2017 for an indefinite period. The Investment Manager will continue to provide all the services set out in the Investment Management Agreement. All other fees paid by the Group remain unchanged.

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.

16. Operating segments

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

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

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

DIRECTORS' DECLARATION

FOR THE HALF-YEAR ENDED 30 JUNE 2017

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

(a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

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

On behalf of the Directors

Mr Alex MacLachlan
Director

Dated this 28th day of August 2017

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

We have reviewed the accompanying half-year financial report of US Masters Residential Property Fund (the "Fund"), which comprises the condensed consolidated statement of financial position as at 30 June 2017, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 29.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of US Masters Residential Property Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants
Sydney, 28 August 2017