US Masters Residential Property Fund

ARSN 150 256 161

Interim Financial Report

For the half-year ended 30 June 2019

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 2019

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US MASTERS RESIDENTIAL PROPERTY FUND
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DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2019

The directors of Walsh & Company Investments Limited, the Responsible Entity of US Masters Residential Property Fund (**Fund**), present to you the US Masters Residential Property Fund half year report for the six months ended 30 June 2019, together with the consolidated financial statements of the Fund and its controlled entities (**Group**).

The Fund provides investors with exposure to a diversified portfolio of residential property in the New York City metropolitan area. As at 30 June 2019, the Group owned 600 single family houses and 17 multifamily apartment buildings containing 1,626 housing units, together having a total asset value of $1.4 billion. The Group is the largest institutional owner of townhouses and brownstones in the New York City metropolitan area.

The US macroeconomic environment remains supportive of the Group's strategy. The ordinary unit price, however, has continued to trade at a significant discount to net asset value (**NAV**) during the period. The Responsible Entity is aware of the impact this has on unitholders and is undertaking a number of initiatives to improve performance and returns for investors.

Post balance date, on 1 August 2019, it was announced that Alan Dixon, CEO, had decided to take an extended leave of absence for personal reasons, and that Kevin McAvey, Co-Chief Financial Officer, and Brian Disler, General Counsel, had been appointed Co-Heads of the business responsible for Group operations in the US. We thank Alan for his contribution since establishment of the Fund in 2011. The new leadership team is focused on achieving operational efficiencies and implementing the strategy announced earlier this year.

Improving Operational Efficiency

For the past two years, URF Investment Management Pty Ltd (**Investment Manager**) has been focused on completing the construction and renovation pipeline. As at 30 June 2019, there were only 12 properties remaining in the construction pipeline, representing $26.9 million in construction work. It is anticipated that all but four of these properties will be completed by the end of the calendar year. Once these renovations are completed, the Group will have successfully executed the renovation of 171 properties since 30 June 2017.

Accordingly, the Investment Manager can focus on improving the operations of the business and optimising the portfolio's cash flow. Doing so will include the introduction of initiatives to reduce property-level expenses, decrease the overhead costs of the business, and reduce the Group's interest expense. Examples of initiatives include, but are not limited to, eliminating the Group's expense relating to merchant fees, consolidating landscaping activities, leveraging our scale to renegotiate contracts with existing vendors, and lowering costs by working directly with certain trades such as painters and handymen.

The Investment Manager is also evaluating options around its current office space, looking for a more cost effective space that is properly sized for the operating platform that it needs to run a fully stabilised portfolio moving forward. In addition to the potential rent savings, a change in office space would result in a reduction of many of the ancillary costs of operating the office, such as the provision of voice and data services and IT systems.

At the property level, the team continues to deliver consistent rent growth across the Fund's portfolio as well as low vacancy rates. During the period, renewals on existing leases were up 11% compared to the same period in the prior year, while increases on new leases were up 6%. Occupancy rates for stabilised properties were 95% and tenant renewal rates were 76%.

Implementing Strategic Initiatives

Whilst we believe New York residential property remains an attractive property asset class, the Group has been considering and assessing strategic alternatives to maximise value for investors and to reduce the discount at which the Fund's ordinary units trade relative to NAV. As part of this, the Group has met, and continues to meet, with a number of parties to explore a range of strategic alternatives. At the same time, the Investment Manager has initiated a program of selling select properties in the portfolio and using the proceeds to repay the URF Notes II (ASX:

URFHB) and URF Notes III (ASX: URFHC), as well as reviewing other capital management initiatives which could further improve returns for unitholders.

In preparing to implement the selling program, the Investment Manager identified a selection of non-core properties across the portfolio and has commenced the process of listing and selling these properties on the market. The selling program currently involves the disposal of properties by way of single assets, but other alternatives such as disposals of sub-portfolios of assets, corporate transactions, and other capital initiatives are also being explored.

The proceeds from the selling program, which commenced 12 June 2019, will allow the Group to reduce gearing, and allow the portfolio to deliver better cash flows and returns for investors. This will predominantly be achieved through the sale of non-core assets. The selling program is still in its early stages. However, in the approximately two months since commencement of the program through to 23 August 2019, the Group has successfully sold nine properties for total consideration of $9.7 million representing a 0.4% premium to recorded fair value, and secured contracts for sale for an additional eight properties for total consideration of $11.5 million. The Group has 24 properties currently on the market for sale with an aggregate fair value of $42.5 million. The Fund will keep investors updated regularly on progress.

The Group also made progress in selling parts of its multi-family portfolio. Subsequent to balance date, Golden Peak II LLC, in which the Group has a 67.5% interest, entered into a contract to dispose of the portfolio for US$65 million[1], which represents a US$27.4 million dollar gain, or 73%, on portfolio acquisition cost in 2012.

With the early success of the program, the Fund will be increasing the previously announced early repayment of URF Notes II from $33 per note to $40 per note, which will be paid on 30 September 2019. It is intended that further repayments will be made on future quarterly repayment dates until the notes are fully repaid.

Portfolio and NAV Update

Over the half-year ended 30 June 2019, the Group recognised a 1.9% decrease in the freestanding property portfolio, net of capitalised interest, representing a $24.3 million decrease in value. The Group also recognised a $1.1 million decrease in the value of its share of multifamily apartment buildings owned jointly with Urban American. The aggregate impact of these fair value movements is a 7 cent reduction in net asset value per unit.

Factors leading to the weakness during the period include federal tax changes which cap the deductibility of state and local taxes, higher tax assessments on certain of the Group's properties, and changes in legislation relating to rent regulated properties, as well as neighbourhood specific dynamics and macroeconomic factors including increased uncertainty due to rising US-China trade tensions.

The largest decrease in the freestanding property portfolio was in the Bedford-Stuyvesant neighbourhood of Brooklyn, where the Group recognised an $11.8 million decrease (or 0.9% of the portfolio). As has been outlined in previous communications to unitholders, an essential part of the Group's strategy historically has been purchasing properties in gentrifying neighbourhoods with the aim of unlocking long-term value through renovation. In the case of Bedford-Stuyvesant, significant renovation capital has been invested into assets in this neighbourhood and although the area has gentrified significantly since the Group's investment, prices in the neighbourhood were negatively impacted by an increase in the volume of housing stock available for sale during the current period. However, it is relevant to note that after recognising the aforementioned decrease, the Bedford-Stuyvesant section

[1] Contract was entered into on August 20th, 2019 and is subject to a 30 day due diligence period and a 45 day mortgage contingency, which run concurrently.

of the Group's portfolio has shown 9% capital appreciation on purchase price and all subsequent renovation costs since acquisition.

The net $1.1 million adjustment to the carrying value of multifamily properties in the Group's portfolio reflects the impact of legislative changes to New York rent regulations, which took effect late June 2019. These changes place restrictions on the ability of owners of rent regulated buildings to increase rent following renovation. The changes arguably represent the most significant change to rent regulations in New York in recent memory and are expected to impact approximately 1 million rental units in New York City. All three of the Group's New York multifamily assets, which are owned jointly with Urban American and subject to these rent regulations, were appraised by Jones Lang LaSalle during the period to take into account the impact of these legislative changes. In total, the Group has recognised a write down of $5.3 million (representing the Group's respective ownership share in the assets) in respect of these New York multifamily assets.

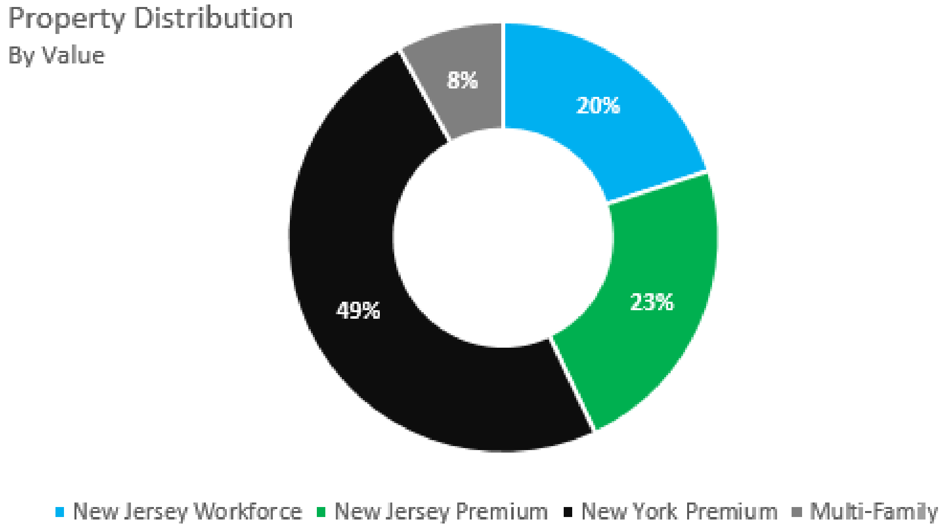
This $5.3 million write down was partially offset by a $4.2 million uplift to the Group's multifamily properties in New Jersey, all of which are owned jointly with Urban American through the Golden Peak II LLC joint venture entity.

While these legislative changes have impacted the Group's limited holdings of multi-family assets, the ability of owners of free market assets, which represent 97% of the total value of the Fund's portfolio, to raise rents is unaffected by these changes. In fact, the Group expects that rental values for free market assets are likely to increase, thereby driving rent growth and improving net property yields for the Fund.

Freestanding portfolio update

During the period, the Group disposed of 30 freestanding properties, for a gross sales price of US$26.8 million, compared to a carrying value of US$26.7 million. These sales were part of the ongoing management of the portfolio. With the implementation of the disposal program, the Group anticipates the pace of sales will accelerate going forward.

As at 30 June 2019, the relative contributions of each of the Group's investment areas to the portfolio are summarised below.



DIRECTORS' REPORT

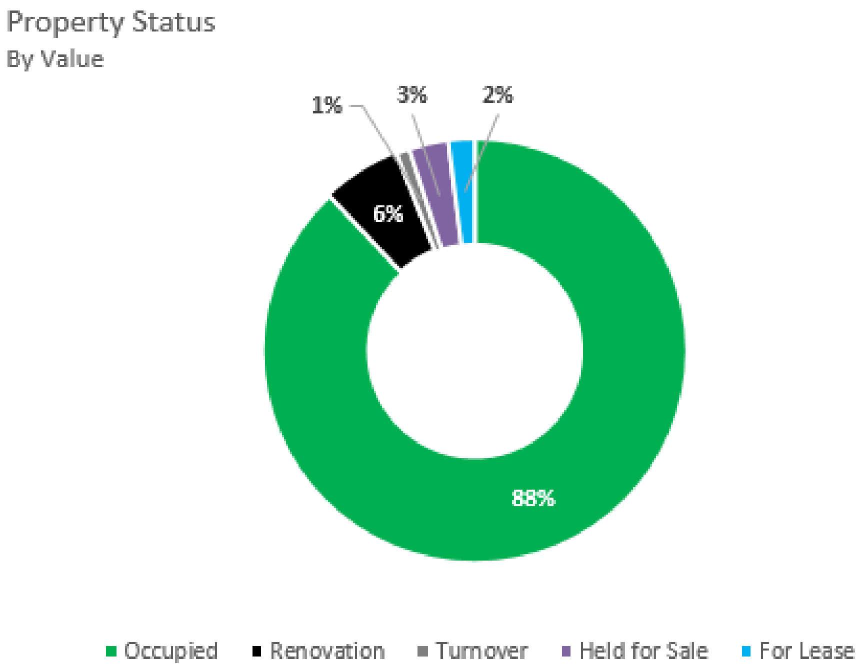
FOR THE HALF-YEAR ENDED 30 JUNE 2019

Freestanding properties construction update

The Group has made significant progress towards stabilising the freestanding portfolio, completing 71 renovations with a total renovation spend of $28.9 million during the period. As outlined in the quarterly updates, this result is in line with the scheduled rate of completion. The cost of the completed renovations was also in-line with construction budgets.

As of 30 June 2019, there are 12 properties that remain in the renovation pipeline. The Group expects that the vast majority of these projects will be completed by the end of 2019, with the remaining projects being completed early in 2020. The completion of the renovation pipeline is expected to contribute an additional US$2.7 million in annualised rental income, although the Group may evaluate certain assets as potential sales once delivered from the renovation pipeline.

The property status of freestanding properties as at 30 June 2019 is depicted below.



Financial performance and position

The Group recorded earnings before interest, tax, and unrealised fair value and currency movements of $3.4 million for the period ended 30 June 2019. This compares with the prior period loss before interest, tax, and unrealised fair value and currency movements of $2.5 million. The improvement on the prior period reflects both revenue growth and cost reductions.

Rental revenue increased by 30% to $23.1 million in the current period, and the Group was able to improve property level operating costs, with the property level cost to income ratio decreasing to 40% in the current period compared with 44% in the prior period. In addition, Group level cost savings of $1.2 million (or 32%) were achieved by reducing the costs of managing the portfolio. As mentioned, the Group will look to further optimize the portfolio's cash flow by introducing cost cutting initiatives at both the property level and administrative level.

For the period, the Group recorded a pre-tax loss of $45.9 million, a post-tax loss of $47.6 million, and a total comprehensive loss of $44.2 million.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2019

Capital structure update

During the period, the Group refinanced a large portion of its existing debt from its Centennial Bank facility to its facility with Wells Fargo Bank. As of 30 June 2019, the balance of the Wells Fargo facility was US$268.9 million. The facility has a 3-year term and carries an interest rate of one-month LIBOR plus 1.80% against the Group's stabilised properties that are pledged as collateral. The refinance of these assets from the Centennial Bank facility, which carries an interest rate of one-month LIBOR plus 4.50% will result in substantial interest savings for the Group.

Distributions paid or recommended

A distribution of 5 cents per ordinary unit, totalling $18.4 million, was declared on 16 January 2019. After accounting for the Group's Distribution Reinvestment Plan, $10.2 million was paid on 5 February 2019.

A further distribution of 1 cent per ordinary unit, totalling $3.8 million, was announced on 12 June 2019. The Distribution Reinvestment Plan is in place in relation to the distribution.

In addition, a distribution of $3.10 per Convertible Preference Unit, totalling $6.2 million, was announced on 12 June 2019. Like distributions on ordinary units, the Distribution Reinvestment Plan is in place in relation to the distribution.

After balance date events

Other than matters disclosed in Note 17 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 immediately after this report and forms part of the Directors' Report for the half-year ended 30 June 2019.

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 29th day of August 2019

Deloitte.

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29 August 2019

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

Dear Board Members

Auditor's Independence Declaration to US Masters Residential Property Fund

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

As lead audit partner for the review of the half year financial report of US Masters Residential Property Fund for the half-year ended 30 June 2019, 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 Accountant

US MASTERS RESIDENTIAL PROPERTY FUND
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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 30 JUNE 2019

	Note	30 Jun 2019	30 Jun 2018
		$	$
Investment property rental income		23,113,452	17,791,221
Interest income		755,582	769,704
Dividends from equity investments		161,052	105,342
Other income	*15*	395,580	-
Fair value movement of investment properties	*6*	(24,302,151)	11,057,380
Fair value movement of equity investments	*4*	(4,714,313)	1,047,481
Share of profits of jointly controlled entities	*5*	2,463,081	756,328
Investment property expenses		(9,307,410)	(7,768,773)
Net foreign currency gain		765,001	8,487,598
Listing fees		(164,578)	(174,713)
Professional fees		(1,424,405)	(929,956)
Marketing		(186,396)	(77,715)
IT expenses	*15*	(397,499)	-
Management fees	*15*	(2,599,669)	(3,166,929)
Salaries and wages	*15*	(4,965,838)	(4,639,654)
Office administration costs	*15*	(295,227)	(2,478,300)
Administration fees	*15*	-	(579,957)
Interest expense	*6*	(21,074,618)	(17,733,844)
Investment property disposal costs	*15*	(2,550,850)	(1,684,302)
Allowance for expected credit losses		(138,993)	(64,033)
Amortisation of leasehold improvements		(101,387)	-
Insurance expense	*15*	(453,774)	-
Depreciation of right-of-use asset	*9*	(445,044)	-
Other expenses		(480,055)	(397,229)
(Loss)/profit before income tax		(45,948,459)	319,649
Income tax expense	*10*	(1,644,509)	(5,794,530)
Loss for the period attributable to Unitholders		(47,592,968)	(5,474,881)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operation (nil tax)		3,519,537	42,948,573
Share of jointly controlled entity's reserve movements (nil tax)	*5*	(124,245)	72,638
Other comprehensive income for the period, net of tax		3,395,292	43,021,211
Total comprehensive (loss)/income for the period attributable to Unitholders		(44,197,676)	37,546,330

Earnings per unit		
Basic loss per unit (dollars)	(0.14)	(0.03)
Diluted loss per unit (dollars)	(0.14)	(0.03)

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
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	30 Jun 2019	31 Dec 2018
		$	$
Current assets			
Cash and cash equivalents	*2*	117,021,643	106,992,735
Receivables		947,314	542,884
Prepayments		989,699	1,110,103
Other assets	*3*	2,892,985	2,584,535
Investment properties held for sale	*6*	40,745,014	54,827,990
Total current assets		162,596,655	166,058,247
Non-current assets			
Investment properties	*6*	1,228,990,380	1,238,514,815
Investments in jointly controlled entities	*5*	36,825,546	34,562,762
Other financial assets	*4*	34,457,549	38,541,755
Other assets	*3*	15,267,654	17,570,605
Right-of-use asset	*9*	6,417,988	-
Leasehold improvements	*8*	1,462,106	1,557,678
Security deposits	*7*	434,473	432,699
Total non-current assets		1,323,855,696	1,331,180,314
Total assets		1,486,452,351	1,497,238,561
Current liabilities			
Payables	*11*	17,175,385	17,466,665
Borrowings	*12*	3,045,346	782,569
Lease liability	*9*	764,739	-
Total current liabilities		20,985,470	18,249,234
Non-current liabilities			
Deferred tax liabilities	*10*	77,483,956	75,871,554
Borrowings	*12*	710,714,418	669,523,204
Lease liability	*9*	5,728,870	-
Other non-current liabilities		178,062	188,413
Total non-current liabilities		794,105,306	745,583,171
Total liabilities		815,090,776	763,832,405
Net assets		671,361,575	733,406,156
Equity			
Unit capital		446,035,944	457,711,657
Convertible step-up preference units		175,871,397	182,042,589
Reserves		187,418,265	184,022,973
Accumulated losses		(137,964,031)	(90,371,063)
Total equity		671,361,575	733,406,156

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
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2019

	Unit capital	Convertible step-up preference units	Foreign currency translation reserve	Share of jointly controlled entity's cash flow hedging reserve	Accumulated losses	Total equity
	$	$	$	$	$	$
Balance at 1 January 2018	**455,858,921**	**194,688,412**	**100,455,378**	**161,858**	**(62,236,023)**	**688,928,546**
Loss for the period	-	-	-	-	(5,474,881)	(5,474,881)
Other comprehensive income, net of income tax						
Foreign operation currency translation gain	-	-	42,948,573	-	-	42,948,573
Jointly controlled entity interest rate swap hedge gain	-	-	-	72,638	-	72,638
Total other comprehensive income	-	-	42,948,573	72,638	-	43,021,211
Total comprehensive income/(loss) for the period	**-**	**-**	**42,948,573**	**72,638**	**(5,474,881)**	**37,546,330**
Transactions with owners in their capacity as owners						
Issue costs	-	(171,947)	-	-	-	(171,947)
Issue of ordinary units	8,930,701	-	-	-	-	8,930,701
Distributions to unitholders	(18,040,657)	(6,195,603)	-	-	-	(24,236,260)
Total transactions with owners	**(9,109,956)**	**(6,367,550)**	**-**	**-**	**-**	**(15,477,506)**
Balance at 30 June 2018	**446,748,965**	**188,320,862**	**143,403,951**	**234,496**	**(67,710,904)**	**710,997,370**
Balance at 1 January 2019	**457,711,657**	**182,042,589**	**183,868,978**	**153,995**	**(90,371,063)**	**733,406,156**
Loss for the period	-	-	-	-	(47,592,968)	(47,592,968)
Other comprehensive income, net of income tax						
Foreign operation currency translation gain	-	-	3,519,537	-	-	3,519,537
Jointly controlled entity interest rate swap hedge gain	-	-	-	(124,245)	-	(124,245)
Total other comprehensive income	-	-	3,519,537	(124,245)	-	3,395,292
Total comprehensive income/(loss) for the period	**-**	**-**	**3,519,537**	**(124,245)**	**(47,592,968)**	**(44,197,676)**
Transactions with owners in their capacity as owners						
Issue costs	-	-	-	-	-	-
Issue of ordinary units	10,519,479	-	-	-	-	10,519,479
Distributions to unitholders	(22,195,192)	(6,171,192)	-	-	-	(28,366,384)
Total transactions with owners	**(11,675,713)**	**(6,171,192)**	**-**	**-**	**-**	**(17,846,905)**
Balance at 30 June 2019	**446,035,944**	**175,871,397**	**187,388,515**	**29,750**	**(137,964,031)**	**671,361,575**

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
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 30 JUNE 2019

	Note	30 Jun 2019 $	30 Jun 2018 $
Cash flows from operating activities			
Cash receipts from customers		23,194,558	18,204,313
Cash paid to suppliers and employees		(25,856,985)	(16,299,287)
Interest received		788,111	772,161
Interest paid (i)		(18,168,502)	(14,365,541)
Income tax paid		(195,781)	-
Net cash used in operating activities		(20,238,599)	(11,688,354)
Cash flows from investing activities			
Acquisition of investment property, including improvements (i)		(35,821,299)	(63,185,970)
Investment in financial assets		-	(3,036,967)
Refunds/(payments) for property-related deposits		246,844	(3,798,804)
Proceeds from sale of investment properties		37,701,829	22,396,475
Disposal costs on sale of investment properties		(2,550,850)	(1,684,302)
Distributions received from jointly controlled entity investments (ii)		206,429	378,065
Distributions received from equity investments		161,052	105,342
Amounts advanced to third parties		(467,229)	-
Net cash used in investing activities		(523,224)	(48,826,161)
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		147,928,309	246,770,284
Bank loan repayments		(106,226,976)	(235,548,149)
Refund/(payment) of interest reserve and escrow accounts		2,304,985	(5,047,025)
Proceeds from return of escrow deposit		-	2,670,214
Payment of transaction costs related to loans and borrowings		(2,172,290)	(4,518,925)
Distributions paid		(14,177,529)	(8,836,441)
Withholding tax paid		(467,117)	(390,229)
Lease payments		(372,146)	-
Payments of issue costs		-	(171,948)
Net cash from/(used in) financing activities		26,817,236	(5,072,219)
Net increase/(decrease) in cash and cash equivalents		6,055,413	(65,586,734)
Cash and cash equivalents at beginning of period		106,992,735	182,798,770
Effect of exchange rate fluctuations on cash held		3,973,495	3,745,528
Cash and cash equivalents at end of period	*2*	117,021,643	120,957,564

(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.

(ii) - Distributions received from jointly controlled entity investments are net of promote interest payments.

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 2019

1. Basis of preparation

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

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

These half-year financial statements were approved by the Board of Directors of the Responsible Entity on 29 August 2019.

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.

Amendments to Accounting Standards and new Interpretations that are mandatory effective from the current reporting period

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

AASB 16 Leases
In the current period, the Group has applied AASB 16 Leases for the first time. The date of initial application of AASB 16 for the Group is 1 January 2019.

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. The impact of the adoption of AASB 16 on the Group's condensed consolidated financial statements is described below.

The Group has changed its accounting policy for lease contracts as detailed in Note 9. In accordance with the transitional provisions in AASB 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated. The details of the changes in accounting policies are disclosed below.

Impact of the new definition of a lease

The change to the definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for the period of time in exchange for consideration.

Former operating leases

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet.

Applying AASB 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

For short-term leases (lease term of 12 months or less) and leases of low value asset, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within other expenses in the condensed consolidated statement of profit or loss and other comprehensive income.

These lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured as if AASB 16 had always been applied, but using the incremental borrowing rate as at 1 January 2019.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months to end of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

On transition to AASB 16, the Group recognised right-of-use assets totalling $6,865,755 and lease liabilities $6,865,755 based on an incremental borrowing rate of 4.18%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2019

2. Cash and cash equivalents

	30 Jun 2019	31 Dec 2018
	$	$
Cash at bank	117,021,643	106,992,735
	117,021,643	106,992,735

3. Other assets

	30 Jun 2019	31 Dec 2018
	$	$
Current assets		
Property related deposits	341,880	587,317
Deferred leasing fee	407,495	534,367
Other assets (escrow deposits and receivables)	2,143,610	1,462,851
	2,892,985	2,584,535

	30 Jun 2019	31 Dec 2018
	$	$
Non-current assets		
Facility reserve accounts (i) (ii)	14,261,122	16,392,613
Interest rate cap derivative instrument	-	185,984
Other assets (escrow deposits and receivables)	1,006,532	992,008
	15,267,654	17,570,605

(i) Under the terms of the Centennial Bank loan facilities (refer note 12(iii)), 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$2,315,160 (A$3,297,949).
- maintain a property tax and insurance reserve. At balance date, the amount on reserve with Centennial Bank in relation to property taxes and insurance reserves was US$211,465 (A$301,232).
- maintain a collection reserve. At balance date, the amount on reserve with Centennial Bank in relation to collection reserves was US$963,994 (A$1,373,211).

(ii) Under the terms of the Wells Fargo Bank loan facility (refer note 12(i)), the Group is required to:

- maintain an interest reserve equivalent to the greater of three times the previous months interest and 1.5 times the succeeding months projected interest expense. At balance date, the amount of interest on reserve with Wells Fargo Bank was US$1,902,943 (A$2,710,744).
- maintain a property tax and insurance reserve equivalent to six months' worth of tax and insurance expense. At balance date, the amount on reserve with Wells Fargo Bank in relation to property taxes and insurance reserves was US$2,743,514 (A$3,908,140).
- maintain a property management reserve equivalent to 6% of gross rent for a six month period calculated with reference to the current rent roll. At balance date, the amount on reserve with Wells Fargo Bank in relation to the property management reserve was US$850,232 (A$1,211,156).
- maintain a capital expenditure reserve equivalent to US$2,000 per property. At balance date, the amount on reserve with Wells Fargo Bank in relation to the capital expenditure reserve was US$1,024,000 (A$1,458,690).

4. Other financial assets

	30 Jun 2019 $	31 Dec 2018 $
Non-current assets		
Equity investments - fair value	26,650,659	31,232,291
Loan to other entity	7,806,890	7,309,464
	34,457,549	38,541,755

a) Equity investments – fair value

Investee	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest 30 Jun 2019 %	 31 Dec 2018 %
515 West 168th Venture LLC (i)	USA	Property investment	Washington Heights, NY	63.7%	63.7%
30–58/64 34th Street Venture LLC (i)	USA	Property investment	Astoria, NY	65.0%	65.0%
523 West 135th Street Venture LLC (i)	USA	Property investment	Hamilton Heights, NY	64.7%	64.7%

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

515 West 168th Venture LLC

In June 2019, 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 fair value of the property as at 30 June 2019 was US$23,200,000 (A$33,048,433). The Investee had borrowings totalling US$11,132,665 (A$15,858,497) at balance date.

30–58/64 34th Street Venture LLC

In June 2019, Jones Lang LaSalle was appointed to value the investment properties owned by 30–58/64 34th Street Venture LLC. In determining the fair value of the portfolio, Jones Lang LaSalle adopted a discounted cash flow approach.

The fair values of the portfolio as at 30 June 2019 totalled US$20,510,000 (A$29,216,524). The Investee had borrowings totalling US$8,322,639 (A$11,855,611) at balance date.

4. Other financial assets *(continued)*

523 West 135th Street Venture LLC

In June 2019, Jones Lang LaSalle was appointed to value the investment property owned by 523 West 135th Street Venture LLC. In determining the fair value of the property, Jones Lang LaSalle adopted a discounted cash flow approach.

The fair value of the property as at 30 June 2019 was US$7,610,000 (A$10,840,456). The Investee had borrowings totalling US$4,672,635 (A$6,656,175) at balance date.

The fair values of the property assets owned by each investee were negatively impacted by legislation passed by the New York State Senate and Assembly in June 2019. The legislation passed limits the ability of landlords to break apartments out of rent stabilization and to convert them to free market apartments following renovation. As a result of this legislative change, the adopted fair values of the investment properties were reduced which consequently resulted in the decrement in the fair value of the equity investments held in the investees.

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

Class of investment	Fair value hierachy level	Fair value ($) 30 Jun 2019	Fair value ($) 31 Dec 2018	Inputs
Equity investments - fair value	Level 3	26,650,659	31,232,291	- Net market income of $15.92 - $26.00 per square foot - 10 year annual compound growth rate of 2.83% - 3.10% - Discount rates of 8.01% - 10.66% - Terminal yields of 4.35% - 5%

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

b) Loan to other entity

The Group provided vendor financing in respect of one of its property disposals.

The loan is secured by a first mortgage over the underlying property and cash collateral totalling US$154,820. The loan bears interest at 2.625% per annum and has a maturity date of 24 July 2020. No principal repayments are due until the maturity date of the loan. An amount of US$1,418,720 (A$2,020,969) remains undrawn by the borrower pursuant to the terms of the loan agreement.

5. Investments in jointly controlled entities

Jointly controlled entities	Country of incorporation	Principal activity	Principal place of business	Ownership Interest 30 Jun 2019 %	Ownership Interest 31 Dec 2018 %
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) These jointly controlled entities remained dormant during the period. It is intended that the jointly controlled entities will be dissolved.

Carrying amount of interest in jointly controlled entities	30 Jun 2019 (6 months) $	31 Dec 2018 (12 months) $
Balance at beginning of period	34,562,762	27,859,205
Distributions received and receivable	(206,429)	(780,068)
Share of profits of jointly controlled entities	2,463,081	4,514,901
Share of reserves of jointly controlled entities	(124,245)	(7,863)
Exchange rate differences on translation	130,377	2,976,587
Balance at end of period	36,825,546	34,562,762

Subsequent to balance date, Golden Peak II LLC entered into a contract to dispose of all thirteen properties owned by the joint venture entity. The contract price for the entire portfolio is US$65 million, of which the Group’s economic interest is US$43.9 million (A$62.5 million). The sales price represents a US$4.4 million (A$6.3 million) uplift on the most recent appraisal, and US$27.4 million on portfolio acquisition cost.

The fair value of the property portfolio owned by Golden Peak II, LLC at 30 June 2019 was determined by Management based on the contracted sales price referred to above.

6. Investment properties

	30 Jun 2019	31 Dec 2018
	$	$
Disclosed on the Condensed Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	40,745,014	54,827,990
Non-current assets		
Investment properties	1,228,990,380	1,238,514,815
	1,269,735,394	1,293,342,805

	30 Jun 2019 (6 months)	31 Dec 2018 (12 months)
At fair value		
Balance at beginning of period	1,293,342,805	1,118,404,055
Acquisitions, including improvements and interest on qualifying properties	36,691,340	108,427,751
Fair value movement of investment properties to market	(24,302,151)	2,015,941
Disposals	(37,486,885)	(61,776,965)
Exchange rate differences on translation	1,490,285	126,272,023
Balance at end of period	1,269,735,394	1,293,342,805

	30 Jun 2019 (6 months)	31 Dec 2018 (12 months)
Interest expense	24,916,245	53,954,087
Interest capitalised to carrying value of qualifying investment properties	(3,841,627)	(16,847,797)
Interest expense reflected in profit or loss	21,074,618	37,106,290

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.

During the period, the Group disposed of 30 properties for total sales proceeds of $37,701,829 which represent their reported fair values.

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)

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 ($) 30 Jun 2019	Fair value ($) 31 Dec 2018	Valuation technique	Inputs
Residential use investment property	Level 2	1,269,735,394	1,293,342,805	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.

7. Security deposits

	30 Jun 2019	31 Dec 2018
	$	$
Security deposits	434,473	432,699

The Group is party to a letter of credit arrangement with Investors Bank. Under the terms of the facility, the Group is required to provide security in the form of a US$305,000 (A$434,473) deposit.

8. Leasehold improvements

	30 Jun 2019	31 Dec 2018
	$	$
Leasehold improvements - at cost	3,004,463	3,004,463
Accumulated amortisation - leasehold improvements	(1,542,357)	(1,446,785)
	1,462,106	1,557,678

Leasehold improvements are recognised at cost less accumulated amortisation. Leasehold improvements are amortised based on the shorter of the lease term or useful lives of the assets.

9. Leases

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

	30 June 2019
Right-of-use asset	**$**
Balance at 1 January 2019	6,865,755
Depreciation charge for the year	(445,044)
Exchange rate differences on translation	(2,723)
Balance at 30 June 2019	6,417,988

The right-of use asset is recognised at cost less accumulated depreciation. The asset is depreciated on a straight line basis over the term of the lease.

	30 June 2019
Lease liability	**$**
Balance at 1 January 2019	6,865,755
Interest expense	116,143
Lease repayments	(488,289)
Balance at 30 June 2019	6,493,609

Disclosed as:	
	$
Current	764,739
Non-current	5,728,870
	6,493,609

10. Deferred tax liabilities

	30 Jun 2019 $	31 Dec 2018 $
Investment properties	77,483,956	75,871,554
Movements		
Balance at beginning of period	75,871,554	59,043,747
Charged to profit or loss as income tax expense	1,213,697	10,196,829
Taken to profit and loss as unrealised foreign exchange loss	398,705	6,630,978
Balance at end of period	77,483,956	75,871,554

Income tax expense is comprised of:

	30 Jun 2019 $	31 Dec 2018 $
Deferred tax charged to profit or loss	1,213,697	10,196,829
State and withholding tax payable	430,812	454,382
Income tax expense	1,644,509	10,651,211

The Group recognises a deferred tax liability in respect of tax obligations which may arise in connection with the realisation and distribution to the Australian parent entity of taxation capital gains associated with its property assets.

The liability has been measured at a rate of 24.95% (incorporating both corporate and branch profit taxes) which may be applicable. The actual rate of tax may be lower, or even reduced to zero, depending on the structure of the realisation and other criteria and circumstances which can only be determined at a future disposal date. The Group has adopted a policy of recording its estimate of the likely amount of tax that may be applicable based on its expected manner of disposal.

11. Payables

	30 Jun 2019 $	31 Dec 2018 $
Current		
Trade payables	1,429,401	3,833,604
Distribution payable	9,978,827	6,308,474
Other payables	5,767,157	7,324,587
	17,175,385	17,466,665

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

12. Borrowings

	30 Jun 2019 $	31 Dec 2018 $
Current liabilities		
Secured bank loans - at amortised cost	3,045,346	782,569
	3,045,346	782,569
Non-current liabilities		
Secured bank loans - at amortised cost	448,235,666	407,554,210
Unsecured notes	262,478,752	261,968,994
	710,714,418	669,523,204

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 2019 Principal amount – amortised cost	31 Dec 2018 Principal amount – amortised cost
Wells Fargo	LIBOR 1 month + 1.80%	(ii)	(i)	(i)	962,493,997	376,750,363	232,561,464
Centennial Bank	(iii)	(ii)	(iii)	(iii)	265,308,548	74,530,649	175,775,315
						451,281,012	408,336,779

Disclosed as:	30 Jun 2019 $	31 Dec 2018 $
Current	3,045,346	782,569
Non-current	448,235,666	407,554,210
	451,281,012	408,336,779

12. Borrowings *(continued)*

(i) The facility with Wells Fargo Bank dated 15 June 2018 was amended on 3 April 2019 to increase the facility limit from US$200,000,000 to US$300,000,000, and, subject to meeting certain terms may be increased up to US$400,000,000. 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. The amount available to be drawn under the facility at any point in time is the lesser of:

- The facility limit
- The loan advance amount that supports a debt yield of 5.75% (ongoing requirement of 5.50%)
- The loan advance amount that supports a debt service cover ratio of at least 1.50 to 1.00 (ongoing requirement of 1.25 to 1.00), and
- 45% of the market value of the collateral property (ongoing requirement of 50% of the market value of collateral property).

The facility is secured by the following:

a. A charge over the following subsidiaries of the Fund in which collateralized property assets are held:
   - NY Oakland LLC
   - NJ Penelope LLC
   - Melbourne LLC
   - Geelong LLC
   - NRL URF LLC
   - Brisbane URF LLC
   - Essendon URF LLC
   - St. Kilda LLC
   - Collingwood URF LLC
   - Carlton URF LLC
   - Fremantle URF LLC
b. A guarantee given by US Masters Residential Property (USA) Fund.
c. A guarantee given by US Masters Residential Property Fund.
d. US$6,520,689 (A$9,288,730) placed in interest, taxes, insurance and property management reserves. Refer Note 3(ii).

The total value of the security at balance date in respect of the Wells Fargo Bank facility is A$972,924,159, including property assets valued at A$962,493,997.

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

The interest rate on the facility is 1 month LIBOR plus 1.80%. Other than in specific circumstances, principal repayments are not required under the terms of the facility.

The maturity date of the facility is 15 July 2021.

(ii) As of 30 June 2019, LIBOR 1 month was 2.43%.

12. Borrowings (continued)

(iii) The facility with Centennial Bank dated 23 February 2016 was amended on 26 September 2017 to extend the maturity date to 26 September 2022 (previously 22 February 2021). Subject to satisfying certain criteria, the Group has an option to extend the maturity date for an additional year. The 2017 amendment also increased the facility limit from US$125,000,000 to US$175,000,000. Amounts available to be drawn under the facility are based on pledged properties that meet specified conditions and meeting other facility terms and conditions. The facility was amended again in June 2018 as outlined below. 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. Under the terms of the 2018 amendment, the total amount advanced in respect of non-stabilised properties was increased from US$100,000,000 to US$125,000,000.
- 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$3,490,619 (A$4,972,392) 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 total value of the security at balance date in respect of the Centennial Bank loan is A$271,194,844, including property assets valued at A$265,308,548.

Quarterly principal repayments are required based on a 30 year amortisation period. Under the terms of the June 2018 amendment, the facility bears interest at 1 month LIBOR plus 4.50% (previously 1 month LIBOR plus 4.75% and 5.60% for stabilised and non-stabilised properties, respectively). Under the terms of the June 2018 amendment, LIBOR is subject to a floor of 1.00% (previously 0.25%).

12. Borrowings *(continued)*

Unsecured Notes

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

Notes issue	Interest rate	Maturity date	Early redemption date at discretion of issuer	Security	30 Jun 2019 Amortised cost	31 Dec 2018 Amortised cost
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	89,899,531	89,686,208
URF Notes III	7.75%	24 December 2021	24 December 2019	Unsecured	172,579,221	172,282,786
					262,478,752	261,968,994

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

Facility	Principal drawn	Principal available		Total
Centennial Bank	78,579,939	170,707,810	*	249,287,749
Wells Fargo	382,992,482	44,357,945	*	427,350,427
URF Notes II	90,539,500	-		90,539,500
URF Notes III	175,000,000	-		175,000,000
	727,111,921	**215,065,755**		**942,177,676**

* Available facilities are subject to provision of eligible property security meeting conditions set by lenders and meeting other conditions as noted above.

13. Capital and reserves

Issuance of ordinary units

In relation to the distribution paid on 5 February 2019, 6,495,945 units were issued under the Group's Distribution Reinvestment Plan, for an amount of $8,184,865.

Furthermore, in relation to the CPU distribution paid on 5 February 2019, 1,782,148 units were issued under the Group's Distribution Reinvestment Plan, for an amount of $2,334,614.

The total number of ordinary units issued as at 30 June 2019 was 376,818,281.

14. Balance date capital commitments

As at balance date, the Group has a capital commitment of $26,898,018 in respect of properties that are either under construction/refurbishment or are due to commence construction/refurbishment.

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

15. Related parties

As reported in the 2018 annual report, with effect from 1 July 2018, all payroll related costs previously recharged to the Group by Dixon Advisory USA Inc (a subsidiary of the Responsible Entity) are borne directly by the Group. Accordingly, no payroll related costs have been recharged to the Group during the six month period ending 30 June 2019. Additionally, as reported in previous financial statements of the Group, the Investment Manager (URF Investment Management Pty Limited) elected to waive the investment management fee, the leasing fee, the asset acquisition fee and the administrative fee for an indefinite period. It was also announced during June 2019 that the asset disposal fee has been waived indefinitely.

Key management personnel

Mr. Alexander MacLachlan, Mr. Mike Adams and Mr. Warwick Keneally are directors of the Responsible Entity, Walsh & Company Investments Limited (**Walsh & Co.**), and are deemed to be key management personnel.

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.

15. Related parties *(continued)*

Payments made to the Responsible Entity and related parties.

	2019	2018
Management Fees		
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 $2,599,669 (30 June 2018: $2,352,394) and is included in management fees expense in the profit or loss. The amount owed to the Responsible Entity in respect of the responsible entity fee at 30 June 2019 is $415,199 (31 December 2018: $2,559,849).	$2,599,669	$2,352,394
Asset disposal fee (payable by the US REIT) During June 2019, it was announced that the Investment Manager agreed to waive the disposal fee for an indefinite period. During the period, the Investment Manager oversaw the successful disposal of 30 properties for total sale proceeds of $37.7 million. In its discretion, management did not charge a disposal fee during the period (30 June 2018: $194,744). 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 30 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. No benefits are received by either Dixon Realty, the Responsible Entity or the Investment Manager on the sale of Group properties. During the period, the Group paid brokerage commission of $1,053,909 (30 June 2018: $470,390) to Dixon Realty, which is included in investment property disposal costs in the profit or loss. As all brokerage commission was passed on to the relevant sales agent and not retained by Dixon Realty (or any other related party to the Responsible Entity), the brokerage commission paid to Dixon Realty from the Group has been excluded from the table.	Nil	$194,744

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 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 an increase in the Wells Fargo Bank facility from US$200 million to US$300 million, along with an additional drawdown of US$102.6 million. At the discretion of the Investment Manager, the debt arranging fee in respect of Wells Fargo Bank facility was calculated based on 0.50% of proceeds drawn during the period. Total debt arranging fee incurred during the period was $726,557 (30 June 2018: $739,754). 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. The amount owed to the Investment Manager in respect of the debt arranging fee at 30 June 2019 was nil (31 December 2018: $464,927). Total debt arranging fees amortised during the year, including fees capitalised in prior years, is $885,396 (31 December 2018: $4,316,271).	$726,557	$739,754

Other services provided by the Responsible Entity and related parties of the Responsible Entity		
Fund administration services (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 $62,297 (30 June 2018: $60,736) was charged by Australian Fund Accounting Services in relation to fund administration services, pursuant to a Service Agreement. Time spent by administrative staff is charged to the Fund at agreed rates under the agreement, capped at $120,000 (exclusive of unclaimable GST) per annum. This expenditure of $62,297 is included in Office Administration Costs in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.	$62,297	$60,736
Custodian services (payable by the Fund) Effective 2 April 2019, the Responsible Entity changed the Fund's custodian and entered into a custody arrangement with Walsh & Company Investments Limited in its personal capacity (**Custodian**) to provide custodial services to the Fund.	Nil	Nil

The services are provided on commercial terms and more favourable terms compared to the Fund's previous arrangement. The Custodian receives fees equivalent to the greater of 0.02% per annum (exclusive of GST) of the gross asset value of the Fund less a 10% discount, or $15,000 (exclusive of GST) indexed to the CPI annually less a 10% discount. The fees are payable quarterly in arrears. During the period, there were no fees paid to the Custodian.		
Architecture, design and construction services (payable by the US REIT)		
Dixon Projects LLC (a subsidiary of Evans Dixon 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. These agreements were amended on July 1, 2018. Prior to the amendments, the agreements entitled Dixon Projects to on charge the direct cost of renovations plus a development fee of 5% and architectural and quantity surveyor services at agreed hourly rates. The cost of renovation included 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%. Effective July 1, 2018 the Group incurs and settles all direct labour and materials directly. The fee charged by Dixon Projects (i.e. a development fee of 5%, General Conditions fee of 15% and insurance fees of 1.25%) is unchanged.		
During the period, the Group invested $28,873,461 (30 June 2018: $36,357,855) in renovation work across 34 large-scale renovations and 37 small-scale renovations. These renovations were managed by Dixon Projects.		
The renovation costs in relation to direct labour and materials incurred from unrelated third party contractors during the year totalled $21,892,617 (30 June 2018: renovation costs of $26,662,390 were incurred by Dixon Projects and recharged to the Group).	Nil	$26,662,390
The remaining renovation costs of $6,980,844 (30 June 2018: $9,695,465) includes $3,530,076 of General Conditions and insurance costs (30 June 2018: $4,311,425), a development fee of $1,229,480 (30 June 2018: $1,501,613), and architectural, quantity surveyor and interior design services of $2,221,288 (30 June 2018: $3,882,427) charged by Dixon Projects. These costs are capitalised to the relevant investment properties.	$6,980,844	$9,695,465
In order to provide these services to the Group, Dixon Projects incurs payroll related costs as well as office and related outgoings such as office rent and administration. During the period, Dixon Projects employed 40 full time staff who were entirely dedicated to completing Fund projects, as well as 22 staff resources on an as needs basis. In making these resources available to the Group, Dixon Projects incurred payroll related costs of $3,820,345, as well as office and related outgoings totalling $1,983,525 during the period. These costs are born by Dixon Projects and not by the Group and therefore not included in the table.		

Recoveries and recharges paid to (or received from) the Responsible Entity		
Responsible Entity and Dixon Advisory USA Inc expense recharge (payable by the Fund and the US REIT) Prior to 1 July 2018, staff engaged to provide administrative and property management related services to the Group were employed by Dixon Advisory USA Inc and the associated direct payroll and payroll related costs recharged to the Group in accordance with the terms of the management agreement between the US REIT and Dixon Advisory USA, Inc. With effect from 1 July 2018, these staff were employed directly by the Group and accordingly payroll and payroll related costs were no longer recharged to the Group. On 1 July 2018, the Group also became joint lessee with Dixon Advisory USA Inc of the office space currently occupied by the Group at 140 Broadway, New York, US. Prior to 1 July 2018, for the comparative period ended 30 June 2018, rent and related occupancy and office administrative costs totaling $2,268,120 were borne by Dixon Advisory USA Inc and recharged to the Group in accordance with the terms of the management agreement between the US REIT and Dixon Advisory USA, Inc and recognised in 'Office administrative costs' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.	Nil	$2,268,120
With effect from 1 July 2018, rent and related occupancy and office administrative costs were borne directly by the Group and not recharged to the Group and recognised separately in the consolidated statement of profit or loss and other comprehensive income according to the nature of the expenditure. From time to time, the Group may share resources with the Investment Manager and/or the Responsible Entity. Where this occurs, the relevant party may recover the costs of the resources.		
During the period, the Group recovered $471,394 (30 June 2018: nil) from Dixon Advisory USA, Inc and its subsidiaries in respect of certain shared payroll and office related costs. The total amount owed to the Group at 30 June 2019 is $286,669 (31 December 2018: $210,069).	($471,394)	Nil
Pursuant to the agreements, the Responsible Entity is entitled to recover direct expenses incurred in the management of the Group's activities. During the year, $232,931 (30 June 2018: $149,444) was charged by the Responsible Entity to the Group. These costs were in relation to various regulatory and professional services provided by external vendors and are recognised in 'Office administrative costs' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.	$232,931	$149,444

16. 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 2019	31 Dec 2018
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%	100%
Essex URF LLC	United States	100%	100%
523 W. 135th Investors LLC	United States	100%	100%
NY Oakland LLC	United States	100%	100%
NJ Penelope LLC	United States	100%	100%
Jett URF Holdings LLC	United States	100%	100%
Kenny URF Holdings LLC	United States	100%	100%

17. Subsequent events

A distribution of 1 cent per ordinary unit totalling $3,768,183 was paid to unitholders on 23 August 2019. 1,358,935 ordinary units were issued under the Group's Distribution Reinvestment Plan.

Furthermore, a distribution of $3.10 per convertible preference unit totalling $6,171,192 was paid to unitholders on 23 August 2019. 1,547,629 ordinary units were issued under the Group's Distribution Reinvestment Plan.

On 29 August 2019, the Group announced a reduction to URF Notes II principal of $40 per note, totalling $36,215,800. The reduction to principal amount will be paid on 30 September 2019 plus all accrued but unpaid interest at interest payment date.

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

18. 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 2019

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 29th day of August 2019

Deloitte.

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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 2019, 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.

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 2019 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 the 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 the Fund is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Fund's financial position as at 30 June 2019 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, 29 August 2019