

21 August 2015

**US Masters Residential Property Fund**

**ASX Code: URF**

**Half Year Results for period ending 30 June 2015**

US Masters Residential Property Fund (**URF, Fund or Group**) is pleased to release its financial results for the period ending 30 June 2015.

The financial results include:

- Appendix 4D
- Half year financial report

**Overview**

- As at 30 June 2015, the Fund owned a total of 543 freestanding properties comprising 964 units with a total cost (including acquisition, capitalised interest and renovation costs to date) of US\$467.3 million. These properties were independently valued at US\$554.2 million as at 30 June 2015. This represents an increase of 19% over cost and a 6% increase over the 31 December 2014 independent valuation, reflecting the continued strong growth in the Fund's target property market.
- The Fund also owned, with its joint venture partners, 27 apartment blocks with 925 units, for a proportional acquisition cost of US\$94.0 million and a fair market value of US\$110.6 million.
- The Fund continued to selectively add to its investment portfolio during the half-year, with a focus on premium housing in the Brooklyn and Hudson County markets, markets that the Fund believes will deliver strong growth in both rents and capital values. During the period, the Fund increased the capital deployed in these markets by 31% and 20%, respectively.

**Construction and development activity**

- During the six months ended 30 June 2015, the Group was successfully able to deliver US\$30.4 million of renovations, completing 34 large-scale renovations and 62 small-scale renovations across 67 properties. This compares to US\$22.2 million of renovations delivered during the six months to 30 June 2014 and US\$30.8 million during the six months to 31 December 2014.
- Reflecting the quality of its renovation work and the continued growth of the business, during the period the Group was honoured with the "Rising Star" award at the New York Construction

Awards, an annual event which honours valuable contributions to New York City by industry leaders in construction, design and development.

#### **Financial performance and subsequent events**

- The Fund recorded a pre-tax operating profit of \$31,754,805 for the half year period ended 30 June 2015.
- Upwards revaluation on the Fund's freestanding properties of \$34,779,673.
- Total comprehensive income for the Fund for the period ended 30 June 2015 was \$43,999,826. Contributing to this was an unrealised foreign exchange gain on the value of the Group's US based assets of \$32,103,294, which reflects a 5.72% depreciation of the A\$ against the US\$ during the period.
- The Fund continued to generate strong rental growth. Rental income for the period was \$9,300,306, up 40% over the prior comparative period. The Fund anticipates rental revenue to continue to grow during the remainder of 2015 and in 2016 as more completed properties are delivered from the renovation pipeline.
- In the period since 30 June 2015, the Fund has completed the renovation of a further 11 properties, adding a further 12 dwellings to the Fund's rental pool with a gross annual rental potential of US\$1.2 million;
- The Fund estimates a total annual gross rental value of its 30 June 2015 properties, assuming those properties were renovated and available for leasing (30 June 2015) of approximately US\$28.5 million. The Fund has a material proportion of properties in the renovation phase. As at 30 June 2015, 104 of the Fund's 543 freestanding properties (44% by value) are yet to undergo extensive renovation and are yet to generate rental income. The Fund expects to complete the majority of the renovation works of these 104 properties over the course of the next 3 - 24 months.
- The Fund anticipates that it will continue to benefit from positive fair market value uplifts in future periods, supported by the completion of renovated properties (being then available for independent appraisal), the strong rental income figures being achieved on recently renovated dwellings and an increasing number of comparable sales transactions in the locations in which the Fund holds properties and from which independent appraisers can appraise the value of the Fund's properties.
- During the period, the Fund continued to optimise its capital structure, successfully closing on US\$212.0 million of additional bank debt, primarily to partially repay the Fund's existing revolving credit facility and for the financing of renovations to properties owned by the Fund.



- The Fund retained a strong financial position, with net assets of \$499.9 million and a pre-tax net tangible asset backing of \$2.05 per ordinary unit and post-tax net tangible asset backing of \$1.84 per ordinary unit as at 30 June 2015. During the period, the Fund declared a distribution of 5 cents per Unit.

#### **NTA Update**

- After accounting for the independent property valuation uplift (as noted above) in the 30 June 2015 half yearly financial report, as at 20 August 2015 the estimated pre-tax net tangible asset backing was \$2.16 per ordinary unit and post-tax net tangible asset backing was \$1.95 per ordinary unit.

For more information:

**Alex MacLachlan**

**1300 454 801**

**US MASTERS RESIDENTIAL PROPERTY FUND**  
**ABN 27 372 102 509**

**APPENDIX 4D – HALF-YEAR REPORT**

**FOR THE HALF-YEAR ENDED 30 JUNE 2015**

(The previous corresponding period is the period from 1 January 2014 to 30 June 2014)

**Results for announcement to the market**

	<b>Half-year to 30 June 2015</b>	<b>Half-year to 30 June 2014</b>	<b>Change from Previous period (\$)</b>	<b>Change from Previous period (%)</b>
Revenue from ordinary activities	\$10,165,317	\$6,907,612	Up \$3,257,705	Up 47%
Profit from ordinary activities before tax attributable to unitholders	\$31,754,805	\$2,611,208	Up \$29,143,597	Up 1116%
Profit/(loss) from ordinary activities after tax attributable to unitholders	\$12,000,193	(\$2,023,359)	Up \$14,023,552	Up 693%
Profit/(loss) for the period attributable to unitholders	\$12,000,193	(\$2,023,359)	Up \$14,023,552	Up 693%
Basic earnings/(loss) per unit	4 cent	(1 cent)	Up 5 cents	Up 500%
Diluted earnings/(loss) per unit	4 cent	(1 cent)	Up 5 cents	Up 500%

***Distributions***

During the period, US Masters Residential Property Fund (**the Fund**) declared a distribution of 5 cents per share, which amounted to a total of \$13,613,057. The Record Date for determining entitlements to the distribution was 30 June 2015. The distribution was paid on 10 August 2015.

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

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

### *Explanation of revenue*

Revenue from ordinary activities of \$10,165,317 for the half-year ended 30 June 2015 consists mainly of the Fund's investment activities and is made up as follows:

Investment property rental income	\$9,300,306
Insurance proceeds	\$ 135,546
Interest income	<u>\$ 729,465</u>
<b>Revenue from operating activities</b>	<b>\$10,165,317</b>

### *Significant features of operating performance*

Operations over the half-year resulted in an operating profit after tax of \$12,000,193 (30 June 2014: loss of \$2,023,359). After taking into account the exchange difference on translation of foreign operations and the share of joint venture's reserve movements, the total comprehensive income after tax was \$43,999,826 (30 June 2014: loss of \$25,630,049). Contributing to this substantially was an unrealised foreign exchange gain on the value of the Group's US based assets of \$32,103,294, which reflects a 5.72% depreciation of the A\$ against the US\$ during the period.

	30 June 2015 \$/unit	31 December 2014 \$/unit
<b>Net Tangible Assets per security</b> <i>(After unrealised gains and adjustments for tax)</i>	\$1.84	\$1.72

### *Events subsequent to the reporting date*

Subsequent to balance date, 7 acquisition contracts have been settled with a total consideration of \$14,186,378.

Subsequent to balance date, the Group disposed of one property for total consideration of \$326,264.

On 17 July 2015, it was announced that URF was undertaking a Unit Purchase Plan (UPP) to raise additional funds. A total of \$19.5 million was raised as a result of the UPP.

### *Other information*

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

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

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

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

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

# US Masters Residential Property Fund

ARSN 150 256 161



**INTERIM  
FINANCIAL  
REPORT  
2015**

For The Half Year Ended  
30 June 2015



# US Masters Residential Property Fund

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# US Masters Residential Property Fund

## Directors' Report

For the half-year ended 30 June 2015

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 2015.

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

The directors of the Responsible Entity at any time during, or since the end of, the financial period are listed below:

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

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

### Principal activities and significant changes in nature of activities

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

### Property portfolio update

The Group continued to selectively add to its core freestanding residential property portfolio throughout the first half of 2015, with the Group continuing its strategic focus on property acquisitions in the premium areas of Hudson County and Brooklyn.

At 30 June 2015, the Group owned 543 freestanding properties with a total book value of \$719.0 million. This represents a 28% increase in the book value of freestanding properties held since the prior balance date of 31 December 2014 (\$561.5 million). The increase in total book value includes a \$34.8 million increase in the fair market value of freestanding properties held at 30 June 2015. The increase in fair value of freestanding properties reflects the positive real estate market conditions in the New York metropolitan area as well as the acquisition strategy of the Group. In particular, the areas of Bedford Stuyvesant and Crown Heights in Brooklyn, Harlem in Manhattan and Downtown Jersey City and Hoboken in Hudson County were strong performers.

The Group also recognised a fair value increment of \$10.0 million on its multi-family portfolio, with the multifamily properties located in Brooklyn, New York contributing significantly to this increment. At 30 June 2015, the book value of the Group's multifamily portfolio was \$143.5 million based on the Group's proportionate share, reflecting a 14.9% increase from 31 December 2014.

The Group continued to execute its renovation and rehabilitation strategy through the first half of 2015. This process is managed by Dixon Projects LLC, whose role is to renovate properties acquired by the Group into highly desirable rental properties that attract premium rents and deliver long term capital growth. Dixon Projects LLC has built a highly experienced and talented team of 37 professionals who oversee the entire renovation process from start to finish including planning, permitting, interior design, procurement and construction management. Reflecting the quality of its renovation work and the continued growth of the business, the Group was honoured with the "Rising Star" award at the New York Construction Awards, an annual event which honours valuable contributions to New York City by industry leaders in construction, design and development.



# US Masters Residential Property Fund

## Directors' Report

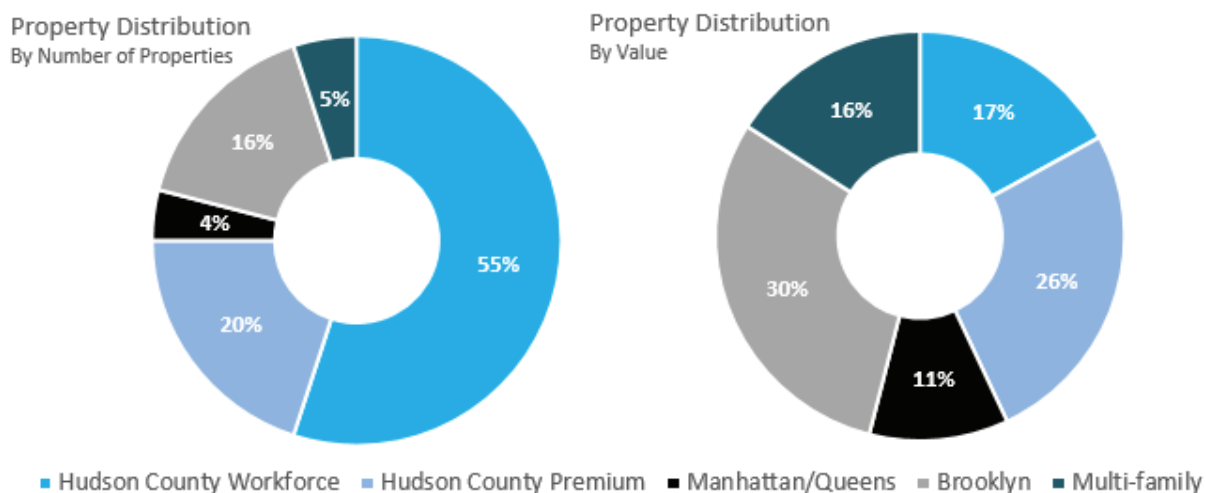
For the half-year ended 30 June 2015

During the first half of 2015, the Group was successfully able to complete US\$30.4 million of renovations which brought 34 large-scale renovations and 62 small-scale renovations across 67 properties to the market for rent. The newly renovated units are expected to contribute additional annual rental revenue of approximately US\$3 million.

As at 30 June 2015, there remained a further 104 properties in the renovation pipeline which are at various stages of completion. The majority of these properties are located in premium areas of Brooklyn, Manhattan and Hudson County and are often located in historic districts. Many of these properties require larger and more complex renovations and hence have an extended time period to move from acquisition to leasing. Renovation of the vast majority of these properties is expected to be progressively completed over the coming 3 to 24 months.

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

**Figure 1: Property portfolio locations**



As part of its regular capital management program, the Group also completed the sale of 17 properties during the six months ended 30 June 2015. The total sales price achieved for these 17 properties was US\$9.5 million, which represented a 13.4% premium to total asset cost, including purchase price, closing costs, renovation costs and capitalized interest.

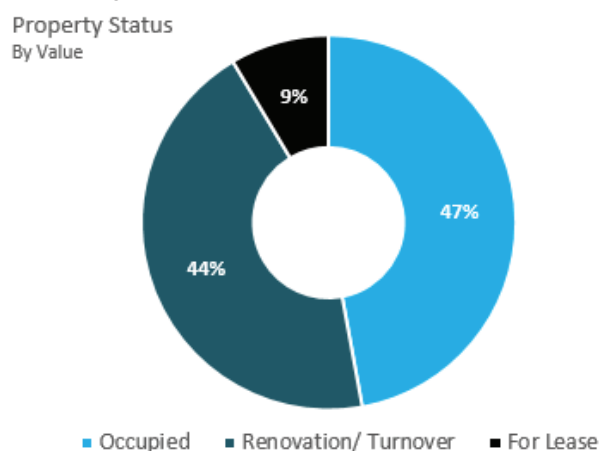
### Financial performance and position

The Group recorded a pre-tax profit of \$31,754,805 for the half year ended 30 June 2015 (30 June 2014: \$2,611,208). Rental income totalled \$9,300,306 for the six month period. This represents a 40% growth in rental income compared to the prior period. The Group expects continued rental growth throughout the remainder of 2015 as more completed properties are delivered from the renovation pipeline.

# US Masters Residential Property Fund

## Directors' Report For the half-year ended 30 June 2015

The property status of freestanding properties as at 30 June 2015 is summarized below:



An upward revaluation of the Fund's existing portfolio of freestanding properties of \$34,779,673 also contributed to the pre-tax profit result for the six months ending 30 June 2015.

Total comprehensive income for the period, after taking into account exchange rate differences, deferred tax expenses and joint venture reserves, was \$43,999,826 (30 June 2014: loss of \$25,630,049). This result was aided by the depreciation of the Australian dollar during the period, which increased the value of the Fund's US dollar denominated assets when translated into Australian dollars.

The Group retained a strong financial position with net assets of \$499,855,298, a pre-tax net tangible asset backing of \$2.05 per ordinary unit and a post-tax net tangible asset backing of \$1.84 per ordinary unit at 30 June 2015.

### Distributions paid or recommended

A distribution of 5 cents per ordinary unit, totalling \$13,423,960, was declared in the prior year. After accounting for the Group's Distribution Reinvestment Plan, \$5,670,952 was paid on 6 February 2015.

A further distribution of 5 cents per ordinary unit, totalling \$13,613,057, was announced on 23 June 2015. The Distribution Reinvestment Plan is in place in relation to the distribution.

### After balance date events

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

### Auditor's Independence Declaration

The auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the half-year ended 30 June 2015.

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

On behalf of the Directors

Mr Alex MacLachlan

Director

Dated this 21<sup>st</sup> day of August 2015

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

21 August 2015

Dear Board Members

### US Masters Residential Property Fund

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

As lead audit partner for the review of the financial statements of US Masters Residential Property Fund for the financial half-year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Michael Kaplan  
Partner  
Chartered Accountants

## US Masters Residential Property Fund

### Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For the half-year ended 30 June 2015

	<i>Note</i>	<b>30 June 2015</b>	<b>30 June 2014</b>
		\$	\$
Investment property rental income		9,300,306	6,663,656
Insurance proceeds		135,546	-
Interest income		729,465	243,956
<b>Total revenue</b>		<u>10,165,317</u>	<u>6,907,612</u>
Fair value movement of investment properties	5	34,779,673	10,439,492
Fair value movement of forward foreign currency derivative		362,900	-
Share of profits/(losses) of jointly controlled entities	4	8,706,883	(1,412,675)
Investment property expenses		(6,290,499)	(4,094,701)
Net foreign currency gain		2,002,505	1,017,122
Management fees	12	(6,425,208)	(3,419,132)
Listing fees		(134,984)	(96,857)
Professional fees		(1,270,638)	(1,341,138)
Marketing		(191,760)	(80,991)
Responsible Entity and related entity recharges - salaries & wages	12	(3,926,054)	(2,776,470)
Responsible Entity and related entity recharges - office administration costs	12	(2,300,423)	(1,539,411)
Interest expense	5	(2,450,108)	(33,274)
Impairment of investment property	5	(176,333)	-
Investment property disposal costs		(888,099)	(803,154)
Bad debt expense		(50,839)	(90,223)
Other expenses		(157,528)	(64,992)
<b>Profit before income tax</b>		<u>31,754,805</u>	<u>2,611,208</u>
Income tax expense		(19,754,612)	(4,634,567)
<b>Profit/(loss) for the period attributable to unitholders</b>		<u>12,000,193</u>	<u>(2,023,359)</u>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operation (nil tax)		32,103,294	(23,309,532)
Share of jointly controlled entity's reserve movements (nil tax)		(103,661)	(297,158)
<b>Other comprehensive income for the period, net of tax</b>		<u>31,999,633</u>	<u>(23,606,690)</u>
<b>Total comprehensive income for the period attributable to unitholders</b>		<u>43,999,826</u>	<u>(25,630,049)</u>
<b>Earnings per unit</b>			
Basic earnings/(loss) per unit (dollars)		0.04	(0.01)
Diluted earnings/(loss) per unit (dollars)		0.04	(0.01)

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

## US Masters Residential Property Fund

### Condensed Consolidated Statement of Financial Position As at 30 June 2015

	<i>Note</i>	<b>30 June 2015</b>	<b>31 Dec 2014</b>
		\$	\$
<b>Current assets</b>			
Cash and cash equivalents	2	110,143,063	191,280,901
Receivables		672,477	580,705
Prepayments		296,494	772,475
Other assets	3	4,630,286	3,087,171
Investment properties held for sale	5	311,405	18,443,553
<b>Total current assets</b>		<u>116,053,725</u>	<u>214,164,805</u>
<b>Non-current assets</b>			
Investments in jointly controlled entities	4	72,153,314	60,159,752
Investment properties	5	718,740,605	543,058,098
Security deposits	6	324,380	305,810
Other assets	3	3,692,886	1,035,006
<b>Total non-current assets</b>		<u>794,911,185</u>	<u>604,558,666</u>
<b>Total assets</b>		<u>910,964,910</u>	<u>818,723,471</u>
<b>Current liabilities</b>			
Payables	8	30,753,736	37,224,886
Borrowings	9	37,253,914	797,107
Forward foreign currency derivative		-	724,465
<b>Total current liabilities</b>		<u>68,007,650</u>	<u>38,746,458</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	7	57,178,743	35,303,707
Borrowings	9	285,761,029	282,795,323
Other non-current liabilities		162,190	162,462
<b>Total non-current liabilities</b>		<u>343,101,962</u>	<u>318,261,492</u>
<b>Total liabilities</b>		<u>411,109,612</u>	<u>357,007,950</u>
<b>Net assets</b>		<u>499,855,298</u>	<u>461,715,521</u>
<b>Equity</b>			
Unit capital		384,231,094	381,980,548
Reserves		115,624,204	83,624,571
Retained earnings/(accumulated losses)		-	(3,889,598)
<b>Total equity</b>		<u>499,855,298</u>	<u>461,715,521</u>

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

## US Masters Residential Property Fund

### Condensed Consolidated Statement of Changes in Equity For the half-year ended 30 June 2015

Note	Unit capital \$	Foreign currency translation reserve \$	Share of joint venture's cash flow hedging reserve \$	Retained earnings/ (Accumulated losses) \$	Total equity \$
<b>Balance at 1 January 2014</b>	<b>306,983,085</b>	<b>41,761,143</b>	<b>499,813</b>	<b>-</b>	<b>349,244,041</b>
Loss for the period	-	-	-	(2,023,359)	(2,023,359)
<b>Other comprehensive income, net of income tax</b>					
Foreign operation currency translation loss	-	(23,309,532)	-	-	(23,309,532)
Jointly controlled entity interest rate swap hedge loss	-	-	(297,158)	-	(297,158)
Total other comprehensive loss	-	(23,309,532)	(297,158)	-	(23,606,690)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(23,309,532)</b>	<b>(297,158)</b>	<b>(2,023,359)</b>	<b>(25,630,049)</b>
<b>Transactions with owners in their capacity as owners</b>					
Issue of ordinary units	94,231,136	-	-	-	94,231,136
Issue costs	(542,118)	-	-	-	(542,118)
Distributions to unitholders	(13,198,646)	-	-	-	(13,198,646)
<b>Total transactions with owners</b>	<b>80,490,372</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,490,372</b>
<b>Balance at 30 June 2014</b>	<b>387,473,457</b>	<b>18,451,611</b>	<b>202,655</b>	<b>(2,023,359)</b>	<b>404,104,364</b>
<b>Balance at 1 January 2015</b>	<b>381,980,548</b>	<b>83,468,319</b>	<b>156,252</b>	<b>(3,889,598)</b>	<b>461,715,521</b>
Profit for the period	-	-	-	12,000,193	12,000,193
<b>Other comprehensive income, net of income tax</b>					
Foreign operation currency translation gain	-	32,103,294	-	-	32,103,294
Jointly controlled entity interest rate swap hedge loss	-	-	(103,661)	-	(103,661)
Total other comprehensive income/(loss)	-	32,103,294	(103,661)	-	31,999,633
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>32,103,294</b>	<b>(103,661)</b>	<b>12,000,193</b>	<b>43,999,826</b>
<b>Transactions with owners in their capacity as owners</b>					
Issue of ordinary units	7,753,008	-	-	-	7,753,008
Issue costs	-	-	-	-	-
Distributions to unitholders	(5,502,462)	-	-	(8,110,595)	(13,613,057)
<b>Total transactions with owners</b>	<b>2,250,546</b>	<b>-</b>	<b>-</b>	<b>(8,110,595)</b>	<b>(5,860,049)</b>
<b>Balance at 30 June 2015</b>	<b>384,231,094</b>	<b>115,571,613</b>	<b>52,591</b>	<b>-</b>	<b>499,855,298</b>

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

## US Masters Residential Property Fund

### Condensed Consolidated Statement of Cash Flows For the half-year ended 30 June 2015

	Note	30 June 2015 \$	30 June 2014 \$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		9,735,508	6,658,680
Cash paid to suppliers		(25,547,774)	(13,002,441)
Insurance proceeds		57,897	-
Interest received		449,953	243,956
Interest paid <sup>(i)</sup>		(2,342,590)	(28,376)
<b>Net cash used in operating activities</b>		<u>(17,647,006)</u>	<u>(6,128,181)</u>
<b>Cash flows from investing activities</b>			
Acquisition of investment property, including improvements (i)		(98,701,284)	(81,558,701)
Investment in jointly controlled entities		(1,695,955)	(22,557,006)
Payments for property-related deposits		(2,715,713)	(4,792,430)
Distributions received from jointly controlled entity investments		440,051	208,333
Proceeds from sale of investment properties		12,082,934	10,973,973
Disposal costs on sale of investment properties		(888,099)	(890,369)
<b>Net cash used in investing activities</b>		<u>(91,478,066)</u>	<u>(98,616,200)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of unit capital		-	87,230,410
Payments of issue costs		-	(542,118)
Payment of transaction costs related to loans and borrowings		(11,211,367)	(2,142,071)
Gross proceeds from secured bank loans and loan notes		108,916,262	38,039,187
Payment of interest reserve		(2,595,030)	(1,142,700)
Distributions paid		(5,661,866)	(3,581,034)
Bank loan repayments		(67,311,429)	(3,206,235)
<b>Net cash from financing activities</b>		<u>22,136,570</u>	<u>114,655,439</u>
Net increase/(decrease) in cash and cash equivalents		(86,988,502)	9,911,058
Cash and cash equivalents at beginning of period		191,280,901	42,772,500
Effect of exchange rate fluctuations on cash held		5,850,664	(3,284,348)
<b>Cash and cash equivalents at end of period</b>	2	<u>110,143,063</u>	<u>49,399,210</u>

<sup>(i)</sup> - Interest paid in respect of expenditure on Qualifying Assets has been classified as an "Acquisition of investment property" cash flow in the Consolidated Statement of Cash Flows.

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

# US Masters Residential Property Fund

## Notes to the Financial Statements For the half-year ended 30 June 2015

### 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 21 August 2015.

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 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'
- AASB 2013-5 'Amendments to Australian Accounting Standards – 'Investment Entities''
- AASB 2014-1 'Amendments to Australian Accounting Standards' (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)
- AASB 1031 'Materiality', AASB 2013-9 'Amendments to Australian Accounting Standards' – Conceptual Framework, Materiality and Financial Instruments' (Part B: Materiality), AASB 2014-1 'Amendments to Australian Accounting Standards' (Part C: Materiality)



## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 2. Cash and cash equivalents

	<b>30 June 2015</b>	<b>31 Dec 2014</b>
	\$	\$
Cash at bank	109,442,460	182,345,886
Restricted cash	700,603	8,935,015
	<u>110,143,063</u>	<u>191,280,901</u>

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

#### 3. Other assets

	<b>30 June 2015</b>	<b>31 Dec 2014</b>
	\$	\$
<b>Current assets</b>		
Property related deposits	2,715,713	1,564,402
Deferred leasing fee	869,618	699,951
Property tax escrow deposits	832,166	632,219
Other assets	212,789	190,599
	<u>4,630,286</u>	<u>3,087,171</u>
	<b>30 June 2015</b>	<b>31 Dec 2014</b>
	\$	\$
<b>Non-current assets</b>		
Facility interest reserve and escrow accounts	3,692,886	1,035,006
	<u>3,692,886</u>	<u>1,035,006</u>

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 4. Investments in jointly controlled entities

Jointly controlled entities	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest	
				30 Jun 2015 %	31 Dec 2014 %
Golden Peak II, LLC (i)	United States	Property Investment	Hudson County, New Jersey	67.5%	67.5%
Hudson Gardens, LLC (i) (ii)	United States	Property Investment	Hudson County, New Jersey	90.0%	90.0%
Gold Coast Equities, LLC (i) (ii)	United States	Property Investment	Hudson County, New Jersey	92.5%	92.5%
DXEX Brooklyn I, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn II, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn III, LLC (i) (ii)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%

- i. The Fund does not have existing rights that give it the current ability to direct the relevant activities of the joint venture and therefore does not exercise control of the joint venture entity.
- ii. At balance date, the investment properties owned by all Excelsior joint venture entities were on the market for sale. The Group has entered into an agreement whereby if the properties are not sold within an agreed timeline, the Group will purchase the properties from its joint venture partner at an agreed upon price.

	30 June 2015 (6 months)	31 Dec 2014 (12 months)
<b>Carrying amount of interest in jointly controlled entities</b>	<b>\$</b>	<b>\$</b>
Beginning of year	60,159,752	31,407,471
Investments made	175,969	24,085,867
Distributions received	(440,039)	(453,025)
Share of profits/(losses) of jointly controlled entities	8,706,883	(361,153)
Share of reserves of jointly controlled entities	(103,661)	(343,561)
Exchange rate differences on translation	3,654,410	5,824,153
Balance at end of period	<u>72,153,314</u>	<u>60,159,752</u>

The fair value of investment properties owned by the Group's joint venture entities as at 30 June 2015 have been determined based on a combination of external valuations conducted by Jones Lang LaSalle and internal assessments conducted by Management. Fair value movements totalling \$9,974,161 are included in "Share of profits/(losses) of jointly controlled entities" in the profit or loss.

The Group has a capital commitment at 30 June 2015 to its Hudson Gardens LLC joint venture entity for US\$873,731 (A\$1,133,685) to fund working capital requirements.

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

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 5. Investment properties

	30 June 2015	31 Dec 2014
	\$	\$
Disclosed on the Consolidated Statement of Financial Position as:		
<b>Current assets</b>		
Investment properties held for sale	311,405	18,443,553
<b>Non-current assets</b>		
Investment properties	718,740,605	543,058,098
	<u>719,052,010</u>	<u>561,501,651</u>
	<b>30 June 2015</b>	<b>31 Dec 2014</b>
	<b>(6 months)</b>	<b>(12 months)</b>
	\$	\$
<b>At fair value</b>		
Balance at beginning of period	561,501,651	351,577,810
Acquisitions, including improvements and interest on qualifying properties	100,473,173	152,400,862
Fair value movement of investment properties to market	34,779,673	31,653,406
Disposals	(12,149,846)	(21,309,087)
Impairment of investment properties due to damage	(176,333)	-
Exchange rate differences on translation	34,623,692	47,178,660
Balance at end of period	<u>719,052,010</u>	<u>561,501,651</u>
	\$	\$
Interest expense	10,808,803	5,308,128
Interest capitalised to carrying value of qualifying investment properties	(8,358,695)	(5,124,161)
Interest expense reflected in profit or loss	<u>2,450,108</u>	<u>183,967</u>

#### Valuation basis

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

A panel of the following appraisers was 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)
- Malone Appraisals, LLC (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)

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 5. Investment properties (continued)

The appraisals of all properties have been completed using the “direct comparison” approach. Under this approach, the appraiser identifies at least three relevant and appropriate comparable location sales in relative close time proximity to valuation date, which sales evidence is used in conjunction with consideration of other relevant property specific or general market factors to assess the 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 Hierarchy Level	Fair value 30 Jun 2015	Fair value 31 Dec 2014	Valuation Technique	Inputs
Residential use investment property	Level 2	\$ 719,052,010	\$ 561,501,651	Direct comparison	- Geographic location - Property age and condition - Size of property - Number of rooms

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

#### Contractual obligations

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

#### 6. Security deposit

	30 June 2015	31 Dec 2014
	\$	\$
Security deposits	324,380	305,810

The Group is party to a letter of credit arrangement with Investors Bank. Under the terms of the facility, the Group is required to provide security in the form of a US\$250,000 deposit (30 June 2015: A\$324,380; 31 December 2014: A\$305,810).

#### 7. Deferred tax liabilities

	30 June 2015	31 Dec 2014
	\$	\$
Investment properties	57,178,743	35,303,707

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.

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 8. Payables

	30 June 2015	31 Dec 2014
	\$	\$
<b>Current</b>		
Trade payables	14,701,488	18,625,612
Distribution payable	13,644,507	13,446,323
Other payables	2,407,741	5,152,951
	<u>30,753,736</u>	<u>37,224,886</u>

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

#### 9. Borrowings

	30 June 2015	31 Dec 2014
	\$	\$
<b>Current liabilities</b>		
Secured bank loans - at amortised cost	37,253,914	610,021
Financed insurance premiums	-	187,086
	<u>37,253,914</u>	<u>797,107</u>
<b>Non-current liabilities</b>		
Unsecured notes	147,081,619	146,872,789
Secured bank loans - at amortised cost	138,679,410	135,922,534
	<u>285,761,029</u>	<u>282,795,323</u>

During the period, the Group secured an additional loan facility of US\$14,500,000 (A\$18,651,917) from Investors Bank.

In addition, the Group secured a US\$150,000,000 (A\$193,423,598) facility with FCCD Limited. Drawdowns under the facility are subject to provision of approved collateral property security and compliance with facility terms and conditions.

The purpose of this facility is to provide growth capital including to finance the acquisition and renovation of properties. As properties are fully renovated and tenanted, the intention is to refinance properties in a long term facility such as those provided by Investors Bank (see page 16).

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 9. Borrowings (continued)

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 June 2015 Principal Amount - Amortised Cost	31 Dec 2014 Principal Amount - Amortised Cost
Investors Bank	3.99% (i)	June 2022	Investment property (vii)	12,670,281	3,563,434	3,386,879
Investors Bank	3.75% (ii)	November 2022	Investment property (vii)	11,874,430	3,421,453	3,634,185
Investors Bank	3.75% (iii)	July 2025	Investment property (vii)	20,336,148	6,555,981	6,601,104
Investors Bank	3.63% (iv)	November 2023	Investment property (vii), (vii)*	54,583,407	17,499,159	16,647,271
Investors Bank	3.63% (iv)	November 2023	Investment property (vii)	34,647,703	11,369,570	11,633,678
Investors Bank	3.63% (iv)	November 2023	Investment property (vii)	20,489,931	7,496,469	7,423,622
Investors Bank	3.63% (v)	November 2024	Investment property (vii)	65,587,935	21,208,089	20,161,870
Investors Bank	3.63% (viii)	April 2025	Investment property (vii)	66,153,817	17,672,622	-
Centennial Bank	LIBOR (vi) plus (x) 5.75%	March 2017	(ix)	26,581,850	6,290,686	67,043,946
FCCD Limited	LIBOR (x) plus 5.5%	(xi)	(xi)	295,016,694	80,855,861	-
					175,933,324	136,532,555

#### Disclosed as:

	30 June 2015	31 Dec 2014
	\$	\$
Current	37,253,914	610,021
Non-Current	138,679,410	135,922,534
	175,933,324	136,532,555

- (i) Resets to a new fixed interest rate in June 2017 for the remaining term.
- (ii) Resets to a new fixed interest rate in November 2017 for the remaining term.
- (iii) Resets to a new fixed interest rate in July 2020 for the remaining term.
- (iv) Resets to a new fixed interest rate in November 2018 for the remaining term.
- (v) Resets to a new fixed interest rate in November 2019 for the remaining term.
- (vi) Facility is subject to a LIBOR floor of 0.160%.
- (vii) Loans are secured by first mortgage security over specified secured property assets, assignment of borrower's right; title and interest in present and future property leases, and indemnity executed by US Masters Residential Property (USA) Fund in connection with specified non-recourse exclusions. Loans are subject to Default Event clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable.
- (vii) \* In addition to the security referred to in (vii), US Masters Residential Property (USA) Fund has guaranteed the loan and US\$1,999,990 (A\$2,595,031) has been placed in escrow with Investors Bank.
- (viii) Resets to a new fixed interest rate in April 2020 for the remaining term.

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 9. Borrowings (*continued*)

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

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

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

The total value of the security provided at balance date is A\$29,012,969, including property assets valued at \$26,581,850.

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

- (x) LIBOR as of 30 June 2015 was 0.1855%.
- (xi) The facility with FCCD Limited dated 11 June 2015 is comprised of a Term Loan and a Revolver Note. The Term Loan of US\$65,000,000 (A\$83,816,892) has a maturity date of July 10, 2020. The Revolver Note of US\$85,000,000 (A\$109,606,705) has a maturity date of July 10, 2018. The Revolver Note is limited in drawdown to US\$50,000,000 (A\$64,876,087) during the first 12 months of the agreement. Amounts available to be drawn under the facility are based on providing collateral property security meeting specified conditions and meeting other facility terms and conditions. Both the cost and subsequent renovation costs pertaining to such properties are eligible for funding based on a 60% loan to value ratio. Once funded properties are stabilised (ie post renovation), funding is required to be repaid within a specified period and collateral properties are released. It is the Fund's intention that as properties are released from the facility collateral pool that these are refinanced in a long term facility such as those provided by Investors Bank. As at reporting date, the Fund has approved collateral to support funding drawdowns totalling US\$131,529,043 (A\$170,661,792) and had additional eligible properties to contribute to the collateral pool totalling US\$39,323,970 (A\$51,023,706), which subject to acceptance by the lender would avail drawdown of 60% funding based on the accepted collateral value. 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 \$295,721,098, including property assets valued at \$295,016,694.

US Masters Residential Property (USA) Fund and US Masters Residential Property Fund have each guaranteed the loan in limited circumstances.

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

#### 10. Capital and reserves

##### Issuance of ordinary units

In relation to the distribution paid on 6 February 2015, 3,781,955 units were issued as part of the Fund's distribution reinvestment plan, for an amount of \$7,753,008.

The total number of ordinary units issued as at 30 June 2015 was 272,261,149.

# US Masters Residential Property Fund

## Notes to the Financial Statements For the half-year ended 30 June 2015

### 11. Balance date capital commitments

As at balance date, the Group has paid deposits totalling \$2,715,713 in respect of contracts for the purchase of 12 residential properties with a combined purchase consideration of \$21,313,092.

The Group has a capital commitment at 30 June 2015 to its Hudson Gardens LLC joint venture entity for US\$873,731 (A\$1,133,685) to fund working capital requirements as shown in Note 4.

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

### 12. Related parties

#### Key management personnel

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

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

#### **DASS (resigned effective 22 June 2015)**

Daryl Dixon  
Maximilian Walsh  
Alan Dixon  
Chris Brown  
Alex MacLachlan  
Tristan O'Connell

#### **Walsh & Co. (appointed effective 22 June 2015)**

Alex MacLachlan  
Tristan O'Connell  
Tom Kline

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 \$1,458,904 (30 June 2014: \$783,420) and is included in management fees expense in the profit or loss. Of the total fee for the period, \$1,390,213 is in relation to amounts invoiced by DASS during its period as the Responsible Entity (30 June 2014: \$783,420) and \$68,691 is in relation to amounts invoiced by Walsh & Co. during its period as the Responsible Entity (30 June 2014: nil).



## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 12. Related parties (*continued*)

##### **Management fees payable to the Investment Manager**

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

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

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

Total investment management fee incurred during the period was \$4,534,468 (30 June 2014: \$2,286,024) and is included in management fees expense in the profit or loss. Of the total fee incurred for the period, \$4,306,624 is in relation to amounts invoiced by DASS during its period as Investment Manager (30 June 2014: \$2,286,024) and \$227,844 is in relation to amounts invoiced by URF Investment Management Pty Limited during its period as Investment Manager (30 June 2014: nil).

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

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

For this service, the Investment Manager charged a leasing fee of 1 month's rent on new leases entered into by the US REIT.

During the period, the Investment Manager successfully oversaw the screening of over 2,000 lease inquiries and successful letting of 144 units representing gross annual rent income to the Fund of \$5.5 million.

Total leasing fee incurred during the period was \$498,377 (30 June 2014: \$263,740). Of the total fee for the period, \$481,761 is in relation to amounts invoiced by DASS during its period as Investment Manager (30 June 2014: \$263,740) and \$16,616 is in relation to amounts invoiced by URF Investment Management Pty Limited during its period as Investment Manager (30 June 2014: nil).

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

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

For this service, the Investment Manager is entitled to receive an asset disposal fee of 2.49% of the sale price of assets disposed of by the US REIT. In its discretion, management charged a disposal fee on only 3 property disposals out of 17 total property disposals during the period.

During the period, the Investment Manager oversaw the successful disposition of 17 properties for total sale proceeds of \$11.2 million, which represented a 13.4% premium to total asset cost, including purchase price, closing costs, renovation expenditure and capitalised interest.

Total asset disposal fee incurred in the period was \$39,614 (30 June 2014: \$87,215) and is included in management fees expense in the profit or loss. The asset disposal fee incurred by the Group during the period is in relation to amounts invoiced by DASS during its period as Investment Manager (30 June 2014: \$87,215).

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 12. 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 487 potential property acquisitions, the bidding on 73 properties, and the acquisition of 24 properties for a total acquisition cost of \$50.0 million.

Total asset acquisition fee incurred during the period was \$891,311 (30 June 2014: \$1,891,575) and is included in the acquisition cost of investment properties, or where relevant, in the carrying value of the Group's investments in jointly controlled entities. Of the total fee for the period, \$843,641 is in relation to amounts invoiced by DASS during its period as Investment Manager (30 June 2014: \$1,891,575) and \$47,670 is in relation to amounts invoiced by URF Investment Management Pty Limited during its period as Investment Manager (30 June 2014: nil).

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

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

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

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

Total debt arranging fee incurred during the period was \$4,641,555 (30 June 2014: \$1,323,698). Debt arranging fees form part of the amortised cost of the underlying loan balance, or are added to the carrying value of the Group's investments in jointly controlled entities where applicable. The capitalised fee is amortised over the loan expiry period. The debt arranging fee during the period was in relation to amounts invoiced by DASS during its period as Investment Manager (30 June 2014: \$1,323,698).

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 12. Related parties (*continued*)

##### Other fees and Recoveries

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

The Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) are entitled, pursuant to the management agreements, to recover certain direct expenses incurred in the management of the Group's activities. For the period ended 30 June 2015, expenses incurred of \$258,576 (30 June 2014: \$143,851) and \$5,955,571 (30 June 2014: \$4,210,162) were recovered by the Responsible Entity and Dixon Advisory USA Inc, respectively. The expenses recovered from the Group (inclusive of amounts capitalised to investment properties) are primarily in respect of the Group's payroll related expenses, office lease and depreciation recoveries. The amount recovered by Dixon Advisory USA Inc includes an administrative fee of 9.10% being \$496,759 (30 June 2014: 9.25% being \$356,619) permitted under the Administrative Services Agreement on actual costs incurred by Dixon Advisory USA Inc. This amount has been included in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of Responsible Entity and related entity recharges – office administration costs. No fee was charged by the Responsible Entity in this regard. Certain payroll and overhead expenses that are not recovered from the Group are borne by Dixon Advisory USA with the intention that such ongoing costs are met by the Management fees paid by the Group.

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

Australian Fund Accounting Services Pty Limited (a subsidiary of Dixon Advisory Group Limited) provides administration and accounting services to the Fund. Time spent by staff is charged to the Fund at agreed rates under a Services Agreement. A total of \$60,000 (30 June 2014: \$40,107) 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.

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

Dixon Projects, LLC (a subsidiary of Dixon Advisory Group 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-sight 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.

For these services, Dixon Projects is entitled under the terms of the Property Services Master Agreement to on charge the cost of renovations plus a development fee of 5%. Costs of renovations include labour and materials, General Conditions costs of 15% and insurance costs of 1.25%.

During the period, Dixon Projects completed US\$30.4 million of renovation work across 34 large-scale renovations and 62 small-scale renovations.

Total charges incurred during the period were \$6,721,443 (30 June 2014: \$4,605,110). These costs are capitalised to the relevant investment properties. All expenses relating to Dixon Projects, including salaries for all architecture, design, and construction professionals as well as all overheads, are borne by Dixon Projects and are not charged to the Group.

Under the terms of the Design and Architectural Services Master Agreement with Dixon Projects, LLC, architectural and quantity surveyor services are charged to the Group at agreed hourly rates under the agreement. The total amount charged to the Group during the period amounted to \$3,671,126 (30 June 2014: \$2,661,189). These costs are capitalised to the relevant investment properties.

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2015

#### 13. 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 June 2015	30 June 2014
<b>Parent entity</b>		
US Masters Residential Property Fund	Australia	
<b>Subsidiary</b>		
US Masters Residential Property (USA) Fund	United States	100%
US Master Residential Property LLC	United States	100%
Melbourne, LLC	United States	100%
Wallaroo 2, LLC	United States	100%
EMU, LLC	United States	100%
Geelong, LLC	United States	100%
Hawthorn Properties, LLC	United States	100%
North Sydney, LLC	United States	100%
Parramatta, LLC	United States	100%
South Sydney, LLC	United States	100%
St Kilda, LLC	United States	100%
Canberra Raiders, LLC	United States	100%
Newtown Jets, LLC	United States	100%
Morben Finance, LLC	United States	100%
Steuben Morris Lending, LLC	United States	100%
Morris Finance, LLC	United States	100%
Essendon, LLC	United States	100%
Carlton URF, LLC	United States	100%
Collingwood URF, LLC	United States	100%
Cronulla URF, LLC	United States	100%
New South Wales URF, LLC	United States	100%
Freemantle URF, LLC	United States	100%
Richmond URF, LLC	United States	100%
AFL URF LLC	United States	100%
Decatur URF LLC	United States	100%
MacDonough URF LLC	United States	100%
NRL URF LLC	United States	100%
Grand Hill URF LLC	United States	100%
Rogers Marks URF LLC	United States	100%
Balmain Tigers URF LLC	United States	100%
Newcastle URF LLC	United States	0%
Canterbury URF LLC	United States	0%
Manly Warringah URF LLC	United States	0%
Penrith URF LLC	United States	0%
NJ Prop 1 URF LLC	United States	0%
NY Prop 1 URF LLC	United States	0%
NY Prop 2 URF LLC	United States	0%

## **US Masters Residential Property Fund**

### **Notes to the Financial Statements For the half-year ended 30 June 2015**

#### **14. Subsequent events**

Subsequent to balance date, 7 acquisition contracts have been settled for a total consideration of \$14,186,378.

Subsequent to balance date, the Group disposed of one property for total consideration of \$326,264.

On 17 July 2015, it was announced that URF was undertaking a Unit Purchase Plan (UPP) to raise additional funds. A total of \$19.5 million was raised as a result of the UPP.

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

#### **15. Segment note**

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

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

## US Masters Residential Property Fund

### Directors' Declaration

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

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

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

On behalf of the Directors



Mr Alex MacLachlan  
*Director*

Dated this 21<sup>st</sup> day of August 2015

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

We have reviewed the accompanying half-year financial report of US Masters Residential Property Fund (the "Fund"), which comprises the condensed statement of financial position as at 30 June 2015, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, 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 6 to 24.

### *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 US Masters Residential Property Fund's financial position as at 30 June 2015 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 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Michael Kaplan  
Partner  
Chartered Accountants  
Sydney, 21 August 2015