

US MASTERS RESIDENTIAL PROPERTY FUND
ARSN 150 256 161

APPENDIX 4D – HALF-YEAR REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2016

(The previous corresponding period is the period from 1 January 2015 to 30 June 2015)

Results for announcement to the market

	Half-year ended 30 June 2016 (\$)	Half-year ended 30 June 2015 (\$)	Change from Previous period (\$)	Change from Previous period (%)
Revenue from ordinary activities	\$15,201,160	\$10,165,317	Up \$5,035,843	Up 50%
(Loss)/Profit from ordinary activities before tax attributable to unitholders	(\$29,057)	\$31,754,805	Down \$31,783,862	Down 100%
(Loss)/profit from ordinary activities after tax attributable to unitholders	(\$12,193,160)	\$12,000,193	Down \$24,193,353	Down 202%
Net (loss)/profit for the period attributable to unitholders	(\$12,193,160)	\$12,000,193	Down \$24,193,353	Down 202%
Basic (loss)/earnings per unit	(4.2 cents)	4.4 cents	Down 8.6 cents	Down 195%
Diluted (loss)/earnings per unit	(4.2 cents)	4.4 cents	Down 8.6 cents	Down 195%

At 30 June 2016, the pre-tax net tangible asset backing per ordinary unit was \$2.00 (31 December 2015: \$2.11) and the post-tax net tangible asset backing per ordinary unit was \$1.73 (31 December 2015: \$1.87).

Distribution Information

A distribution of 5 cents per ordinary unit totalling \$14,274,574 was paid on 29 January 2016.

A further distribution of 5 cents per ordinary unit totalling \$14,463,028, was announced on 23 June 2016. The Record Date for determining entitlements to the distribution was 30 June 2016.

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

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Results for announcement to the market (*continued*)

Commentary on results

Explanation of Revenue

Revenue from ordinary activities of \$15,201,160 for the half-year ended 30 June 2016 consists entirely of the Group's investment activities and is made up as follows:

Investment property rental income	\$14,685,069
Interest income	\$516,091
Revenue from operating activities	\$15,201,160

Significant features of operating performance

The Fund recorded a pre-tax operating loss of \$29,057 for the half year period ended 30 June 2016. This compares with a profit before tax in the prior period of \$31,754,805. The primary factors contributing to the movement in the pre-tax result include a smaller positive fair value movement on the Group's freestanding portfolio (\$22,465,336 in the current period compared with \$34,779,673 in the prior period), a reduction in the share of profits of jointly controlled entities due to the wind down of the Group's investments with Excelsior (\$888,652 in the current period compared with \$8,706,883 in the prior period), and an increase in interest expense reflected in profit or loss due to additional borrowings incurred in order to fund both property acquisitions and renovations (\$10,588,635 in the current period compared with \$2,450,108 in the prior period). The pre-tax result in the prior period also includes a fair value gain on derivative instruments of \$1,087,365 (nil this period) and a foreign currency gain on financial instruments of \$1,278,040, which in the current financial period was a loss of \$1,294,550. After taking into account the exchange difference on translation of foreign operations and the share of jointly controlled entity's reserve movements, the total comprehensive loss after tax was \$27,287,532 (30 June 2015: profit of \$43,999,826). The primary contributor to the total comprehensive loss was an appreciation of the Australian dollar during the period 31 December 2015 (72.86 cents) to 30 June 2016 (74.51 cents), which decreased the value of the Group's US dollar assets when translated into Australian dollars.

During the half-year ended 30 June 2016, a total of 3,769,080 ordinary units were issued as part of the Group's Distribution Reinvestment Plan amounting to \$7,575,851.

In addition, the Group successfully closed on US\$84.5 million of additional bank financing.

Results for announcement to the market (*continued*)

Matters Subsequent to the End of the Financial Half-year

Subsequent to period end, the Group settled 7 property purchase contracts for a total consideration of \$14,651,514.

Subsequent to balance date, the property located at 255-65 Linden Street, Bushwick, New York was disposed of for total proceeds of US\$9,250,000, of which the Group's proportionate economic interest is US\$8,556,250. The properties located at 24-30 Rogers Avenue, and 637-641 St. Marks Avenue, both located in Crown Heights, New York were also disposed of for total proceeds of US\$14,200,000 of which the Group's proportionate economic interest is US\$13,135,000.

On 19 August 2016, a capital raising for the Fund was announced. The capital raising, expected to be open on 22 August 2016, will be conducted via a unit purchase plan and a placement.

Other than the matters discussed above, there have been no events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2016.

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

As at 30 June 2016, the Group owned 581 freestanding properties with a total book value of \$944.8 million. This represents a 10% increase in the book value of freestanding properties closed on since the prior balance date of 31 December 2015 (\$862.5 million). The increase in total book value includes a \$22.5 million increase in the fair market value of freestanding properties held at 30 June 2016.

During 2016, the Group was successfully able to complete US\$24.2 million of renovations which brought 20 large scale renovations and 37 small scale renovations across 52 properties to the market for rent. The renovations completed during the year contributed, or are expected to contribute, an additional US\$3.0 million of rental income.

As at 30 June 2016, there remained a further 89 properties in the renovation pipeline which are at various stages of completion.

As outlined in the Group's 2015 annual report and as part of the Group's strategic capital management program, the investment properties owned by the Excelsior joint venture entities were placed on the market for sale. The disposal of these properties proved very successful, with all properties sold either during the period or post balance date. Total sales proceeds of US\$66.4 million were realised on disposal, of which the Group's proportionate economic interest is US\$61.0 million. This represents a 26% premium to acquisition cost (inclusive of all closing costs). The distribution proceeds received by the Group from the respective joint venture entities will be used to capitalise on attractive acquisition opportunities as well as to fund the construction of the Group's existing renovation pipeline.

The carrying value of the multifamily properties owned by Golden Peak II, LLC at 30 June 2016 is \$49.6 million, representing a 31% premium to acquisition cost.

Results for announcement to the market (*continued*)

Other Information

Refer to the Group's Interim Financial Report for the half-year ended 30 June 2016 for a Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Equity and all relevant notes to the financial statements.

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

All the documents comprise the information required by Listing Rule 4.2A.

Attachments forming part of Appendix 4D

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



Alex MacLachlan
Director

Date: 19 August 2016

US Masters Residential Property Fund

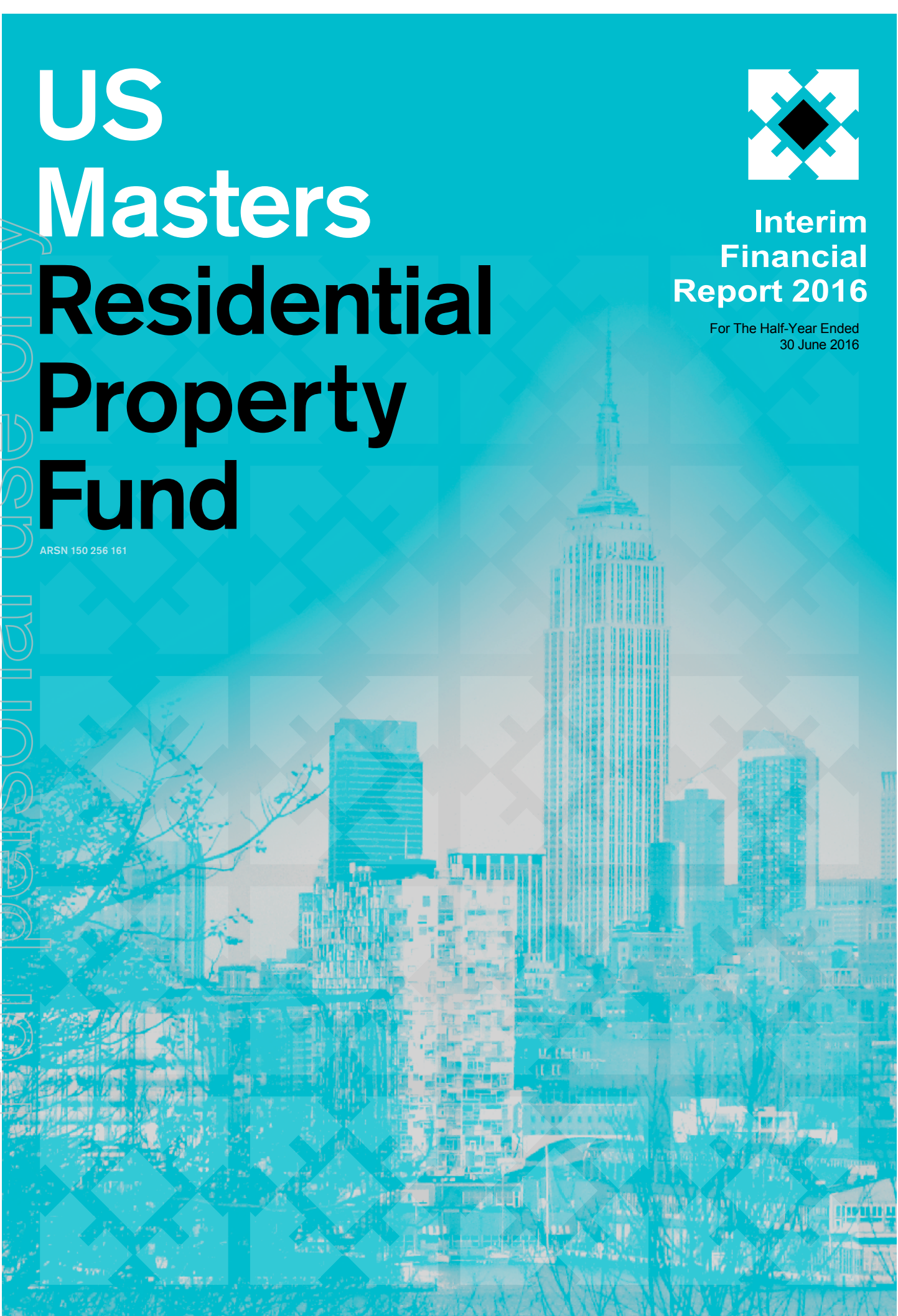
ARSN 150 256 161



**Interim
Financial
Report 2016**

For The Half-Year Ended
30 June 2016

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

FOR THE HALF-YEAR ENDED 30 JUNE 2016

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**US MASTERS RESIDENTIAL PROPERTY FUND
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DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2016

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 2016.

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

Alex MacLachlan
Tristan O'Connell
Tom Kline

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.

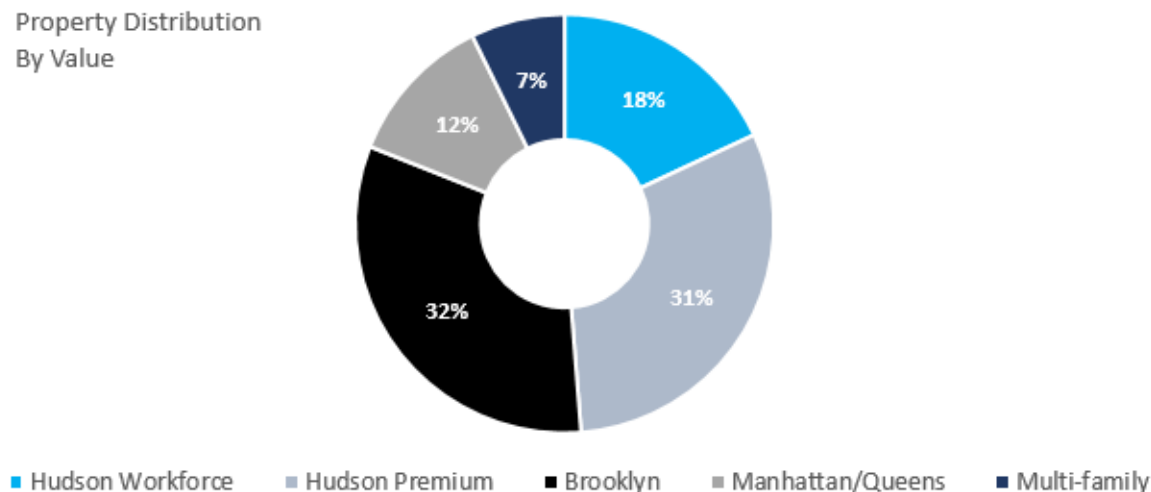
Freestanding portfolio update

The Group continued to selectively add to its core freestanding residential property portfolio throughout the first half of 2016. The Group focused its freestanding property acquisitions in the premium areas of Hudson County and selected areas of Brooklyn and Manhattan. This is a continuation of the strategy adopted by the Group. The directors believe that these areas provide the most attractive investment opportunities for both rental and capital growth.

As at 30 June 2016, the Group owned 581 freestanding properties with a total book value of \$944.8 million. This represents a 10% increase in the book value of freestanding properties closed on since the prior balance date of 31 December 2015 (\$862.5 million). The increase in total book value includes a \$22.5 million increase in the fair market value of freestanding properties held at 30 June 2016. The increase in fair market value of the freestanding portfolio reflects the positive real estate market conditions in the New York metropolitan area.

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

Property Distribution
By Value



US MASTERS RESIDENTIAL PROPERTY FUND ARSN 150 256 161

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2016

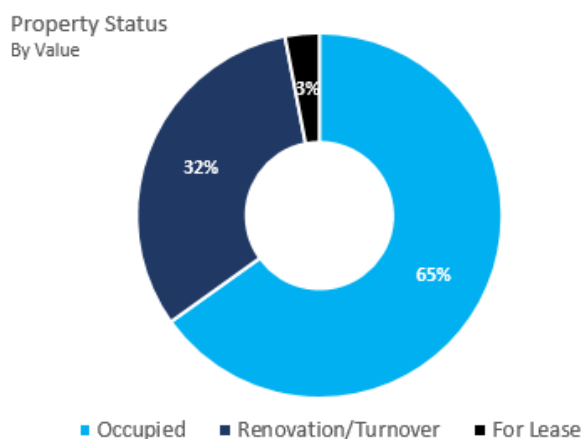
Freestanding properties construction update

The Group continued to execute its renovation and rehabilitation strategy throughout the first half of 2016. This process is managed by Dixon Projects LLC, whose role it is to renovate properties acquired by the Group into highly desirable rental properties that attract premium rents and deliver long term capital growth. Dixon Projects LLC has built a highly experienced and talented team of 51 professionals who oversee the entire renovation process from start to finish including planning, permitting, interior design, procurement and construction management. During the period, the Group was honoured with the Jersey City Landmarks Conservancy's Excellence in Preservation award. This is the second time the Group has won the award, having previously won in 2014. The Group also won the "Rising Star" award at the New York Construction Awards during the first half of 2015. These awards reflect the quality of the Group's renovation work and the continued growth of the business.

During the first half of 2016, the Group was successfully able to complete US\$24.2 million of renovations which brought 20 large scale renovations and 37 small scale renovations across 52 properties to the market for rent. The renovations completed during the period contributed, or are expected to contribute, an additional US\$3.0 million of annual rental income.

As at 30 June 2016, there remained a further 89 properties in the renovation pipeline which are at various stages of completion. The majority of these properties are located in premium areas within Brooklyn, Manhattan and Hudson County and are often located in historic districts. Many of these properties require larger and more complex renovations and hence have an extended time period to move from acquisition to leasing. Renovation of the majority of these properties are expected to be progressively completed over the coming 3 to 24 months and are expected to contribute additional annual rent of approximately US\$11.1 million.

The property status of freestanding properties as at 30 June 2016 is depicted below.



Multi-family property update

As outlined in the Group's 2015 annual report and as part of the Group's strategic capital management program, the investment properties owned by the Excelsior jointly controlled entities were placed on the market for sale. The disposal of these properties proved very successful, with all properties sold either during the period or post balance date. Total sales proceeds of US\$66.4 million were realised on disposal, of which the Group's proportionate economic interest is US\$61.0 million. This represents a 26% premium to acquisition cost (inclusive of all closing costs). The distribution proceeds received by the Group from the respective jointly controlled entities will be used to capitalise on attractive acquisition opportunities, to fund the construction of the Group's existing renovation pipeline, and for general business purposes consistent with the investment strategy of the Group.

The carrying value of the multifamily properties owned by Golden Peak II, LLC at 30 June 2016 is \$49.6 million, representing a 31% premium to acquisition cost.

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

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2016

Financial performance and position

The Group recorded a pre-tax loss of \$29,057 for the period ended 30 June 2016. This compares with a profit before tax in the prior period of \$31,754,805. The primary factors contributing to the movement in the pre-tax result include a smaller positive fair value movement on the Group's freestanding portfolio (\$22,465,336 in the current period compared with \$34,779,673 in the prior period), a reduction in the share of profits of jointly controlled entities due to the wind down of the Group's investments with Excelsior (\$888,652 in the current period compared with \$8,706,883 in the prior period), and an increase in interest expense reflected in profit or loss due to additional borrowings incurred in order to fund both property acquisitions and renovations (\$10,588,635 in the current period compared with \$2,450,108 in the prior period). The pre-tax result in the prior period also includes a fair value gain on derivative instruments of \$1,087,365 (nil this period) and a foreign currency gain on financial instruments of \$1,278,040, which in the current financial period was a loss of \$1,294,550. Rental income totalled \$14,685,069, representing a 58% increase in the Group's rental revenue when compared to the prior comparable period. The Group expects continued rental revenue growth throughout the remainder of 2016 as more completed properties are delivered from the renovation pipeline.

Total comprehensive loss for the period, after taking into account exchange rate differences, deferred tax expense and jointly controlled entity reserves, was \$27,287,532 (30 June 2015: income of \$43,999,826). The two main contributors to the total comprehensive loss are an appreciation of the Australian dollar during the period 31 December 2015 (72.86 cents) to 30 June 2016 (74.51 cents), which decreased the value of the Group's US dollar assets when translated into Australian dollars, and tax expense. If certain criteria are satisfied in future periods, the Group's withholding tax rate on distributions made by the US REIT will reduce from the current rate of 35% to 15% (refer note 8 in the Notes to the Consolidated Financial Statements).

The Group retained a strong financial position with net assets of \$500,966,943, a pre-tax net tangible asset backing of \$2.00 per ordinary unit and a post-tax net tangible asset backing of \$1.73 per ordinary unit at 30 June 2016.

Distributions paid or recommended

A distribution of 5 cents per ordinary unit, totalling \$14,274,574, was declared in the prior year. After accounting for the Group's Distribution Reinvestment Plan, \$6,698,753 was paid on 29 January 2016.

A further distribution of 5 cents per ordinary unit, totalling \$14,463,028, was announced on 23 June 2016. The Distribution Reinvestment Plan is in place in relation to the distribution.

After balance date events

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

**US MASTERS RESIDENTIAL PROPERTY FUND
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DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 2016

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half-year ended 30 June 2016.

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



Alex MacLachlan

Walsh & Company Investments Limited

Dated this 19th day of August 2016

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

19 August 2016

Dear Board Members

US Masters Residential Property Fund

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

As lead audit partner for the review of the financial statements of US Masters Residential Property Fund for the financial half-year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Weng W Ching
Partner
Chartered Accountants

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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 2016

	<i>Note</i>	30 Jun 2016	30 Jun 2015
		\$	\$
Investment property rental income		14,685,069	9,300,306
Insurance proceeds		-	135,546
Interest income		516,091	729,465
Total revenue		<u>15,201,160</u>	<u>10,165,317</u>
Fair value movement of investment properties	6	22,465,336	34,779,673
Fair value movement of forward foreign currency derivative		-	1,087,365
Share of profits of jointly controlled entities	5	888,652	8,706,883
Investment property expenses		(7,397,535)	(6,290,499)
Net foreign currency (loss)/gain		(1,294,550)	1,278,040
Management fees	13	(9,936,719)	(6,425,208)
Listing fees		(120,238)	(134,984)
Professional fees		(1,202,323)	(1,270,638)
Marketing		(103,078)	(191,760)
Responsible Entity and related entity recharges - salaries & wages	13	(4,278,177)	(3,926,054)
Responsible Entity and related entity recharges - office administration costs	13	(3,517,835)	(2,300,423)
Interest expense	6	(10,588,635)	(2,450,108)
Impairment of investment property	6	-	(176,333)
Investment property disposal costs		(10,261)	(888,099)
Bad debt expense		(78,936)	(50,839)
Other expenses		(55,918)	(157,528)
(Loss)/Profit before income tax		<u>(29,057)</u>	<u>31,754,805</u>
Income tax expense	8	(12,164,103)	(19,754,612)
(Loss)/Profit for the period attributable to unitholders		<u>(12,193,160)</u>	<u>12,000,193</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operation (nil tax)		(14,686,667)	32,103,294
Share of jointly controlled entity's reserve movements (nil tax)		(407,705)	(103,661)
Other comprehensive (loss)/income for the period, net of tax		<u>(15,094,372)</u>	<u>31,999,633</u>
Total comprehensive (loss)/income for the period attributable to unitholders		<u>(27,287,532)</u>	<u>43,999,826</u>
Earnings per unit			
Basic (loss)/earnings per unit (dollars)		(0.04)	0.04
Diluted (loss)/earnings per unit (dollars)		(0.04)	0.04

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
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	<i>Note</i>	30 Jun 2016	31 Dec 2015
		\$	\$
Current assets			
Cash and cash equivalents	2	108,011,627	133,557,456
Receivables		392,980	589,778
Other financial assets	4	12,010,748	19,091,341
Prepayments		283,001	320,994
Other assets	3	6,357,510	5,774,827
Total current assets		<u>127,055,866</u>	<u>159,334,396</u>
Non-current assets			
Investments in jointly controlled entities	5	50,550,112	81,194,726
Investment properties	6	944,797,463	862,538,836
Security deposits	7	335,525	343,124
Other assets	3	6,770,915	3,904,919
Total non-current assets		<u>1,002,454,015</u>	<u>947,981,605</u>
Total assets		<u>1,129,509,881</u>	<u>1,107,316,001</u>
Current liabilities			
Payables	9	23,245,771	30,644,646
Borrowings	10	68,945,575	24,653,907
Total current liabilities		<u>92,191,346</u>	<u>55,298,553</u>
Non-current liabilities			
Deferred tax liabilities	8	76,398,958	65,868,122
Borrowings	10	459,784,871	450,825,390
Other non-current liabilities		167,763	182,284
Total non-current liabilities		<u>536,351,592</u>	<u>516,875,796</u>
Total liabilities		<u>628,542,938</u>	<u>572,174,349</u>
Net assets		<u>500,966,943</u>	<u>535,141,652</u>
Equity			
Unit capital		381,833,314	388,720,491
Reserves		135,216,387	150,310,759
Accumulated losses		(16,082,758)	(3,889,598)
Total equity		<u>500,966,943</u>	<u>535,141,652</u>

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

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US MASTERS RESIDENTIAL PROPERTY FUND
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2016

<i>Note</i>	Unit capital \$	Foreign currency translation reserve \$	Share of jointly controlled entity's cash flow hedging reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2015	381,980,548	83,468,319	156,252	(3,889,598)	461,715,521
Profit for the period	-	-	-	12,000,193	12,000,193
Other comprehensive income/(loss), net of income tax					
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
Total comprehensive income/(loss) for the period	-	32,103,294	(103,661)	12,000,193	43,999,826
Transactions with owners in their capacity as owners					
Issue of ordinary units	7,753,008	-	-	-	7,753,008
Distributions to unitholders	(5,502,462)	-	-	(8,110,595)	(13,613,057)
Total transactions with owners	2,250,546	-	-	(8,110,595)	(5,860,049)
Balance at 30 June 2015	384,231,094	115,571,613	52,591	-	499,855,298
Balance at 1 January 2016	388,720,491	150,311,818	(1,059)	(3,889,598)	535,141,652
Loss for the period	-	-	-	(12,193,160)	(12,193,160)
Other comprehensive loss, net of income tax					
Foreign operation currency translation loss	-	(14,686,667)	-	-	(14,686,667)
Jointly controlled entity interest rate swap hedge loss	-	-	(407,705)	-	(407,705)
Total other comprehensive loss	-	(14,686,667)	(407,705)	-	(15,094,372)
Total comprehensive loss for the period	-	(14,686,667)	(407,705)	(12,193,160)	(27,287,532)
Transactions with owners in their capacity as owners					
Issue of ordinary units	7,575,851	-	-	-	7,575,851
Distributions to unitholders	(14,463,028)	-	-	-	(14,463,028)
Total transactions with owners	(6,887,177)	-	-	-	(6,887,177)
Balance at 30 June 2016	381,833,314	135,625,151	(408,764)	(16,082,758)	500,966,943

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
ARSN 150 256 161**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 30 JUNE 2016

	<i>Note</i>	30 Jun 2016 \$	30 Jun 2015 \$
Cash flows from operating activities			
Cash receipts from customers		14,823,233	9,735,508
Cash paid to suppliers		(29,136,372)	(25,547,774)
Insurance proceeds		-	57,897
Interest received		598,230	449,953
Interest paid ⁽ⁱ⁾		(10,487,563)	(2,342,590)
Net cash used in operating activities		<u>(24,202,472)</u>	<u>(17,647,006)</u>
Cash flows from investing activities			
Acquisition of investment property, including improvements (i)		(78,819,271)	(98,701,284)
Investment in jointly controlled entities		(1,641)	(1,695,955)
Payments for property-related deposits		(3,371,225)	(2,715,713)
Distributions received from jointly controlled entity investments (ii)		29,110,338	440,051
Proceeds from sale of investment properties		532,263	12,082,934
Proceeds from term deposits		19,091,341	-
Investment in term deposits		(12,010,748)	-
Disposal costs on sale of investment properties		(10,261)	(888,099)
Net cash used in investing activities		<u>(45,479,204)</u>	<u>(91,478,066)</u>
Cash flows from financing activities			
Gross proceeds from secured bank loans and loan notes		97,595,056	108,916,262
Bank loan repayments		(36,508,246)	(67,311,429)
Payment of interest reserve and escrow accounts		(3,132,244)	(2,595,030)
Payment of transaction costs related to loans and borrowings		(4,967,228)	(11,211,367)
Distributions paid		(6,695,854)	(5,661,866)
Net cash from financing activities		<u>46,291,484</u>	<u>22,136,570</u>
Net decrease in cash and cash equivalents		(23,390,192)	(86,988,502)
Cash and cash equivalents at beginning of period		133,557,456	191,280,901
Effect of exchange rate fluctuations on cash held		(2,155,637)	5,850,664
Cash and cash equivalents at end of period	2	<u>108,011,627</u>	<u>110,143,063</u>

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

(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 the notes to the financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 JUNE 2016

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 19 August 2016.

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 2015-3 'Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality'

2. Cash and cash equivalents

	30 Jun 2016	31 Dec 2015
	\$	\$
Cash at bank	82,166,581	133,557,456
Restricted cash	25,845,046	-
	<u>108,011,627</u>	<u>133,557,456</u>

Restricted cash relates to amounts held on reserve with Centennial Bank, and is in respect of a loan drawdown under the new Centennial facility (refer note 10(xiii)) on 30 June 2016. The funds drawn were placed on reserve until satisfaction of certain conditions subsequent, including ownership transfer of nominated properties to USM Asset Trust. All conditions subsequent were satisfied in July 2016 and the funds released from the reserve account were used to repay a portion of the Fortress loan facility.

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3. Other assets

	30 Jun 2016	31 Dec 2015
	\$	\$
Current assets		
Property related deposits	3,371,225	3,332,967
Facility interest reserve (i)	1,132,376	-
Deferred leasing fee	931,461	1,053,317
Property tax escrow deposits	838,546	842,430
Other assets	83,902	546,113
	<u>6,357,510</u>	<u>5,774,827</u>
	\$	\$
Non-current assets		
Facility interest reserve and escrow accounts (i) (ii)	5,816,434	3,904,919
Other assets (escrow deposits and receivables)	911,400	-
Interest rate cap derivative instrument	43,081	-
	<u>6,770,915</u>	<u>3,904,919</u>

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

- Maintain interest reserve accounts equivalent to six months of interest on the outstanding principal loan balances. At balance date, the amount of interest on reserve with Centennial Bank was US\$2,003,777 (A\$2,689,273).
- Maintain a property tax and insurance reserve. At balance date, the amount on reserve with Centennial Bank in relation to property taxes and insurance was US\$173,388 (A\$232,704). The account does not bear interest.
- Maintain a collection reserve. At balance date, the amount on reserve with Centennial Bank in relation to collection reserves was US\$1,000,403 (A\$1,342,643).
- The facility interest reserve of A\$1,132,376 relates to the Centennial Bank facility maturing in March 2017 (refer note 10) and accordingly, the balance has been classified as current at balance date.

(ii) The Group was also required to place US\$1,999,990 (A\$2,684,190) in escrow with Investors Bank.

4. Other financial assets

	30 Jun 2016	31 Dec 2015
	\$	\$
Term deposits	12,010,748	19,091,341
	<u>12,010,748</u>	<u>19,091,341</u>

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5. Investments in jointly controlled entities

Jointly controlled entities	Country of Incorporation	Principal activity	Principal place of business	Ownership Interest	
				30 Jun 2016 %	31 Dec 2015 %
Golden Peak II, LLC (i)	United States	Property Investment	Hudson County, New Jersey	67.5%	67.5%
Hudson Gardens, LLC (i)	United States	Property Investment	Hudson County, New Jersey	90.0%	90.0%
Gold Coast Equities, LLC (i)	United States	Property Investment	Hudson County, New Jersey	92.5%	92.5%
DXEX Brooklyn I, LLC (i)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn II, LLC (i)	United States	Property Investment	Brooklyn, New York	92.5%	92.5%
DXEX Brooklyn III, LLC (i)	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 jointly controlled entity and therefore does not exercise control of the jointly controlled entity.

	30 Jun 2016 (6 months)	31 Dec 2015 (12 months)
Carrying amount of interest in jointly controlled entities	\$	\$
Balance at beginning of period	81,194,726	60,159,752
Investments made	1,641	292,348
Distributions received and receivable (net of promote interest)	(29,741,935)	(653,093)
Share of profits of jointly controlled entities	888,652	13,712,689
Share of reserves of jointly controlled entities	(407,705)	(157,311)
Exchange rate differences on translation	(1,385,267)	7,840,341
Balance at end of period	<u>50,550,112</u>	<u>81,194,726</u>

At balance date, the following jointly controlled entity properties were under contract for sale:

- 255-65 Linden Street, Bushwick, New York. The contracted sales price is US\$9,250,000 (A\$12,214,441), of which the Group's economic interest is US\$8,556,250 (A\$11,483,358). The property is owned by DXEX Brooklyn I, LLC.
- The properties located at 24-30 Rogers Avenue, and 637-641 St. Marks Avenue, both located in Crown Heights, New York. The combined contracted sales price is US\$14,200,000 (A\$19,057,845), of which the Group's economic interest is US\$13,135,000 (A\$17,628,506). The properties are owned by DXEX Brooklyn III, LLC.

The carrying value of properties under contract for sale recorded in the Condensed Consolidated Statement of Financial Position reflect the contracted sales amounts. All properties under contract for sale at balance date settled at their contracted sales values subsequent to balance date. All other properties owned by the Excelsior jointly controlled entities were disposed of prior to balance date.

The fair value of the property portfolio owned by Golden Peak II, LLC has been determined by Management with reference to an appraisal completed by Jones Lang LaSalle at 31 December 2015. The directors of the Group are satisfied that the valuation completed at 31 December 2015 reflects the fair value of the properties at 30 June 2016.

Fair value movements totalling \$417,511 are included in "Share of profits of jointly controlled entities" in the profit or loss.

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

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6. Investment properties

	30 Jun 2016	31 Dec 2015
	\$	\$
Disclosed on the Condensed Consolidated Statement of Financial Position as:		
Non-current assets		
Investment properties	944,797,463	862,538,836
	944,797,463	862,538,836
	30 Jun 2016	31 Dec 2015
	(6 months)	(12 months)
	\$	\$
At fair value		
Balance at beginning of period	862,538,836	561,501,651
Acquisitions, including improvements and interest on qualifying properties	80,273,464	198,119,085
Fair value movement of investment properties to market	22,465,336	40,763,092
Disposals	(665,104)	(12,476,110)
Impairment of investment properties due to damage	-	(183,364)
Exchange rate differences on translation	(19,815,069)	74,814,482
Balance at end of period	944,797,463	862,538,836
	30 Jun 2016	31 Dec 2015
	(6 months)	(12 months)
	\$	\$
Interest expense	19,584,332	26,648,436
Interest capitalised to carrying value of qualifying investment properties	(8,995,697)	(16,337,399)
Interest expense reflected in profit or loss	10,588,635	10,311,037

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)
- F J R Appraisal Service (licensed residential appraiser)
- Platinum Coast Appraisal & Co. (licensed residential appraiser)
- Glenn A. Gabberty Appraisals, Inc. (licensed residential appraiser)
- Douglas Elliman Real Estate (licensed real estate agent)
- Madison Appraisal Group, LLC (licensed residential appraiser)

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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:

<i>Class of Property</i>	<i>Fair Value Hierarchy Level</i>	<i>Fair Value 30/06/2016</i>	<i>Fair Value 31/12/2015</i>	<i>Valuation Technique</i>	<i>Inputs</i>
Residential use investment property	Level 2	\$944,797,463	\$862,538,836	Direct comparable sales	<ul style="list-style-type: none"> - Selling price - Geographic location - Property age and condition - Size of property - Number of rooms

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

Contractual obligations

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

7. Security deposit

	30 Jun 2016	31 Dec 2015
	\$	\$
Security deposits	335,525	343,124

The Group is party to a letter of credit arrangement with Investors Bank. Under the terms of the facility, the Group is required to provide security in the form of a US\$250,000 (A\$335,525) deposit.

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8. Deferred tax liabilities

	30 Jun 2016	31 Dec 2015
	\$	\$
Investment properties	76,398,958	65,868,122

Movements

Balance at beginning of period	65,868,122	35,303,707
Charged to profit and loss as income tax expense	12,012,595	25,096,719
Taken to profit and loss as unrealised foreign exchange (gain)/loss	(1,481,759)	5,467,696
Balance at end of period	<u>76,398,958</u>	<u>65,868,122</u>

Income tax expense is comprised of:

	30 Jun 2016	31 Dec 2015
	\$	\$
Deferred tax charged to profit or loss	12,012,595	25,096,719
Withholding tax payable	151,508	213,810
Income tax expense	<u>12,164,103</u>	<u>25,310,529</u>

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.

In December 2015, the U.S. government passed legislation that has the potential to eliminate or significantly reduce withholding tax on distributions of capital gains made by the US REIT, provided certain specified criteria are satisfied. If all qualifying criteria are satisfied in a year where a capital gain is realised and distributed, then such distribution would be subject to withholding at the lower operating profit distribution rate of 15%, instead of the current rate of 35%. Historically, the Group has not consistently satisfied all of the criteria necessary to qualify for the reduction in the rate of withholding tax, but may do so in the future. However, because based on historical experience the Group is not presently expected to satisfy all necessary criteria in future years to qualify for the reduced withholding tax rate, a deferred tax liability at 35% in respect of the temporary differences has continued to be recognised in the Condensed Consolidated Statement of Financial Position at balance date.

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9. Payables

	30 Jun 2016	31 Dec 2015
	\$	\$
Current		
Trade payables	4,373,083	12,828,668
Distribution payable	14,496,697	14,305,374
Other payables	4,375,991	3,510,604
	<u>23,245,771</u>	<u>30,644,646</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.

10. Borrowings

	30 Jun 2016	31 Dec 2015
	\$	\$
Current liabilities		
Secured bank loans - at amortised cost	68,945,575	24,653,907
	<u>68,945,575</u>	<u>24,653,907</u>
Non-current liabilities		
Unsecured notes	236,290,037	235,774,089
Secured bank loans - at amortised cost	223,494,834	215,051,301
	<u>459,784,871</u>	<u>450,825,390</u>

Secured bank loans

During the period, the Group secured an additional loan facility of US\$9,500,000 (A\$12,739,708) from Investors Bank. The amount drawn (amortised cost) at balance date is shown below.

The Group also secured an additional loan facility of US\$75,000,000 (A\$104,137,740) from Centennial Bank. The amount drawn (amortised cost) at balance date is shown below.

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10. 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 Jun 2016 Principal Amount - Amortised Cost	31 Dec 2015 Principal Amount - Amortised Cost
Investors Bank	3.99% (i)	June 2022	Investment property (vii)	16,049,263	3,624,122	3,738,174
Investors Bank	3.75% (ii)	November 2022	Investment property (vii)	14,690,261	3,480,214	3,589,463
Investors Bank	3.75% (iii)	July 2025	Investment property (vii)	24,944,950	6,639,820	6,863,293
Investors Bank	3.63% (iv)	November 2023	Investment property (vii), (vii)*	67,464,003	17,790,474	18,360,724
Investors Bank	3.63% (iv)	November 2023	Investment property (vii)	41,255,412	11,566,768	11,934,592
Investors Bank	3.63% (iv)	November 2023	Investment property (vii)	24,795,857	7,610,855	7,861,359
Investors Bank	3.63% (v)	November 2024	Investment property (vii)	76,637,705	21,578,698	22,256,362
Investors Bank	3.63% (viii)	April 2025	Investment property (vii)	72,157,971	18,036,173	18,573,792
Investors Bank	3.75% (xii)	June 2026	Investment property (vii)	55,373,216	12,331,377	-
Centennial Bank	LIBOR (vi) 1 Month + (x) 5.75%	March 2017	(ix)	34,537,214	15,428,554	18,352,937
Centennial Bank	LIBOR (x) 1 Month + (xiii) 4.95%	February 2021	(ix), (xiii)	80,588,618	52,350,526	-
FCCD Limited	LIBOR 3 Month + (x) 5.50%	(xi)	(xi)	375,461,473	122,002,828	128,174,512
					292,440,409	239,705,208

Disclosed as:

	30 Jun 2016 \$	31 Dec 2015 \$
Current	68,945,575	24,653,907
Non-Current	223,494,834	215,051,301
	292,440,409	239,705,208

- (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%.

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10. Borrowings (continued)

- (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\$2,684,190) has been placed in escrow with Investors Bank.
- (viii) Resets to a new fixed interest rate in April 2020 for the remaining term.
- (ix) During the period, the existing Centennial Facility was cross-collateralised with the new Centennial Bank facility entered into on 23 February 2016 (refer (xiii)). The maximum amount that can be drawn across both Centennial facilities is US\$125,000,000.

The loan is now secured by the following:

- A 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
 - USM URF AT Holdings LLC
 - USM Asset Trust
- A guarantee given by US Masters Residential Property (USA) Fund
- A cross-collateralisation and cross-default with the new Centennial Bank facility (refer (xiii))
- US\$843,733 (A\$1,132,376) placed in interest and collection reserves.

The total value of the aggregate security provided at balance date in respect of both Centennial Bank loans is A\$145,562,416, including property assets valued at A\$115,125,832.

- (x) As of 30 June 2016, LIBOR 1 Month was 0.4421% and LIBOR 3 Month was 0.4545%.
- (xi) The facility with FCCD Limited is comprised of a Term Loan and a Revolver Note. The Term Loan of US\$65,000,000 has a maturity date of July 10, 2020. The Revolver Note of US\$85,000,000 has a maturity date of July 10, 2018. Amounts available to be drawn under the facility are based on providing collateral property security meeting specified conditions and meeting other facility terms and conditions. Both the cost and subsequent renovation costs pertaining to such properties are eligible for funding based on a 60% loan to value ratio. Once funded properties are stabilised (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 and the new Centennial Bank facility entered into during the period (refer (xiii)). The facility is subject to specified covenant and other reporting obligations. The facility is subject to Default Event clauses, breach of which at the option of the lender results in all unpaid principal and interest amounts being immediately due and payable. The facility is secured by way of charge over the following subsidiaries of the Fund which own the funded pool of properties:
- Newcastle URF LLC
 - Canterbury URF LLC
 - Penrith URF LLC
 - Manly Warringah URF LLC

The total value of the security at balance date is A\$376,406,443, including property assets valued at A\$375,461,473. US Masters Residential Property (USA) Fund and US Masters Residential Property Fund have each guaranteed the loan in limited circumstances.

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10. Borrowings (continued)

- (xii) Resets to a new fixed interest rate in June 2021 for the remaining term.
- (xiii) The facility with Centennial Bank dated 23 February 2016 has a maturity date of 22 February 2021. Subject to satisfying certain criteria, the Group has an option to extend the maturity date for an additional year. The aggregate drawdown permitted under this new Centennial Bank facility and the existing Centennial Bank facility (refer (ix)) is limited to US\$125,000,000. Amounts available to be drawn under the facility are based on pledged properties that meet specified conditions and meeting other facility terms and conditions. Funding against pledged properties is provided at the lower of 50% of fair market value (as determined by Centennial Bank), and 65% of total cost (as determined by Centennial Bank). As at reporting date, the amount drawn under the new facility totalled US\$42,200,000 (A\$56,636,693). The aggregate amount drawn under both Centennial Bank facilities at balance date was US\$54,343,152 (A\$72,934,038). The facility is subject to specific covenant and other reporting obligations. The facility is 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 charge over the following subsidiaries of the Fund in which collateralized property assets are held:
 - USM URF AT Holdings LLC
 - USM Asset Trust
 - AFL URF LLC, and its subsidiaries as listed at (ix) above
- A guarantee given by US Masters Residential Property (USA) Fund
- A guarantee given by US Masters Residential Property Fund in limited circumstances
- A cross-collateralisation and cross-default with the existing Centennial Bank facility
- US\$21,590,978 (A\$28,977,289) placed in interest, taxes and insurance and collection reserves. Of the total reserve balance, US\$19,257,144 (net of transaction costs) (A\$25,845,046) is in respect of a drawdown under the facility on 30 June 2016. The funds drawn were on reserve until satisfaction of certain conditions subsequent, including ownership transfer of nominated properties to USM Asset Trust. All conditions subsequent were satisfied in July 2016 and the funds released from the reserve account were used to repay a portion of the Fortress loan facility.
- An interest rate cap agreement entered into by the Group with SMBC Capital Markets. The carrying value of the interest rate cap is included in other non-current assets. Refer note 3.

The total value of the security at balance date in respect of both Centennial Bank loans is A\$145,562,416, including property assets valued at A\$115,125,832.

Effective 15 July 2016, quarterly principal repayments are required based on a 30 year amortization period.

The facility bears interest at 1 month LIBOR plus 4.95%. LIBOR is subject to a floor of 0.25%.

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 2016 - Amortised Cost	31 Dec 2015 - Amortised Cost
URF Notes	7.75%	24 December 2019	24 December 2017	Unsecured	147,698,393	147,372,572
URF Notes II	7.75%	24 December 2020	24 December 2018	Unsecured	88,591,644	88,401,517
					236,290,037	235,774,089

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10. Borrowings (continued)

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

Facility	Principal Draw n	Principal Available	Total
Investors Bank	105,982,990		105,982,990
Centennial Bank	72,934,038	94,828,678 *	167,762,716
FCCD Limited	129,500,839	71,814,421 *	201,315,260
URF Notes	150,000,000	-	150,000,000
URF Notes II	90,539,500	-	90,539,500
	548,957,367	166,643,099	715,600,466

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

11. Capital and reserves

Issuance of ordinary units

In relation to the distribution paid on 29 January 2016, 3,769,080 units were issued as part of the Fund's distribution reinvestment plan, for an amount of \$7,575,851.

The total number of ordinary units issued as at 30 June 2016 was 289,260,553.

12. Balance date capital commitments

As at balance date, the Group has paid deposits totalling \$3,371,225 in respect of contracts for the purchase of 14 residential properties with a combined purchase consideration of \$31,083,076.

The Group also has a capital commitment of \$30,991,823 in respect of properties that are under construction/refurbishment.

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

13. Related parties

Key management personnel

Mr. Alexander MacLachlan, Mr. Tristan O'Connell and Mr. Tom Kline 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.

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 \$1,856,833 (30 June 2015: \$1,458,904) and is included in management fees expense in the profit or loss.

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13. Related parties (continued)

Management fees payable to the Investment Manager

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

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

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

Total investment management fee incurred during the period was \$6,115,800 (30 June 2015: \$4,534,468) and is included in management fees expense in the profit or loss.

Leasing fee (payable by the US REIT)

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

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

During the period, the Investment Manager successfully oversaw the screening of over 7,500 lease inquiries and successful letting of 86 units representing gross annual rent income to the Fund of \$5.8 million.

Total leasing fee incurred during the period was \$586,515 (30 June 2015: \$498,377).

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 4 property disposals out of 11 total property disposals during the period (including properties disposed at the jointly controlled entity level).

During the period, the Investment Manager oversaw the successful disposition of 11 properties for total sale proceeds of \$91 million, which represented a 26% premium to total asset cost, including purchase price, closing costs, renovation expenditure and capitalised interest.

Total asset disposal fee incurred in the period was \$1,329,083 (30 June 2015: \$39,614) included in management fees expense in the profit or loss.

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13. Related parties (continued)

Management fees payable to the Investment Manager (continued)

Asset acquisition fee (payable by the US REIT)

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

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

During the period, the Investment Manager oversaw the inspection of over 312 potential property acquisitions, the bidding on 29 properties, and the acquisition of 17 properties for a total acquisition cost of \$36.9 million.

Total asset acquisition fee incurred during the period was \$708,557 (30 June 2015: \$891,311) 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.

Debt arranging fee (payable by the US REIT)

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

For this service, the Investment Manager is entitled to receive a debt arranging fee of 2.00% of the gross amount of external borrowings obtained by the US REIT.

During the period, the Investment Manager oversaw the successful negotiation of new debt facilities totalling \$117 million across two tranches and two lenders.

Total debt arranging fee incurred during the period was \$2,301,326 (30 June 2015: \$4,641,555). Debt arranging fees form part of the amortised cost of the underlying loan balance, or are added to the carrying value of the Group's investments in jointly controlled entities where applicable. The capitalised fee forms part of the effective interest rate of the associated borrowing and is amortised over the loan expiry period. To the extent the associated borrowing relates to qualifying assets, the amortisation charge is capitalised to the qualifying asset.

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FOR THE HALF-YEAR ENDED 30 JUNE 2016

13. 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 2016, expenses incurred of \$414,611 (30 June 2015: \$258,576) and \$7,313,300 (30 June 2015: \$5,955,571) were recovered by the Responsible Entity and Dixon Advisory USA Inc, respectively. In an effort to minimise structural complexity and operating costs for the US REIT, the Group does not employ staff or management personnel and accordingly, has engaged the Responsible Entity and Dixon Advisory USA Inc (a related entity of the Responsible Entity) to provide administrative and management services to the Fund and the US REIT. 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 7.89% being \$534,772 (30 June 2015: 9.10% being \$496,759) 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 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 \$68,100 (30 June 2015: \$60,000) was charged by Australian Fund Accounting Services in relation to fund administration services, pursuant to a Service Agreement. Time spent by administrative staff is charged to the Fund at agreed rates under the agreement, capped at \$120,000 per annum.

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

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

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

During the period, Dixon Projects completed US\$24.2 million, or A\$33.0 million (30 June 2015: US\$31.0 million, or A\$39.7 million), of renovation work for the Fund across 20 large-scale renovations and 37 small-scale renovations. The renovation costs comprised of \$23.6 million of labour and materials (30 June 2015: \$29.4 million), \$3.9 million of General Conditions and insurance charges (30 June 2015: \$4.9 million), a development fee of \$1.4 million (30 June 2015: \$1.7 million), and architectural, quantity surveyor and interior design services of \$4.1 million (30 June 2015: \$3.7 million). These costs are capitalised to the relevant investment properties.

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

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14. Controlled entities

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

		Ownership interest	
		30 June 2016	30 June 2015
Parent entity			
US Masters Residential Property Fund	Australia		
Subsidiary			
US Masters Residential Property (USA) Fund	United States	100%	100%
US Master Residential Property LLC	United States	100%	100%
Melbourne, LLC	United States	100%	100%
Wallaroo 2, LLC	United States	100%	100%
EMU, LLC	United States	100%	100%
Geelong, LLC	United States	100%	100%
Hawthorn Properties, LLC	United States	100%	100%
North Sydney, LLC	United States	100%	100%
Parramatta, LLC	United States	100%	100%
South Sydney, LLC	United States	100%	100%
St Kilda, LLC	United States	100%	100%
Canberra Raiders, LLC	United States	100%	100%
Newtown Jets, LLC	United States	100%	100%
Morben Finance, LLC	United States	100%	100%
Steuben Morris Lending, LLC	United States	100%	100%
Morris Finance, LLC	United States	100%	100%
Essendon, LLC	United States	100%	100%
Carlton URF, LLC	United States	100%	100%
Collingwood URF, LLC	United States	100%	100%
Cronulla URF, LLC	United States	100%	100%
New South Wales URF, LLC	United States	100%	100%
Freemantle URF, LLC	United States	100%	100%
Richmond URF, LLC	United States	100%	100%
AFL URF LLC	United States	100%	100%
Decatur URF LLC	United States	100%	100%
MacDonough URF LLC	United States	100%	100%
NRL URF LLC	United States	100%	100%
Grand Hill URF LLC	United States	100%	100%
Rogers Marks URF LLC	United States	100%	100%
Balmain Tigers URF LLC	United States	100%	100%
Newcastle URF LLC	United States	100%	100%
Canterbury URF LLC	United States	100%	100%
Manly Warringah 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%	-
Brisbane URF LLC	United States	100%	-
USM URF AT Holdings LLC	United States	100%	-
USM Asset Trust	United States	100%	-

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FOR THE HALF-YEAR ENDED 30 JUNE 2016

15. Subsequent events

Subsequent to balance date, 7 acquisition contracts have been settled for a total consideration of \$14,651,514.

Subsequent to balance date, the property located at 255-65 Linden Street, Bushwick, New York was disposed of for total proceeds of US\$9,250,000, of which the Group's proportionate economic interest is US\$8,556,250. The properties located at 24-30 Rogers Avenue, and 637-641 St. Marks Avenue, both located in Crown Heights, New York were also disposed of for total proceeds of US\$14,200,000, of which the Group's proportionate economic interest is US\$13,135,000.

On 19 August 2016, a capital raising for the Fund was announced. The capital raising, expected to be open on 22 August 2016, will be conducted via a unit purchase plan and a placement.

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

16. Operating segments

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

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

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**US MASTERS RESIDENTIAL PROPERTY FUND
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DIRECTORS' DECLARATION

FOR THE HALF-YEAR ENDED 30 JUNE 2016

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 19th day of August 2016

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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 statement of financial position as at 30 June 2016, 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 7 to 27.

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 2016 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.

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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 2016 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, 19 August 2016

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WALSH & COMPANY
INVESTMENTS LIMITED

**Walsh & Company
Investments Limited**
(ACN 152 367 649)
(AFSL 410 433)
