

## **US Masters Residential Property Fund**

ABN 27 372 102 509

Interim Financial Report

30 June 2013

# US Masters Residential Property Fund

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# US Masters Residential Property Fund

## Directors' Report

For the half-year ended 30 June 2013

The Directors of Dixon Advisory & Superannuation Services Limited, the responsible entity of US Masters Residential Property Fund (**Fund**) present their report together with the consolidated financial statements of the Fund and the entities it controlled (**Group**) for the half-year ended 30 June 2013.

Dixon Advisory & Superannuation Services Limited was appointed the responsible entity at the date the Fund was registered.

### Directors

The directors of the Responsible Entity (**Directors**) at any time during or since the end of the financial half-year are shown below. The Directors were in office to the date of this report unless otherwise stated.

Mr Maximilian Sean Walsh  
Mr Daryl Albert Dixon  
Mr Alan Cochrane Dixon  
Mr Tristan Aloysius O'Connell  
Mr Christopher Matthew Brown  
Mr Alexander Gen MacLachlan

### 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. During the period, the Group expanded its target investment area to include Manhattan and Brooklyn. At balance date, the Group owned 10 properties in Manhattan (with a total cost of US\$25,244,117 (A\$27,625,429) including direct acquisition costs) and 40 properties in Brooklyn (with a total cost of US\$47,587,671 (A\$52,076,681) including direct acquisition costs). There were no significant changes in the nature of the Group's activities during the period.

### Purchasing Activity and Portfolio Update

The first half of 2013 saw both a significant acceleration of purchasing activity by the Group and a spread in the geographic focus of acquisitions. The Group added to its core property holdings in Hudson County, New Jersey, and commenced acquiring properties throughout New York City, specifically in Manhattan, Brooklyn and Queens. The Group believes these markets present a number of favourable characteristics, similar to Hudson County, which make them attractive for residential real estate investment. These include favourable geographic location, excellent mass transit systems, improving demographics, and a deep rental market with finite supply.

At 30 June 2013, the Group had secured a total 522 freestanding properties with a total acquisition cost of US\$274 million (A\$299.9 million) (inclusive of estimated closing costs on accepted contracts). This represents a 25% increase in the number of freestanding properties secured and a 79% increase in the value of freestanding properties secured since the prior balance date of 31 December 2012.

Subsequent to balance date, at 20 August 2013, a further 14 properties with a total acquisition cost of US\$6.8 million (A\$7.4 million) had been secured by contract (inclusive of estimated closing costs on accepted contracts). This brings the total value of freestanding properties secured by the Group at 20 August 2013 to US\$277.6 million (A\$303.8 million). When combined with the Group's investment in multi-family properties, this represents a total investment cost of US\$313.3 million (A\$342.9 million) before any renovation improvements.

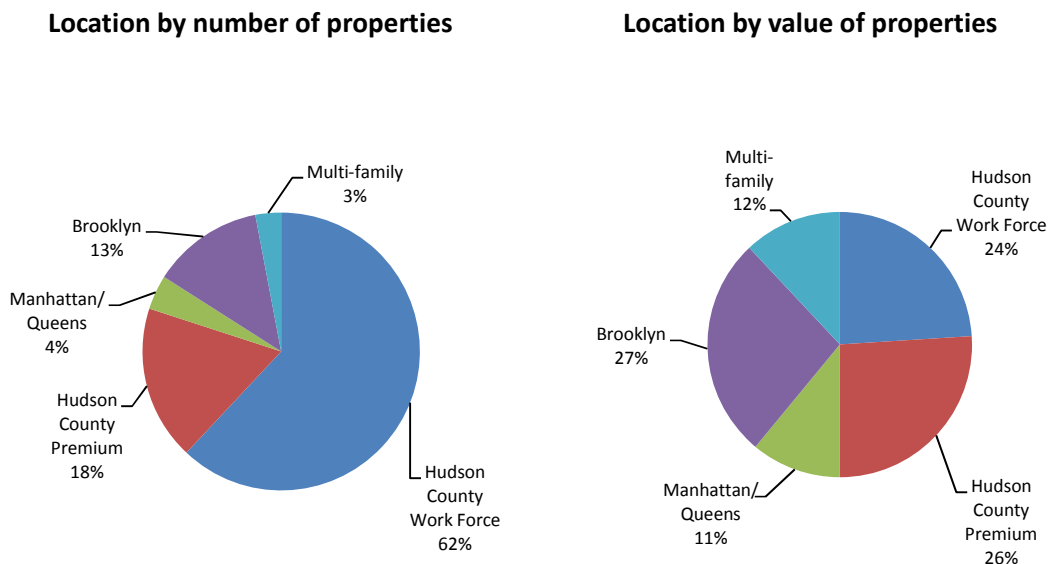
The Group's portfolio is geographically diversified across the New York metropolitan area. The relative contributions of each area to the portfolio are summarised by asset class below.

# US Masters Residential Property Fund

## Directors' Report

For the half-year ended 30 June 2013

Figure 1: Property portfolio locations



### Construction Activity

The Group continued to build on its design and construction capabilities, taking advantage of inherent market mispricing of properties that require renovation. In general, these properties sell at sizable discounts because of the shortage of buyers willing to take on renovation projects, and the reluctance of banks to provide financing for properties which are not rent ready. The Group has capitalised on this opportunity by acquiring such properties, particularly in Downtown Jersey City, Brooklyn and Manhattan.

As a result, completing renovations has become a significant area of focus for the Group. During the first half of 2013, the Group successfully delivered 92 newly renovated units to the market for rent. The Group has significantly increased its capacity to deliver renovations over the period, and as at 30 June 2013, there were 281 residential units in the renovation pipeline, at various stages of completion.

### Results and Review of Operations

The Group recorded a pre-tax profit of \$12,630,841 for the six months ended 30 June 2013. This included an upward revaluation of \$14,985,243 on the Group's existing portfolio of freestanding properties and an increase in the carrying value of jointly controlled entities of \$1,800,819 which was primarily derived from a revaluation of the portfolio held in joint venture (through Hudson Gardens, LLC) with Excelsior Equities.

Rental income was a significant contributor to revenue with the Group recording rental income for the six months ended 30 June 2013 of \$4,392,948. This reflects the growth in the Group's rent roll over the past six months and exceeds the Group's total rental income for the full 12 months of 2012. The Group expects rental income to continue its strong growth throughout the remainder of 2013 as the portfolio expands and more completed units are delivered from the renovation pipeline.

Investment property expenses for the period were 56% of rental income, representing an improvement from the six months ending 30 June 2012 of 61%. The Group is confident this ratio will continue to decrease as more properties are renovated, rehabilitated and tenanted.

Importantly, the total expenses of the Group have also continued to reduce relative to the amount rental income. This reflects the fact the infrastructure and team are scalable and capable of managing a larger number of properties.

## US Masters Residential Property Fund

### Directors' Report

For the half-year ended 30 June 2013

Total comprehensive income of the Group for the six months ended 30 June 2013 amounted to \$42,305,338 (30 June 2012: loss of \$3,371,999). Contributing to this substantially was an unrealised foreign exchange gain on the value of the Group's US based assets of \$36,388,891, reflecting the depreciation of the Australian dollar against the US dollar. The profit of the Group for the six months ended 30 June 2013 after providing for income tax amounted to \$5,283,833 (30 June 2012: loss of \$2,111,892). The Group is in a strong position with net assets of \$341,596,359.

At 30 June 2013, the NAV of the Group was \$1.64 per ordinary unit. This is after taking into account the 5 cent distribution announced on 19 June 2013. This compares to the NAV of \$1.44 per ordinary unit as at 31 December 2012. The major driver of the movement in the NAV per ordinary unit is the unrealised gain recognised in respect of the property portfolio and changes in the Australian and US dollar exchange rate.

During the six months ended 30 June 2013, a total of \$70,520,904 was raised from the issue of 39,999,453 ordinary units. An additional 2,266,285 ordinary units were issued as part of the Group's Distribution Reinvestment Plan amounting to \$3,943,336.

#### Distributions Paid or Recommended

A distribution of 5 cents per ordinary Unit totalling \$8,277,605 declared in the prior year was paid on 14 March 2013.

A further distribution of 5 cents per ordinary Unit totalling \$10,390,892 was announced on 19 June 2013. The distribution level reflects the Group's view of a sustainable yield to be generated from the portfolio once fully invested. The Distribution Reinvestment Plan is in place in relation to the distribution.

#### After Balance Date Events

Other than matters disclosed in Note 13 of the 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 2013.

Signed in accordance with a resolution of the Directors.



Mr Maximilian Sean Walsh  
Director

Dated this 28<sup>th</sup> day of August 2013

The Board of Directors  
Dixon Advisory and Superannuation Services Limited  
as Responsible Entity for:  
US Masters Residential Property Fund  
Level 15, 100 Pacific Highway  
North Sydney NSW 2060

28 August 2013

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 half-year ended 30 June 2013, 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

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## US Masters Residential Property Fund

### Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For the half-year ended 30 June 2013

	Note	30 June 2013 \$	30 June 2012 \$
Investment property rental income		4,392,948	1,398,468
Insurance proceeds		167,801	204,716
Interest income		281,572	376,949
Other income		62,723	-
<b>Total revenue</b>		<u>4,905,044</u>	<u>1,980,133</u>
Fair value movement of investment properties	4	14,985,243	-
Share of profits of jointly controlled entities	3	2,056,123	-
Investment property expenses		(2,475,279)	(857,167)
Net foreign currency loss		(905,775)	(2,268)
Management fees	11	(1,732,954)	(544,039)
Listing fees		(50,471)	(48,519)
Professional fees		(176,359)	(178,621)
Marketing		(69,786)	(37,235)
Responsible Entity and related entity recharges	11	(3,042,028)	(2,105,682)
Interest expense		(151,743)	(9,831)
Impairment of investment property	4	(511,683)	(140,756)
Other expenses		(199,491)	-
<b>Profit/(loss) before income tax</b>		<u>12,630,841</u>	<u>(1,943,985)</u>
Income tax expense		(7,347,008)	(167,907)
<b>Profit/(loss) for the period</b>		<u>5,283,833</u>	<u>(2,111,892)</u>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operations		36,388,891	(1,260,107)
Share of joint venture's reserve movements		632,614	-
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<u>37,021,505</u>	<u>(1,260,107)</u>
<b>Total comprehensive income/(loss) for the period attributable to unitholders</b>		<u>42,305,338</u>	<u>(3,371,999)</u>
<b>Profit/(loss) per unit</b>			
Basic earnings/(loss) per unit		0.03	(0.03)
Diluted earnings/(loss) per unit		0.03	(0.03)

The Condensed Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements on pages 10 to 17.

## US Masters Residential Property Fund

### Condensed Consolidated Statement of Financial Position

For the half-year ended 30 June 2013

	<i>Note</i>	30 June 2013 \$	31 Dec 2012 \$
<b>Current assets</b>			
Cash and cash equivalents		84,040,619	122,880,426
Receivables		371,095	557,807
Prepayments		937,845	209,885
Other assets	2	9,980,825	2,800,825
<b>Total current assets</b>		<u>95,330,384</u>	<u>126,448,943</u>
<b>Non-current assets</b>			
Investments in jointly controlled entities	3	18,941,458	14,571,696
Investment properties	4	257,790,871	116,149,363
Security deposit	5	273,583	-
<b>Total non-current assets</b>		<u>277,005,912</u>	<u>130,721,059</u>
<b>Total assets</b>		<u>372,336,296</u>	<u>257,170,002</u>
<b>Current liabilities</b>			
Payables	7	13,679,384	10,520,015
Borrowings	8	95,872	83,851
<b>Total current liabilities</b>		<u>13,775,256</u>	<u>10,603,866</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	6	10,496,722	2,536,687
Other non-current liabilities		136,791	127,778
Borrowings	8	6,331,168	5,607,591
<b>Total non-current liabilities</b>		<u>16,964,681</u>	<u>8,272,056</u>
<b>Total liabilities</b>		<u>30,739,937</u>	<u>18,875,922</u>
<b>Net assets</b>		<u>341,596,359</u>	<u>238,294,080</u>
<b>Equity</b>			
Unit capital		307,635,910	243,054,627
Reserves		33,960,449	(3,061,056)
Retained earnings		-	(1,699,491)
<b>Total equity</b>		<u>341,596,359</u>	<u>238,294,080</u>

The Condensed Statement of Financial Position is to be read in conjunction with the notes to the financial statements on pages 10 to 17.



## US Masters Residential Property Fund

### Condensed Consolidated Statement of Changes in Equity For the half-year ended 30 June 2013

	Unit capital	Foreign currency translation reserve	Share of joint venture's cash flow hedging reserve	Retained earnings	Total equity
Note	\$	\$	\$	\$	\$
<b>Balance at 1 January 2012</b>	95,230,115	16,794	-	366,049	95,612,958
Loss for the period	-	-	-	(2,111,892)	(2,111,892)
<b>Other comprehensive income</b>					
Foreign currency translation loss	-	(1,260,107)	-	-	(1,260,107)
<b>Total comprehensive loss for the period</b>	-	(1,260,107)	-	(2,111,892)	(3,371,999)
<b>Transactions with owners in their capacity as owners</b>					
Issue of ordinary units	67,064,168	-	-	-	67,064,168
Issue costs	(2,749,630)	-	-	-	(2,749,630)
Distributions to unitholders	(4,582,693)	-	-	(567,659)	(5,150,352)
<b>Total contributions and distributions</b>	59,731,845	-	-	(567,659)	59,164,186
<b>Balance at 30 June 2012</b>	154,961,960	(1,243,313)	-	(2,313,502)	151,405,145
<b>Balance at 1 January 2013</b>	243,054,627	(2,838,876)	(222,180)	(1,699,491)	238,294,080
Profit for the period	-	-	-	5,283,833	5,283,833
<b>Other comprehensive income</b>					
Foreign currency translation gain	-	36,388,891	-	-	36,388,891
Joint venture interest rate swap hedge gain	-	-	632,614	-	632,614
Total other comprehensive income	-	36,388,891	632,614	-	37,021,505
<b>Total comprehensive income for the period</b>	-	36,388,891	632,614	5,283,833	42,305,338
<b>Transactions with owners in their capacity as owners</b>					
Issue of ordinary units	74,464,240	-	-	-	74,464,240
Issue costs	(3,076,407)	-	-	-	(3,076,407)
Distributions to unitholders	(6,806,550)	-	-	(3,584,342)	(10,390,892)
<b>Total contributions and distributions</b>	64,581,283	-	-	(3,584,342)	60,996,941
<b>Balance at 30 June 2013</b>	307,635,910	33,550,015	410,434	-	341,596,359

The Condensed Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements on pages 10 to 17.

## US Masters Residential Property Fund

### Condensed Consolidated Statement of Cash Flows For the half-year ended 30 June 2013

	Note	30 June 2013 \$	30 June 2012 \$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		4,560,959	1,432,762
Cash paid to suppliers and employees		(8,979,505)	(4,216,998)
Insurance proceeds		55,636	204,716
Interest received		379,886	362,123
Interest paid		(129,816)	(13,907)
<b>Net cash used in operating activities</b>		<u>(4,112,840)</u>	<u>(2,231,304)</u>
<b>Cash flows from investing activities</b>			
Acquisition of investment property		(98,813,932)	(20,789,902)
Investment in joint ventures		-	(1,295,222)
Payments for property related deposits		(9,584,219)	(904,883)
Distributions received from joint venture investments		522,836	-
Proceeds from sale of investment properties		8,436	-
<b>Net cash used in investing activities</b>		<u>(107,866,879)</u>	<u>(22,990,007)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of unit capital		70,520,904	67,064,168
Payments of issue costs		(3,076,407)	(2,749,630)
Net proceeds from secured bank loan		-	2,780,101
Payment of security deposit		(273,583)	-
Distributions paid		(4,325,890)	-
Loan repayments		(54,689)	-
<b>Net cash from financing activities</b>		<u>62,790,335</u>	<u>67,094,639</u>
Net (decrease)/increase in cash and cash equivalents		(49,189,384)	41,873,328
Cash and cash equivalents at beginning of period		122,880,426	77,062,349
Effect of exchange rate fluctuations on cash held		10,349,577	(1,174,567)
<b>Cash and cash equivalents at end of period</b>		<u>84,040,619</u>	<u>117,761,110</u>

The Condensed Statement of Cash Flows is to be read in conjunction with the notes to the financial statements on pages 10 to 17.

# US Masters Residential Property Fund

## Notes to the Financial Statements For the half-year ended 30 June 2013

### 1. Basis of Preparation

#### Statement of compliance

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

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

These half-year financial statements were approved by the Board of Directors of the Responsible Entity on 28 August 2013.

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 have only affected disclosure and presentation in these financial statements.

Amendments to AASB 101 'Presentation of Financial Statements' –

*AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income' introduce new terminology for the statement of comprehensive income and income statement'*

*The amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:*

*(a) items that will not be reclassified subsequently to profit or loss and  
(b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.*

AASB 10 'Consolidated Financial Statements'

AASB 11 'Joint Arrangements'

AASB 13 'Fair Value Measurement'

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2013

#### 2. Other current assets

	30 June 2013	31 Dec 2012
	\$	\$
Refundable property payments	-	141,644
Property related deposits	9,584,219	2,407,389
Deferred leasing fee	396,606	251,792
	<u>9,980,825</u>	<u>2,800,825</u>

#### 3. Investments in jointly controlled entities

Jointly controlled entities	Country of Incorporation	Principal activity	Ownership interest	
			30 June 2013	31 Dec 2012
			%	%
Golden Peak II Holdings, LLC	United States	Property Investment	67.5%	67.5%
Hudson Gardens, LLC	United States	Property Investment	90.0%	90.0%
			\$	\$
<b>Carrying amount of interest in jointly controlled entities</b>				
Beginning of period			14,571,696	-
Investments in joint venture entities during the period			-	14,366,624
Distribution received from joint venture investments			(522,836)	(152,424)
Share of profit of equity accounted joint venture			2,056,123	654,951
Share of reserves of equity accounted joint venture			632,614	(222,180)
Gain/(loss) due to foreign currency translation			2,203,861	(75,275)
Balance at end of period			<u>18,941,458</u>	<u>14,571,696</u>

During the period, Jones Lang Lasalle was appointed to value the investment properties owned by the Hudson Gardens LLC joint venture entity. In determining the fair value of the portfolio, Jones Lang Lasalle adopted a direct capitalisation of net income approach. The capitalisation rate used to value the property portfolio owned by Hudson Gardens LLC was 5.25%. The fair value derived under this method was cross checked with a discounted cash flow model, using a discount rate of 8%. The fair value assigned to the property portfolio by Jones Lang Lasalle was US\$13,805,000 (A\$15,107,245), of which the Group's economic interest is US\$12,424,500 (A\$13,596,520).

Jones Lang Lasalle is independent of both the Group and Hudson Gardens LLC.

The Group has not incurred any contingent liabilities in relation to its interest in the jointly controlled entities, nor do the jointly controlled entities themselves have any contingent liabilities.

Neither jointly controlled entity has any capital commitments at period end.

#### 4. Investment properties

	\$	\$
<b>At fair value</b>		
Beginning of period	116,149,363	18,735,472
Acquisitions, including improvements	102,551,540	92,587,766
Fair value movement of investment properties	14,985,243	5,684,854
Disposals	(9,529)	-
Impairment of investment properties due to damage	(511,683)	(748,600)
Renovations in progress	43,136	513,136
Exchange rate differences on translation	24,582,801	(623,265)
Balance at end of period	<u>257,790,871</u>	<u>116,149,363</u>

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2013

#### 4. Investment Properties (continued)

##### Valuation basis

In determining the fair value of the Group's investment properties at balance date, the portfolio of residential properties has been dissected into groupings by location, 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 covering relevant sub-characteristics within each location grouping including duration of ownership, property size, property condition, and relevant vendor / sale characteristics (e.g. short sale).

A panel of the following appraisers was appointed to value the selected Group's properties:

- County Appraisals, LLC
- Accurate Appraisals Associates, LLC
- Appraisal Authority, LLC
- Supreme Appraisal Services, LLC
- Malone Appraisals, LLC

Appraisers were selected in consideration of their certification as residential appraisers in the states of New Jersey and New York, experience and independence to the Group. The appraisals have been completed under the Uniform Standards of Professional Appraisal Practice as required by the Appraisal Standards Board of The Appraisal Foundation in the USA, and have been completed using the "direct comparison" approach. Under this approach, the appraiser identifies 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 fair market value of the subject property.

The valuation results for each location grouping have been assessed with the average result for each location grouping, excluding outliers, then being extrapolated over the properties which were not subject to individual valuation, thereby achieving an overall valuation outcome for the entire portfolio.

The fair value movement of investment properties due to damage relates to additional impairment recognised in relation to environmental damage caused by Tropical Storm Sandy (\$406,305), as well as fire damage caused to a property owned by the Group (\$105,378), together totalling \$511,683. The Group has recovered insurance proceeds relating to fire damage suffered during the period of \$167,801, of which \$55,636 has been received in cash by balance date. The Group expects to receive additional insurance proceeds in respect of fire damage suffered in the 2012 financial year, but in the absence of certainty relating to such recoveries, no receivable balance has been recognised at balance date.

##### Contractual obligations

As at balance date, the Group has paid deposits totalling \$9,584,219 in respect of contracts for the purchase of 41 residential properties with a combined purchase consideration of \$38,903,151.

#### 5. Security deposit

	30 June 2013	31 Dec 2012
	\$	\$
Security deposit	273,583	-

During the period, the Group entered into 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\$273,583) deposit.

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2013

#### 6. Deferred tax liabilities

	30 June 2013	31 Dec 2012
	\$	\$
Deferred tax liabilities	10,496,722	2,536,687

The deferred tax liability represents temporary differences arising on differences between the tax cost base and the carrying value of the investment properties.

#### 7. Payables

	\$	\$
<b>Current</b>		
Trade payables	2,877,482	282,275
Distribution payable	10,406,436	8,284,770
Other payables	395,466	1,952,970
	<u>13,679,384</u>	<u>10,520,015</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.

#### 8. Borrowings

	\$	\$
<b>Current liabilities</b>		
Current portion of secured bank loans - at amortised cost	<u>95,872</u>	<u>83,851</u>
<b>Non-current liabilities</b>		
Secured bank loans - at amortised cost	<u>6,331,168</u>	<u>5,607,591</u>

No additional loans were settled during the period.

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

30 June 2013 Principal Amount – Amortised Cost	31 Dec 2012 Principal Amount – Amortised Cost	Security	Property Security Value - Fair Value	Maturity date	Interest rate
\$3,099,205	\$2,744,151	Investment property	8,230,435	June 2022	3.99%
\$3,327,835	\$2,947,291	Investment property	8,493,424	November 2022	3.75%

Monthly repayments of principal and interest are required to be made under the terms of the loan agreements. The interest rate on the loans are fixed up until June 2017 and October 2017 respectively, after which they will reset to a revised fixed rate for the remaining term.

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2013

#### 9. Capital and reserves

##### Issuance of ordinary units

At the Extraordinary General Meeting held on 24 January 2013, security holders approved a further units issue, which resulted in 1,317,394 units issued for an amount of \$2,055,135.

In relation to the distribution paid on 14 March 2013, 2,266,285 units were issued as part of the Fund's dividend reinvestment plan, for an amount of \$3,943,336.

A public offer dated 11 April 2013 resulted in an oversubscription, with the Group receiving application monies equal to \$68,465,769. The 38,682,059 new units were allotted on 23 May 2013.

The total number of ordinary units issued as at 30 June 2013 was 207,817,837.

#### 10. Balance date capital commitments

The Group has capital commitments in respect of investment property acquisitions totalling \$38,903,151 as shown in Note 4.

#### 11. Related parties

##### Responsible Entity Fees and other transactions

30 June 2013 30 June 2012

##### *Responsible Entity Fees (payable by the Fund)*

\$ \$

The Responsible Entity is entitled to receive annualised management fees (referred to as the responsible entity fee and administration fee), in aggregate, of up to 0.55% p.a. (exclusive of GST) of the gross asset value of the Group. The Responsible Entity has elected to reduce the annualised management fees to 0.33% p.a. for an indefinite period. In accordance with the Constitution of the Fund, the Responsible Entity can increase the management fees up to 0.55% p.a. without seeking unitholders approval.

460,958 167,762

Total accrued Responsible Entity fees included in trade and other payables as at 30 June 2013 is \$65,157 (30 June 2012: \$31,302).

\$ \$

##### *Investment Management Fee (payable by the US REIT)*

The Responsible Entity is entitled to receive an annualised investment fee of 2% of the gross asset value of the Group in its capacity as Investment Manager. The Responsible Entity has elected to reduce the annualised management fees to 1.24% p.a. for an indefinite period. Additionally, the Responsible Entity has elected to waive this fee for an indefinite period for the first \$100 million of gross assets. The Responsible Entity will review this partial waiver of its fees on an ongoing basis. Unitholders will receive a written notice 3 months in advance if the Responsible Entity decides to alter this waiver.

1,057,751 285,324

Total accrued Investment Management fee included in trade and other payables as at 30 June 2013 is \$257,996 (30 June 2012: \$51,055).

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2013

#### 11. Related parties (continued)

	30 June 2013	30 June 2012
	\$	\$
<b><i>Leasing Fee (payable by the US REIT)</i></b>		
The Responsible Entity is entitled to receive 3 months gross rent on new leases entered into by the US REIT in its capacity as Investment Manager. The Responsible Entity has elected to set the fee at 1 month's gross rent.		
Total accrued leasing fee included in trade and other payables as at 30 June 2013 is \$33,421 (30 June 2012: \$25,338).		
Total leasing fee recognised in profit and loss	214,245	90,953
Leasing fee deferred in other assets	285,742	165,581
<b><i>Asset Acquisition Fee (payable by the US REIT)</i></b>		
The Responsible Entity is entitled to receive an asset acquisition fee of 1.99% of the purchase price of assets acquired by the US REIT in its capacity as Investment Manager. This fee 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.		
Total accrued asset acquisition fee included in trade and other payables as at 30 June 2013 is \$345,985 (30 June 2012: \$99,017).		
<b><i>Structuring and Handling Fee (payable by the Fund)</i></b>		
The Responsible Entity is entitled to receive (i) structuring & arranging fees equal to 2% (exclusive of GST), and (ii) handling fees equal to 2% (exclusive of GST), of the total funds raised in connection with the provision of services as Issue Manager in its capacity as Investment Manager.		
The total of structuring & arranging and handling fees are recognised as a reduction in issued unit capital. Nil amount owing at 30 June 2013 (30 June 2012: nil).		
<b><i>Debt Arranging Fee (payable by the US REIT)</i></b>		
The Responsible Entity is entitled to receive a debt arranging fee of 2% of the gross amount of external borrowings obtained by the US REIT in its capacity as Investment Manager. 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. Nil amount owing at 30 June 2013 (30 June 2012: nil).		
The unamortised balance of the debt arranging fee is included in the amortised cost of borrowings and the carrying value of joint ventures.	35,155	-
	579,717	-
<b>Total fees paid/payable to the Responsible Entity</b>	<b>7,398,070</b>	<b>3,669,370</b>

Total fees of \$1,732,954 (30 June 2012: \$544,039) were recognised as management fees in the profit or loss.



## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2013

#### 11. Related parties (continued)

In addition to the fees outlined above, both the Responsible Entity and Dixon Advisory USA, Inc (a subsidiary of the Responsible Entity) is entitled to on-charge expenses incurred on the administration of the Group. For the period ended 30 June 2013, fees of \$187,832 and \$2,854,196 were recharged by the Responsible Entity and Dixon USA Inc respectively. The fees charged to the Group are primarily in respect of payroll related expenses, office lease and depreciation recoveries. The amount recharged by Dixon Advisory USA Inc includes a mark up of 8.6% (30 June 2012: 5.9%) permitted under the Administrative Services Agreement on actual costs incurred. No mark up was charged by the Responsible Entity.

Under the terms of the Property Services Master Agreement, Dixon Projects, LLC (a subsidiary of Dixon Advisory Group Limited, who is the parent of the Responsible Entity) is entitled to on-charge the cost of renovations plus an administrative fee of up to 30%. Total charged during the period was \$921,590 (30 June 2012: nil). These costs are capitalised to the relevant investment properties.

During the period, the Group entered into a Design and Architectural Services Master Agreement with Dixon Projects, LLC. Under the terms of the arrangement, architectural and quantity surveyor services are charged to the Group on an hourly basis at a market derived rate. The total amount charged to the Group during the period amounted to \$431,362. These costs are capitalised to the related investment properties.

#### 12. Controlled entities

Dixon Advisory & Superannuation Services Limited is the Responsible Entity of the Fund and manages the investments of both the Fund and the US REIT.

	Country of establishment	Ownership interest	
		30 June 2013	30 June 2012
<b>Parent entity</b>			
US Masters Residential Property Fund	Australia		
<b>Subsidiary</b>			
US Masters Residential Property (USA) Fund	United States	100%	100%
US Masters Residential Property LLC	United States	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%	-
Hawthorn, 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%	-

## US Masters Residential Property Fund

### Notes to the Financial Statements For the half-year ended 30 June 2013

#### 13. Subsequent events

Subsequent to balance date, the Group secured an additional bank loan of US\$6,000,000 (AUD equivalent: \$6,565,988). The loan matures on 1 July 2025. Up until 30 June 2020, the loan bears interest at a fixed rate of 3.75%. On 1 July 2020, the loan converts to a variable rate loan, with the interest rate determined with reference to the weekly average yield on US Treasury Securities plus a margin of 2.75%. The loan is secured by 51 of the Group's properties.

24 property contracts have been settled post balance date with a total consideration of \$31,252,946.

A further 6 properties have been secured post balance date with deposits totalling \$673,551.

On 27 August 2013, Morben Finance LLC, a wholly owned subsidiary of the Fund, entered into a joint venture agreement with Excelsior Equities Affiliate 2 LLC. The joint venture entity is called Gold Coast Equities LLC. The Group's ownership interest in Gold Coast Equities LLC is 92.5%.

On 27 August 2013, Gold Coast Equities LLC contracted to purchase 5 multi family buildings in the Hudson County area with a total acquisition cost of US\$14,200,000. The Group is required to contribute US\$5,892,250 towards the acquisition cost, with the balance of the purchase price expected to be funded by external bank financing. Deposits totaling US\$459,725 have been paid subsequent to balance date in respect of this commitment.

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 2013.

#### 14. 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 Maximilian Sean Walsh  
*Director*

Dated this 28<sup>th</sup> day of August 2013

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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 2013, 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, selected explanatory notes 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 18.

### *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 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 2013 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 2013 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, 28 August 2013