

# **US Masters Residential Property Fund**

ABN 27 372 102 509

Annual Report

31 December 2011

# US Masters Residential Property Fund

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# US Masters Residential Property Fund

## Corporate Governance Statement

**For the period from 15 April 2011 (date of registration) to 31 December 2011**

US Masters Residential Property Fund and the entity it controls ("the Group") is a listed managed investment scheme whose units are traded on the National Stock Exchange of Australia ("NSX"). The Group has no employees and its day-to-day functions and investment activities are managed by Dixon Advisory & Superannuation Services Limited and Dixon Advisory USA Inc, in accordance with the management agreements.

The directors of the Responsible Entity ("the Board") recognise the importance of good corporate governance. The Group's corporate governance framework, policies and practices are designed to ensure the effective management and operation of the Group and will remain under regular review.

In accordance with the Corporate Governance rules set out by the NSX, the Responsible Entity has adopted the principals set out in the ASX equivalent Corporate Governance rules.

A description of the Group's adopted practices in respect of the 8 Principles and Recommendations from the ASX Corporate Governance Council's Revised Corporate Governance Principles and Recommendations (ASX Recommendations) are set out below; all these practices, unless otherwise stated, were in place for the entire period.

### **1 Lay Solid Foundations for Management and Oversight**

#### **Board Roles and Responsibilities**

The Board is responsible for the overall operation, strategic direction, leadership and integrity of the Group and in particular, is responsible for the Group's growth and success. In meeting its responsibilities, the Board undertakes the following functions:

- Providing and implementing the Group's strategic direction;
- Reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Group are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with;
- Ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance;
- Reviewing and overseeing internal compliance and legal regulatory compliance;
- Ensuring compliance with the Group's Constitution and with the continuous disclosure requirements of the NSX Listing Rules and the Corporations Act; and
- Communicating with and protecting the rights and interests of all unitholders.

Subject to legal or regulatory requirement and the Group's Constitution, the Board may delegate any of the above powers to individual directors, committees of the Board or the Manager. Any such delegation shall be in compliance with the law and the Group's Constitution.

### **2 Structure the Board to Add Value**

#### **Board Composition**

The composition of the Board is structured to maintain a mix of directors from different backgrounds with complementary skills and experience. Details of each director at the date of this report are given in the Directors' Report, including the period in office, skills, experience, and expertise relevant to the position of director.

# US Masters Residential Property Fund

## Corporate Governance Statement

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 2 Structure the Board to Add Value (continued)

The directors of the Responsible Entity at the date of this report are:

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

Having regard to the size of the Group and the nature of its business, the Board has determined that a Board with 6 members is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Group. However, the composition of the Board will be reviewed periodically.

The Group is committed to diversity in the composition of the Board. The current composition is well-balanced and it remains the Group's objective to maintain diversity as well as including members who can add to the skill set of the Group's Board. The directors will continue to monitor the composition of the Board.

The Group recognises the ASX Recommendations with respect to establishing remuneration and nomination Committees as good corporate governance. However, considering the size of the Group, the functions that would be performed by these Committees are best undertaken by the Board.

The Board will review its view on Committees in line with the ASX Recommendations and in light of any changes to the size or nature of the Group and if required may establish Committees to assist it in carrying out its functions. At that time the Board will adopt a charter for such Committees in accordance with the ASX Recommendations and industry best practices.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case-by-case basis and in conformity with the requirements of the Listing Rules and the Corporations Act 2001. In accordance with the corporate governance policy, directors are entitled to seek independent advice at the expense of the Group. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Group.

#### Performance Evaluation

The Board conducts a review of its collective performance and the performance of its directors annually. This process includes consideration of feedback provided by directors via a questionnaire.

### 3 Promote Ethical and Responsible Decision Making

#### Code of Conduct

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the finance director for the financial period ended 31 December 2011.

# US Masters Residential Property Fund

## Corporate Governance Statement

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 3 Promote Ethical and Responsible Decision Making (continued)

#### Unit Trading Policy

The Board of the Group has established a Unit Trading Policy to apply to trading in the Group's units on the NSX. This policy outlines the permissible dealing of the Group's units while in possession of price sensitive information and applies to all directors of the Responsible Entity.

The Policy places restrictions and notification requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

#### Insider Trading Policy

The Board of the Group has established an Insider Trading Policy to apply to trading in the Group's units on the NSX. This policy applies to all Directors, Executives and employees of the Responsible Entity. All Directors, Executives and employees of the Responsible Entity must not deal in the Group's units while in possession of price sensitive information. In addition, the general Unit Trading Policy sets out additional restrictions which apply to Directors and Executives of the Responsible Entity.

### 4 Safeguard integrity in Financial Reporting

#### Audit & Risk Committee

The Group recognises the ASX Recommendation with respect to establishing an Audit Committee as part of good corporate governance. However, considering the size of the Group, the functions that would be performed by the Committee are best undertaken by the Board. This is also in line with the ASX Recommendations which recognise that "the ultimate responsibility of the integrity of a company's financial reporting rests with the full board".

#### Advisory Board

The Responsible Entity has established an investment advisory board to provide the Responsible Entity with expert advice in relation to commercial matters regarding the Group. The independent directors of the advisory board are highly experienced senior US based investment professionals.

### 5 Making Timely and Balanced Disclosure

The Group is committed to complying with its continuous disclosure obligations under the *Corporations Act 2001* and the Listing Rules and releasing relevant information to the market and unitholders in a timely and direct manner and to promoting investor confidence in the Group and its securities.

The Board has adopted a Continuous Disclosure Policy to ensure the Group complies with its continuous disclosure obligations under the *Corporations Act* and the Listing Rules.

The policy administered by the Board is as follows:

- the Board is involved in reviewing significant NSX announcements and ensuring and monitoring compliance with this policy;
- the Company Secretary is responsible for the overall administration of this policy and all communications with the NSX; and
- Senior management of the Responsible Entity is responsible for reporting any material price sensitive information to the Company Secretary and observing the Group's no comments policy.

# US Masters Residential Property Fund

## Corporate Governance Statement

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 6 Respect the Rights of unitholders

#### Rights of unitholders

The Group promotes effective communication with unitholders. The Board of Directors has developed a strategy within its Continuous Disclosure Policy to ensure that unitholders are informed of all major developments affecting the Group's performance, activities and state of affairs. This includes using a website to facilitate communication with unitholders via electronic methods. Information is communicated to unitholders through announcements to the NSX, releases to the media and dispatch of financial reports. Unitholders are provided with an opportunity to access such reports and releases electronically; copies of all such NSX announcements are linked to the Group's website at [www.usmastersresidential.com.au](http://www.usmastersresidential.com.au).

These include:

- weekly net asset value estimates;
- monthly property purchasing updates;
- the half year report;
- the full year report;
- occasional NSX announcements made to comply with the Group's continuous disclosure requirements; and
- occasional correspondence sent to unitholders on matters of significance to the Group.

The Board encourages full participation of unitholders at the general meetings to ensure a high level of accountability and identification with the Group's strategy. The external auditor is also invited to attend the annual general meeting of unitholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report.

### 7 Recognise and Manage Risk

The Board has accepted the role of identification, assessment, monitoring and managing the significant areas of risk applicable to the Group and its operations. It has not established a separate committee to deal with these matters as the directors consider the size of the Group and its operations does not warrant a separate committee at this time. The Board liaises with the Advisory Board to identify and manage risk. The Board also monitors and appraises financial performance, including the approval of annual and half-year financial reports and liaising with the Group's auditors.

The Board receives a letter half yearly from the Group's external auditor regarding their procedures and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

The Responsible Entity provides half yearly the declarations required by Section 295A of the *Corporations Act* and confirms that in its opinion the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Group's external auditor.

Details of the Group's financial risk management are set out in the notes to the financial statements in the Annual Report.

# US Masters Residential Property Fund

## Corporate Governance Statement

**For the period from 15 April 2011 (date of registration) to 31 December 2011**

### **8 Remunerate Fairly and Responsibly**

#### **Remuneration Policies**

Due to the relatively small size of the Group and its operations, the Board does not consider it appropriate, at this time, to form a separate committee to deal with the remuneration of the directors.

In accordance with the Group's constitution, the responsible entity is entitled to a management fee for services rendered. Details of the Group's related party transactions are set out in the notes to the financial statements in the Annual Report.

# US Masters Residential Property Fund

## Directors' report

**For the period from 15 April 2011 (date of registration) to 31 December 2011**

The directors of Dixon Advisory & Superannuation Services Limited, the Responsible Entity of US Masters Residential Property Fund ("the Fund") present their report together with the consolidated financial statements of the Fund and the entity it controlled ("the Group") for the financial period from 15 April 2011 (date of registration) to 31 December 2011 and the auditor's report thereon.

Dixon Advisory & Superannuation Services Limited was appointed the Responsible Entity at the date the Fund was registered.

### 1 Directors

The directors of the Responsible Entity at any time during or since the end of the financial period are shown below. Directors were in office since the registration date to the date of the report unless otherwise stated.

<b>Name, qualifications and independence status</b>	<b>Experience, special responsibilities and other directorships</b>
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Daryl Dixon MA (Hons), BA (Hons) Executive Chairman	Daryl is a graduate in economics of Cambridge and Queensland Universities and the founder of Dixon Advisory. Daryl has extensive experience in the areas of taxation, retirement incomes and social welfare policy. He is known in Australia as a leading financial expert, particularly in the area of superannuation.
	Daryl has special expertise in personal and self managed super fund strategies, as well as extensive experience as a direct share investor in his own right.
	Daryl is a director of the Australian Masters Yield Fund ("AMYF") Series and the Australian Masters Corporate Bond Fund ("AMCBF") Series. He was also a director of HCF Life and has worked previously for the International Monetary Fund, the Federal Treasury, Department of Finance and the Social Welfare Policy Secretariat. He was a member of the Fraser Government's Occupational Superannuation Task Force.
Maximilian Walsh AM, BEc Deputy Executive Chairman	Max is regarded as one of Australia's leading economists and business journalists. He has specialised experience in the areas of business, economics and politics in a journalistic career spanning nearly 50 years.
	He has been editor and managing editor of The Australian Financial Review and Editor-in-Chief of The Bulletin. He also served on the board of Northern Star TV (predecessor to Channel Ten) and is presently Chairman of the AMYF Series, the AMCBF Series, Asian Masters Fund Limited and Global Resource Masters Fund Limited.



# US Masters Residential Property Fund

## Directors' report

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 1 Directors (continued)

Alan Dixon  
BCom, CA  
Group Managing Director

Alan Dixon has been providing financial advisory services to corporations, institutions and individuals for more than 15 years. Until December 2000, he worked for various investment banks, including ABN AMRO (where he was an Associate Director in Mergers and Acquisitions and Equity Capital Markets) and Ord Minnett Corporate Finance. Since January 2001, he has operated as Managing Director of the Dixon Advisory Group. Dixon Advisory provides a complete suite of financial services, employs more than 300 people and has close to \$4 billion of funds under administration across over 4,000 self managed super funds.

Alan is a director of the AMCBF Series and the Australian Masters Yield Fund Series.

Alan has a Bachelor of Commerce from the Australian National University, is a Member of the Institute of Chartered Accountants in Australia and is also a SPAA Accredited SMSF Specialist Advisor.

Chris Brown  
BChem Eng Hons, BCom  
Managing Director, Chief  
Operating Officer

Chris Brown is a director of the AMCBF Series and the Australian Masters Yield Fund Series.

Prior to joining Dixon Advisory, Chris was an Executive Director at UBS AG in the Investment Banking Division in Sydney. Over his eight years at UBS, he provided capital markets and M&A advice to many different public and private companies in Australia and overseas. Chris specialised in providing this advice to industrial, utility, infrastructure, property and financial companies. Chris also spent several years in the UBS M&A Group in New York.

Prior to joining UBS, Chris also worked in the Investment Banking division of ABN AMRO as well as for a Sydney based property funds management company. Chris holds a Bachelor of Engineering (Chemical Engineering) with 1st class honours and a Bachelor of Commerce from the University of Sydney.

# US Masters Residential Property Fund

## Directors' report

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 1 Directors (continued)

Alex MacLachlan  
BA, MBA  
Chief Executive Officer - Funds  
Management

Alex MacLachlan has extensive investment banking and capital markets experience. He has developed strong relationships with investment professionals around the globe, enabling him to execute unique investment opportunities and identify top investment managers. The Funds Management division has grown to more than \$750 million in assets, split between fixed income and other assets including Australian and Asian shares, commodities and property.

Before joining Dixon Advisory, Alex was a senior investment banker at UBS AG and, prior to that, Credit Suisse First Boston, working in Australia and the US. He has worked on more than \$100 billion in mergers and acquisitions and capital markets transactions and advised some of the world's leading natural resources companies.

Alex is a regular contributor on investment matters to the Financial Review newspaper.

He has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

Tristan O'Connell  
BCom, CPA, F Fin  
Finance Director

Tristan joined Dixon Advisory in 2005 after 10 years' experience in corporate financial and management roles within the wholesale markets industry. Tristan's previous roles included being financial controller of Tullett Prebon in Australia, one of the world's leading inter-dealer broker firms specialising in over the counter interest rate, foreign exchange, energy and credit derivatives. Tristan subsequently held senior finance roles for the Tullett Prebon Group in Singapore and London.

Tristan returned to Australia to be responsible for the financial management and growth of Dixon Advisory. Tristan has a Bachelor of Commerce from the Australian National University, and is a member of CPA Australia and is a fellow of the Financial Services Institute of Australasia.

# US Masters Residential Property Fund

## Directors' report

**For the period from 15 April 2011 (date of registration) to 31 December 2011**

### **2 Principal activities**

The principal activities of the Group during the course of the financial period were investing in the US residential property market. Its initial portfolio comprises multi-family properties in the New York metropolitan area. There were no significant changes in the nature of the Group's activities during the period.

### **3 Operating and financial review**

The Fund was registered on 15 April 2011 and the first allotment was completed on 17 June 2011, followed by a subsequent capital raisings on 25 November 2011 and 16 December 2011.

The profit after tax of the Group for the period ended 31 December 2011 was \$366,049. The Group is in a strong position with net assets of \$95.6 million and no borrowings. As at 31 December 2011, the NAV of the Group was \$1.55 per ordinary unit.

The Fund is maintaining its strategy of investing in high quality high yielding residential property in the greater New York metropolitan area. Total capital raised from the initial public offering and a capital raising which was lodged on 24 October 2011 during the period was \$99.3m.

The Fund is expected to continue capitalising on the continued strength of the Australian dollar and to realise a number of other benefits including increased diversification in the underlying property portfolio, a reduction in the management expense ratio and a potential increase in trading liquidity for future years.

### **4 Significant changes in the state of affairs**

In the opinion of the directors of the Responsible Entity, other than the raising of capital and the commencement of property investment activities, there were no significant changes in the state of affairs of the Group that occurred during the financial period.

### **5 Environmental regulation**

The Group's operation is not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group during the period covered by this report.

### **6 Distributions**

There were no distributions declared for the period ending 31 December 2011.

### **7 Events subsequent to reporting date**

Other than matters disclosed in note 20 of the consolidated financial statements, there has not arisen in the interval between the end of the financial period 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 periods.

### **8 Likely developments and expected results of operations**

Other than disclosed elsewhere in the report, information about likely developments in the operations of the Group and the expected results of those operations in future financial periods has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

# US Masters Residential Property Fund

## Directors' report

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 9 Beneficial and Relevant Interest of Directors of the Responsible Entity in units

As at the date of this report, details of directors of the Responsible Entity who hold units for their own benefit are listed as follows:

Director	No. of units
Daryl Dixon	330,976
Maximilian Walsh	100,000
Alan Dixon	455,976
Chris Brown	12,500
Alex MacLachlan	19,700
Tristan O'Connell	9,400

### 10 Other relevant information

The following is a list of other relevant information required under the Corporations Act 2001:

- fees paid to the Responsible Entity - refer to note 17 to the financial statements;
- units held by the directors of the Responsible Entity - refer to note 17 to the financial statements;
- capital raisings completed during the financial period - refer to note 11 to the financial statements;
- the value of the Group's assets and basis of valuation - refer to consolidated statement of financial position and note 2 respectively; and
- the number of interests in the Group as at 31 December 2011 - refer to note 12 to the financial statements.

### 11 Indemnification and insurance of officers and auditors

Indemnities have been given and insurance premiums paid, during or since the end of the financial period for all of the directors of the Responsible Entity of the Group. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid, during or since the end of the financial period, for the auditor of the Group.

### 12 Non-audit services

During the period Deloitte Touche Tohmatsu ("Deloitte"), the Group's auditor, has performed certain other services in addition to their statutory duties.

The board of the Responsible Entity has considered the non-audit services provided during the period by the auditor and is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, Deloitte, and its related practices for audit and non-audit services provided during the period are set out in note 21.

# US Masters Residential Property Fund

## Directors' report

**For the period from 15 April 2011 (date of registration) to 31 December 2011**

### **13 Lead auditor's independence declaration**

The Lead auditor's independence declaration is set out on page 13 and forms part of the directors' report for the financial period ended 31 December 2011.

This report is made in accordance with a resolution of the directors:



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Maximilian Walsh

*Director*

Dated at North Sydney this 5<sup>th</sup> day of March 2012.

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

5 March 2012

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 audit of the financial statements of US Masters Residential Property Fund for the financial year ended 31 December 2011, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



**Michael Kaplan**  
Partner  
Chartered Accountants

# US Masters Residential Property Fund

## Consolidated statement of comprehensive income

For the period from 15 April 2011 (date of registration) to 31 December 2011

	<i>Note</i>	<b>2011</b> \$
Investment property rental income		323,980
Investment property expenses		(290,384)
<b>Net property income</b>		<u>33,596</u>
Interest income		700,953
Insurance proceeds		174,194
Net foreign currency gains		1,166,660
<b>Total income net of property expenses</b>		<u>2,075,403</u>
Management fees	17	(299,924)
Listing fees		(22,308)
Professional fees		(91,380)
Meeting expenses		(5,527)
Marketing		(86,274)
Responsible entity and related entity recharges		(1,073,787)
Interest expense		(29,389)
Impairment of investment property		(64,456)
<b>Total expenses</b>		<u>(1,673,045)</u>
<b>Profit before income tax</b>		402,358
Income tax expense	8	(36,309)
<b>Profit for the period</b>		<u>366,049</u>
<b>Other comprehensive income</b>		
Exchange difference on translation of foreign operation		16,794
<b>Total comprehensive income for the period attributable to unitholders</b>		<u>382,843</u>
<b>Earnings per unit</b>		
Basic earnings per unit (dollars)	12	0.008

The notes on pages 18 to 34 are an integral part of these consolidated financial statements.

# US Masters Residential Property Fund

## Consolidated statement of financial position

As at 31 December 2011

	<i>Note</i>	<b>2011</b> \$
<b>Current assets</b>		
Cash and cash equivalents	4	77,062,349
Receivables	5	512,900
Prepayments		71,487
Other current assets	6	328,098
<b>Total current assets</b>		<u>77,974,834</u>
<b>Non-current assets</b>		
Investment properties	7	18,735,472
<b>Total non-current assets</b>		<u>18,735,472</u>
<b>Total assets</b>		<u>96,710,306</u>
<b>Current liabilities</b>		
Payables	9	927,590
<b>Total current liabilities</b>		<u>927,590</u>
<b>Non-current liabilities</b>		
Deferred tax liabilities	8	36,309
Other non-current liabilities	10	133,449
<b>Total non-current liabilities</b>		<u>169,758</u>
<b>Total liabilities</b>		<u>1,097,348</u>
<b>Net assets</b>		<u>95,612,958</u>
<b>Equity</b>		
Unit capital		95,230,115
Reserves		16,794
Retained earnings		366,049
<b>Total equity</b>		<u>95,612,958</u>

The notes on pages 18 to 34 are an integral part of these consolidated financial statements.



# US Masters Residential Property Fund

## Consolidated statement of changes in equity

For the period from 15 April 2011 (date of registration) to 31 December 2011

	Note	Unit capital \$	Foreign currency translation reserve \$	Retained earnings \$	Total equity \$
Balance at registration		-	-	-	-
Profit for the period		-	-	366,049	366,049
<b>Other comprehensive income</b>					
Foreign currency translation gain	11	-	16,794	-	16,794
Total other comprehensive income		-	16,794	-	16,794
<b>Total comprehensive income for the period</b>		-	16,794	366,049	382,843
<b>Transactions with owners in their capacity as owners</b>					
Issue of ordinary units	12	99,301,475	-	-	99,301,475
Issue costs		(4,071,360)	-	-	(4,071,360)
<b>Total contributions and distributions</b>		95,230,115	-	-	95,230,115
<b>Balance at 31 December 2011</b>		<b>95,230,115</b>	<b>16,794</b>	<b>366,049</b>	<b>95,612,958</b>

The notes on pages 18 to 34 are an integral part of these consolidated financial statements.

# US Masters Residential Property Fund

## Consolidated statement of cash flows

For the period from 15 April 2011 (date of registration) to 31 December 2011

	<i>Note</i>	<b>2011</b> \$
<b>Cash flows from operating activities</b>		
Cash receipts from customers		428,904
Cash paid to suppliers and employees		(1,567,413)
Cash generated from operating activities		(1,138,509)
Insurance proceeds		174,194
Interest received		572,961
Interest paid		(25,534)
<b>Net cash from operating activities</b>	<b>4</b>	<b>(416,888)</b>
<b>Cash flows from investing activities</b>		
Acquisition of investment property	<b>7</b>	(18,799,928)
Payments for property deposits		(69,302)
Refundable property payments		(194,696)
<b>Net cash used in investing activities</b>		<b>(19,063,926)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of unit capital		99,301,475
Proceeds from issue of redeemable preference shares		129,594
Payments of issue costs		(4,071,360)
<b>Net cash from financing activities</b>		<b>95,359,709</b>
Net increase in cash and cash equivalents		75,878,895
Cash and cash equivalents at beginning of period		-
Effect of exchange rate fluctuations on cash held		1,183,454
<b>Cash and cash equivalents at end of period</b>	<b>4</b>	<b>77,062,349</b>

The notes on pages 18 to 34 are an integral part of these consolidated financial statements.

# US Masters Residential Property Fund

## Notes to the financial statements

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 1 General Information

US Masters Residential Property Fund ("the Fund") is an entity domiciled in Australia. The financial statements comprise the Fund and its subsidiary, collectively referred to as ("the Group"). The current reporting period is from the date of the Fund's registration (15 April 2011) to 31 December 2011.

The consolidated financial statements were authorised for issue by the Board of Directors on 5 March 2012.

The Group is primarily involved in investing in the US residential property market.

### 2 Basis of preparation

#### (a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) 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).

#### (b) Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and are based on historical cost with the exception of financial assets and property investment assets, which are measured at fair value.

#### (c) Functional and presentation currency

The functional and presentation currency of US Masters Residential Property Fund is Australian dollars.

#### (d) Use of estimates and judgements

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies which are subject to significant accounting estimates and judgments at the reporting date and have a significant risk of causing material adjustments to the financial statements in the next annual reporting period include estimation of fair values of investment properties, and judgment in selecting Australian dollars as the functional currency of the fund.

#### (e) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act 2001 that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 19.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 3 Significant accounting policies

The accounting policies set out below have been applied in the preparation of the financial statements.

#### (a) Basis of consolidation

The financial statements comprise US Masters Residential Property Fund and its subsidiary (collectively referred to as 'the Group'). Subsidiaries are all those entities over which US Masters Residential Property Fund has the power to govern the financial and operational policies so as to obtain benefits from their activities. US Masters Residential Property (USA) Fund ("US REIT") is a subsidiary of the Fund. It is a real estate investment trust registered in Maryland, in the United States of America.

All inter-entity balances and transactions, income and expenses, and profits and losses resulting from intra-group transactions have been eliminated in full.

#### (b) Foreign currency

##### (i) Translation of foreign currency transactions

The functional and presentation currency of US Masters Residential Property Fund is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that item is fixed in the contract) are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

Exchange differences on monetary items are recognised in the profit or loss in the period in which they arise. Differences arising on a monetary item forming part of the net investment in a foreign operation are taken to the foreign currency translation reserve on consolidation.

##### (ii) Translation of financial reports of foreign operations

The functional currency of US Masters Residential Property Fund's subsidiary is United States dollars. As at the reporting date, the assets and liabilities of that entity are translated into Australian dollars at the rate of exchange ruling at the Statement of Financial Position date and the Statement of Comprehensive Income is translated at the average exchange rates for the period. The exchange differences arising on the translation are taken directly to the foreign currency translation reserve.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

#### (c) Financial instruments

##### (i) Non-derivative financial assets

The Group initially recognises receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 3 Significant accounting policies (continued)

#### (c) Financial instruments (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: receivables and cash and cash equivalents.

##### *Receivables*

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (ii) Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Preference unit capital is classified as a financial liability if it is redeemable on a specific date or at the option of the unitholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Other financial liabilities comprise trade and other payables.

#### (iii) Unit capital

##### *Ordinary units*

Ordinary units are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Fund. Incremental costs directly attributable to the issue of ordinary units are recognised as a deduction from equity.

##### *Distributions to unitholders*

Distributions payable are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the board of the Responsible Entity on or before the end of the financial period, but not distributed at balance date.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 3 Significant accounting policies (continued)

#### (d) Investment property

##### (i) *Recognition and measurement*

Investment property comprising residential real estate assets held to earn rental income and/or for capital appreciation is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value, representing the assessed amount for which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Changes in the fair value of investment property are recorded in consolidated profit or loss as and when they arise.

##### (ii) *Determination of fair value*

At each reporting date, the fair values of investment properties are assessed using management's knowledge of relevant market factors impacting the residential markets in which the Fund invests, and supported by engagement of suitable qualified external property valuers to assist in determination of active market prices (fair values). Properties are categorised into homogenous groupings displaying similar characteristics in respect of geography, size and condition for the purpose of assessing fair value movements.

#### (e) Impairment

The directors of the Responsible Entity assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, through profit or loss.

#### (f) Revenue

##### (i) *Rental Income*

Rental income from operating leases where the Group is a lessor is recognised in profit or loss on a straight-line basis over the lease term.

Costs that are directly associated with negotiating and executing the ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are deferred and amortised on a straight-line basis over the lease term.

##### (ii) *Interest Income*

Interest income is recognised as the interest accrues using the effective interest rate method.

#### (g) Income tax

Under current Australian income tax legislation, the Fund is not liable to pay income tax provided unitholders are presently entitled to the Fund's distributable income and its taxable income (including assessable realised capital gains) is fully distributed to unitholders.

The US subsidiary has elected to be taxed as a US real estate investment trust ("REIT") under US federal taxation law, and on this basis will generally not be subject to US income taxes on that portion of the US REIT's taxable income or capital gains which are distributed to the US REIT's unitholders, provided that the US REIT complies with the requirements of the Code and maintains its REIT status.

The US REIT may ultimately realise a capital gain or loss on disposal which may result in a US income tax liability if the proceeds from disposal are not reinvested in a qualifying asset. If the capital gain is realised, it may give rise to a foreign income tax offset which would be available to unitholders. A deferred tax liability is recognised based on the temporary difference between the carrying amount of the assets in the Statement of Financial Position and their associated tax cost bases.

A current tax liability is recognised in the financial statements for realised gains on disposals of US investment properties, except where the proceeds of such disposals are reinvested in a qualifying asset.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 3 Significant accounting policies (continued)

#### (h) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office ("ATO") is included as a current asset or liability in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

The fund qualifies for reduce input tax credits at a rate of 75%. Hence, expenses are recognised net of the amount of GST recoverable from the ATO.

#### (i) Earnings per unit

Earnings per unit is calculated by dividing the profit or loss attributable to ordinary unitholders of the Fund by the weighted average number of ordinary units outstanding during the period. Diluted earnings per unit are the same as ordinary earnings per unit because there are no dilutive potential ordinary units.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period from 15 April 2011 (date of registration) to 31 December 2011

### 3 Significant accounting policies (continued)

#### (j) New accounting standards and interpretations

*Standards and Interpretations affecting the reported results of financial position*

There are no new and revised Standards and interpretations adopted in these financial statements affecting the reported results or financial position.

*Accounting Standards and Interpretations issued but not yet effective*

Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group's financial report.

Australian Accounting Standards and Interpretations that have recently been issued or amended, and may be applicable to, but are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2011, are outlined in the table below:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009-11 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	31 December 2013
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 July 2011	31 December 2012
AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	1 January 2012	31 December 2012
AASB 1054 Australian Additional Disclosures	1 July 2011	31 December 2012
AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project	1 July 2011	31 December 2012
AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation	1 July 2011	31 December 2012
AASB 10 Consolidated Financial Statements	1 January 2013	31 December 2013
AASB 11 Joint Arrangements	1 January 2013	31 December 2013
AASB 12 Disclosure of Involvement with Other Entities	1 January 2013	31 December 2013
AASB 13 Fair Value Measurement	1 January 2013	31 December 2013
AASB 119 Employee Benefits	1 January 2013	31 December 2013
AASB 127 Separate Financial Statements (2011)	1 January 2013	31 December 2013
AASB 128 Investments in Associates and Joint Ventures	1 January 2013	31 December 2013
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013	31 December 2013
AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	31 December 2013
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	1 July 2012	31 December 2013
AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)	1 January 2013	31 December 2013
AASB 2011-13 Amendments to Australian Accounting Standard – Improvements to AASB 1049	1 July 2012	31 December 2013
AASB Interpretation 20 Stripping Costs in the Production Phase of a Surface	1 January 2013	31 December 2013
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	31 December 2014



# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 4 Cash and cash equivalents

	2011 \$
Cash at bank	<u>77,062,349</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 14.

### Reconciliation of cash flows from operating activities

	2011 \$
<b>Cash flows from operating activities</b>	
Profit for the period	366,049
Adjustments for:	
Net unrealised loss on foreign exchange	53,796
Net realised gain on foreign exchange	(1,220,456)
Impairment loss on investment property	64,456
Redeemable preference unit interest	3,855
Change in trade and other receivables	(512,900)
Change in other assets	(64,100)
Change in prepayments	(71,487)
Change in trade and other payables	927,590
Change in deferred tax liability	36,309
<b>Net cash from operating activities</b>	<u>(416,888)</u>

### 5 Receivables

	2011 \$
<b>Current</b>	
Trade receivables	60,468
GST paid	324,440
Interest receivable	127,992
	<u>512,900</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 14.

There are no balances above that contain assets that are impaired. All receivables above are non-interest bearing. The receivables are carried at amounts that approximate their fair value.

### 6 Other current assets

	2011 \$
Refundable property payments	194,696
Property deposits	69,302
Deferred leasing fee	64,100
	<u>328,098</u>

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 7 Investment properties

	2011 \$
<b>At fair value</b>	
Beginning of period	-
Acquisitions including improvements	18,799,928
Impairment recognised (based on fire destruction of a property)	(64,456)
Balance at 31 December 2011	<u>18,735,472</u>

(i) Valuation basis

Refer details in note 3(d)(ii) regarding the Group's policy for determination of property fair values. In the current period, as a result of the proximity of portfolio property purchase dates to the period end reporting date, external property valuation assessments were not obtained for portfolio properties.

(ii) Leasing arrangements

Investment properties are normally leased to tenants under operating leases with 12 month duration with rentals payable monthly.

Minimum lease payments receivable on leases of investment properties are as follows:

	2011 \$
Not later than one year	701,388
Later than one year and not later than five	3,526
Later than five years	-
	<u>704,914</u>

(iii) Contractual obligations

As at balance date, the Group has paid deposits totalling \$69,302 in respect of contracts for the purchase of 9 residential properties with a combined purchase consideration of \$1,650,994.

### 8 Deferred tax liabilities

	2011 \$
Deferred tax liabilities	<u>36,309</u>

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

### 9 Payables

	2011 \$
<b>Current</b>	
Trade payables	768,548
Tenant security deposits held	150,329
Other payables	8,713
	<u>927,590</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.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 10 Other non-current liabilities

	2011 \$
Redeemable preference units	129,591
Accrued interest	3,858
	<u>133,449</u>

### Series A Preferred Units

	No of units	\$
	2011	2011
Issued	<u>125</u>	<u>133,449</u>

During the period ended 31 December 2011, 125 Series A Preferred units have been issued at USD\$1,000 per unit in order to allow the US REIT to meet the 100 person ownership requirement for taxation as a US REIT.

The holders of the Series A Preferred units are entitled to receive cumulative preferential cash dividends, when and as authorised by the Board of the Responsible Entity, out of funds legally available for the payment of dividends, at the rate of 12.5% per annum plus all accumulated and unpaid dividends thereon which are in arrears. Such dividends shall accrue on a daily basis and be cumulative from the first date on which any Series A Preferred unit are issued. Series A Preferred units rank ahead of the ordinary units, do not carry the right to vote, except in relation to Series A Preferred unit matters, and are redeemable at the sole discretion of the Fund.

Dividends accruing under the terms of the Series A Preferred units are disclosed as interest expense in the Statement of comprehensive income.

### 11 Capital and reserves

#### Ordinary units

All issued units are fully paid. The holders of ordinary units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at meetings of the Fund.

#### Issuance of ordinary units

US Masters Residential Property Fund was admitted to the official list of the NSX on 17 June 2011 with a commencement quotation of 43,394,269 units at an issue price of \$1.60 per unit.

The first stage of a public offer issued on 24 October 2011 resulted in 16,375,781 ordinary units issued at \$1.64 per unit on 25 November 2011. The second stage of the capital raising on 16 December 2011 resulted in 1,838,480 ordinary units being issued at \$1.64 per unit. All issued units are fully paid (Refer note 12).

#### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 12 Earnings per unit

The calculation of earnings per unit at 31 December 2011 was based on the profit attributable to ordinary unitholders of \$366,049 and a weighted average number of ordinary units outstanding of 46,526,783, calculated as follows:

Ordinary Units	No of units	\$
	2011	2011
Issued at inception	43,394,269	69,430,830
Issued at November 2011 capital raising	16,375,781	26,855,607
Issued at December 2011 capital raising	1,838,480	3,015,038
On issue at 31 December 2011	61,608,530	99,301,475
Weighted average number of ordinary units at 31 December 2011	<u>46,526,783</u>	

#### Profit attributable to ordinary unitholders

	2011
	\$
Profit attributable to ordinary unitholders	366,049
Basic earnings per unit (dollars)	0.008
Earnings used in the calculation of basic earnings per unit	366,049

On 13 January 2012, the final stage of the public offer made under a product disclosure statement dated 24 October 2011 was completed, with 785,155 units issued for an amount of \$1,271,926.

There have been no other transactions involving unitholders since the balance date and before the completion of the financial statements.

### 13 Operating segments

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 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

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 14 Financial risk management and financial instruments

#### Overview

The Group's principal financial instruments comprise cash and cash equivalents, receivables and payables. The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market (currency risk and interest rate risk)

#### Financial risk and risk management framework

The Board of Directors of the Responsible Entity have overall responsibility for the establishment and oversight of the Group's risk management framework. Financial risk and capital management is carried out by the investment advisory board which provides advice in relation to commercial matters regarding the Fund and the US REIT.

#### Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Group to make a financial loss. The Group has exposure to credit risk on all its financial assets included in the Group's Statement of Financial Position.

The Group manages its credit risk by performing credit reviews of prospective tenants and performing detailed reviews on tenant arrears. Cash and cash equivalents are only deposited with reputable financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Summary exposure	Note	2011 \$
Cash and cash equivalents	4	77,062,349
Receivables	5	60,468
Refundable property payments	6	194,696
Property deposits	6	69,302
GST paid	5	324,440
Interest receivable	5	127,992
		<hr/> 77,839,247 <hr/>

The Group's provision policy is based on an assessment of changes in credit quality and historical experience.

None of the due receivables at 31 December 2011 were considered to be impaired because it is expected that these amounts will be received in full in the normal course of business. No collateral is held by the Group over these balances.

The aging of trade receivables at the reporting date was:

	2011 \$
Not past due	41,084
Past due 0-30 days	13,333
Past due 31-60 days	1,564
More than 90 days	4,487
	<hr/> 60,468 <hr/>

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 14 Financial risk management and financial instruments (continued)

#### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following is the contractual maturity of financial liabilities:

#### **31 December 2011**

	Carrying amount	Contractual cash flows	12 mths or less	1-5 years
	\$	\$	\$	\$
Trade and other payables	927,590	927,590	927,590	-
Interest on redeemable preference units	3,858	3,858	3,858	19,290
	<u>931,448</u>	<u>931,448</u>	<u>931,448</u>	<u>19,290</u>

Redeemable preference shares are redeemable at the sole discretion of the Fund, and as such have not been included as a contractual liability in the table above. Only cumulative interest payments accruing under the terms of the instruments have been included.

#### **Market risk (currency risk and interest rate risk)**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### **Currency risk**

Currency risk is the risk that changes in foreign exchange rates will change the Australian dollar value of the Group's net assets or its Australian dollar earnings. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Fund's functional currency.

The Group is exposed to USD currency risk through investing in overseas investment property and deriving rental income from those properties. The Group does not currently hedge this risk.

The Group's exposure to currency risk at balance date was as follows, converted to Australian dollars at the period end exchange rate of 1.021.

	US dollar exposure converted to AUD 2011
<b>Assets</b>	
Cash	61,552,130
Receivables and other assets	452,234
Investment properties	<u>18,735,472</u>
<b>Total Assets</b>	<u>80,739,836</u>
<b>Liabilities</b>	
Payables	<u>544,858</u>
<b>Total liabilities</b>	<u>544,858</u>
<b>Net assets</b>	<u>80,194,978</u>
<b>Net exposure to foreign exchange movements</b>	<u>80,194,978</u>

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 14 Financial risk management and financial instruments (continued)

#### **Currency risk (continued)**

##### **Foreign Income**

Through investing in overseas assets the Group earns foreign denominated income (\$US), offset by local currency expenses. The Group does not hedge against this exposure.

##### **Sensitivity analysis**

A 10% movement of the AUD against the USD at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2011 \$
Impact on profit before tax (i)	
+10% - Strengthening	(63,022)
-10% - Weakening	77,027
	<hr/>

- (i) the only assets exposing profit and loss sensitivity to the Group are USD denominated cash balances held in the Fund/Parent entity totalling \$USD707,735 (\$A693,246).

Impact on equity (ii)	
+10% - Strengthening	(7,141,201)
-10% - Weakening	6,941,300
	<hr/>

- (ii) Assets/liabilities exposing equity sensitivity to the Group are shown above.

#### **Interest rate risk**

##### **Management of interest rate risk**

The Group does not have external financial liabilities, with the only variable rate instrument being bank deposits. Interest payable only the redeemable preference shares is fixed at 12.5% per annum and does not constitute an interest rate risk.

	Carrying amount 2011 \$
<b>Variable rate instruments</b>	
Cash and cash equivalents	77,062,349
	<hr/>

##### **Cash flow sensitivity analysis for variable rate instruments**

A change of 25 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2011 \$
<b>Impact on profit before tax / equity</b>	
+0.25% (25 basis points)	192,656
-0.25% (25 basis points)	(192,656)
	<hr/>

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 15 Capital commitments

Other than as mentioned in note 7(iii), the group does not have any other capital commitments.

### 16 Contingent liabilities

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at balance date.

### 17 Related parties

#### Key management personnel compensation and unitholdings

Mr Maximilian Walsh, Mr Daryl Dixon, Mr Alan Dixon, Mr Tristan O'Connell, Mr Christopher Brown and Mr Alexander MacLachlan are directors of the Responsible Entity, Dixon Advisory & Superannuation Services Limited, and deemed to be key management personnel.

The key management personnel receive no compensation in relation to the management of the Group.

As at the date of this report, details of directors who hold units for their own benefit or who have an interest in holdings through a third party and the total number of such units held are listed as follows:

Director	No. of units
Daryl Dixon	330,976
Maximilian Walsh	100,000
Alan Dixon	1,090,151
Chris Brown	12,500
Alex MacLachlan	19,700
Tristan O'Connell	9,400

#### Responsible Entity Fees and other transactions

##### Responsible Entity Fees

The Responsible Entity is entitled to receive annualised management fees (referred to as the responsible entity fee, custodian fee and administration fee), in aggregate, of up to 0.50% 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 0.35% p.a. for an indefinite period. In accordance with the Constitution of the Fund, the Responsible Entity can increase the management fees up to 0.50% p.a. without seeking unitholders approval.

2011

\$

135,427

Total accrued Responsible Entity fees included in trade and other payables as at 31 December 2011 is \$27,763.



# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 17 Related parties (continued)

#### **Investment Management Fee**

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 \$50 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.

2011  
\$  
140,620

Total accrued Investment Management fee included in trade and other payables as at 31 December 2011 is \$45,324.

#### **Leasing Fee**

The Responsible Entity is entitled to receive 3 months gross rent on new leases payable to the US REIT in its capacity as Investment Manager. The Responsible Entity has elected to set the fee at 1 month's gross rent.

23,877

Total accrued leasing fee included in trade and other payables as at 31 December 2011 is \$89,138.

Total fees recognised in the consolidated statement of comprehensive income

299,924

#### **Asset Acquisition Fee**

The Responsible Entity is entitled to receive 2% of the purchase price of assets acquired by the US REIT in its capacity as Investment Manager. The Responsible Entity has elected to set the fee at 1.49%. The fee is included in the acquisition cost of investment properties.

263,342

Total accrued asset acquisition fee included in trade and other payables as at 31 December 2011 is \$54,167.

#### **Structuring and Handling Fee**

The Responsible Entity is entitled to receive structuring and handling fees up to the value of 4% of the total funds raised in the initial offer in connection with the provision of services as Issue Manager in its capacity as Investment Manager. The fee has been deducted against issued unit capital.

3,972,059

#### **Leasing Fee**

The unamortised balance of the leasing fee (refer above) is included in other assets

64,100

#### **Total fees paid / accrued to related parties**

4,599,425

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 31 December 2011, fees of \$273,390 and \$800,397 were recharged by the Responsible Entity and Dixon USA Inc respectively. The amount recharged by Dixon Advisory USA Inc includes a mark up of 4.3% permitted under the Administrative Services agreement on actual costs incurred. No mark up was charged by the Responsible Entity.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 18 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
<b>Parent entity</b>		<b>2011</b>
US Masters Residential Property Fund	Australia	-
<b>Subsidiary</b>		
US Masters Residential Property (USA) Fund	United States	100%

### 19 Parent entity disclosures

As at, and throughout, the financial period ending 31 December 2011 the parent entity of the Group was US Masters Residential Property Fund.

	<b>2011</b>
	<b>\$</b>
<b>Result of parent entity</b>	
Profit for the period	1,301,995
Other comprehensive income	-
Total comprehensive income for the period	<u>1,301,995</u>
<b>Financial position of parent entity at period end</b>	
Current assets	16,663,715
Total assets	96,951,150
Current liabilities	382,731
Total liabilities	419,040
<b>Total equity of the parent entity comprising of:</b>	
Share capital	95,230,115
Retained earnings	<u>1,301,995</u>
<b>Total equity</b>	<u>96,532,110</u>

### 20 Subsequent events

On 13 January 2012, the final stage of the public offer made under a product disclosure statement dated 24 October 2011 was completed, with 785,155 units issued for an amount of \$1,271,926.

Twenty-five property contracts have been settled post balance date for total consideration of \$4,352,042.

Deposits totalling \$38,202 have been paid on a further six properties post balance date.

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 31 December 2011.

# US Masters Residential Property Fund

## Notes to the financial statements (continued)

For the period ended 31 December 2011

### 21 Auditors' remuneration

	2011 \$
<b>Audit services</b>	
Auditors of the Group	
<i>Deloitte Touche Tohmatsu</i>	
Audit and review of financial reports	91,000
<b>Other services</b>	
<i>Deloitte Touche Tohmatsu</i>	
Taxation services	16,901

In addition the Responsible Entity paid fees to Deloitte Touche Tohmatsu totalling \$59,000 in connection with investigating accountant and \$199,106 in taxation services relating to the capital raisings made by the Fund.

### 22 Fund details

The registered office of the Group is:

**US Masters Residential Property Fund**

Level 15, 100 Pacific Highway, North Sydney NSW 2060

The principal place of business is:

**US Masters Residential Property Fund**

Level 15, 100 Pacific Highway, North Sydney NSW 2060

# US Masters Residential Property Fund

## Directors' declaration

- 1 In the opinion of the directors as Responsible Entity for US Masters Residential Property Fund (the Group):
  - (a) the financial statements and notes, set out on pages 14 to 34, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the financial period ended on that date;
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
    - (iii) complying with International Financial Reporting Standards, as stated in Note 2 to the financial statements.
  - (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief financial officer for the financial period ended 31 December 2011.

Signed in accordance with a resolution of directors.



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Maximilian Walsh  
*Director*

Dated at North Sydney this 5<sup>th</sup> day of March 2012.

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

We have audited the accompanying financial report of US Masters Residential Property Fund ('the Fund'), which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the 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 entity it controlled at the year's end or from time to time during the financial year as set out on pages 14 to 35.

### *Directors' Responsibility for the Financial Report*

The directors of the Responsible Entity of the Fund are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Auditor's Independence Declaration*

In conducting our audit, 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 report.

## *Opinion*

In our opinion,

- (a) the financial report of US Masters Residential Property Fund is in accordance with the *Corporations Act 2001*, including:
  - a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
  - b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2(a).

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Michael Kaplan  
Partner  
Chartered Accountants  
Sydney, 5 March 2012