

**US Multifamily Investment Limited**  
**Annual Report and Financial Statements**  
**For the period from 16 August 2017**  
**to 31 December 2018**

**US Multifamily Investment Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

<b>Contents</b>	<b>Page</b>
Officers and Professional Advisers	1
Directors' Report	2 to 3
Independent Auditor's Report	4 to 8
Statement of Assets and Liabilities	9
Schedule of Investments	10
Statement of Operations	11
Statement of Changes in Net Assets	12
Statement of Cash Flows	13
Notes to the Financial Statements	14 to 19

**US Multifamily Investment Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Officers and Professional Advisers**

**REGISTERED OFFICE**

Zedra Fund Managers (Guernsey) Limited  
PO Box 341, Floor 3  
Cambridge House  
Le Truchot  
St Peter Port  
Guernsey GY1 1WD

**DIRECTORS**

Michael Schwenke  
David McNay  
Mark Cleary  
Nicholas Riley (alternate to  
Michael Schwenke)

**ADMINISTRATOR AND REGISTRAR**

Zedra Fund Managers (Guernsey) Limited  
PO Box 341, Floor 3  
Cambridge House  
Le Truchot  
St Peter Port  
Guernsey GY1 1WD

**PRINCIPAL BANKERS IN GUERNSEY**

Investec Bank (Channel Islands) Limited  
PO Box 188  
Gategny Court  
St Peter Port  
Guernsey GY1 3LP

**LISTING AND ANNUAL SPONSOR**

Clarien BSX Services Limited  
25 Reid Street  
Hamilton  
Bermuda HM11

**INDEPENDENT AUDITORS**

Deloitte LLP  
Regency Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 3HW

**LEGAL ADVISOR IN GUERNSEY**

Mourant Ozannes  
1 Le Merchant Street  
St Peter Port  
Guernsey GY1 4HP

**REAL ESTATE MANAGER**

Investec Property Capital Partners (a division  
of Investec Property Proprietary Limited)  
100 Grayston Drive  
Sandown  
Sandton 2196  
South Africa

**DISTRIBUTOR**

Investec Wealth & Investment (a division of  
Investec Securities Proprietary Limited)  
100 Grayston Drive  
Sandown  
Sandton 2196  
South Africa

# **US Multifamily Investment Limited**

## **Annual Report and Financial Statements for the period from 16 August 2017 to 31 December 2018**

### **Directors' Report**

The Directors present their report and the first audited financial statements of US Multifamily Investment Limited ("USMIL") for the period commencing from incorporation on 16 August 2017, and ended 31 December 2018.

#### **Incorporation**

USMIL was incorporated on 16 August 2017, and is a Guernsey registered closed ended collective investment scheme, with registration number 63920.

#### **Change of name**

On 23 November 2017 USMIL changed its name from "US Multifamily Residential One - Offshore Limited" to "US Multifamily Investment Limited".

#### **Principal activity**

USMIL's principal purpose is to invest all of its subscribed capital into the underlying entity, US Multifamily Holdings LP ("USMHLP"). In turn, USMHLP invests its capital into Cortland Partners Fund IV, LLC ("Fund IV"), a fund that invests alongside institutional capital providers in multifamily housing communities located primarily (but not exclusively) in the southeastern and southcentral United States. This investment is referred to as the principal investment.

#### **Bermuda Stock Exchange ("BSX") listing**

On 2 February 2018, USMIL was granted a listing on the BSX (ticker: USMIL.BH).

#### **Going Concern**

After making enquiries based on justifiable assumptions, the Directors have a reasonable expectation that USMIL will have adequate resources to continue in operational existence for twelve months from the date of signing these financial statements. USMIL has set up a short term loan facility with Investec Bank Plc which will be sufficient to meet its immediate liabilities until the first distribution from its underlying investment is received.

#### **Results**

The results for the year ended 31 December 2018 are set out in the attached financial statements.

#### **Directors' interests**

Michael Schwenke (director) and Nicholas Riley (alternate director to Michael Schwenke), who held office at the period end each had an interest in 125 shares of USMIL as at 31 December 2018. These shares are held through nominee companies. No other Directors who held office had an interest in the shares of USMIL.

#### **Independent Auditors**

Deloitte LLP were appointed auditor to USMIL by way of a resolution passed on 17 August 2017.

#### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), of the state of affairs of USMIL and of the profit or loss of USMIL for that period.

In preparing those financial statements the Directors are required to:

- \* Select suitable accounting policies and apply them consistently;
- \* Make judgements and estimates that are reasonable and prudent;
- \* State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- \* Prepare the financial statements on the going concern basis unless it is inappropriate to presume that USMIL will continue in business.

**US Multifamily Investment Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Directors' Report (continued)**

The Directors confirm that the financial statements comply with the above requirements.


The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of USMIL and enable them to ensure that the financial statements comply with US GAAP. They are also responsible for safeguarding the assets of USMIL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditors and disclosure of information to auditors**

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- \* so far as each Director is aware, there is no relevant audit information which has not been disclosed to the USMIL's auditors; and
- \* each Director has taken all the steps that it ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board of Directors



**David McNay**  
**Director**



**Mark Cleary**  
**Director**

Date: 27 June 2019

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF US MULTIFAMILY INVESTMENT LIMITED

## Report on the audit of the financial statements

### Opinion

**In our opinion the financial statements of US Multifamily Investment Limited (the 'Company'):**

- **give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its net increase in net assets resulting from operations for the period from 16 August 2017 to 31 December 2018;**
- **have been properly prepared in accordance with accounting principles generally accepted in the United States of America; and**
- **have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.**

**We have audited the financial statements which comprise:**

- **the Statement of Assets and Liabilities;**
- **the Statement of Operations;**
- **the Statement of Changes in Net Assets;**
- **the Statement of Cash Flows; and**
- **the related notes 1 to 15.**

**The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America ('US GAAP').**

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>• Valuation of investments</li></ul>
<b>Materiality</b>	The materiality that we used in the current year was \$689,000 which was determined on the basis of 2% of Net Assets.
<b>Scoping</b>	Audit work to respond to the risk of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	This is the first accounting period since incorporation of the Company, and therefore the first period the Company is audited



## Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of investments

#### Key audit matter description



The Company's investments are held at fair value. They comprise an investment in US Multifamily Holdings LP (the 'Investment Partnership') valued at \$34.6 million at 31 December 2018. \$13.0 million is an equity investment and the remaining \$21.6 million is a debt investment. The debt investment is fair valued using the period end outstanding balance and accrued interest as the directors believe carrying value approximates the fair value. The equity investment is fair valued using the Company's allocation of the Investment Partnership's net asset value as this is based on the underlying fair value of the Investment Partnership's investments.

The Investment Partnership's investments comprise of an investment in Cortland Partners Fund IV, LLC (the 'Fund'). The Fund's investments comprises of investments in real estate entities invested in multifamily properties.

The Fund's investments have been fair valued by the Fund based on independent appraiser valuations.

The determination of fair value is therefore based on estimates made by Fund and its independent appraisers. The main assumptions are discount rates and market rents. The value of Company's investments are highly material to the Company and errors in valuation could have a material impact on the financial statements of the Company.

There is a therefore risk that a material misstatement could exist in the valuation of the investments. Refer to notes 2, 3 and 7 in the notes to the financial statements.

**How the scope of our audit responded to the key audit matter**



Our procedures on the valuation of the Investment Partnership included:

- Evaluating the design and implementation of controls relating to the valuation;
- Agreeing the Company’s interest in the Investment Partnership to the limited partnership agreement, loan drawdowns, utilisation requests, interest calculations and testing the allocation of gains and losses attributable to the Company equity interests. Auditing management’s conclusion on the fair value of the Company debt investment approximating to the carrying value of the loan and accrued interest with reference to any change in credit or liquidity risk;
- Evaluating the appropriateness of the valuation methodology under US GAAP and whether appropriate disclosures were made.

We audited the material components within the Investment Partnership with a focus on the Investment Partnership’s interest in the Fund. This included agreeing the Investment Partnership’s investment in the Fund to audited financial statements and capital of the Fund. Making enquiries of the auditor of the Fund and obtaining details of how the 31 December 2018 position of the Fund was audited. We also enquired into the Fund’s valuation process for valuing its underlying investments into multifamily properties. This included an assessment of the valuation methodology, the independent appraiser and for a sample of multifamily properties using our US Real Estate experts to review the individual valuations.

**Key observations**



Based on the work performed we concluded that the valuation of the Company’s investments is appropriate.

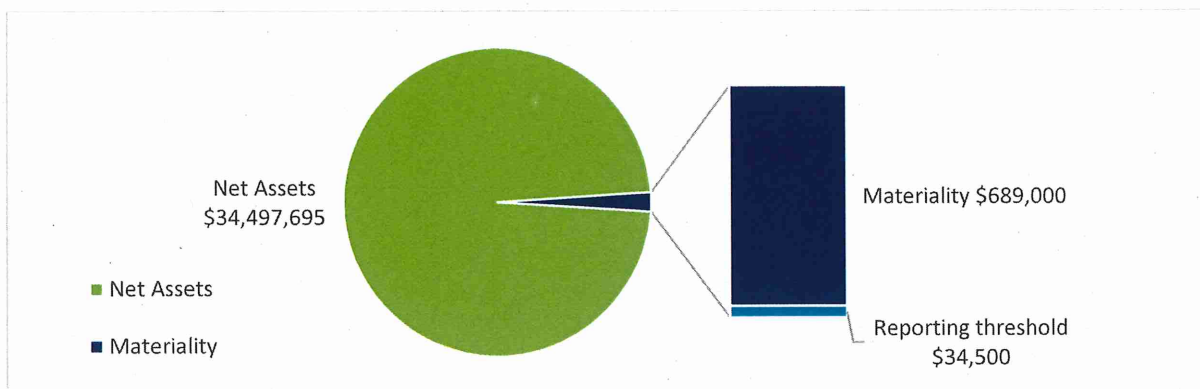
**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	\$689,000
<b>Basis for determining materiality</b>	2% of Net Assets
<b>Rationale for the benchmark applied</b>	Net Asset Value (‘NAV’) is the key performance indicator of the Company. The holders of equity are interested in the residual interest of their investment. During the year there have been no distributions to equity holders.





We agreed with the Directors that we would report all audit differences in excess of \$34,700, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

The Company is a Guernsey company with the main investments in the United States of America. Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control and assessing the risks of material misstatement. Our audit scope included the assessment of the design and implementation of accounting processes and controls in place in the service organisation, Zedra Fund Managers (Guernsey) Limited. Investments in the multifamily properties held by the Fund are located in the United States of America (USA) therefore audit procedures for valuation analysis was performed by US Deloitte real estate team under the supervision of Guernsey audit team.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements of the Company, taking account of the structure of the Company.

### Other information

The directors are responsible for the other information. The other information comprises the information contained in the financial reports, other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

## Responsibilities of directors

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As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

### Matters on which we are required to report by exception

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#### *Adequacy of explanations received and accounting records*

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

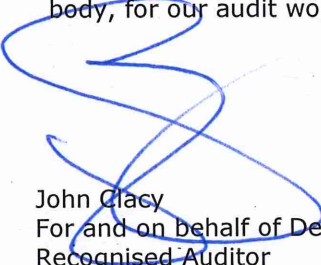
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

***We have nothing to report in respect of these matters.***

### Use of our report

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This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



John Clacy  
For and on behalf of Deloitte LLP  
Recognised Auditor  
Guernsey, Channel Island  
27 June 2019

**US Multifamily Investment Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Statement of Assets and Liabilities**  
**As at 31 December 2018**

		As at 31 December 2018
Assets:	Notes	US\$
Investment - equity interest (cost of US\$12,611,073)		13,007,377
Investment - debt interest (cost of US\$20,918,843)		21,550,642
<b>Total investment assets</b>	7	<u>34,558,019</u>
Cash and cash equivalents	8	969
<b>Total assets</b>		<u><u>34,558,988</u></u>
 <b>Liabilities and Shareholders' Equity:</b>		
<b>Liabilities</b>		
Loan from Investec Bank Plc	9	24,043
Other creditors		37,250
<b>Total current liabilities</b>		<u>61,293</u>
<b>Total Net Assets:</b>		<u><u>34,497,695</u></u>
 <b>Total Net Assets consist of:</b>		
<b>Shareholders' equity</b>		
Issued share capital		33,474,000
Share premium		26,000
Retained earnings		997,695
<b>Total shareholders' equity</b>	10	<u><u>34,497,695</u></u>
 <b>Net asset value per share</b>		 <b>US\$ <u><u>1,030.58</u></u></b>

These financial statements were approved by the Board of Directors on *27 June* 2019.

  
 David McNay  
 Director

  
 Mark Cleary  
 Director

The notes on pages 14 to 19 form part of these audited financial statements.

**US Multifamily Investment Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**  
**Schedule of Investments**  
**As at 31 December 2018**

	<b>Investments by Geography</b>	<b>Investments by Industry</b>	<b>Cost US\$</b>	<b>Fair Value US\$</b>	<b>Fair Value as a % of Net Assets</b>
US Multifamily Holdings LP - equity	USA	Property	12,611,073	13,007,377	37.7%
US Multifamily Holdings LP - debt	USA	Property	20,918,843	21,550,642	62.5%
<b>Total Investments</b>			<u>33,529,916</u>	<u>34,558,019</u>	<u>100.2%</u>

The notes on pages 14 to 19 form part of these audited financial statements.

**US Multifamily Investment Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**  
**Statement of Operations**  
**For the period from 16 August 2017 to 31 December 2018**

	<b>16 August 2017 to 31 December 2018</b>
	<b>US\$</b>
<b>Investment Income</b>	
Interest receivable on debt instrument	631,799
Deposit interest	165,930
	<hr/>
<b>Total investment income</b>	797,729
<b>Expenses</b>	
Administration fees	(31,483)
Audit fees	(26,000)
Legal and professional fees	(125,000)
Loan interest	(43)
Other expenses	(13,812)
	<hr/>
<b>Total expenses</b>	(196,338)
	<hr/>
<b>Net investment income</b>	601,391
	<hr/>
<b>Unrealised gain in investment</b>	
Net unrealised gain in investment	396,304
	<hr/>
<b>Net increase in net assets resulting from operations</b>	<u><u>997,695</u></u>

The notes on pages 14 to 19 form part of these audited financial statements.



**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Statement of Changes in Net Assets**  
**For the period from 16 August 2017 to 31 December 2018**

	<b>16 August 2017 to 31 December 2018</b>
<b>Net increase in net assets resulting from operations</b>	<b>US\$</b>
Net investment income	601,391
Net unrealised gain in investment	396,304
<b>Net increase in net assets resulting from operations</b>	<u>997,695</u>
<b>Net change from capital transactions</b>	
Share capital and premium introduced by shareholders	<u>33,500,000</u>
<b>Total increase in net assets in the period</b>	<u><u>34,497,695</u></u>

The notes on pages 14 to 19 form part of these audited financial statements.

**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Statement of Cash Flows**

**For the period from 16 August 2017 to 31 December 2018**

**16 August 2017 to**  
**31 December 2018**

**US\$**

**Cash flows from operating activities:**

**Net increase in net assets from operations** 997,695

**Adjustments to reconcile net increase in net assets resulting from operations to net cash flows provided by operating activities:**

Net unrealised gain in investment (equity interest) (396,304)  
 Debt interest accrued on investment (debt interest) (631,799)  
 Investment into USMHLP (33,529,916)

**Changes in operating assets and liabilities:**

Increase in other creditors 37,250  
 Increase in short term loan from Investec Bank Plc 24,043

**Net cash flows utilised by operating activities** (33,499,031)

**Cash flows provided by financing activities:**

Share capital contributed from shareholders 33,500,000

**Net increase in cash and cash equivalents during the period** 969

**Cash and cash equivalents at the beginning of the period** -

**Cash and cash equivalents at the end of the period** 969

The notes on pages 14 to 19 form part of these audited financial statements.

**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Notes to the financial statements**  
**For the period from 16 August 2017 to 31 December 2018**

**1 Business and organisation**

USMIL is a company incorporated in Guernsey, which holds a 99.5246583% interest in the underlying limited partnership, USMHLP. This limited partnership is registered in the USA and holds a 19.23429% interest in Fund IV (the principal investment), an active limited liability company formed in Delaware, USA on 7 December 2016, and commenced operations on 19 April 2017.

On 2 February 2018, USMIL was granted a listing on the BSX (ticker: USMIL.BH).

The principal investment invests in multifamily real estate entities. Cortland Fund IV Manager, LLC currently serves as the manager (the "CP Manager") and, in addition to an affiliated member, Cortland Fund IV Investors, LLC, has committed a minimum of 20% ownership of the principal investment, subject to a maximum capital contribution of US\$20 million as specified in the principal investment's limited liability company agreement (the "LLC Agreement") as amended and restated on 29 March 2018.

The LLC Agreement provides the procedures for capital contributions, distributions, and allocations of income and losses among the members. Available cash is distributed to the members in accordance with the provisions of the LLC Agreement.

The principal investment shall be dissolved and its business wound up on the tenth anniversary of the last day of the offering period. The term may be extended for up to two years if approved by two thirds of investors, or thereafter if approved by a majority of investors.

**2 Summary of significant accounting policies**

**Basis of preparation**

These financial statements have been prepared in accordance with US GAAP and are presented in US Dollars. USMIL follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "ASC") as the source of authoritative accounting principles in the preparation of financial statements in conformity with US GAAP. USMIL is an investment company and follows the accounting and reporting guidance in the FASB's ASC 946 Financial Services - Investment Companies.

After analysis of the Variable Interest Entity model provisions within US GAAP, USMIL does not consolidate the results of operations, assets or liabilities of USMHLP in its financial statements, as control of USMHLP lies with the general partner, US Multifamily GP LLC. USMIL fair values its interest in USMHLP, and any movement in fair value is reflected in the Statement of Operations.

Significant accounting policies are those policies that are the most important to the financial statements and/or those that require significant management judgement related to matters that are uncertain. The following valuation policies are considered critical accounting policies due to the judgement and significance involved in their applications.

**Going concern**

After making enquires on justifiable assumptions, the Directors have a reasonable expectation that USMIL will have adequate resources to continue in operational existence for twelve months from the date of signing these financial statements. Also USMIL has set up a short term loan facility with Investec Bank Plc which will be sufficient to meet its immediate liabilities until the first distribution from its underlying investment is received.

**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Notes to the financial statements (continued)**  
**For the period from 16 August 2017 to 31 December 2018**

**2 Summary of significant accounting policies (continued)**

**Valuation of USMIL's interest in USMHLP**

USMIL records its investment in USMHLP at fair value. The directors estimate the fair value of USMHLP to be the net asset value of USMHLP. In calculating the net asset value the valuation of the interest that USMHLP has in its underlying principal investment is also included in its financial statements at fair value after adjusting for tax payable on unrealised gains.

USMIL's investment in USMHLP was valued at a total of US\$34,558,019 as of 31 December 2018. This is made up of an amount for US\$21,550,642 which represents a debt interest in USMHLP. This debt generates interest receivable at a rate of 10.5%, calculated on an annual basis and compounded to the principal. The total also includes an amount for US\$13,007,377 being the equity interest USMIL has in USMHLP. This part of the investment shares in the net gains generated by the underlying investments by way of distributions after repayment of the debt and associated interest.

**Fair value of financial instruments**

US GAAP requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. USMIL financial instruments are recorded at fair value or at amounts whose carrying value approximates fair value.

**Net investment income and net gain in investment**

USMIL reports on the fair value movement of its equity and debt interest in USMHLP through its Statement of Operations.

**Expenses**

As the results of operations of USMHLP are not consolidated in USMIL's financial statements, the general and administrative expenses are limited to the expenses that USMIL directly incurs. These expenses consist primarily of professional, audit and administration fees and are accrued as and when they fall due. Expenses incurred at USMHLP level impact the net asset value and hence the fair value of USMHLP.

**Taxes**

USMIL is not subject to income taxes in Guernsey. USMHLP is subject to potential US corporation tax, and whilst for the period ending 31 December 2018 no actual tax liability arose, a tax liability would impact on the net asset value of USMHLP and hence the fair value of USMHLP. USMIL recognizes the tax benefits of uncertain tax positions only where the position is more-likely-than-not (i.e. greater than 50 percent) to be sustained assuming examination by a tax authority based on the technical merits of the position. In evaluating whether a tax position has met the recognition threshold, USMIL must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in USMIL's financial statements. Income tax and related interest and penalties would be recognized by USMIL as tax expense in the statement of operations if the tax positions were deemed to meet the more-likely-than-not threshold.

**Use of estimates**

The preparation of financial statements in conformity with US GAAP requires the Directors to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. As such actual results may differ materially from those estimates.

**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Notes to the financial statements (continued)**  
**For the period from 16 August 2017 to 31 December 2018**

**3 Investments held by USMIL**

At 31 December 2018, USMIL's only investment consisted of a 99.5246583% interest in USMHLP. USMIL makes all of its investments through USMHLP, and is expected that USMIL's only substantial asset will be this interest in USMHLP. Although investments made with USMIL's capital by USMHLP do not appear as investments in USMIL's financial statements, USMIL is the primary beneficiary of such investments and bears substantially all of the risk of loss.

It is anticipated that USMHLP on receipt of distributions from the principal investment will, in turn, make distributions to USMIL to allow USMIL to make cash distributions to its shareholders in accordance with USMIL's distribution policy and to allow USMIL to pay its operating expenses as they become due.

**Fair value measurements**

In accordance with US GAAP, USMIL prioritises and ranks the level of market price observability used in measuring its investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level I include listed equities, securities and listed derivatives.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgement or estimation. Investments that are included in this category generally include private equity, general and limited partner interests in private equity, credit or real estate funds, mezzanine funds, distressed debt, structured debt vehicles and non-investment grade residual interests in securitisations.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. USMIL's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the investment.



**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Notes to the financial statements (continued)**  
**For the period ended 31 December 2018**

**3 Investments held by USMIL (continued)**

As of 31 December 2018, USMIL's investment was valued based on its pro rata allocation of net assets of USMHLP (which in turn was based on USMHLP's underlying investment in Fund IV which was valued based on the fair value that USMHLP believes it could be sold or transferred in an orderly transaction between market participants as of the measurement date).

The fair value of the debt interest invested in USMHLP is continually considered and assessed by the Directors. The principal and compounded interest is determined by the Shareholders' agreement, and its recoverability is dependent on the underlying performance of USMHLP. This is the first period of operations and the indications are that the debt interest is holding value, however by adopting the cost allocation and compounding the interest as stipulated in the agreement, the resulting balance of the debt interest displayed at the period end is considered to be the most appropriate fair value.

**4 Capital transactions**

On 15 December 2017, the initial closing consisted of an issue of 31,500 shares in USMIL at US\$1,000 per share raising total capital of US\$31,500,000. The second closing on 13 April 2018 raised a further US\$2,000,000 of capital by issuing 1,974 shares in USMIL at US\$1,013.17 per share. Since that issue date, no shares have been either issued or redeemed by USMIL in the period to 31 December 2018.

**5 Financial highlights**

	For the period ended 31 December 2018 US\$
Financial highlights for USMIL were as follows:	
Per share operating performance:	
Net asset value at the beginning of period	-
Average capital introduced per share	<u>1,000.78</u>
Gain from investment operations:	
Net investment income	17.96
Net unrealised gain in investment	11.84
Total gain from investment operations	<u>29.80</u>
Net asset value per share at end of period	<u><u>1,030.58</u></u>
Total return for the period (annualised)	<u><u>3.36%</u></u>
Percentage and supplemental data:	
Average net asset value held in the period	US\$33,667,637
Ratios to average net asset value on an annualised basis:	
Expenses	0.68%
Net investment income	2.08%
Net unrealised gain in investment	1.37%

**6 Financial risk management**

As USMIL has a 99.5246583% economic interest in USMHLP, and USMHLP's only investment is an interest in Fund IV (the principal investment), the majority of risk lies with the principal investment.

**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Notes to the financial statements (continued)**  
**For the period ended 31 December 2018**

**6 Financial risk management (continued)**

**Valuation and liquidity risk**

The principal investment invests in multifamily real estate entities. A decline in economic growth in either the USA or in the local jurisdictions in which the entities reside could result in a reduction in the volume of transactions. Declines in economic growth could result in a contraction in short-term and long-term debt and equity funding resources. Although the real estate industry and the USA specifically has seen economic stability in recent years, there can be no assurance that market conditions will remain or continue to improve in the near future. Furthermore, the uncertainty in liquidity and prices of real estate and real estate related investments, as well as the availability of observable transaction data and inputs, continues to make it challenging to determine the fair value of such investments. As a result, amounts ultimately realised by the principal investment from selling investments may differ from the fair value presented, and the difference could be material.

**Financing risk**

There is no guarantee that the principal investment's borrowing arrangements or other arrangements for obtaining leverage at the real estate investment entities will continue to be available, or if available, will be available on terms and conditions acceptable to the principal investment or its underlying investments. Unfavourable economic conditions could increase funding costs, limit access to the capital markets or result in a decision by lenders not to extend credit to the principal investment or its real estate entities.

**Concentrations of credit risk**

Financial instruments which potentially subject the principal investment to a concentration of credit risk consist of cash and cash equivalents. The principal investment places its cash and cash equivalents with high credit quality institutions and minimizes its credit risk exposure through formal credit policies and monitoring procedures. The principal investment maintains funds in accounts with financial institutions that, from time to time, exceed the Federal Deposit Insurance Corporation insured limit.

**7 Investment in USMHLP**

During the period, USMIL has invested total capital of US\$33,529,916 into USMHLP. In accordance with the shareholder agreement signed in February 2018, the funded capital is split between debt and equity. The debt portion of the funded capital amounted to US\$20,918,843, being 62.38859% of total funded capital, and earned interest at a rate of 10.5%. The interest is calculated using an annual rate of interest and compounded to the principal. During the period ended 31 December 2018, US\$631,799 of interest was compounded. As interest is calculated and compounded on the principal balance, the period end balance of the debt interest is considered by the directors as a good approximation of fair value. The balance of the debt interest, as displayed in the Statement of Assets and Liabilities, is the amount that would be payable in cash as determined by the Shareholders' agreement.

The equity portion, being 37.61141% of the total funded capital, is entitled to the net gain on the investment in USMHLP after adjusting for the interest receivable arising from the debt portion and other expenses.

**8 Cash and cash equivalents**

All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

**US Multifamily Investments Limited**  
**Annual Report and Financial Statements for the period from 16 August 2017 to**  
**31 December 2018**

**Notes to the financial statements (continued)**  
**For the period ended 31 December 2018**

**9 Loan from Investec Bank Plc**

In order for USMIL to meet its operating expenses, a short term facility with Investec Bank Plc has been set up so that these expenses can be settled. USMIL may draw down a maximum amount of US\$149,000. The loan is due for repayment on the earlier of: a) 31 January 2020, b) within five business days of receipt from USMHLP of any income, distributions, dividends, disbursements or returns of capital, and c) any change of control of the borrower where such change is without the lender's consent. The loan bears interest at the three month US\$ LIBOR plus a margin of 105 basis points. The first draw down of US\$24,000 from this loan facility was made on 14 December 2018, and a provision for loan interest payable amounting to US\$43 was included in the period end balance.

**10 Total shareholders' equity**

	Par value US\$	Share premium US\$	Retained earnings US\$	Total US\$
Shares issued in the period	33,474,000	26,000	-	33,500,000
Retained earnings for the period	-	-	997,695	997,695
Balance as at 31 December 2018	<u>33,474,000</u>	<u>26,000</u>	<u>997,695</u>	<u>34,497,695</u>

All shares are fully paid and, as at 31 December 2018 there are 33,474 shares in issue.

**11 Provision for deferred taxation in USMHLP**

USMIL is not subject to Guernsey income tax. USMHLP is subject to US corporation tax at a rate of 21% on the potential gain on the underlying principal investment. Whilst for the period ended 31 December 2018, it is anticipated that USMHLP will have a nil assessment for corporation tax, a deferred tax adjustment has been included in determining the fair value of the investments held by USMHLP.

**12 Capital commitments**

The capital contributed to USMHLP has been used to fully fund its commitment, in accordance with the LLC Agreement, in the underlying principal investment.

**13 Distributions**

Distributions in the form of a dividend to shareholders will be made at the discretion of the Board of Directors, as determined by the Articles of Association, and within the limits stipulated by Guernsey company law.

**14 Related party transactions**

Michael Schwenke (director) and Nicholas Riley (alternate director to Michael Schwenke), who held office at the period end each had an interest in 125 shares of USMIL as at 31 December 2018. These shares are held through nominee companies.

**15 Subsequent events**

Subsequent events have been evaluated to the date of signing of these financial statements, and no material events or transactions have occurred to this date.