

US Multifamily Investment Limited
Annual Report and Financial Statements
For the year ended 31 December 2019

US Multifamily Investment Limited
Annual Report and Financial Statements for the year ended 31 December 2019

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US Multifamily Investment Limited
Annual Report and Financial Statements for the year ended 31 December 2019

Officers and Professional Advisers

REGISTERED OFFICE

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 year ended 31 December 2019

Directors' Report

The Directors present their annual report and the audited financial statements of US Multifamily Investment Limited ("USMIL") for the year ended 31 December 2019.

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 south eastern and south central 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.

The Directors are aware that subsequent to the year end but prior to the date of signing these financial statements the global outbreak of COVID-19 was declared by the World Health Organization as a "Public Health Emergency of International Concern". The resulting stringent directives introduced by jurisdictions throughout the world to protect the affected populations may have potential impacts on USMIL's underlying investment. The ensuing global, regional or other economic impacts are increasingly uncertain and very difficult to assess, and may include an adverse impact on the fair value of USMIL's underlying investment. That aside, the Directors are of the opinion that these potential consequences would not impact on the ability of USMIL to operate as a going concern.

The Directors are monitoring the ongoing operational impact that COVID-19 has on this company, and whilst the effects on this holding company have, to date, been minimal, the Directors will continually review the situation and will adapt operational activities if required.

USMIL repaid, on 1 November 2019, the short term facility (as detailed in note 9) that it held with Investec Bank Plc. The underlying entity, USMHLP, now has sufficient liquidity to fund USMIL and its expenses and liabilities over the next twelve months.

Results

The results for the year ended 31 December 2019 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 2019. 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 14 February 2020 at USMIL's annual general meeting

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Directors' Report (continued)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Directors have elected to prepare the financial statements for each financial year which give a true and fair view in accordance with the applicable Guernsey Law and applying 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; and
- * Prepare the financial statements on the going concern basis unless it is inappropriate to presume that USMIL will continue in business.

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 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: 15 June 2020

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

Report on the audit of the financial statements

1. 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 2019 and of the net increase in net assets resulting from operations for the year then ended;
- 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').

2. 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, 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

US Multifamily Investment Limited
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3. Summary of our audit approach

Key audit matters	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> • <i>Valuation of investments</i> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk
Materiality	The materiality that we used in the current year was \$773,800 (2018-\$689,000 based on 2% of Net Assets) which was determined on the basis of 2% of Net Assets.
Scoping	Audit work to respond to the risk of material misstatement was performed directly by the audit engagement team
Significant changes in our approach	The approach has remained similar to prior year.

4. Conclusions relating to going concern

4.1. Going concern

We have reviewed the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the company, its business model and related risks including where relevant the impact of the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. 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.

US Multifamily Investment Limited

Annual Report and Financial Statements for the year ended 31 December 2019

5.1. 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 \$38.7 million at 31 December 2019 (2018- \$34.6m). \$15.0 million (2018- \$13m) is an equity investment and the remaining \$23.7 million (2018- \$21.5m) 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.

Subsequent to year-end, the outbreak of Covid-19 was declared a global pandemic. The uncertainties over the emergence and spread of Covid-19 have caused volatility on a global scale including the main assumptions used in determination investments fair value i.e. discount rates and market rates. The quantum of the effect is difficult to determine at this stage.

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 have assessed the subsequent impact of the coronavirus (Covid-19) outbreak on the financial performance of the investment in Cortland and have reviewed the financial statements to assess whether the post year end disclosures are in accordance with US GAAP.

We audited the material components within the Investment Partnership with a focus on the Investment Partnership's interest in the Fund. This

US Multifamily Investment Limited
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included agreeing the Investment Partnership’s investment in the Fund to audited financial statements and capital of the Fund. This also includes making enquiries of the auditor of the Fund and obtaining details of how the 31 December 2019 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.
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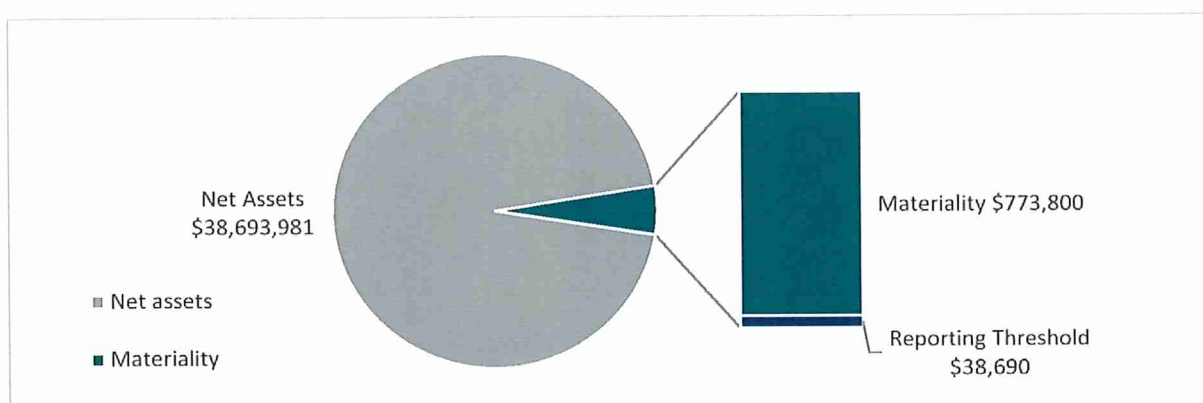
6. Our application of materiality

6.1. 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:

Materiality	\$773,800 [(2018: \$689,000)]
Basis for determining materiality	2% of Net Assets (2018- 2% of Net Assets)
Rationale for the benchmark applied	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.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

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- a. *the quality of the control environment and whether we were able to rely on controls,*
- b. *significant control deficiencies and*
- c. *the nature, volume and size of misstatements (corrected and/or uncorrected) in the previous audit.*

6.3. Error reporting threshold

We agreed with the Directors that we would report all audit differences in excess of \$38,690 (2018: \$34,500), 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

7. An overview of the scope of our audit

7.1. Scoping

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 Deloitte US real estate team under the supervision of the 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.

8. Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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.

10. Auditor's responsibilities for the audit of the financial statements

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

11. Matters on which we are required to report by exception

11.1. 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
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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12. Use of our report

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
15 June 2020

US Multifamily Investment Limited
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Statement of Assets and Liabilities
As at 31 December 2019

		31 December 2019	31 December 2018
Assets:	Notes	US\$	US\$
Investment - equity interest (cost: US\$12,611,467)		15,036,973	13,007,377
Investment - debt interest (cost: US\$20,919,495 plus accrued interest: US\$2,779,661)		23,699,156	21,550,642
Total investment assets	7	<u>38,736,129</u>	<u>34,558,019</u>
Cash and cash equivalents	8	9,498	969
Total assets		<u>38,745,627</u>	<u>34,558,988</u>
Liabilities and Shareholders' Equity:			
Liabilities			
Loan from Investec Bank Plc	9	-	24,043
Other creditors		51,646	37,250
Total current liabilities		<u>51,646</u>	<u>61,293</u>
Total Net Assets:		<u>38,693,981</u>	<u>34,497,695</u>
Total Net Assets consist of:			
Shareholders' equity			
Issued share capital		33,474,000	33,474,000
Share premium		26,000	26,000
Retained earnings		5,193,981	997,695
Total shareholders' equity	10	<u>38,693,981</u>	<u>34,497,695</u>
Net asset value per share		<u>US\$ 1,155.94</u>	<u>US\$ 1,030.58</u>

These financial statements were approved by the Board of Directors on 15 June 2020.


 David McNay
 Director

Mark Cleary
 Director 

The notes on pages 16 to 22 form part of these audited financial statements.

US Multifamily Investment Limited
Annual Report and Financial Statements for the year ended 31 December 2019

Schedule of Investments
As at 31 December 2019

31 December 2019

	Investments by Geography	Investments by Industry	Cost US\$	Fair Value US\$	Fair Value as a % of Net Assets
US Multifamily Holdings LP - equity	USA	Property	12,611,467	15,036,973	38.86%
US Multifamily Holdings LP - debt	USA	Property	20,919,495	23,699,156	61.25%
Total Investments			33,530,962	38,736,129	100.11%

31 December 2018

	Investments by Geography	Investments by Industry	Cost US\$	Fair Value US\$	Fair Value as a % of Net Assets
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%
Total Investments			33,529,916	34,558,019	100.2%

The notes on pages 16 to 22 form part of these audited financial statements.

US Multifamily Investment Limited
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Statement of Operations
For the year from 1 January 2019 to 31 December 2019

	1 January 2019 to 31 December 2019	16 August 2017 to 31 December 2018
	US\$	US\$
Investment Income		
Interest receivable on debt instrument	2,262,862	631,799
Deposit interest	-	165,930
	<hr/>	<hr/>
Total investment income	2,262,862	797,729
Expenses		
Administration fees	(54,892)	(31,483)
Audit fees	(30,045)	(26,000)
Legal and professional fees	(2,625)	(125,000)
Loan interest	(1,291)	(43)
Other expenses	(6,926)	(13,812)
	<hr/>	<hr/>
Total expenses	(95,779)	(196,338)
	<hr/>	<hr/>
Net investment income	2,167,083	601,391
	<hr/>	<hr/>
Unrealised gain in investment		
Net unrealised gain in investment	2,029,203	396,304
	<hr/>	<hr/>
Net increase in net assets resulting from operations	<u>4,196,286</u>	<u>997,695</u>

The notes on pages 16 to 22 form part of these audited financial statements.

US Multifamily Investment Limited
Annual Report and Financial Statements for the year ended 31 December 2019

Statement of Changes in Net Assets
For the year from 1 January 2019 to 31 December 2019

	1 January 2019 to 31 December 2019	16 August 2017 to 31 December 2018
	US\$	US\$
Net increase in net assets resulting from operations		
Net investment income	2,167,083	601,391
Net unrealised gain in investment	2,029,203	396,304
	<hr/>	<hr/>
Net increase in net assets resulting from operations	4,196,286	997,695
Net change from capital transactions		
Share capital and premium introduced by shareholders	-	33,500,000
	<hr/>	<hr/>
Total increase in net assets in the year/period	4,196,286	34,497,695
Net increase in net assets brought forward	34,497,695	-
	<hr/>	<hr/>
Net increase in net assets carried down	38,693,981	34,497,695
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The notes on pages 16 to 22 form part of these audited financial statements.

US Multifamily Investment Limited
Annual Report and Financial Statements for the year ended 31 December 2019

Statement of Cash Flows
For the year from 1 January 2019 to 31 December 2019

	1 January 2019 to 31 December 2019	16 August 2017 to 31 December 2018
	US\$	US\$
Cash flows from operating activities:		
Net increase in net assets from operations	4,196,286	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)	(2,029,203)	(396,304)
Debt interest accrued on investment (debt interest)	(2,262,862)	(631,799)
Debt interest paid to USMIL	115,000	-
Investment into USMHLP	(1,045)	(33,529,916)
Changes in operating assets and liabilities:		
Increase in other creditors	14,396	37,250
Net (decrease)/increase in the loan from Investec Bank Plc	(24,043)	24,043
Net cash flows generated/(utilised) by operating activities	8,529	(33,499,031)
Cash flows provided by financing activities:		
Share capital contributed from shareholders	-	33,500,000
Net cash flows (utilised)/generated by financing activities	-	33,500,000
Net increase in cash and cash equivalents during the year/period	8,529	969
Cash and cash equivalents at the beginning of the year/period	969	-
Cash and cash equivalents at the end of the year/period	9,498	969

The notes on pages 16 to 22 form part of these audited financial statements.

US Multifamily Investment Limited

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Notes to the financial statements

For the year from 1 January 2019 to 31 December 2019

1 Business and organisation

USMIL is a company incorporated in Guernsey, which holds a 99.525% 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.

The Directors are aware that subsequent to the year end but prior to the date of signing these financial statements the global outbreak of COVID-19 was declared by the World Health Organization as a "Public Health Emergency of International Concern". The resulting stringent directives introduced by jurisdictions throughout the world to protect the affected populations may have potential impacts on USMIL's underlying investment. The ensuing global, regional or other economic impacts are increasingly uncertain and very difficult to assess, and may include an adverse impact on the fair value of USMIL's underlying investment. That aside, the Directors are of the opinion that these potential consequences would not impact on the ability of USMIL to operate as a going concern.

US Multifamily Investment Limited

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Notes to the financial statements (continued)

For the year from 1 January 2019 to 31 December 2019

2 Summary of significant accounting policies (continued)

Going concern (continued)

The Directors are monitoring the ongoing operational impact that COVID-19 has on this company, and whilst the effects on this holding company have, to date, been minimal, the Directors will continually review the situation and will adapt operational activities if required.

USMIL repaid, on 1 November 2019, the short term facility (as detailed in note 9) that it held with Investec Bank Plc. The underlying entity, USMHLP, now has sufficient liquidity to fund USMIL and its expenses and liabilities over the next twelve months.

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\$38,736,129 as of 31 December 2019 (31 December 2018: US\$34,558,019). This is made up of an amount for US\$23,699,156 (31 December 2018: 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\$15,036,973 (31 December 2018: 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 year ended 31 December 2019 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.

US Multifamily Investment Limited

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Notes to the financial statements (continued)

For the year from 1 January 2019 to 31 December 2019

2 Summary of significant accounting policies (continued)

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. Such judgements include assessing a reasonable estimate of fair value for the investment held by the Company; and the inclusion of estimated amounts for liabilities and other contingencies, where applicable, within these financial statements. As such actual results may differ materially from those estimates.

3 Investments held by USMIL

At 31 December 2019, USMIL's only investment consisted of a 99.525% 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.

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Notes to the financial statements (continued)
For the year from 1 January 2019 to 31 December 2019

3 Investments held by USMIL (continued)

Fair value measurements (continued)

As of 31 December 2019, 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 Directors are of the opinion that given the nature of financial information available on USMIL's investment in USMHLP, the investment held by USMIL would be categorised as level 3 in the fair value reporting hierarchy.

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 second 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.

5 Financial highlights

	Year ended 31 December 2019 US\$	Year ended 31 December 2018 US\$
Financial highlights for USMIL were as follows:		
Per share operating performance:		
Average capital introduced per share	<u>1,000.78</u>	<u>1,000.78</u>
Net asset value at the beginning of the year	1,030.58	-
Gain from investment operations:		
Net investment income	64.74	17.96
Net unrealised gain in investment	60.62	11.84
Total gain from investment operations	<u>125.36</u>	<u>29.80</u>
Net asset value per share at end of the year	<u>1,155.94</u>	<u>1,030.58</u>
Total return for the period (annualised)	<u>12.16%</u>	<u>3.36%</u>
Percentage and supplemental data:		
Average net asset value held in the period (US\$)	36,595,838	33,667,637
Ratios to average net asset value on an annualised basis:		
	31 December 2019	31 December 2018
Expenses	0.26%	0.68%
Net investment income	5.92%	2.08%
Net unrealised gain in investment	5.54%	1.37%

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Notes to the financial statements (continued)

For the year from 1 January 2019 to 31 December 2019

6 Financial risk management

As USMIL has a 99.525% 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.

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. The COVID-19 pandemic has compounded the uncertainties and has contributed significantly to the present economic instability, and ultimately may have a material affect on both valuation and liquidity risk. Furthermore, the uncertainty in liquidity and prices of real estate and real estate related investments in the pandemic, 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

As at 31 December 2019, USMIL has invested total capital of US\$33,530,962 (31 December 2018: 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\$20,919,495 (31 December 2018: US\$20,918,843), being 62.38859% (31 December 2018: 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 year ended 31 December 2019, US\$2,262,862 of interest was compounded (31 December 2018: US\$631,799). 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% (31 December 2018: 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.

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Notes to the financial statements (continued)
For the year from 1 January 2019 to 31 December 2019

9 Loan from Investec Bank Plc

In order for USMIL to meet its operating expenses in 2018, a short term facility with Investec Bank Plc was set up so that these expenses could be settled. The maximum that was available to draw down on this facility was limited to US\$149,000. The first drawdown of US\$24,000 from this loan facility was made on 14 December 2018. On 10 May 2019 USMIL made an additional drawdown of US\$35,000 from Investec Bank Plc. USMIL repaid the full outstanding balance of US\$60,334 which included the outstanding loan interest due (calculated at a rate based on the three month US\$ LIBOR plus a margin of 105 basis points) on 1 November 2019.

10 Total shareholders' equity

	Par value US\$	Share premium US\$	Retained earnings US\$	Total US\$
Balance as at 31 December 2018	33,474,000	26,000	997,695	34,497,695
Retained earnings for the year	-	-	4,196,286	4,196,286
Balance as at 31 December 2019	<u>33,474,000</u>	<u>26,000</u>	<u>5,193,981</u>	<u>38,693,981</u>

All shares are fully paid and, as at 31 December 2019 there are 33,474 shares in issue (31 December 2018: 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 year ended 31 December 2019, it is anticipated that USMHLP will have a nil assessment for corporation tax, a deferred tax adjustment (a liability amounting to US\$1,331,991) 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 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 year end each had an interest in 125 shares of USMIL as at 31 December 2019. These shares are held through nominee companies.

During the year, a performance fee amounting to US\$206,440 was payable by USMHLP to the real estate manager, Investec Property Proprietary Limited. USMIL's share of this cost amounted to US\$205,459 (US\$206,440 x 99.525%)

During the year, a distributor fee amounting to US\$288,000 was payable by USMHLP to Investec Securities Property Limited, a related company. USMIL's share of this cost amounted to US\$286,632 (US\$288,000 x 99.525%).

During the year, an estate manager fee amounting to US\$216,900 was payable by USMHLP to Investec Property Limited, a related company. USMIL's share of this cost amounted to US\$215,870 (US\$216,900 x 99.525%).

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Notes to the financial statements (continued)

For the year from 1 January 2019 to 31 December 2019

15 Subsequent events

In accordance with ASC 855, Subsequent Events, management has evaluated all events or transactions that occurred after 31 December 2019 and until the date of signing of these financial statements.

Subsequent to the year end but prior to the signing of these financial statements the global outbreak of COVID-19 was declared by the World Health Organization as a "Public Health Emergency of International Concern". The United States of America and the United Kingdom have officially declared a public health emergency, and these jurisdictions have mobilised various stringent directives to protect their affected populations. The potential impacts of this on USMIL's underlying investment due to the ensuing global, regional or other economic impacts are increasingly uncertain and very difficult to assess, and may include an adverse impact on the fair value of USMIL's underlying investment. As it is very difficult to ascertain what the present fair value of USMIL's underlying investments are at the time of signing of these financial statements, we have not been able to disclose any post balance sheet impact of COVID-19 on the value of the company's investments. As COVID-19 had not impacted on the company's investments at the balance sheet date, COVID-19 is a non-adjusting post balance sheet event and no impact was recorded in the fair value of the company's investments as at 31 December 2019.

Other than noted above, no material events or transactions were identified.