

20 November 2020

US Masters Residential Property Fund (Fund) ASX Code: URF

Refinance of debt facilities; significant repayment of URF Notes III

Summary

- URF has finalised and settled a new senior debt facility with Global Atlantic Financial Group.
- Proceeds of the loan have been used to fully repay the Fund's existing senior debt facilities with Wells Fargo and Centennial Bank.
- The new facility will also be used to make a significant repayment of A\$75 per Note on URF Notes III (ASX: URFHC).
- The Global Atlantic facility is structured as two tranches – a Term Loan of US\$360 million with a 5.5-year duration, and a Bridge Loan of US\$70.65 million with a 2-3-year duration, subject to exercising Borrower options. The two-tiered structure will allow for the continued execution of the asset sale program and business plan.
- The new debt facility not only extends the Fund's debt maturity profile, but also simplifies the capital structure and reduces the Fund's currency risk by reducing the balance of URFHC.
- This concludes a robust refinance process undertaken over the last six months, with the Global Atlantic facility ultimately the most attractive offering after running a competitive process and receiving terms from a number of prospective lenders.

Overview

As foreshadowed in our 30 June 2020 half year report and our 30 September 2020 Quarterly Report, on 19 November 2020 (US local time) URF successfully closed on a refinance of its senior debt facilities. The new facility is with Global Atlantic Financial Group, a major US based insurance company with nearly US\$90 billion in assets¹. This refinance process was facilitated by specialist debt advisory firm, Ackman-Ziff.

The newly originated facility with Global Atlantic is valued at US\$430.65 million, the proceeds of which repay the Fund's existing senior loans with Wells Fargo (US\$237.86 million) and Centennial Bank (US\$68.99 million). In addition, the Fund intends to use approximately US\$97.12 million² to make a further early repayment of URF Notes III (ASX: URFHC). The Fund expects to repay A\$75 per URFHC Note at the end of the 2020 calendar year, in accordance with the Notes' quarterly repayment window (current outstanding balance is A\$90 per Note).

¹ As of 31 March 2020.

² Based on AUD/USD exchange rate of 0.74. Exact proceeds in USD will be determined at the time of the funds being converted into AUD.

The remaining balance of the new loan is expected to be used for the repayment of the remaining A\$15 per URFHC Note in 2021. Rather than making an immediate payment, this amount is being reserved pending administrative confirmation from the Internal Revenue Service (IRS) that no withholding tax is due on the repatriation of these funds back to Australia. This clearance is typically obtained within two months, though the impact of COVID-19 may extend this processing time.

Use of funds	US\$ (approx.)
Wells Fargo - full repayment	\$232.45 million
Centennial Bank - full repayment	\$64.01 million
URFHC - A\$75/Note repayment	\$97.12 million
Transaction costs	\$4.28 million
Global Atlantic reserves	\$5.11 million
Additional available funds	\$27.68 million
Total	\$430.65 million

Note: payout figures are lower than actual loan balances due to funds previously held on reserve with each lender.

Structure of new facility

The new debt facility with Global Atlantic has been structured as two separate tranches in order to align with the ongoing URF sales program and business plan:

- Term Loan** (US\$360 million): this tranche will house the Fund's stabilised assets. The Term Loan carries a fixed interest rate of 4.0% p.a. with a term of 5.5 years. This Term Loan provides the Fund with long-term certainty over its interest costs and funding sources. The Term Loan has the flexibility for early capital repayments up to 5% of the original loan balance for each of the first three years, with unused repayment amounts carried forward into subsequent years. The loan will enter a 12-month repayment period after 4.5 years.
- Bridge Loan** (US\$70.65 million): this tranche will house the majority of the Fund's expected sales pipeline and offers unlimited early repayment flexibility. The Bridge Loan carries a fixed interest rate of 5.0% and an initial term of 2 years, with two additional 6-month extensions available at the Fund's discretion, subject to certain criteria. The Bridge Loan provides the Fund with significant flexibility on its pipeline of asset sales, and facilitates a further early repayment of the URF Notes III.

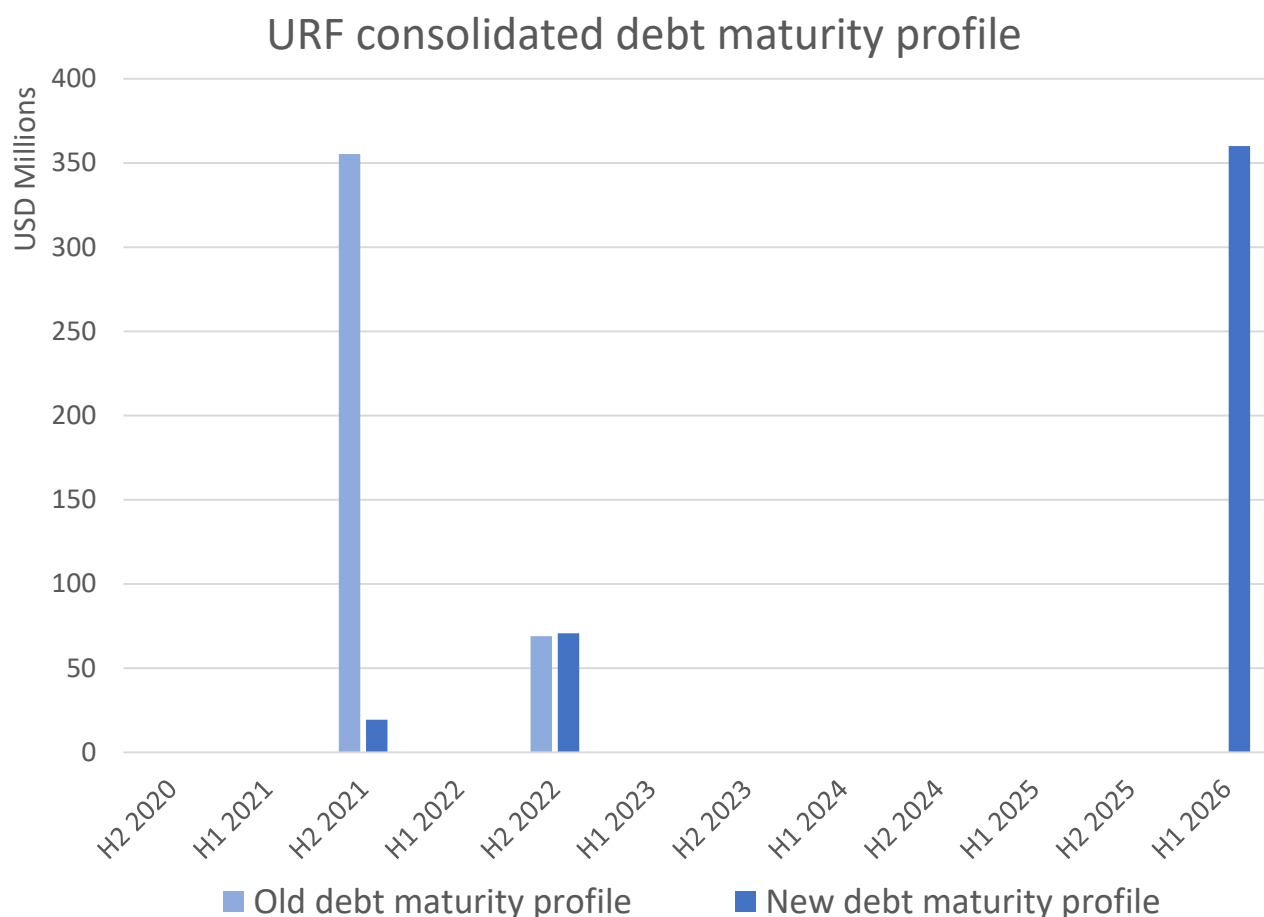
AUD Denominated Debt (AUD)	Before	After
URF Notes III (ASX: URFHC)	\$157.50 million	\$26.25 million
Total	A\$157.50 million	A\$26.25 million
USD Denominated Debt (USD)	Before	After
Wells Fargo	\$237.86 million	-
Centennial Bank	\$68.99 million	-
Global Atlantic - Term loan	-	\$360.00 million
Global Atlantic - Bridge loan	-	\$70.65 million
Total	US\$306.85 million	US\$430.65 million

Note: the above table is for illustrative purposes only. "Before" reflects loan balances at 19 November 2020. "After" illustrates the indicative debt position once the December 2020 URFHC repayment is made. Actual balances for Global Atlantic are likely to differ at that time due to the ongoing sales process.

Benefits to URF

Extends debt maturity profile

This refinance significantly extends the Fund's debt maturity profile, addressing the majority of liabilities previously scheduled to mature in H2 2021.



Note: USD value of URFHC calculated on AUD/USD rate of 0.74. The Global Atlantic Bridge Loan is depicted as maturing after 2 years, however two further 6-month extensions are available at the Fund's election, subject to certain criteria. Graph assumes the December 2020 URFHC partial repayment of A\$75/Note has been made.

Reduces sensitivity to foreign exchange markets

The Global Atlantic facility also allows for a further early repayment of URF Notes III. By doing so, the Fund will significantly reduce the current currency mismatch between the Australian-dollar-denominated URFHC liability and the US-dollar-denominated property assets. The current capital structure, which features a large balance in Australian-dollar-denominated URFHC, exacerbates the Fund's sensitivity to foreign exchange markets. To quantify this impact; following the full repayment of the remaining URFHC securities, the Fund's exposure to a $\pm 1\%$ movement in the AUD/USD exchange rate will be decreased by approximately 23%.

Secures competitive interest rate

This secures an attractive long-term cost of capital for the Fund, which is particularly relevant given the ongoing uncertainty in credit markets due to COVID-19.

Once the URFHC repayments have been made at the allowable quarterly repayment windows, the new loan structure will be priced at a level consistent with the blended interest cost for the previous loans being replaced. At 19 November 2020 the Fund's blended cost of debt was approximately 4.11%³, and the indicative rate for the new structure (post URFHC repayments) is 4.16%. This locks in an attractive cost of capital for the Fund, which has significantly improved over the past 18-months (at 30 June 2019 the blended cost of interest was 5.79%). The blended interest cost will continue to decrease towards 4.0% as the Bridge Loan is progressively repaid.

Simplifies URF's capital structure and supports ongoing business plan

This structure is designed to support the Fund's ongoing business plan as the investment portfolio continues to be optimised. The Bridge Loan provides a high level of flexibility, allowing the Fund's sales process to continue without restriction, with lower-yielding assets being sold and the proceeds used to reduce debt balances. This continues to be a major focus for the Fund as we work towards achieving positive operating cash flows.

In addition, replacing the Wells Fargo maturity date (July 2021) with the Global Atlantic Term Loan (maturing 2026) and eliminating the Centennial & URFHC liabilities provides a more stable and simplified capital base, better positioning the Fund to explore corporate opportunities.

About Global Atlantic

Global Atlantic Financial Group, through its subsidiaries, offers a broad range of retirement, life and reinsurance products. Global Atlantic was founded at Goldman Sachs in 2004 and separated as an independent company in 2013. The Group has a strong financial foundation of nearly US\$90 billion in assets, as of 31 March 2020.

Further information

The Fund will be releasing a video update at the end of November which further discusses this refinance. A copy of this video update will be released to the ASX and emailed to investors upon release.

For questions regarding this announcement or the Fund in general, please contact our Investor Relations team at URFInvestorRelations@usmrpf.com.

Authorised for release by E&P Investments Limited (ACN 152 367 649 | AFSL 410 433), the Responsible Entity of the Fund.

³ Calculated on closing loan balances, and AUD/USD rate of 0.7306 at 18 November 2020.