

FOLKESTONE EDUCATION TRUST RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

Folkestone Investment Management Limited as Responsible Entity of the Folkestone Education Trust ("FET" or the "Trust") provides the results of the Trust for the half year ended 31 December 2015.

KEY HIGHLIGHTS FOR THE HALF YEAR

- Statutory profit of \$59.5 million, an increase of 13.8% from \$52.3 million in the previous corresponding period ("pcp")
- Distributable income of \$16.9 million, an increase of 29.0% on pcp
- Distribution of 6.7 cents per unit ("cpu"), an increase of 5.5% on pcp
- NTA per unit of \$2.00, an increase of 9.9% from 30 June 2015
- Total Unitholders' return¹ for the half year to 31 December 2015 of 11.0%
- Development pipeline of 18 centres with a total value of \$88.9 million. Three development sites commenced operations during the half year with a completion value of \$12.9 million
- Four existing centres were acquired (1 settled) with a total value of \$12.8 million

FINANCIAL SUMMARY

The tables below provide a summary of the Trust's results in comparison to the previous corresponding period:

INCOME SUMMARY	DEC 2015	DEC 2014	VAR. %
Total Operating Revenue (\$m)	30.5	24.4	25.0
Total Operating Expenses (\$m)	13.6	11.3	20.4
Distributable Income (\$m)	16.9	13.1	29.0
EPU ² (cpu)	6.9	6.4	7.8
Distribution (cpu)	6.7	6.35	5.5
Statutory Profit (\$m)	59.5	52.3	13.8

BALANCE SHEET SUMMARY AS AT	DEC 15	JUNE 15	VAR. %
Total Assets (\$m)	708.7	654.5	8.3
Investment Properties ³ (\$m)	677.1	627.3	7.9
Borrowings ⁴ (\$m)	195.6	193.2	1.2
Net Assets (\$m)	493.8	445.0	11.0
Gearing ⁵ (%)	27.6	29.5	(1.9)
Units on Issue (m)	246.7	245.2	0.6
NTA per Unit (\$)	2.00	1.82	9.9

¹ Total return includes distributions and change in unit price for the half year.

² Distributable income dividend by weighted average number of Units.

³ Includes \$1.3 million of transaction costs in relation to properties contracted and not settled.

⁴ Borrowings as at 31 December 2015 include loans of \$193.0 million and bank overdraft of \$2.6 million.

⁵ Gearing is calculated by borrowings / total assets.

PORTFOLIO PERFORMANCE

Key portfolio performance criteria as at 31 December 2015:

AS AT 31 DECEMBER	2015
Value of Investment Properties (\$m)	675.8
Current Annual Income (\$m)	49.9
Average Lease Income Increase (y-o-y) (%)	2.6
Property Yield – Freehold Properties (%)	7.3
Property Yield – Leasehold Properties (%)	13.3
Property Yield – Total (%)	7.6
Occupancy Rate (%)	99.5
Weighted Average Lease Expiry (yrs) (by income)	7.8

PROPERTY SUMMARY

The Trust's property portfolio as at 31 December 2015:

PROPERTY PORTFOLIO	NO. OF PROPERTIES	CARRYING VALUE (\$m)	CURRENT ANNUAL INCOME (\$m)
Australia – Early Learning	333	570.8	44.8 ⁶
New Zealand – Early Learning	51	59.8	4.4 ⁷
Total Early Learning	384	630.6	49.2
Medical Centre	1	10.7	0.7
Total Improved Properties	385	641.3	49.9
Development Sites (Settled)	11	34.5	2.2 ⁸
Total Properties	396	675.8	52.1

TRUST PERFORMANCE

FET paid distributions to investors of 6.7 cpu for the half year, in accordance with its annual FY16 forecast of 13.4 cpu.

FET provided a total return of 11.0 per cent for the half year to 31 December 2015, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") return of 7.2 per cent for the same period. FET has also outperformed the Index over one year at 20.6 per cent per annum (v 14.4 per cent per annum), three years at 29.5 per cent per annum (v 15.9 per cent per annum) and five years at 31.7 per cent per annum (v 15.3 per cent per annum).

The Trust's market capitalisation increased from \$515 million at 30 June 2015 to \$558 million at 31 December 2015.

⁶ Includes head-lease rent on leasehold properties of \$1.15 million.

⁷ Based on NZD rent of \$4.64 million at an exchange rate of 1.0655 as at 31 December 2015.

⁸ Site rent charged on development sites.

PROPERTY PORTFOLIO

Key highlights in relation to the property portfolio during the half year were as follows:

- acquisition of four existing childcare centres (value of \$12.8 million) of which one has settled. Two further development sites also settled with a total completion value of \$9.5 million;
- three centres developed by FET commenced operations with a completion value of \$12.9 million;
- settled the disposal of 3 properties totalling \$6.6 million at an average yield of 6.9 per cent and at a 27.8 per cent premium to carrying value at 30 June 2015;
- eighteen five year options were renewed, effectively increasing the term remaining on these leases from 5 to 10 years;
- market rent reviews were negotiated in respect of 24 leases. Of these, 12 reviews were subject to a cap of 5 per cent over the previous year's rent and achieved an average 3.4 per cent increase on 6 Australian assets, and a 5.0 per cent increase on 6 New Zealand assets, with the remaining 12 reviews not subject to a cap achieving an average 8.2 per cent increase; and
- the WALE of the portfolio decreased slightly from 7.9 years at 30 June 2015 to 7.8 years at 31 December 2015.

PROPERTY VALUATIONS

During the year, a total of 350 early learning properties in the portfolio were revalued. Of these, 61 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle. The remainder were Director's valuations. The Director's valuations were adopted utilising the parameters drawn from the current independent valuations to ensure consistency across the portfolio.

The outcome is an overall increase of \$41.5 million over the previous carrying values. This result has been driven by further yield compression in the marketplace, combined with growth in income from annual and market rental increases.

The largest increases of the independent valuations occurred in New South Wales (22.0 per cent), South Australia (16.7 per cent), Victoria (12.1 per cent) and Queensland (10.0 per cent). The overall passing yield achieved on the freehold independent valuations was 7.1 per cent, a 100 basis points improvement on the passing yield on these same assets as at 30 June 2015.

Overall yield compression based upon the independent and Directors' valuations achieved for the half year to 31 December 2015 was 40 basis points on 30 June 2015, reducing the overall yield from 8.0 per cent at 30 June 2015 to 7.6 per cent at 31 December 2015. The yield compression is largely driven by the continued market recognition and investor appetite for this asset class. With daily fees per place continuing to increase, this has also led to growth in rental income.

Subsequent to 31 December 2015, a further 20 independent valuations have been completed. These valuations have resulted in a 10.7 per cent increase on the Directors' valuations adopted at 31 December 2015.



ACQUISITIONS

FET's pipeline consists of development sites as well as the purchase of existing centres. The total pipeline value is now \$98.6 million that comprises development sites (\$88.9 million) and further existing centre acquisitions (\$9.7 million).

Development Sites

At 30 June 2015, FET owned 12 development sites. During the half year, FET purchased two more development sites with an aggregate completion value of \$9.5 million. Three development sites commenced operations in the half year ending 31 December 2015 with a completion value of \$12.9 million. All completions were on time and on/under budget and yielded an overall development margin of ~12%. FET has contracted a further 7 development sites with a completion value of \$29.4 million with settlement due during FY16 and FY17.

DEVELOPMENT SITES	NO. OF PROPERTIES	UPON COMPLETION VALUE (\$m)
Settled as at 30 June 2015	12	62.9
Contracted & settled FY16	2	9.5
Less Completed developments FY16	(3)	(12.9)
Settled as at 31 December 2015	11	59.5
Contracted and not yet settled FY16	7	29.4
Total Value "Upon Completion"	18	88.9

The current development pipeline of 18 sites has a forecast upon completion value of \$88.9 million and is expected to add, when complete, approximately \$6.3 million of net rental income to FET, an increase of 12.6 per cent on FET's existing lease income. One development site is no longer proceeding to construction due to planning constraints and is expected to be sold. FET's interest in this site is underwritten, ensuring a return of all FET's costs incurred on the property.

Existing Centres

In addition to the development sites, FET settled one existing centre with a value of \$3.1 million with a further 3 existing centres contracted with a value of \$9.7 million, with settlement due to complete in the second half of FY16.

FET continues to target new opportunities based on our strong understanding of the market, with the key focus on selecting high quality real estate supported by sound early learning demand and supply fundamentals. The acquisitions are consistent with FET's strategy of enhancing the quality of the property portfolio and increasing earnings.

DISPOSALS

FET's capital management plan includes the selective sale of centres with proceeds redeployed to new asset purchases and/or developments.

FET settled the sale of 3 properties in the half year ending 31 December 2015 totalling \$6.6 million. The sales achieved a 27.8 per cent premium to 30 June 2015 carrying value with an average passing yield of 6.9 per cent. This compares to the average yield on the same properties at 30 June 2015 of 8.9 per cent, an improvement of 200 basis points.

Subject to market conditions, it is expected that the Trust will dispose of a small number of properties during the second half of FY16.

CAPITAL MANAGEMENT

Debt Funding

As at 31 December 2015, FET's debt facilities total \$207.3 million comprising a \$173.0 million syndicated debt facility with National Australia Bank Limited ("NAB") and the Australia and New Zealand Banking Group Limited ("ANZ") and a separate facility of \$34.3 million with the ANZ which was assumed as part of the FST merger. The facilities are currently drawn to \$193.0 million as at 31 December 2015.

In February 2016, the facilities were increased by \$20 million to \$227.3 million, increasing the undrawn amount to \$34.3 million which will be utilised to assist in funding future acquisitions and developments. The Trust has significant headroom under its debt covenants with gearing at 31 December 2015 of 27.6 per cent. FET's gearing currently sits below the targeted 30 - 40 per cent range. During the second half of FY16, we will look to extend the maturity of the facility including the evaluation of longer maturity debt options and non-traditional debt financing.

Hedging

As part of the Trust's interest rate management policy, FET has staggered hedging positions through to June 2020. The average hedged position is 51 per cent based on the existing debt of \$193 million at an average rate of 3.64 per cent per annum (30 June 2015: 3.64 per cent per annum). For FY16, FET has hedged 65 per cent of its interest rate exposure at a hedged rate of 3.59 per cent per annum.

Cost of Debt

As at 31 December 2015, FET's cost of debt is 4.5 per cent per annum (30 June 2015: 4.6 per cent per annum), which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 4.9 per cent per annum (30 June 2015: 5.0 per cent per annum) which includes the amortisation of deferred borrowing costs.



OUTLOOK AND DISTRIBUTION FORECAST

The FY16 forecast distribution is based on continued tenant performance and is estimated to be **13.4 cpu**. FET will continue to pay quarterly distributions, one month in arrears.

FET continues with its strategy to be recognised as the leading provider of early learning accommodation and together with quality operating partners, focusing on providing a healthy and safe environment for future generations. Investors benefit from predictable and secure long term cash-flows with the opportunity for capital growth.

FET is committed to active management of its portfolio to capitalise on future growth prospects. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust's characteristics and overall investment objectives.

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FURTHER INFORMATION

Folkestone Education Trust

The Folkestone Education Trust is the largest Australian ASX listed (ASX:FET) real estate investment trust (A-REIT) that invests in early learning properties. www.educationtrust.folkestone.com.au

About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with more than \$917 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while it's on balance sheet activities focus on value-add and opportunistic (development) real estate investments. www.folkestone.com.au