

## FOLKESTONE EDUCATION TRUST RESULTS FOR THE YEAR ENDED 30 JUNE 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 year ended 30 June 2015.

### KEY HIGHLIGHTS FOR THE YEAR

- Statutory profit of \$88.6m, an increase of 64.7% from \$53.8m in the previous corresponding period ("pcp")
- Distributable income of \$29.7m, an increase of 21.7% on pcp
- Distribution of 12.8 cents per unit ("cpu"), an increase of 6.7% on pcp
- NTA per unit of \$1.82, an increase of 21.3% from 30 June 2014
- Total Unitholders' return<sup>1</sup> for the year to 30 June 2015 of 35.8%
- Successful merger with Folkestone Social Infrastructure Trust ("FST"), in January 2015
- Development pipeline of 16 centres and an upon completion value of \$80m as at 30 June 2015, since increased to 18 centres with a total value of \$89.5m

### FINANCIAL SUMMARY

The tables below provide a summary of the Trust's 30 June 2015 results in comparison to the previous corresponding period:

INCOME SUMMARY YEAR ENDED 30 JUNE	2015	2014	VAR. %
Total Operating Revenue (\$m)	54.7	44.6	22.6
Total Operating Expenses (\$m)	25.0	20.2	23.8
Distributable Income (\$m)	29.7	24.4	21.7
Distribution (cpu)	12.8	12.0	6.7

BALANCE SHEET SUMMARY AS AT	JUNE 15	JUNE 14	VAR. %
Total Assets (\$m)	654.5	464.6	40.9
Investment Properties <sup>2</sup> (\$m)	627.3	461.2	36.0
Borrowings <sup>3</sup> (\$m)	193.2	147.3	31.2
Net Assets (\$m)	445.0	306.7	45.1
Gearing <sup>4</sup> (%)	29.5	31.7	(2.2)
Units on Issue (m)	245.2	205.1	19.6
NTA per Unit (\$)	1.82	1.50	21.3

<sup>1</sup> Total return includes distributions and change in unit price for the year.

<sup>2</sup> Includes \$0.3 million of transaction costs in relation to properties contracted and not settled.

<sup>3</sup> Borrowings as at 30 June 2015 include loans of \$190.0 million and bank overdraft of \$3.2 million.

<sup>4</sup> Gearing is calculated by borrowings / total assets.

## PORTFOLIO PERFORMANCE

Key portfolio performance criteria as at 30 June 2015:

AS AT 30 JUNE	2015
Value of Investment Properties (\$m)	627.0
Current Annual Income (\$m)	50.5
Average Lease Income Increase (y-o-y) (%)	2.4
Property Yield – Freehold Properties (%)	7.8
Property Yield – Leasehold Properties (%)	13.3
Property Yield – Total (%)	8.0
Occupancy Rate (%)	99.7
Weighted Average Lease Expiry (yrs) (by income)	7.9

## PROPERTY SUMMARY

The Trust's property portfolio as at 30 June 2015:

PROPERTY PORTFOLIO	NO. OF PROPERTIES	CARRYING VALUE (\$m)	CURRENT ANNUAL INCOME (\$m)
Australia – Early Learning	332	525.3	43.7 <sup>5</sup>
New Zealand – Early Learning	51	55.5	4.1 <sup>6</sup>
<b>Total Early Learning</b>	<b>383</b>	<b>580.8</b>	<b>47.8</b>
Medical Centre	1	10.8	0.6
<b>Total Improved Properties</b>	<b>384</b>	<b>591.6</b>	<b>48.4</b>
Development Sites (Settled) <sup>8</sup>	12	35.4	2.1 <sup>7</sup>
<b>Total Properties</b>	<b>396</b>	<b>627.0</b>	<b>50.5</b>

## TRUST PERFORMANCE

FET paid distributions of 12.8 cpu for the year, an increase of 6.7 per cent from the prior year.

FET provided a total return of 35.8 per cent for the year to 30 June 2015, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") return of 20.2 per cent for the same period. FET has also outperformed the Index over three years generating a total return of 36.9 per cent per annum (v 18.3 per cent per annum) and five years at 42.5 per cent per annum (v 14.2 per cent per annum).

FET has achieved annual distribution growth of 10.8 per cent per annum and average NTA growth of 11.4 per cent per annum since 2011.

The Trust's market capitalisation increased from \$337 million at 30 June 2014 to \$515 million at 30 June 2015.

<sup>5</sup> Includes head-lease rent on leasehold properties of \$1.15m.

<sup>6</sup> Based on NZD rent of \$4.61 million at an exchange rate of 1.1215 as at 30 June 2015.

<sup>7</sup> Site rent charged on development site.

<sup>8</sup> Excludes sites not yet settled



## PROPERTY PORTFOLIO

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

- acquisition of 47 early learning properties and a medical centre as a result of the merger with FST;
- acquisition of an existing childcare centre and further expansion of the development sites program with a total upon completion values of \$5.4 million and \$89.5 million respectively;
- settled the disposal of 18 properties totalling \$22.7 million at an average yield of 7.1 per cent and at a 20.8 per cent premium to carrying value at 30 June 2014. Subsequent to 30 June 2015, a further 3 properties in Queensland have been contracted to sell for total consideration of \$6.6 million on a yield of 6.9 per cent;
- 50 of 55 five year options, predominantly commencing in December 2019 were renewed, effectively increasing the term remaining on these leases from 5 to 10 years;
- market rent reviews were negotiated in respect of 54 leases. Of these, 51 reviews were subject to a cap of 5 per cent achieving a 4.2 per cent increase with the remaining 3 reviews without a cap achieving an average 5.1 per cent increase; and
- the WALE of the portfolio decreased slightly from 8.0 years at 30 June 2014 to 7.9 years at 30 June 2015.

## PROPERTY VALUATIONS

During the year, a total of 359 early learning properties in the portfolio were revalued. Of these, 131 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle and 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 \$59.2 million over the previous carrying values. This result has been driven by strong yield compression as well as natural rental increases.

The largest increases on the independent valuations occurred in NSW/ACT (22.3 per cent), Queensland (16.3 per cent) and Victoria (14.8 per cent) which have all seen continued yield compression across the market.

Subsequent to 30 June 2015, a further 21 independent valuations were completed. These valuations have resulted in an increase of 12.6 per cent for the Australian and 5.7 per cent for the New Zealand assets on Directors valuations adopted at 30 June 2015.



## ACQUISITIONS

At 30 June 2014, FET owned 5 development sites. During the year, FET purchased a further 12 development sites for new early learning centres. In total these sites have an upon completion value of \$82.6 million. Eight of the 12 sites have settled with 4 more due during FY16.

In addition, FET entered into contracts to purchase 2 more development sites. These later sites have an upon completion value of \$9.5 million and are expected to settle in late 2015 and early 2016.

DEVELOPMENT SITES	NO. OF PROPERTIES	UPON COMPLETION VALUE (\$m)
Settled as at 30 June 2014	5	28.6
Contracted & settled FY15	8	36.1
Contracted and not yet settled FY15	4	17.9
<b>Total Value "Upon Completion"</b>	<b>17</b>	<b>82.6</b>
Less Completed developments FY15	(1)	(2.6)
<b>Total Dev. sites held at 30 June 2015</b>	<b>16</b>	<b>80.0</b>
Contracts entered into post FY15	2	9.5
<b>Total Upon Completion Value</b>	<b>18</b>	<b>89.5</b>

The total development program of 18 sites is now expected to add upon completion, approximately \$6.6 million of net rental income to FET, an increase of 14.0 per cent on FET's FY15 lease income.

In addition to the development sites, FET settled the acquisition of an existing centre at Gungahlin, ACT in October 2014 at a value of \$5.4 million.

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 development pipeline continues to grow 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 18 properties in the year totalling \$22.7 million. Of the 18, 6 of the disposals that settled were contracted prior to 30 June 2014. Twelve sales were contracted and subsequently settled during FY15 with the sales achieving a 36.0 per cent premium to carrying value.

The average passing yield on the sales was 7.1 per cent with the lowest yield achieved at 5.8 per cent. This compares to the average yield on the same properties at 30 June 2014 of 8.5 per cent, an improvement of 140 basis points. Notably, 10 sale properties were in regional locations, providing further evidence of yield compression in regional markets as well as in metropolitan markets.

Subsequent to 30 June 2015, a further 3 properties in Queensland have been contracted to sell. Total consideration was \$6.6 million on a sales yield of 6.9 per cent. Overall, the sales provided a premium to FET's book values of 22.3 per cent.

Subject to market conditions, it is expected that the Trust will dispose of a small number of properties during FY16. This is driven by a redeployment of capital as well as on-going portfolio management.

## **CAPITAL MANAGEMENT**

### ***Distribution Re-investment Plan ("DRP")***

During the year, FET re-activated its DRP effective from the September quarter. The discount applicable was 1.5 per cent to the traded FET unit price. Unitholder participation during the year has averaged 23.8 per cent resulting in 2.5 million units being issued at an average issue price of \$1.96. The reinvested value of the DRP during the year was \$5.0 million.

### ***Debt Funding***

FET's debt facilities total \$207.3 million comprising a \$173 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 \$190 million as at 30 June 2015.

The undrawn amount of \$17.3 million is available and will be utilised to assist in funding future acquisitions and developments. Additional debt financing is available to FET through increasing the facility limit as the Trust has significant headroom under its debt covenants and with respect to FET's LVR, currently sits at the lower end of the targeted 30 - 40 per cent gearing range. During FY16, we will look to extend the maturity of the facility including the evaluation of longer maturity debt options.

### ***Hedging***

As part of the Trust's interest rate management policy, additional hedging positions were entered into in June 2015. As a result, FET has staggered hedging positions through to June 2020. The average hedged position is 52 per cent based on the existing debt of \$190 million at an average rate of 3.64 per cent per annum (30 June 2014: 4.29 per cent per annum). For FY16, FET has hedged 66 per cent of its interest rate exposure at a hedged rate of 3.59 per cent per annum.

### ***Cost of Debt***

As at 30 June 2015, FET's cost of debt is 4.6 per cent per annum (30 June 2014: 5.1 per cent per annum), which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 5.0 per cent per annum (30 June 2014: 5.6 per cent per annum) which includes the amortisation of deferred borrowing costs.

## **FST MERGER**

Effective 6 January 2015, FET merged with Folkestone Social Infrastructure Trust ("FST"). FST owned 47 early learning properties, one medical centre and a 15 per cent holding in Folkestone CIB Fund ("FCIB"), which owns a portfolio of police stations and courthouses.



The transaction is consistent with FET's overall strategy of acquiring portfolios and individual assets that add to earnings, portfolio quality and both tenant and geographic diversification.

## BOARD CHANGES

Effective 1 September 2015, Mr Vic Cottren will step down as Chairman of the Responsible Entity, a position he has held since 2008, but will remain as an Independent Director. The new Non-executive Chairman will be Mr Grant Hodgetts, an existing Independent Director of the Responsible Entity. Mr Hodgetts has been involved in real estate and funds management since 1979 and is presently the Non-executive Chairman of Folkestone Funds Management as well as holding non-executive positions on a number of other Boards.

## OUTLOOK AND DISTRIBUTION FORECAST

The FY16 distribution is estimated to be **13.4 cpu**. This is a 4.7 per cent increase on the FY15 distribution level of 12.8 cpu. The forecast is based on continued tenant performance. FET will continue to pay quarterly distributions, one month in arrears.

FET will continue to execute on its strategy to be recognised as the leading provider of early learning accommodation that provides a healthy and safe environment for future generations and provides investors with predictable and secure long term cash-flows with the opportunity for capital growth.

Management is focused on proactively managing its portfolio to ensure it is positioned for future growth. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust's characteristics and overall investment objectives.

For further information contact:

### NICK ANAGNOSTOU

Chief Executive Officer  
Folkestone Education Trust

### LULA LIOSSI

Investor Relations Manager  
t: +61 3 8601 2668

### TRAVIS BUTCHER

Chief Financial Officer - Funds  
Folkestone Education Trust

## 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](http://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 \$870 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](http://www.folkestone.com.au)