



**Folkestone**  
EDUCATION TRUST

**FOLKESTONE EDUCATION TRUST**  
**CORPORATE GOVERNANCE STATEMENT**



# CORPORATE GOVERNANCE STATEMENT

The Folkestone Education Trust ("the Trust") is a managed investment scheme that is registered under the *Corporations Act 2001* (the "Act"). Folkestone Investment Management Limited ("FIML" or "the Responsible Entity") was appointed the Responsible Entity of the Trust on 17 December 2004.

This statement outlines the main corporate governance practices of the Responsible Entity, which were in place throughout the year and at the date of this report.

The ASX Principles have been drafted primarily for listed companies, and not all of the recommendations are readily applicable for a registered managed investment scheme and its Responsible Entity. However, the Responsible Entity seeks to comply with the majority of the ASX Principles. Where it does not, it is in respect of obligations to disclose material or matters where the nature of regulation of listed trusts or of the Trust's business is such that the Board of the Responsible Entity considers that there has been no detriment to the unitholders of the Trust from non-compliance. Areas of non-compliance and the reasons for non-compliance are noted in this statement.

In accordance with ASX Listing Rule 4.10.3, set out below are the ASX Corporate Governance Council's eight principles of good corporate governance and the extent to which the Trust has sought to comply with the recommendations for each.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

This Principle requires the Trust to establish and disclose the respective roles and responsibilities of both the Board and Management.

The Responsible Entity is a wholly owned subsidiary of Folkestone Limited ("Folkestone" or "Company"). The Board of the Responsible Entity is responsible for overseeing the management of the business of the Trust. The business of the Trust is managed under the direction of the Board of the Responsible Entity ("the Board") with management of day to day operations delegated to Mr Nick Anagnostou, Chief Executive Officer – Social Infrastructure Funds.

The conduct of the Board is governed by the Constitution of the Trust, the Compliance Plan and the *Corporations Act 2001*. A copy of the Constitution of the Trust is available on the Trust's website.

The Board meets on a regular basis and is required to discuss pertinent business developments and issues and review the operations and performance of the Trust.

A Director is invited to join the Board by a formal letter which details the key terms of their appointment including remuneration and requires a written acceptance. Prior to appointment, appropriate checks

are undertaken with respect to character, experience, education, criminal record and bankruptcy history. The powers, duties, disclosure of Directors interests and trading policy governing dealing in the Trust's securities are covered with the new Director during their induction.

The Joint Company Secretaries report directly to the Board. Between meetings the Joint Company Secretaries are required to keep the Chairman fully informed.

The role of the Board of the Responsible Entity is to ensure that the Trust is managed in a manner that protects and enhances the interests of its unitholders and takes into account the interests of officers of the Responsible Entity, customers, suppliers, lenders and the wider community.

The Trust does not have formal evaluation measures and processes in place for the Board, its committees and individual directors as the nature and size of the business to date has justified an informal process.

The Board has overall responsibility for corporate governance, including setting the strategic direction for the Trust, establishing goals for management and monitoring the achievement of these goals.

The Board's responsibilities and duties include:

- ensuring FIML implements and monitors the strategic and operational plans for the Trust;
- approving the annual financial budgets, including capital expenditure budgets for the Trust;
- monitoring financial performance of the Trust against appropriate performance indicators;
- identifying conflict of interest situations and determining whether the conflict situation is to be avoided or whether it can be appropriately controlled, and determining and implementing the procedures necessary to control the conflicts of interest;
- setting an appropriate risk management strategy so that compliance with the requirements of FIML's Australian Financial Services Licence ("AFSL") can be adequately measured and monitored by the Audit and Compliance Committee;
- approving the issue of disclosure documents in respect of the Trust;
- approving major acquisitions, disposals, developments/refurbishments including the funds arrangements (including where required by the applicable Limits of Authority Policy);
- monitoring corporate governance practices in FIML;
- ensuring that assets of the Trust are valued at regular intervals appropriately to the nature of the individual assets;

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- appointing legal, accounting or other advisers as required;
- appointing Committees of the Board as may be appropriate to assist in the discharge of its responsibilities, determining their responsibilities and approving a charter for each Committee; and
- monitoring the adequacy of the Company's resources (including financial, technical and human resources) to provide the financial services required by the AFSL.

The separation of responsibilities between the Board and Management is clearly understood and respected.

All senior executives of the Responsible Entity are employed by Folkestone Limited. Prior to the commencement of the financial year, a budget/strategy session is held involving the Folkestone Limited Executive Team and a business plan is agreed for the forthcoming year. Performance is regularly reviewed at periodic meetings of the Folkestone Executive Committee. An annual performance appraisal of all Folkestone staff is conducted at the end of the financial year.

Adopting this process, the performance of senior executives was evaluated during the financial year.

The Responsibility Entity and broader Folkestone Group does not have a Diversity Policy. This is due to the small, specialist and stable nature of the Responsible Entity's workforce, and therefore it is not considered appropriate or useful to set gender specific, or other diversity specific, performance targets that relate specifically to the Responsible Entity and the Trust operations.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

This Principle requires the Trust to have a Board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

It is the objective that the Board comprise directors with an appropriate mix of skills, experience and personal attributes that allow the directors individually and the Board collectively to supervise the operations of the Trust with excellence.

### Nomination Committee

The Board does not have a Nomination Committee due to the Company's size, however the Board has processes in place which raise the issues that would otherwise be considered by the Nomination Committee including review of succession plans, appointment, performance evaluation and re-election of Directors.

### Director Independence

The current Board comprises four directors, of whom three – Mr Grant Hodgetts, Mr Michael Johnstone and Mr Vic Cottren - are independent. The other member of the Board is Mr Nick Anagnostou who holds an executive role and is not considered independent. Mr Hodgetts has been Chairman of the Board since 1 September 2015 and is regarded as independent.

The roles of Chairman and Chief Executive Officer – Social Infrastructure Funds are not held by the same individual.

Details of each Director's relevant skills, experience and expertise, as well as their independence status and period in office are set out in the Directors' Report contained within the Trust's Annual Report each year. The numbers of meetings held and attended during the year are also set out in the Directors' Report.

In determining the independence of directors, the Board has adopted the criteria as set out in the Corporate Governance Principles and Recommendations.

Under the terms of the Trust's Constitution, the directors and non-executive committee members of the Responsible Entity have the right to seek independent professional advice at the Trust's expense.

With the input of Folkestone Limited, the Board seeks to evolve its membership by appointing non-executive directors with diverse and complementary skills, experience and perspectives.

Directors and management are encouraged to participate in continuing education activities to enhance their skills and knowledge.

Directors are invited to join the Board on the basis of their experience and skills in relation to the Trust's activities. The Board is fully appraised on an ongoing basis with the operations of the Trust and all members are fully conversant with both the business of the Trust and the environment in which it operates. The following table summarises the key skills of the Directors as a group:

### Skills and Experience

Real estate and valuation experience

Funds management / financial services

Financial acumen

Strategy

Corporate governance

Debt and equity markets

Legal, risk and compliance

ASX listed entity experience

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The Board periodically reviews the composition of the Board in view of the business and strategic needs of the business and provides feedback in relation thereto to Folkestone Limited. If it is deemed necessary to recruit additional directors, Folkestone Limited will assist the Board in determining the skills and experience required by the additional directors. A search process is undertaken, following which the Chairman and directors will interview the selected candidate(s). If a suitable candidate is found an appointment will be made.

Neither the Responsible Entity's Constitution nor the ASX Listing Rules require newly appointed directors to seek election or incumbent directors to seek re-election.

A copy of the Responsible Entity's Board Governance and Charter Manual is available on Folkestone's website. The Board Charter provides a summary of the procedure for the selection and appointment of new directors.

## PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

This Principle requires that the Board should actively promote ethical and responsible decision-making.

Directors and employees of the Responsible Entity are subject to a Code of Conduct which has been implemented by Folkestone Limited. The Board is committed to ensuring that all directors and employees act with the utmost integrity and objectivity in their dealings with all people that they come in contact with during their working life.

A copy of the Folkestone Group Code of Conduct is available on the Trust's website.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

This Principle requires that the Trust have a structure in place to independently verify and safeguard the integrity of its financial reporting.

### Audit and Compliance Committee

The Board established an Audit and Compliance Committee ("Committee") in February 2005 whose responsibilities include monitoring the Responsibility Entity and the Trust's compliance with the *Corporations Act 2001*, the Trust's Constitution and Compliance Plan. This is notwithstanding that a separate compliance committee is not required under s.601JA of the *Corporations Act 2001*.

The current members of the Committee are Mr Michael Johnstone (Chairman), Mr Grant Hodgetts and Mr Vic Cottren, all of whom are considered independent.

The qualifications of the Audit and Compliance Committee members and details of meetings held and attended during the year are set out in the Directors' Report contained within the Trust's Annual Report each year.

Since 25 August 2015, the Committee had, at all times, 3 members who were independent and non-executive directors.

The Audit and Compliance Committee has a formal charter which sets out its responsibilities. A copy of the Audit and Compliance Committee Charter is available on the Trust's website. The Charter provides a summary of the procedure for the selection and appointment of the external auditor and for the rotation of the external audit engagement partners.

The Board is responsible for appointing the external auditor. The Audit and Compliance Committee is directly responsible for making recommendations to the Board on the appointment, termination and oversight of the external auditor. In selecting an auditor, the Committee implements a selection process and makes a recommendation to the Board based on their assessment of the potential external auditor. The assessment takes into account a number of key criteria, including audit approach and methodology, internal quality control procedures, resources, key personnel and cost.

The Audit and Compliance Committee is required to annually review the external Auditors performance and independence.

In line with current professional standards, the external auditor is required to rotate the Trust's audit and review partners at least once every 5 years.

### CEO and CFO Declaration

Prior to the approval of the Trust's financial statements for a financial period, the Chief Executive Officer – Social Infrastructure Funds and Chief Financial Officer - Funds have certified to the Board that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

### Attendance of Auditor at AGM

As a managed investment scheme, the Trust is not required by the *Corporations Act 2001* to hold an annual general meeting. In deciding not to hold a unitholders' meeting, the recommendation in relation to attendance by the external auditor at the AGM is not applicable.

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## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

This Principle requires the Trust to promote timely and balanced disclosure of all material aspects concerning the Trust. The Folkestone Group has a Communications Policy which applies to all entities within the Group including all Trusts managed by the Responsible Entity. The Communications Policy has been adopted by the Board and includes a policy in relation to Continuous Disclosure. This policy reflects the Board's commitment to ensuring that information that is expected to have a material effect on the price or value of the Trust's securities is immediately notified to the ASX for dissemination to the market in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules. A copy of the Policy is available on the Trust's website.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

This Principle requires the Trust to respect the rights of unitholders and facilitate the exercise of those rights.

A Communications Policy has been adopted by the Board, reflecting its policy that unitholders be informed of all significant developments and governance affecting the Trust's affairs.

Information is communicated by:

- dispatching annual reports to unitholders who request to receive it;
- dispatching Distribution Statements to all Unitholders which include details of distributions paid and the components of the distribution;
- maintaining a dedicated investor relations section on the Trust's website to which it posts copies of all ASX announcements, Annual Reports, Half Yearly Reports, details of corporate governance practices, presentations to Unitholders and other information of interest to investors; and
- providing advance notification of teleconferenced investor briefings following results announcements.

Unitholders have the option to receive communication from both the Trust and the unit registry electronically. Unitholders are able to email queries to the Responsible Entity regarding the Trust's activities with prompt responses to be provided by the Responsible Entity.

The Responsible Entity has a pro-active investor relations program which includes meetings with institutional investors, private investors, research analysts and financial media.

As a managed investment scheme, the Trust is not required by the *Corporations Act 2001* to hold an annual general meeting. From time to time, however,

the Trust has held unitholders' meetings at which the auditor (at the request of the Responsible Entity) has been in attendance. In the interests of containing costs and absence of any material benefit to unitholders, a unitholders' meeting was not held during the financial year.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

This Principle requires the Trust to establish a sound system of risk oversight, management and internal control.

The Responsible Entity has a Risk Management Program which complies with the requirements of the Australian Standard on Risk Management (AS/NZ ISO 31000) and has a Compliance Program which meets the Australian Standard for Compliance Programs (AS/NZ 3806).

Day to day responsibility for risk management has been delegated to Management, with a review occurring at both Responsible Entity Board level and Folkestone Limited Board level on an annual basis. Risks, the effectiveness of mitigation strategies and the overall management system are regularly reviewed by Management to ensure changing circumstances do not alter the risk priorities. Management reports to the Board on the effectiveness of the Trust's management of its material business risks.

The Trust does not have an internal audit function due to the small size of the Responsible Entity's workforce. In accordance with the Risk Management Program, Management undertakes an exercise of identifying and prioritising its material business risks. These risks are documented in a Risk Register and, where the level of risk is considered to be above the desired level, an action plan is developed to address and mitigate the risk. The Directors' Report and Financial Statements includes a summary of the material business risks faced by the Trust.

As a registered managed investment scheme, the Responsible Entity has a compliance plan that has been lodged with the Australian Securities and Investments Commission (ASIC) and a copy of the compliance plan can be obtained from ASIC. The compliance plan is reviewed comprehensively every year to ensure that the way in which the Responsible Entity operates protects the rights and interests of unitholders and that business risks are identified and properly managed.

In particular, the compliance plan establishes a range of processes including:

- identifying and reporting breaches of, or non-compliance with, the *Corporations Act 2001*, the compliance plan, the constitution of the Trust and the Responsible Entity's Australian Financial Services



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Licence;

- complying with the ASX Listing Rules;
- protecting Trust property;
- ensuring proper acquisition and disposal practices are followed in regard to Trust property;
- ensuring the timely collection of Trust income;
- completing regular valuations of Trust property;
- the maintenance of financial and other records to facilitate preparation of audited/reviewed financial reports;
- ensuring proper and timely distributions to unitholders;
- complying with the Trust's investment objectives;
- managing investment risk;
- managing potential conflicts of interest with the various related parties of the Trust;
- holding and maintaining adequate insurance cover;
- ensuring that borrowing occurs only within permitted limits and ensuring that borrowing terms are complied with; and
- handling complaints relating to the Trust.

PwC, the external auditor of the compliance plan, has completed its annual audit for the year ended 30 June 2017 and will be issuing an unqualified audit opinion.

## PRINCIPLE 8: REMUNERATION FAIRLY AND RESPONSIBLY

This Principle requires that the Trust ensure that the level and composition for remuneration is sufficient and reasonable and that its relationship to performance is clear.

Remuneration of the Responsible Entity is dealt with comprehensively in the Trust's Constitution. The remuneration arrangements are as follows:

Remuneration Type	Amount
Management Fee	0.50% of the Total Tangible Assets of the Trust
Debt arrangement fee	0.5% of all debt funding arranged by the Responsible Entity for the Trust
Due diligence fee	An amount of \$5,000 (indexed by CPI) for conducting due diligence enquiries in connection with any investment of the Trust. Current fee is \$7,296.

The Responsible Entity is also entitled to reimbursement for all expenses reasonably and properly incurred in relation to the Trust or in performing its obligations under the Constitution, service fees for the provision of property management, development and managing agent services.

The details of the amounts paid for the year ended 30 June 2017 are set out in Note 13 in the Notes to the Financial Statements contained within the Trust's Annual Report each year.

Remuneration of directors and senior executives is a matter for the Board of Folkestone Limited. Directors and senior executives are paid either directly by the Responsible Entity or by entities associated with the Responsible Entity or Folkestone Limited. Directors and employees are not directly provided with any remuneration by the Trust itself.

The Folkestone Board has established a Remuneration Committee comprised of the three non-executive Directors and chaired by the Company Chairman.

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Further details of the members of the Remuneration Committee and of meetings held are included in Folkestone's Directors' Report contained in the Annual Report. Executive remuneration and other terms of employment are reviewed annually having regard to performance goals set at the start of the year, relevant comparative information and independent advice where appropriate.

The functions and responsibilities of the Folkestone Remuneration Committee include:

- Reviewing the performance of the Chief Executive Officer – Social Infrastructure Funds.
- Reviewing and recommending to the Folkestone Board the remuneration packages of the Chief Executive Officer – Social Infrastructure Funds and senior executives.
- Reviewing and recommending appropriate non-executive Directors fees.

A distinction is made between the structure of non-executive directors' remuneration and that of executive directors and senior executives. Non-executive directors are remunerated by way of fees in the form of a combination of cash and superannuation contributions. Senior management of Folkestone Limited are remunerated on the basis of packages which comprise a base salary plus short term and long term performance bonuses. Overall packages are set at levels that are intended to retain and attract executives who are capable of managing the Folkestone Group's operations. Neither directors nor senior executives are entitled to equity interests in the Trust, or any rights to, or options for equity interests in the Trust as a result of remuneration provided by the Responsible Entity.

Neither Folkestone nor the Responsible Entity pays retirement benefits, other than superannuation, for its non-executive directors.

Directors and employees are not remunerated by the Trust and do not receive equity in the Trust as a form of remuneration. Accordingly, it is considered unnecessary to have a policy which prohibits transactions in associated products which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes.

A copy of the Constitution is available on the Trust's website and a copy of the Remuneration Committee Charter is available on Folkestone's website.



**RESPONSIBLE ENTITY AND  
PRINCIPAL PLACE OF  
BUSINESS OF THE TRUST**

Folkestone Investment  
Management Limited  
Level 14, 357 Collins Street  
Melbourne VIC 3000

**DIRECTORS OF THE  
RESPONSIBLE ENTITY**

Grant Bartley Hodgetts (Chairman)  
Michael Francis Johnstone  
Victor David Cottren  
Nicholas James Anagnostou

**LAWYERS**

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Sydney NSW 2000

**UNIT REGISTRY**

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**AUDITORS/TAXATION  
ADVISORS**

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Southbank VIC 3006

**BANK**

The Hongkong and Shanghai  
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Towers Sydney  
100 Barangaroo Avenue  
Sydney NSW 2000

Australia & New Zealand Banking  
Group Limited  
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Melbourne VIC 3000

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**JOINT COMPANY SECRETARIES**

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**Folkestone**  
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