

FOLKESTONE EDUCATION TRUST (ASX:FET)

Merger with Folkestone
Social Infrastructure Trust (ASX: FST)

13 November 2014



Folkestone
EDUCATION TRUST

TRANSACTION OVERVIEW

<p>Merger</p>	<ul style="list-style-type: none"> Folkestone Education Trust (“FET”) has entered into a Merger Implementation Deed with the Folkestone Social Infrastructure Trust (“FST”) in order to acquire all of the Units on issue in FST by way of a Scheme The proposal will be funded by offering FST Unitholders¹ at the Record Date: <ul style="list-style-type: none"> 1.32 New FET Units for every one FST Unit (Scheme Consideration), equating to an implied value of \$2.47 per FST Unit² Prior to the implementation of the transaction, FST Unitholders will also receive \$0.675 per Unit in cash for every 1 FST Unit (Implementation Distribution) which will be funded from FST non-core asset sales prior to the implementation of the merger
<p>Transaction Impact on FET</p>	<ul style="list-style-type: none"> Increases the FY15 2H forecast distribution by 0.1 cents to 6.45 cents (accretion of 1.6%) resulting in an annual forecast of 12.8 cents per Unit (FY15 1H distribution forecast of 6.35 cents) Increases the pro forma FET NTA per Unit from \$1.53³ to \$1.56, an accretion of 2.0% Clearly positions FET as the leading owner of early learning properties - FET’s early learning properties increase from 354 to 401 and the combined value from \$471 million to \$545 million Increases FET’s market capitalisation and enhances liquidity
<p>Timing</p>	<ul style="list-style-type: none"> The transaction is subject to approval by FST Unitholders at a FST Unitholder meeting, scheduled for 19 December 2014.

Note 1: Foreign FST Unitholders will not receive the Scheme Consideration and will participate in a Sale Facility

Note 2: Based on closing price for FET units as at 12 November 2014 of \$1.87, the date prior to the announcement of the Proposal

Note 3: Based on the audited balance sheet as at 30 June 2014 with adjustments made to reflect material changes since 30 June 2014

STRATEGIC RATIONALE



Cremorne



Gungahlin



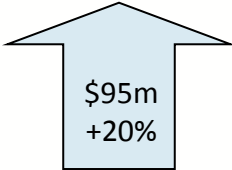
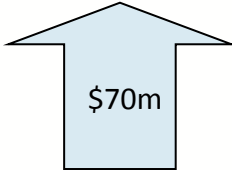
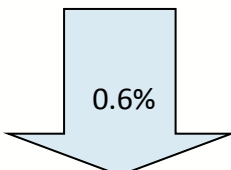
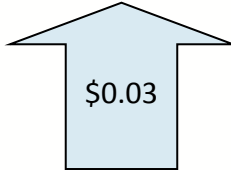
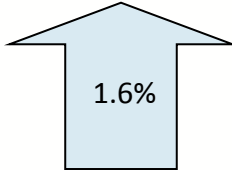
Fairlight

- Transaction is consistent with FET's acquisition strategy of purchasing portfolios and individual assets that add to earnings, portfolio quality and both tenant and geographic diversification
- Strengthens FET's position as the leading provider of early learning accommodation
- The merger is accretive to both distribution and NTA per Unit
- Provides a significant increase in scale for FET from 354 to 401 centres
- Efficient acquisition structure given lower transaction costs through lower stamp rates applicable to the merger compared to an outright purchase of properties
- FET has sought a mixture of acquisitions of existing centres as well as 'fund through' style developments. The merger with FST complements the existing FET pipeline of development assets that are expected to provide both immediate value upside together with superior long term earnings and value growth
- The purchase of existing centres balances FET's existing development portfolio which now accounts for almost \$66 million¹ in contracted and identified opportunities, which is also supported by the continued recycling of a small number of assets

Note 1. Excludes completed developments of approximately \$13 million

SUMMARY OF FINANCIAL IMPACT

- The transaction will increase FET's pro forma total assets to \$569 million, an increase of 20%
- The transaction will increase FET's NTA per unit by 2% to \$1.56 per unit
- The transaction is expected to add 0.1 cents per Unit in the second half of FY15 resulting in an annual forecast of 12.8 cents per Unit
- Pro forma gearing reduces marginally from 31.0% to 30.4%, within FET's target gearing range of 30% to 40%

Total Assets ¹	Market Capitalisation ²	Gearing ¹	NTA per Unit ¹	FY15 2H DPU Accretion
\$569m	\$455m	31.0%	\$1.56	6.45 cpu
				
\$474m	\$385m	30.4%	\$1.53	6.35 cpu

Note 1: Based on the audited balance sheet as at 30 June 2014 with pro forma adjustments to reflect material changes since 30 June 2014

Note 2: Market capitalisation of FET is based on the total number of Units on issue pre and post merger and the closing FET unit price as at 12 November 2014 of \$1.87

BENEFITS TO FST

The benefits of the transaction to FST Unitholders and hence an appreciation of their attraction to the proposal will include the following factors:

- Increase in exposure to early learning properties from 47 in FST to 401 in FET post the merger
- Increase in number of operators from 6 in FST to 27 in FET post merger
- Increase in geographic diversification via a reduction in exposure to Queensland from 64% to 35% in FET post the merger
- Enhanced growth profile via access to the FET's active development pipeline of early learning properties
- Reduction in ongoing management expenses including a reduction in management fees payable in respect of the FST assets from 1.0% per annum to 0.5% per annum, removal of acquisition and disposal fees on FST assets and duplicated administrative costs¹
- Additional scale provides the potential for an improved cost of capital and financial flexibility
- Seamless transition and retention of the FST management team
- Significant increase in market capitalisation and enhanced liquidity including inclusion in the S&P/ASX 300 A-REIT Index

Note 1: FREML is entitled to a fee of 2% of FST's gross assets on being removed as the responsible entity of FST, in accordance with the FST Constitution. FREML has agreed to defer payment of this fee, being approximately \$1.8 million, until such time as the responsible entity of FET is no longer a member of the Folkestone Group

FST ACQUISITION

- FET has agreed to acquire 100% of the Units in FST for scrip consideration. At the time of implementation, FST will comprise 47 early learning properties, a medical centre and Folkestone CIB Units.
- Post implementation, FST will become a 100% owned sub-trust of FET. FET will assume existing debt arrangements of FST with ANZ which are consistent with FET's existing arrangements
- The acquisition is being effected by a trust scheme and is conditional on approval by FST Unitholders at a FST Unitholder meeting, scheduled for Friday 19 December 2014
- Approval requires at least 75% of the votes cast by FST Unitholders to be in favour of the merger for it to proceed
- The responsible entity of FST is Folkestone Real Estate Management Limited (FREML), which is a subsidiary of Folkestone Limited (FLK). As a result, FLK personnel have managed FST since 2007 and understands the portfolio and importantly has strong tenant and industry relationships

FST – Key Financial Metrics¹

Total Assets	\$121.9m
Investment Property	\$93.2m
Securities	\$24.8m
Gross Debt	\$34.3m
Net Assets	\$85.4m
Units on Issue	28.45m
NTA per Unit	\$3.00



Note 1. Derived from FST's pro forma balance sheet

FST ASSET PROFILE

- Early learning properties have similar lease structures to FET:
 - triple net lease structures
 - annual rent indexation to CPI
 - land tax recovery (except Victoria)
 - long term initial leases with no further options
- FST has investments in two non early learning assets for which FET will periodically assess its ongoing position with a view to disposing of these two assets over time
 - Melton medical centre leased to Primary Health – value of \$7.4 million
 - Folkestone CIB Fund (police stations and court houses) – value of \$8.0 million
- Since 30 June 2014, FST has disposed of interests in Stockland Direct Retail Trust No.1 and Australian Property Growth Fund
- Conditional sale contracts are in place to dispose of the self storage facility in Glen Iris and the 4.4% equity holding in FET if the Scheme is implemented

FST – Early Learning Properties

No of early learning properties	47
Passing Property Yield	8.9%
No. LDC Places	3,939
Current Valuation	\$74.2m
Passing Income	\$6.5m
No of Tenants	5
WALE	7.3 Years



FET PRO FORMA BALANCE SHEET

The pro forma balance sheet of the merged entity will be as follows:

(\$m) ¹	FET	FST	FST Conditional Sales	Proposal	Pro forma post transaction
Cash	0.8	3.3	16.8	(19.2)	1.7
Other assets	1.6	0.6	-	-	2.2
Investment properties	471.7	93.2	(11.7)	-	553.2
Securities	-	24.8	(16.8)	-	8.0
Goodwill	-	-	-	4.0	4.0
Total Assets	474.1	121.9	(11.7)	(15.2)	569.0
Borrowings	145.7	34.3	(11.7)	2.5	170.8
Other liabilities	12.2	2.1	-	-	14.3
Total Liabilities	157.9	36.4	(11.7)	2.5	185.1
Net Assets	316.2	85.4	-	(17.7)	384.0
Units on issue (millions)	206.0	28.4		37.6	243.5
NTA per unit	1.53	3.00			1.56
Gearing ²	31.0%	28.1%			30.4%

- The FET pro forma balance sheet has been adjusted for material changes to the financial position since 30 June 2014 which have included the following:
 - revaluation of 44 properties resulting in an increase in value of \$7.8 million;
 - acquisition of 3 properties and further development payments of \$10.5 million; and
 - settlement of 6 properties contracted to sell at 30 June 2014 of \$7.8 million with a further 3 disposals to settle in December 2014 of \$3.7 million

Note 1. Rounding of the figures provided may result in some discrepancies between the sum of components and the totals outlined

Note 2. Calculated as debt divided by total gross assets

SOURCES AND APPLICATION OF FUNDS

- The proposal does not require additional capital from FET's investors
- The Implementation distribution to FST Unitholders will be funded through the sale of non-core assets prior to the merger implementation
- FET will assume the existing FST debt facility with ANZ of \$34.3 million which expires in July 2017. The terms of that facility are consistent with FET's debt facility
- Transaction costs have been minimised by virtue of lower stamp duty rates available in most States for the merger compared to an outright purchase of properties
- Approximately 37.6 million New FET Units will be issued as Scheme Consideration under the transaction

Sources	(\$m)
Scheme consideration	70.2
Implementation distribution	19.2
Drawdown debt	2.5
Total	91.9

Applications	(\$m)
Transaction value	89.4
Stamp duty	0.8
Transaction costs	1.7
Total	91.9

CHARACTERISTICS OF THE MERGED ENTITY

- Post merger, FET will own and manage a combined portfolio of 402 direct property assets (401 early learning properties and 1 medical centre) with gross asset value of \$553 million
- FET will look to optimise value in the remaining non-core assets within the FST portfolio and will periodically assess its ongoing position
- FIML will replace FREML as responsible entity of FST which will be a sub-trust of FET

Merged FET – Portfolio Summary

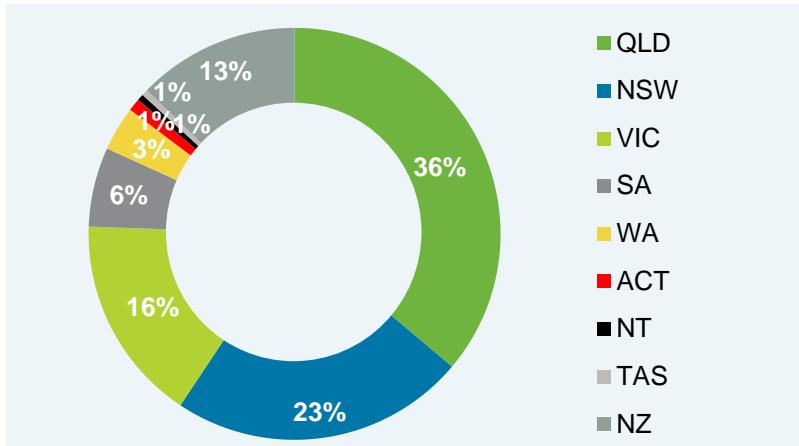
As at 31 Oct 2014	FST		FET ²		Combined	
	No. of Properties	Carrying Value \$m's	No. of Properties	Carrying Value \$m's	No. of Properties	Carrying Value \$m's
Direct Property						
Early learning properties	47	74	348	454	395	528
Medical property	1	7	-	0	1	7
Development sites	0	0	6	17	6	17
Total Direct Properties	48	82	354	471	402	553
FCIB units ¹	-	8	-	-	-	8
Total Portfolio	48	90	354	471	402	561

Note 1: FCIB units are units in the FCIB Fund which owns police stations and courthouses leased to the Victorian Government

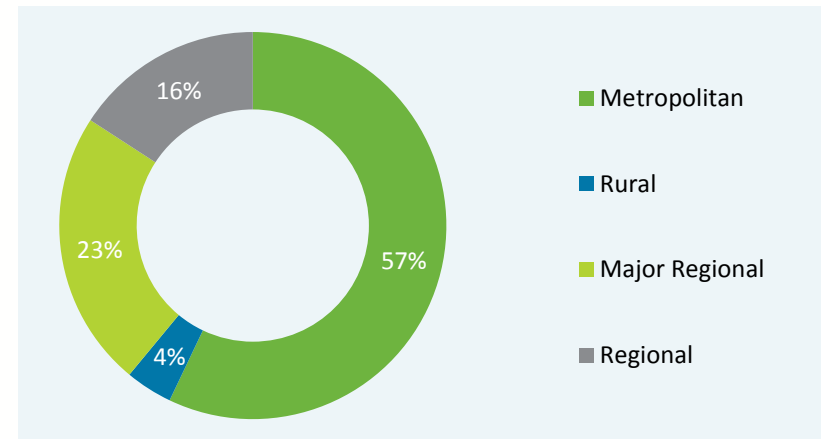
Note 2: Includes three properties in FET that are under contract for sale

CHARACTERISTICS OF THE MERGED ENTITY

Geographic Diversification – Early Learning Centres by State (by Number)



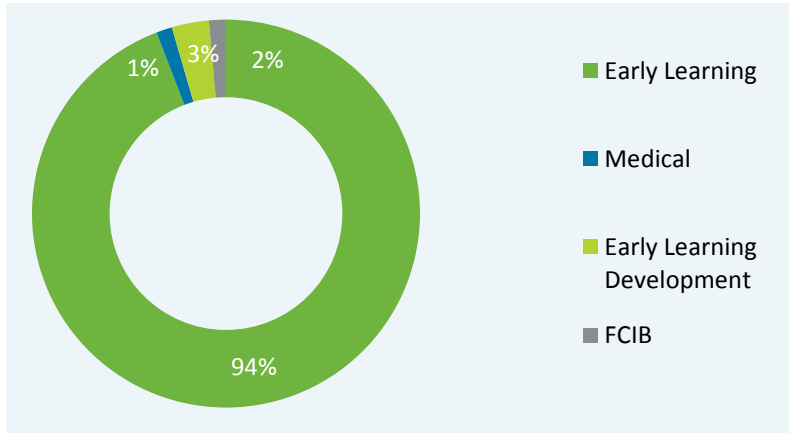
Geographic Diversification – Early Learning Centres by Region (by Value)



- The merger reduces the relative size of the New Zealand assets within the fund, including reducing the impact of any currency fluctuations
- Post implementation, the portfolio will have an increased exposure to Queensland. This state is the location which based of existing valuation data, yield compression has lagged that of its peers and could represent an opportunity for FET into the future

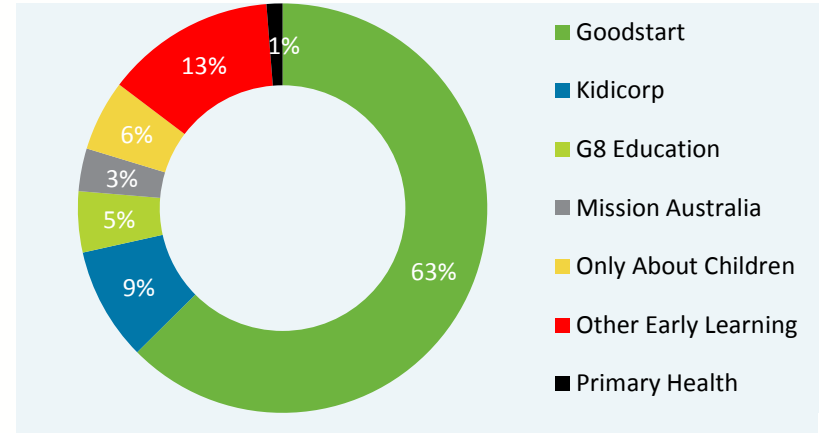
CHARACTERISTICS OF THE MERGED ENTITY

FET Asset Composition (Post Implementation)



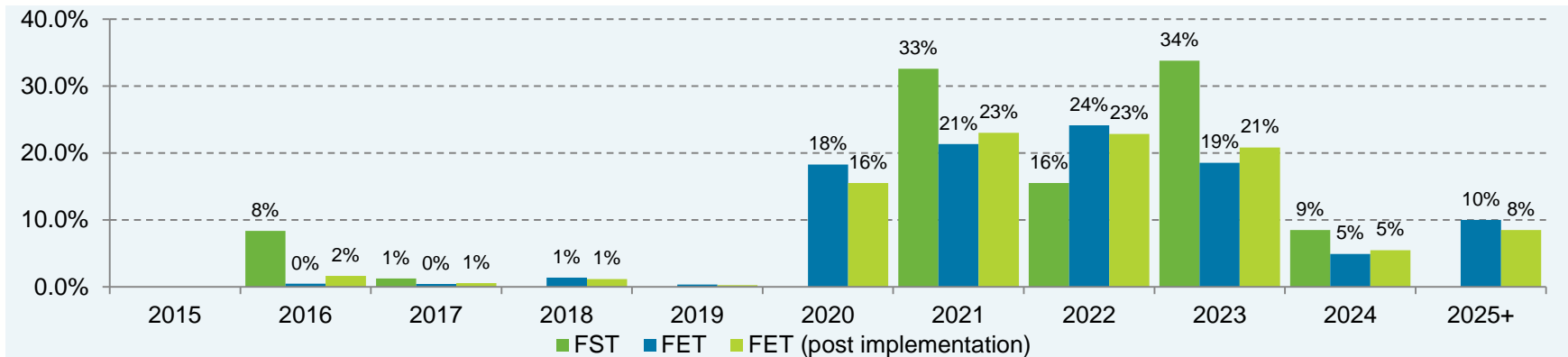
Asset composition by asset value

Tenant Diversification of FET (Post Implementation)



Diversification by tenant rental income

Lease Expiry Profile of FST, FET and FET (Post Implementation)



Lease expiry by income for year ending June 2014

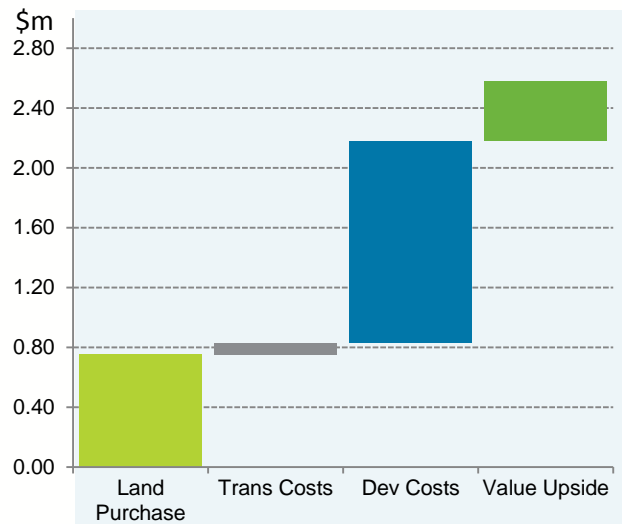
FET DEVELOPMENT PIPELINE

- FET has acquired a pipeline of early learning sites for development across Australia
- The purpose of the pipeline is to provide:
 - further exposure to areas with high childcare demand, matched to high barriers to entry for competing supply
 - quality sites with very good versatility and underlying land values with high growth potential through longer term medium density prospects
 - development opportunities based on net effective market driven rents, not incentives
 - sites that are feasible in their own right and not reliant upon tenant contributions
 - quality childcare accommodation at sustainable rental levels to qualified operators that meet FET standards
- FET has built a pipeline with an “upon completion” value to be ~\$66m. This consists of committed sites as well sites under negotiation and close to finalisation.
- FET is able to select all of the key componentry. The locations are based on a proprietary model that examines short and long term demand, demographics, key success factors together with site location specifics
- FET selects the most appropriate operator for each location based on meeting the expectations of the specific catchment, operator profitability and ability to generate high initial occupancies
- Transaction cost efficient through lower stamp duty
- Is expected to provide a positive value uplift on completion of the developments (which varies from site to site), inclusive of transaction costs and providing an enhanced yield

FET DEVELOPMENT PIPELINE

- FET has committed to the following early learning sites for development:
 - Sydney - Cremorne (complete), Turrumurra, Balmain
 - Melbourne – Armadale, Highett, Cheltenham, Lyndhurst, Epping
 - Perth – Nedlands, Baldivis (complete)
- Six other sites in key Melbourne and Sydney locations, comparable to those above are in the final stages of negotiation. A further eight sites have been progressed and being further examined for suitability

Typical Development Case Study Waterfall



- Transaction cost saving ensures little if any costs are written off
- Provides value uplift on completion, enhancing NTA
- Provides new stock that matches the FET model of “our lease, site, buildings and preferred operator”
- To date, average operating occupancy (within 2 months of commencement) of new FET centres is 95%+
- Yield arbitrage – On Completion Yield v Yield on Cost spread (+0.50% to 0.75%)
- Rents remain net effective and at market levels

INDICATIVE TIMETABLE

Event	Date
Date for determining eligibility of FST Unitholders to vote at the Meeting	Wednesday, 17 December 2014, 3:00pm
Latest date and time for receipt of Proxy Forms for the Meeting	Wednesday, 17 December 2014, 3:00pm
Meeting of FST Unitholders	Friday, 19 December 2014, 3:00pm

If the Resolutions considered at the Meeting are approved by FST Unitholders

Event	Date
Last day of trading of FST Units on ASX and suspension of FST Units at close of trading	Monday, 22 December 2014
New FET Units commence trading on a deferred settlement basis	Monday, 29 December 2014
Record Date – date for determining entitlements to Scheme Consideration, the Implementation Distribution and the Quarterly Distribution	Wednesday, 31 December 2014, 5:00pm
Implementation Date	Tuesday, 6 January 2015
Deferred settlement trading of New FET Units ends at close of trading	Tuesday, 6 January 2015
Trading of New FET Units commences on ASX on a normal settlement basis	Wednesday, 7 January 2015

TRANSACTION SUMMARY

Quantitative Benefits

- Increases the FY15 2H forecast distribution by 0.1 cents to 6.45 cents resulting in an annual forecast of 12.8 cents per Unit (FY15 1H distribution forecast of 6.35 cents)
- Increases the pro-forma FET NTA per Unit from \$1.53 to \$1.56, an accretion of 2.0%
- Clearly positions FET as the leading owner of early learning properties - FET's early learning properties increase from 354 to 401 and the combined value from \$471 million to \$545 million
- Increases FET's market capitalisation and enhances liquidity
- The Proposal does not require additional capital from FET's investors or financiers
- Efficient acquisition utilising lower stamp duty rates available in most States for the merger compared to an on market acquisition

Qualitative Benefits

- Provides a significant increase in scale for FET from 354 to 401 early learning properties
- FET has sought a mixture of transactions of existing centres as well as 'fund through' style developments. The FST Proposal complements the existing FET pipeline of development assets that are expected to provide both immediate value upside together with superior long term earnings and value growth
- The purchase of existing centres allows FET to continue to build on its existing development portfolio which now accounts for circa \$66 million in contracted and identified opportunities as well as the continued recycling of a small number of assets

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Michael Johnstone - Independent Non-Executive Director

Grant Hodgetts - Independent Non-Executive Director

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