

FOLKESTONE EDUCATION TRUST RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

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 2016.

KEY HIGHLIGHTS FOR THE HALF YEAR

- Statutory profit of \$69.1 million, an increase of 16.1% from \$59.5 million in the previous corresponding period ("pcp");
- Distributable income of \$18.7 million, an increase of 10.6% on pcp;
- Distribution of 7.1 cents per Unit ("cpu"), an increase of 6.0% on pcp;
- NTA per Unit of \$2.35, an increase of 9.8% from 30 June 2016;
- FET's development pipeline has increased to 22 sites with a total value of \$121.8 million, net of completions. One development property was completed and commenced operations during the half year with a completion value of \$9.3 million; and
- Two existing centres which were contracted in FY16 settled in HY17, with a total value of \$6.5 million.

FINANCIAL SUMMARY

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

INCOME STATEMENT SUMMARY	DEC 16	DEC 15	VAR. %
Total Operating Revenue (\$m)	32.6	30.5	6.9
Total Operating Expenses (\$m)	13.9	13.6	2.2
Distributable Income (\$m)	18.7	16.9	10.6
EPU ¹ (cpu)	7.5	6.9	8.7
Distribution (cpu)	7.1	6.7	6.0
Statutory Profit (\$m)	69.1	59.5	16.1

BALANCE SHEET SUMMARY AS AT	DEC 16	JUNE 16	VAR. %
Total Assets (\$m)	829.1	753.6	10.0
Investment Properties ² (\$m)	794.5	719.5	10.4
Borrowings ³ (\$m)	227.8	200.4	13.7
Net Assets (\$m)	585.2	531.8	10.0
Gearing ⁴ (%)	27.4	26.6	0.8
Units on Issue (m)	249.3	248.2	0.4
NTA per Unit (\$)	2.35	2.14	9.8

¹ Distributable income divided by weighted average number of Units.

² Includes \$1.8 million of transaction costs in relation to properties contracted and not settled.

³ Borrowings as at 31 December 2016 include loans of \$223.0 million and bank overdraft of \$4.8 million.

⁴ Gearing is calculated by borrowings / total assets.

PROPERTY PORTFOLIO PERFORMANCE

Key property portfolio performance criteria as at 31 December 2016:

AS AT	DEC 16	JUNE 16	VAR %
Value of Investment Properties (\$m)	792.7	717.8	10.4
Current Annual Income (\$m)	56.1	53.8	4.3
Average Annual Lease Income Increase (y-o-y) (%)	2.9	2.8	0.1
Property Yield – Freehold Properties (%)	6.7	7.0	(0.3)
Property Yield – Leasehold Properties (%)	14.1	13.7	0.4
Property Yield – Total (%)	6.9	7.3	(0.4)
Occupancy Rate (%)	99.5	99.5	-
Weighted Average Lease Expiry (yrs) (by income)	8.5	8.2	3.7

PROPERTY SUMMARY

The Trust's property portfolio as at 31 December 2016:

PROPERTY PORTFOLIO	NO. OF PROPERTIES	CARRYING VALUE (\$m)	CURRENT ANNUAL INCOME (\$m)
Australia – Early Learning	337	670.5	48.2 ⁵
New Zealand – Early Learning	51	66.6	4.5 ⁶
Total Early Learning	388	737.1	52.7
Medical Centre	1	11.8	0.7
Total Improved Properties	389	748.9	53.4
Development Sites (Settled)	13	43.8	2.7 ⁷
Total Properties	402	792.7	56.1

TRUST PERFORMANCE

FET paid distributions to investors of 7.1 cpu for the half year, in accordance with the annual FY17 forecast of 14.2 cpu.

FET provided a total return of 18.7 per cent for the year to 31 December 2016, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") return of 13.2 per cent for the same period. FET has also outperformed the Index over three years at 26.0 per cent per annum (v 18.0 per cent per annum), five years at 31.6 per cent per annum (v 18.5 per cent per annum) and ten years at 11.7 per cent per annum (v 0.3 per cent per annum).

⁵ Includes head lease rent on leasehold properties of \$1.2 million.

⁶ Based on NZD rent of \$4.7 million at an exchange rate of 1.0406 as at 31 December 2016.

⁷ Site rent charged on 10 development sites with carrying value of \$36.6 million.



PROPERTY PORTFOLIO

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

- two existing childcare centre properties were settled in New South Wales and Queensland, with a combined value of \$6.5 million. Both have new 15 year standard FET leases from the date of acquisition;
- six new development sites were settled, with a total completion value of \$28.6 million;
- one centre developed by FET commenced operations with a completion value of \$9.3 million;
- FET contracted the disposal of one property totalling \$1.9 million at a yield of 7.8 per cent resulting in a 10.4 per cent premium to the 30 June 2016 carrying value;
- 39 (100 per cent) five year options were renewed, effectively increasing the term remaining on these leases from 5 to 10 years;
- three new 15 year leases were negotiated with new tenants for existing FET properties. A 28 per cent increase in the rent over that being paid by the previous tenant was achieved as a result of these transactions;
- 64 market rent reviews have been completed (26 of the completed market reviews were pending from FY16, being subject to expert determination) achieving an average increase of 4.9 per cent over the prior year's rental, noting that the majority of these leases have a capped rental increase of 5 per cent. For the remainder of FY17, there are a further 63 market reviews to be completed; and
- the WALE of the portfolio increased from 8.2 years at 30 June 2016 to 8.5 years at 31 December 2016 due to new centre completions and lease extensions.

PROPERTY VALUATIONS

During the half year, a total of 354 early learning properties in the portfolio were revalued. Of these, 54 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle, with the remainder being 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 \$47.3 million (7.0 per cent) over the 30 June 2016 carrying values. This result has been driven by further yield compression in the market, combined with growth in income from annual and market rental increases.

The largest increase in carrying values from 30 June 2016 as a result of the independent valuations occurred in Victoria (17.0 per cent), Western Australia (15.9 per cent), Queensland (15.0 per cent) and New South Wales (11.7 per cent). The overall passing yield achieved on the freehold independent valuations was 6.6 per cent, an 80 basis point improvement on the passing yield on the same assets from 30 June 2016.



Overall, yield compression achieved across the portfolio for the half year to 31 December 2016 was 40 basis points on 30 June 2016, reducing the overall yield from 7.3 per cent to 6.9 per cent at 31 December 2016. The yield compression is largely driven by the continued market recognition and investor appetite for the asset class. With daily fees per place continuing to increase, this has added further support to growth in rental income.

Subsequent to 31 December 2016, a further 12 independent valuations have been completed. These valuations have resulted in a 12.5 per cent increase in value compared with the Directors' valuations adopted at 31 December 2016.

DEVELOPMENT PIPELINE

At 30 June 2016, FET owned 8 development sites. During the half year, FET settled 6 more development sites with an aggregate completion value of \$28.6 million. One development site commenced operations in the half year ending 31 December 2016 with a completion value of \$9.3 million. The completed development site was delivered on time and on budget and provides FET with a yield on cost of 7.0%. FET has contracted or has heads of agreements signed for a further 9 development sites with a completion value of \$45.1 million, with settlement of these sites expected during FY17 and FY18.

DEVELOPMENT SITES	NO. OF PROPERTIES	UPON COMPLETION VALUE (\$m)
Settled as at 30 June 2016	8	57.4 ⁸
Settled HY17	6	28.6
Less completed developments HY17	(1)	(9.3)
Settled as at 31 December 2016	13	76.7
New sites contracted (8) / heads of agreement executed (1) ⁹	9	45.1
Total	22	121.8

The current development pipeline of 22 sites has a forecast upon completion value of \$121.8 million and is expected to add approximately \$8.4 million per annum of net rental income to FET, an increase of 15.7 per cent on FET's existing lease income.

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.

⁸ Includes uplift in value of completed centre from \$8.4 million to \$9.3 million.

⁹ Contracted in January 2017.

VIDEO TOUR OF NEW CENTRES

Investors are invited to take a video tour of some of the newly completed centres developed by FET. Videos of new centres recently completed at Camberwell (VIC), Cheltenham (VIC) and Gledswood Hills (NSW) can be seen at the link below with each centre's design reflecting their respective operating and demographic environments. The videos are available on FET's website on this [link](#) or <http://educationtrust.folkestone.com.au/centre-tours-2/>.

CAPITAL MANAGEMENT

Debt Funding

As at 31 December 2016, FET's debt facilities totalled \$267 million, comprising bilateral facilities with Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"). The facilities are drawn to \$223 million as at 31 December 2016. The facilities are split into two tranches. One tranche (\$153.5 million or 57 per cent) will mature in June 2019 and the second tranche (\$113.5 million or 43 per cent) will mature in June 2021 resulting in a weighted debt maturity of 3.3 years.

In December 2016, the facilities were increased by \$40 million to \$267 million to provide further capacity to fund existing developments and future opportunities. The Trust has significant headroom under its debt covenants with gearing at 31 December 2016 of 27.4 per cent, which is below the targeted long term range 30 – 40 per cent.

Hedging

As part of the Trust's interest rate management policy, FET has staggered hedging positions through to June 2021. The average hedged position is 47 per cent based on the existing debt of \$223 million at an average rate of 3.21 per cent per annum (30 June 2016: 3.27 per cent per annum). For the remainder of FY17, FET has hedged 61 per cent of its interest rate exposure at a hedged rate of 3.16 per cent per annum.

Cost of Debt

As at 31 December 2016, FET's cost of debt is 4.3 per cent per annum (30 June 2016: 4.5 per cent per annum), which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 4.6 per cent per annum (30 June 2016: 4.8 per cent per annum) which includes the amortisation of deferred borrowing costs.



OUTLOOK AND DISTRIBUTION FORECAST

The FY17 forecast distribution of **14.2 cpu** is based on continued tenant performance. FET will continue to pay quarterly distributions, one month in arrears.

FET continues to execute 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 learning environment for future generations. Investors benefit from predictable and secure long term income 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.

INVESTOR TELECONFERENCE

Management invites investors to participate in the teleconference where the Trust's HY17 results and presentation will be discussed. To register for the teleconference please follow the registration details below.

Date: Tuesday, 14 February 2017
Start time: 2:30pm AEDT
Register attendance: To register your attendance please click here or on this link
<http://omnovia.redbackconferencing.com.au/landers/page/e752a5>

Once you have registered, you will be provided with dial-in numbers and a passcode. Investors will need to register before **11.30am** today.

For further information contact:

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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 \$1 billion 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