Folkestone
EDUCATION TRUST

ASX ANNOUNCEMENT
9 AUGUST 2017

FOLKESTONE EDUCATION TRUST
RESULTS FOR THE YEAR ENDED 30 JUNE 2017

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 2017.

KEY HIGHLIGHTS FOR THE YEAR

- Statutory profit of $122.3 million, an increase of 14.5% from $106.8 million on the previous corresponding period ("pcp");
- Distributable income of $37.8 million, an increase of 9.6% on pcp;
- Distribution of 14.2 cents per Unit ("cpu"), an increase of 6.0% on pcp;
- NTA per Unit of $2.51, an increase of 17.3% on pcp;
- FET's development pipeline increased to 31 sites[1] with an approximate value of $179 million;
- 112 of 113 five year options were exercised, which with new leasing transactions, resulted in an increase in the portfolio's WALE from 8.2 years to 9.1 years;
- 127 market rent reviews were completed, achieving an average increase in rent of 4.7%; and
- 7 existing centres were sold for a total of $11.2 million, a 17.7% premium to carrying values.

FINANCIAL SUMMARY

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

INCOME STATEMENT SUMMARY	JUNE 17	JUNE 16	VAR. %
Total Operating Revenue ($m)	67.1	62.1	8.1
Total Operating Expenses ($m)	29.3	27.6	6.2
Distributable Income ($m)	37.8	34.5	9.6
EPU[2] (cpu)	15.2	14.0	8.6
Distribution (cpu)	14.2	13.4	6.0
Statutory Profit ($m)	122.3	106.8	14.5

BALANCE SHEET SUMMARY AS AT	JUNE 17	JUNE 16	VAR. %
Total Assets ($m)	903.3	753.6	19.9
Investment Properties[3] ($m)	861.2	719.5	19.7
Borrowings[4] ($m)	249.9	200.4	24.7
Net Assets ($m)	629.7	531.8	18.4
Gearing[5] (%)	27.7	26.6	1.1
Units on Issue (m)	250.6	248.2	1.0
NTA per Unit ($)	2.51	2.14	17.3

[1] *Including five sites with Heads of Agreements signed with an estimated value of $25.5 million.*
[2] *Distributable income divided by weighted average number of Units.*
[3] *Includes $2.4 million of transaction costs in relation to properties contracted and not settled.*
[4] *Borrowings as at 30 June 2017 include loans of $245.0 million and bank overdraft of $4.9 million.*
[5] *Gearing is calculated by borrowings / total assets.*

PROPERTY PORTFOLIO PERFORMANCE

Key property portfolio performance data as at 30 June 2017 is as follows:

AS AT	JUNE 17	JUNE 16	VAR %
Value of Investment Properties ($m)	858.8	717.8	19.6
Current Annual Income ($m)	58.3	53.8	8.4
Average Annual Lease Income Increase (y-o-y) (%)	3.1	2.8	0.3
Property Yield – Freehold Properties (%)	6.5	7.0	(0.5)
Property Yield – Leasehold Properties (%)	13.8	13.7	0.1
Property Yield – Total (%)	6.7	7.3	(0.6)
Occupancy Rate (%)	99.5	99.5	-
Weighted Average Lease Expiry (yrs) (by income)	9.1	8.2	11.0

PROPERTY SUMMARY

The Trust's property portfolio at 30 June 2017 consisted of the following:

PROPERTY PORTFOLIO	NO. OF PROPERTIES	CARRYING VALUE ($m)	CURRENT ANNUAL INCOME ($m)
Australia – Early Learning	338	720.2	50.0[6]
New Zealand – Early Learning	51	69.0	4.6[7]
Total Early Learning	**389**	**789.2**	**54.6**
Medical Centre	1	13.0	0.8
Total Improved Properties	**390**	**802.2**	**55.4**
Development Sites (Settled)	17	56.6	2.9[8]
Total Properties	**407**	**858.8**	**58.3**

TRUST PERFORMANCE

FET paid distributions of 14.2 cpu for the year, an increase of 6.0 per cent from the prior year. Since 2011, FET's distributions have risen by an average 8.6 per cent per annum and its NTA has risen by an average 13.4 per cent per annum.

FET provided a total return of 10.1 per cent for the year to 30 June 2017, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") negative return of 5.6 per cent for the same period. FET has also outperformed the Index over three years at 26.3 per cent per annum (vs 12.2 per cent per annum), five years at 30.7 per cent per annum (vs 14.2 per cent per annum) and ten years at 13.0 per cent per annum (vs negative 0.1 per cent per annum)[9].

FET has been the best performed A-REIT in the S&PASX 300 Index over a 5 and 10 year period to 30 June 2017[9].

[6] *Includes head lease rent on leasehold properties of $1.2 million.*
[7] *Based on NZD rent of $4.8 million at an exchange rate of 1.0487 as at 30 June 2017.*
[8] *Site rent charged on 11 development sites with a carrying value of $40.9 million.*
[9] *UBS Australian REIT Month in Review – June 2017.*

PROPERTY PORTFOLIO

Rent Reviews

During the year, the Trust completed 127[10] market rent reviews achieving an increase of 4.7 per cent over the prior year's rent, noting that the majority of these leases have a capped rental increase of 5.0 per cent over the previous years' rent. The cap has restricted potential rental increases with some properties considered to have revised rents significantly below their market equivalents.

Of the market rent reviews completed, 100 were for Australian based properties, which achieved an average increase of 4.9 per cent, with the remaining 27 being New Zealand based properties, which achieved an average increase of 4.3 per cent.

The like-for-like rental growth across the portfolio for the year was 3.1 per cent taking into account both market and CPI based reviews. That is an increase of 0.3 per cent on FY16 where the like-for-like rental growth was 2.8 per cent. There are 44 market rent reviews scheduled for FY18.

Lease Renewals

During the year, 112 of 113 five year options were exercised, increasing the lease term remaining on these properties from 5 to 10 years. This included 15 option renewals which were not due to be exercised until FY18. For the one lease option that was not exercised, our strategy is to find an alternate operator now rather than wait until the lease term expires in 2022. We are confident of achieving that outcome.

The Trust has entered into three 15 year leases with new tenants for existing FET properties. A 28 per cent increase in rent over that paid by the previous tenant was achieved.

These transactions, together with the completion of five new developments and the acquisition of two existing centres, has resulted in the weighted average lease expiry for the portfolio increasing from 8.2 years to 9.1 years over the year. There are a further 32 option renewals remaining for FY18.

Property Valuations

During the year, a total of 362 properties in the portfolio were revalued. Of these, 117 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 in value of $81.7 million over the 30 June 2016 carrying values. This has been driven by yield compression, combined with income growth from annual and market rental reviews. Overall, yield compression achieved across the entire portfolio (including leasehold assets) for the year to 30 June 2017 was 60 basis points, decreasing the overall portfolio yield from 7.3 per cent to 6.7 per cent.

Of the 117 properties independently valued for FY17, the largest increase occurred in Victoria (up 30.4 per cent), followed by New South Wales (15.9 per cent), South Australia (15.5 per cent) and

[10] 26 market reviews were FY16 reviews subject to expert determination

Queensland (9.7 per cent). As a result, FET's overall passing yield on the freehold independent valuations was 6.3 per cent, a 90 basis point improvement on a like for like basis from 30 June 2016.

During FY17, there was an increase in the quantum of childcare centres sold across Australia with approximately $277 million worth of transactions throughout the eastern seaboard states. These achieved an average initial yield of 5.6 per cent and an average sale price of $3.8 million. The average yield achieved on metropolitan transactions was 5.2 per cent and 6.4 per cent for regional transactions. The margin between metropolitan and regional yields widened from 80 to 120 basis points during FY17. This is a function of yields for metropolitan properties strengthening at a faster rate than regional properties.

Subsequent to 30 June 2017, a further 22 independent valuations have been instructed. Indicative valuations received to date, show an approximate increase of six per cent in value compared with the Directors' valuations adopted at 30 June 2017.

Development Program

Five developments were completed and commenced operations during the year, with a completion value of $35.5 million. These properties were delivered on time and on budget providing FET with a yield on cost of 7.0 per cent and a development margin, allowing for all costs of 11.3 per cent.

During the year, FET settled a further 14 development sites with an aggregate expected completion value of $73.8 million. Additionally, FET has contracted or has Heads of Agreements signed for a further 14 development sites with an expected completion value of $80.4 million. Settlement of these sites is expected during FY18.

Folkestone Limited has invested in management expertise and capacity over the past four years and this is evident in the quantum and quality of the development program. During FY17, satisfactory development approval was achieved on all sites where planning authorities made a decision. All of FET's development sites are pre-committed by quality operators, in accordance with an operator specific design and specification level.

DEVELOPMENT SITES	NO. OF PROPERTIES	UPON COMPLETION VALUE ($m)
Settled as at 30 June 2016	8	60.3*
Settled FY17	14	73.8
Less completed development sites FY17	(5)	(35.5)
Net Settlements as at 30 June 2017	**17**	**98.6**
New Sites Contracted / HoA executed	14	80.4
Total "Upon Completion"	**31**	**179.0**

** Includes uplift in value of 5 completed centres from $31.7 million to $35.5 million.*

The current development pipeline of 31 sites has a forecast total value of $179.0 million and is expected upon completion, to add approximately $11.8 million per annum of net rental income, an increase of 21.3 per cent on FET's existing FY17 lease income.

The average overall yield on cost for the development pipeline has increased to 7.4 per cent through disciplined adherence to our acquisition strategy and diligent management of developments. Quality locations, more efficient designs and building methodologies as well as an improved 'speed to market' make them leading opportunities for quality childcare operators. These transactions are expected to provide a positive arbitrage of up to 200 basis points or more over equivalent on-market transactions for completed centres.

FET's development pipeline as at 30 June 2017 and its completion program is estimated as follows:

PERIOD	NO. OF EXPECTED COMPLETIONS	UPON COMPLETION VALUE ($m)	RENTAL VALUE ($m)	EXPECTED YIELD ON COST (%)
Contracted Transactions				
FY18	11	57.5	4.1	7.5
FY19	15	96.0	6.1	7.4
Sub Total	26	153.5	10.2	7.4
Agreed Terms				
FY19+	5	25.5	1.6	7.3
Total	**31**	**179.0**	**11.8**	**7.4**

FET continues to target new opportunities based on strategy, as opposed to opportunity alone. The strategy is based upon a strong understanding of the respective childcare markets, a focus on selecting high quality real estate, knowledge of operators and a sound appreciation of early learning demand and supply factors.

The developments are consistent with FET's strategy of enhancing the quality of the property portfolio, in locations that should provide a greater probability of rental and capital value growth, thereby increasing earnings as well as providing higher long term alternate use value.

Disposals

FET's capital and portfolio management strategy includes the selective sale of non-core properties, with proceeds redeployed to new property purchases and/or developments.

FET contracted the disposal of seven properties during the year, totalling $11.2 million of gross proceeds, at an average yield of 6.8 per cent and a 17.7 per cent premium to 30 June 2016 carrying values. Three of the properties settled during the year with the balance scheduled to settle by September 2017.

The disposals consisted of four regional Queensland assets, one regional Victorian asset, one vacant ACT asset and one South Australian regional asset.

Over the past four years, FET has sold 31 properties for gross proceeds of $43.4 million, generating a premium to book value of 26 per cent or a profit of $9.0 million. These funds have been recycled into FET's development program at an average yield of 7.4 per cent in substantially stronger metropolitan demographics which are consistent with FET's "best site, best operator and best lease" strategy.

At a positive yield arbitrage, the recycling program provides upside to investors in addition to substantially superior real estate with lower long term risk. Retaining ownership of these assets would result in a slightly higher distribution growth however, it positions the Trust is in a considerably stronger long term position. It is these new locations where demand, rental and capital growth, and underlying land values are expected to be significantly stronger.

Innovation

FET's development management capabilities have continued to produce higher quality centres, in stronger demographics, at better yields to investors. Innovations such as the completion of FET's first pre-fabricated centre in under seven months from land settlement, created a quality centre with a time saving of approximately five months relative to conventional construction methodologies.

Investors are invited to take a video tour of some of the newly completed centres developed by FET. Videos of new centres recently completed, include centres at South Morang (VIC), Brighton East (VIC), Camberwell (VIC), Cheltenham (VIC) and Gledswood Hills (NSW). Each centre's design varies to reflect their respective operating and demographic environment. The videos, including a time lapse video of the pre-fabricated site at South Morang are available on FET's website at http://educationtrust.folkestone.com.au/centre-tours-2/.

CAPITAL MANAGEMENT

Debt Funding

As at 30 June 2017, FET's debt facilities totalled $317 million, comprising bilateral facilities with Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited. The facilities are drawn to $245 million as at 30 June 2017. The facilities are split into separate tranches with maturities between June 2019 and June 2022 with a weighted debt maturity of 3.5 years.

In June 2017, the facilities were increased by $50 million to $317 million to provide further capacity to fund existing developments and future opportunities. The Trust has significant headroom under its debt covenants with gearing at 30 June 2017 of 27.7 per cent, which is below the Trust's targeted long term range of 30 to 40 per cent.

Hedging

As part of the Trust's interest rate management policy, FET has staggered hedging positions through to June 2022. The average hedged position is 55 per cent based on the existing debt of $245 million at an average rate of 2.95 per cent per annum (30 June 2016: 3.27 per cent per annum). For FY18, FET has hedged 70 per cent of its interest rate exposure at a hedged rate of 2.8 per cent per annum.

Cost of Debt

As at 30 June 2017, FET's cost of debt is 4.2 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 4.5 per cent per annum (30 June 2016: 4.8 per cent per annum) which includes the amortisation of deferred borrowing costs.

EARLY LEARNING MARKET

The year in childcare saw increased business pressures on the sector driven by increased competitiveness, partly due to an increase in competition, but predominantly through the erosion of the $7,500 childcare rebate. As the cost of living and cost of childcare has risen, the effectiveness in the funding provided by the childcare rebate has diminished. The passing of the Commonwealth Government's "Jobs for Families" package, supported by all the political parties, will assist in alleviating this pressure however, not until July 2018.

The importance of early learning to children and families, as well as its relevance as a labour supply mechanism saw a further $3.5 billion extended to support the industry. The package brings work and means testing as part of a greater funding package to those who need it most. The long term significance of the package is that it brings further stability through a defined funding platform for the future.

The combination of population growth (Australia and New Zealand up 1.6% and 2.1% respectively in the 12 months to December 2016) and the increasing participation rate, has resulted in an increase in the construction of new childcare centres. This has added to an under supplied market and is in our view, consistent with the increase in demand over the medium term. There are however, a small number of centres built and operated on speculation as opposed to vigorous planning and due diligence.

In 2016, there was a net increase of 205 new centres across Australia (+3%). Folkestone's analysis indicates there are approximately 239 development approvals across Australia (at May 2017) for new centres which we expect could be completed over the next two years. Anecdotal evidence received through our operator base, is that many have reduced their expansion plans to more specific locations and numbers. With this cautious approach from operators (and their bankers), we expect that it will only be centres with a tenant pre-commitment that will complete. Accordingly, we expect a moderate number of new centres in the next two years, generally in line with demand requirements. Some will be in locations that are already adequately supplied and will put pressure on existing centres however, based on experience to date, the quality operators will work harder to maintain occupancy and parents will gravitate toward them.

Outlook

Industry data indicates that childcare fees have risen by an average of up to approximately 6% per annum (dependent upon location) since 2013. The rising cost of childcare together with, the deferral of the government's new funding package to July 2018 (originally proposed for July 2017), has seen the $7,500 per annum per child rebate limit reached earlier this year than in previous years. When instigated in 2007, the rebate was to be indexed annually to inflation. This has not occurred. In real terms, the rebate has effectively reduced to approximately $5,580 per annum[11]. Alternatively, had the rebate been indexed at CPI as proposed, it would have grown to approximately $9,570 per annum today.

The rising cost of living, combined with low wage growth in recent years and the increasing cost of childcare may force some parents into a purely financial decision regarding their childcare activities. We expect to see some parents withdraw from services as a result however, the increased funding at the middle and lower end of the income spectrum may provide much needed relief, albeit not until

[11] *Based on a conservative childcare fee growth of 3 per cent per annum over that period*

July 2018. Alternatively, as the cost of living rises, we expect that more families may seek a second income. This could add to demand although it is recognised that this does not address the families who may be forced to forgo the educational benefits of childcare.

These factors have led to marginally softer occupancy levels in the latter part of the year for some, the impact varying between locations and operators. Those operators prepared to reinvest in staff, systems and premises appear to be having greater success, with many centres/operators lifting occupancy for the year. From 1 July 2017, the rebate will reset and the removal of the existing limit in July 2018 for families earning under $185,000 per annum is expected to provide a further impetus. In the meantime, we expect some pricing pressure linked to the increased cost of living and its impact on household disposable income.

OUTLOOK AND DISTRIBUTION FORECAST

The FY18 forecast distribution is **15.1 cpu.** This is a 6.3% increase on FY17 distributions. It is based on continued tenant performance. FET will continue to pay quarterly distributions.

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 join a teleconference where the Trust's results and presentation will be discussed. To register, please follow the registration details below.

Date:	Wednesday, 9 August 2017
Start time:	2:30pm AEST
Register attendance:	To register your attendance please **click here**

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 $1.2 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

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