



FOLKESTONE EDUCATION TRUST RESULTS FOR THE YEAR ENDED 30 JUNE 2014

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 2014.

KEY HIGHLIGHTS SUMMARY

- Statutory profit of \$53.8 million, up 35.5% from \$39.7 million in the previous corresponding period ("pcp")
- Distributable income of \$24.4 million, an increase of 28.4% on pcp
- FY14 distribution of 12.0 cpu, an increase of 12.1% on pcp
- Debt facility amended with extended maturity of June 2017 and improved margin
- Independent valuations of 100 properties achieving an average 10.6% increase in value
- NTA per unit of \$1.50, an increase of 12.8% on pcp
- Total Unitholders' return for the year to 30 June 2014 of 27.0%

FINANCIAL SUMMARY

The table below provides a summary of the Trust's 30 June 2014 results in comparison to the previous corresponding period:

FY Ending June	2014	2013	Var. %
Total operating revenue (\$m)	44.7	41.0	9.0
Total operating expenses (\$m)	20.3	22.0	-7.7
Distributable income (\$m)	24.4	19.0	28.4
Distribution (cpu)	12.0	10.7	12.1

As at June	2014	2013	Var. %
Total Assets (\$m)	464.6	368.5	26.1
Investment Properties ¹ (\$m)	461.2	366.8	25.7
Borrowings ³ (\$m)	147.3	125.8	17.1
Net Assets (\$m)	306.7	233.5	31.3
Gearing ⁴ (%)	31.7	34.1	-2.4
NTA per unit (\$)	1.50	1.33	12.8

PROPERTY SUMMARY

FET's early learning centre portfolio as at 30 June 2014 is summarised as follows:

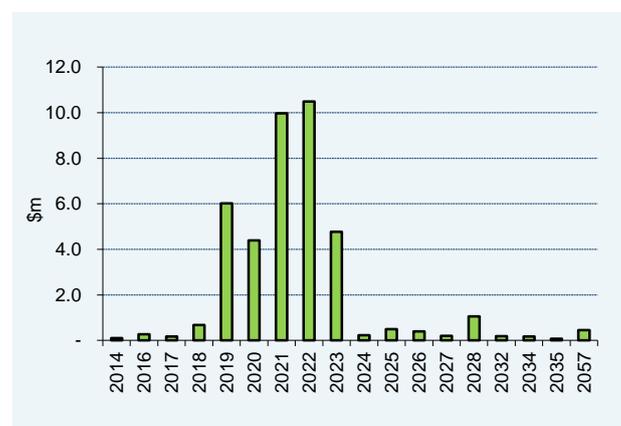
FY Ending June	No of Centres	Carrying Value (\$m)	Current Annual Rent (\$m)
Australia	298	391.0	36.5 ⁵
New Zealand	54	53.5	4.4 ⁶
Total Improved Properties	352	444.5	40.9
Development Sites	5	16.0	-
Total Properties	357	460.5	40.9

PORTFOLIO PERFORMANCE

Key portfolio performance criteria as at 30 June 2014:

As at June	2014
Value of Investment Centres (\$m)	460.5
Current Annual Rent (\$m)	40.9
Average Lease Income Increase (y-o-y) (%)	2.6
Property Yield – Freehold Centres (%)	8.7
Property Yield – Leasehold Centres (%)	13.2
Total Property Yield (%)	9.0
Occupancy Rate (%)	100
Weighted Average Lease Expiry (yrs) ²	8.0

LEASE EXPIRY PROFILE



¹ Includes \$0.7 million of transaction costs in relation to properties contracted and not settled.

² By income.

³ Borrowings as at 30 June 2014 include loans of \$147.0 million and bank overdraft of \$0.3 million.

⁴ Gearing is calculated by borrowings / total assets.

⁵ Includes head-lease rent on leasehold properties of \$1.1m.

⁶ Based on NZD rent of \$4.7 million at an exchange rate of 1.0735 as at 30 June 2014.



FUND PERFORMANCE

FET paid distributions of 12.0 cpa for the year in accordance with its forecast.

FET provided a total return of 27% for the year to June 2014. Historical returns have outperformed the S&P/ASX 300 A-REIT Index for three years at 38.8% pa (v 15.2%) and for five years at 55.7% pa (v 14.3%).

Investors who participated in December's \$45.0 million capital raising have received a total return of 14.1% on their investment.

PORTFOLIO PERFORMANCE

During the year to 30 June 2014, FET had 100 properties independently revalued as part of the Trust's three year independent rolling valuation cycle, the results of which were:

- Valuations of the 79 Australian properties increased by \$7.7 million or 8.6%, largely driven by improvements in capitalisation rates and rental increases on these properties since 30 June 2013. The largest valuation increases were achieved in Victoria of \$3.0 million or 13.2% on 16 properties and New South Wales of \$2.5 million or 9.4% on 24 properties.
- Valuations of the 21 New Zealand properties increased by \$3.8 million or 20.9%, which reflected both positive valuation increases of \$1.9 million or 10.6% and positive exchange rate movements of \$1.9 million since 30 June 2013.

In addition to the external valuations, 232 Directors' valuations have been adopted with respect to 199 Australian properties and 33 New Zealand properties where valuations were not performed during the year to reflect the increase in passing rent and strong yield increases across the market. This has resulted in increases of \$19.9 million. The largest valuation increases were achieved in Victoria of \$6.8 million or 10.2% on 46 properties and New South Wales of \$5.4 million or 8.7% on 50 properties.

The Director's valuations were adopted utilising the metrics drawn from current valuation reports to ensure consistency with the independent assessments.

In relation to the 10 properties acquired during the year, property acquisition costs (predominantly stamp duty) in excess of the fair value of the properties of \$2.1 million were expensed.

ACQUISITIONS

FET's growth strategy is based on locating prime sites with the quality operators and on FET's terms. The focus on acquisitions is to provide accretive earnings and capital growth by focussing on sites within 15km of CBD's, rapidly expanding growth areas and opportunistic purchases.

Consistent with this strategy, the following transactions were entered into in FY14:

- Acquisition in December 2013 of five early learning centres in premium Sydney metropolitan locations;
- Acquisition of 100% of the units in the Folkestone Childcare Fund, an unlisted property fund comprising 22 early learning properties;
- Acquisition in June 2014 of five development sites in Sydney and Melbourne metropolitan locations to be developed as early learning properties and operated under long-term leases; and
- A further four properties under contract as at 30 June 2014, comprising a new early learning centre in Gungahlin (ACT) and three development sites for new early learning centres to be constructed on a fund-through basis with lease agreements in place. The settlement of these properties acquisitions is dependent on subdivision and/or development approval.

These acquisitions were funded from a combination of the \$45 million capital raising conducted in December 2013 and additional debt funding. Further acquisitions will be funded through a mixture of asset disposals, increased debt and potentially a Distribution Reinvestment Plan. FET has committed

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to a further \$25 million of acquisitions/developments and these are expected to be completed before March 2016.

Importantly, the developments all provide a commercial level of return during the development phase, ensuring that FET receives a return on funds outlaid together with a financial commitment from tenants through the process.

PROPERTY DISPOSALS

FET's capital management plan includes the selective sale of a number of investment properties. Sale proceeds will be redeployed to new asset purchases, ensuring the Trust maintains a strict adherence to its target gearing policy of between 30% and 40%.

As at 30 June 2014, the Trust had sold six properties with contracts in place, which are expected to complete in the first quarter of FY15. Two properties sold at auction and four further properties, including three in New Zealand were sold through private means. The total value of the sales, subject to final exchange rate adjustment for the New Zealand transactions, is approximately AUD\$8.0 million. The weighted average yield of the property sales was 6.85%.

It is expected that the Trust will dispose of a small number of properties during FY15. This is driven by a redeployment of capital as well as sound portfolio management. The sale proceeds will be redeployed to partly fund acquisitions and although there is no need to sell the assets, the disposal and acquisition program will provide a stronger long term outlook for FET.

DEBT FUNDING

On 30 June 2014, FET amended its syndicated debt facility with National Australia Bank (NAB) and the Australia and New Zealand Banking Group Limited (ANZ) to better reflect the Trusts' existing and forecast banking requirements.

Debt Finance Summary	
Facility Limit	\$173m
Drawn Facility	\$147m
Facility Maturity	June 2017
Loan to Value Ratio	50% of all Secured Property
Covenant	
Interest Cover Ratio	Not less than 2.0 x measured on a six month basis
Covenant	

The key features of the amended facility include:

- an extension of the facility's maturity through to June 2017;
- significantly improved pricing; and
- an increase in the facility limit of \$50 million from \$123 million to \$173 million. This allows for the funding of new acquisitions and developments. The \$9.2 million of debt retained as part of the FCF acquisition has been repaid on 30 June 2014.

Hedging

As part of the Trust's interest rate management policy, following the increase in debt, additional hedging positions have been entered into in July 2014. As a result, FET has staggered hedging positions through to June 2019 with an averaged hedged position of 58% based on existing debt of \$147 million. FET has currently hedged 73% of its interest rate exposure in FY15.

Cost of Debt

As at 30 June 2014, the cost of debt is 5.1% pa, which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 5.6% pa which includes the amortisation of deferred borrowing costs.

OUTLOOK AND DISTRIBUTION FORECAST

The distribution forecast for FY15 is estimated to be **12.7 cpu**. This is a 5.8% increase on the FY14 distribution level of 12.0 cpu. The forecast is based on continued tenant performance. FET will continue to pay quarterly distributions, one month in arrears.

FET will continue its strategy of a sustainable growth model by selecting developments based on quality locations and operators, backed by the Trust's standard leases. Targeted acquisitions are

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matched to development agreements that include a fund-through formula delivering immediate income to the Trust during the development period.

New developments increase FET's exposure to high demand areas for early learning services and quality real estate in prime locations, further diversifying FET's portfolio. Acquisitions are selected to be accretive to FET's earnings and distributions and only after a thorough due diligence process has been undertaken to determine consistency with the Trust's characteristics and investment objectives. It is anticipated that new centres will add to FET's weighted average lease expiry profile as well as provide the benefits of introducing new centres to the portfolio.

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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 \$765 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

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