

FOLKESTONE SOCIAL INFRASTRUCTURE TRUST (ASX:FST)

Recommended merger with Folkestone
Education Trust (ASX:FET)

13 November 2014



Folkestone
SOCIAL INFRASTRUCTURE TRUST

IMPORTANT INFORMATION

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Please refer to the Explanatory Memorandum which will be dispatched on or about 25 November 2014 for further information on the Proposal, the resolutions relating to the Proposal and the units in Folkestone Education Trust, which comprise the Scheme Consideration.

PROPOSAL HIGHLIGHTS

- The Folkestone Social Infrastructure Trust (“FST”) proposes to merge with the Folkestone Education Trust (FET), subject to approval of FST Unitholders (the Proposal)
- The Proposal is designed to provide FST Unitholders at the record date with:
 - 1.32 New FET Units for every 1 FST Unit held (“Scheme Consideration”), equating to an implied value of \$2.47 per FST Unit¹
 - \$0.675 in cash for every 1 FST Unit (Implementation Distribution)

collectively, the “Transaction Value”

- The Transaction Value implies a value of \$3.14 per FST Unit¹, which represents a significant premium to recent FST trading prices and a premium to the 30 June 2014 pro-forma NTA
- The Independent Directors representing FST² unanimously recommend the Proposal, in the absence of a superior proposal and subject to the opinion of the Independent Expert that the Proposal is fair and reasonable and in the best interests of FST Unitholders

Note 1: Based on the closing price of FET units as at 12 November 2014 of \$1.87

Note 2: Michael Johnstone and Warner Bastian were appointed to a FREML Board Subcommittee convened for the purpose of the Proposal and considered the Proposal solely for the benefit of FST Unitholders

KEY OFFER TERMS

- The Transaction Value implies a value of \$3.14 per FST Unit¹
- The Proposal will be implemented via a trust scheme, subject to FST Unitholder approval
- FST Unitholders will be entitled to FST quarterly distribution of an expected amount of 5.25 cents for the quarter ending 31 December 2014
- New FET Units will rank equally with all other FET Units on issue

Scheme Consideration

- FET will offer 1.32 New FET Units for every FST Unit held²
- The Scheme Consideration implies a value of \$2.47 per FST Unit¹

The Implementation Distribution

- FST Unitholders will be entitled to a one off special distribution of \$0.675 cents per FST Unit
- The Implementation Distribution will be funded out of FST from available cash and through selling its unitholding in FET

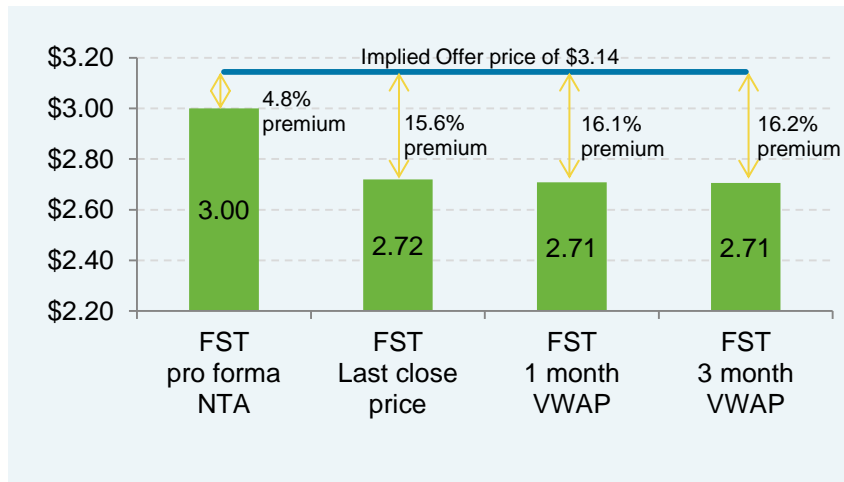
Note 1: Based on the closing price of FET units as at 12 November 2014 of \$1.87

Note 2: Foreign Unitholders will not be issued with New FET Units under the Scheme. Foreign Unitholders will participate in a sale facility

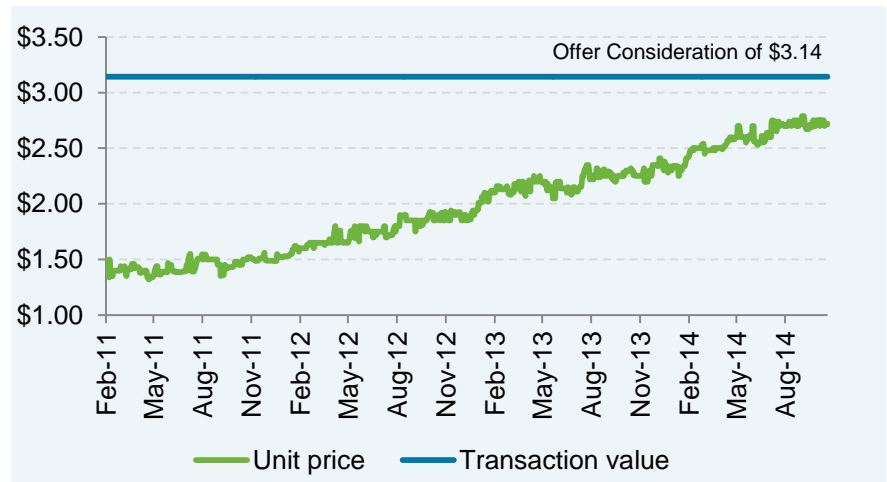
OFFER METRICS

- The Transaction Value represents a significant premium to:
 - FST's closing price on 12 November 2014¹
 - 1 month VWAP prior to 12 November 2014
 - 3 month VWAP prior to 12 November 2014
- 4.8% premium to FST's pro forma 30 June 2014 NTA of \$3.00²

Proposal Premiums^{1,3}



FST Trading Performance Since Listing



Note 1: Based on FST closing price on 12 November 2014, the day prior to announcement of the Proposal

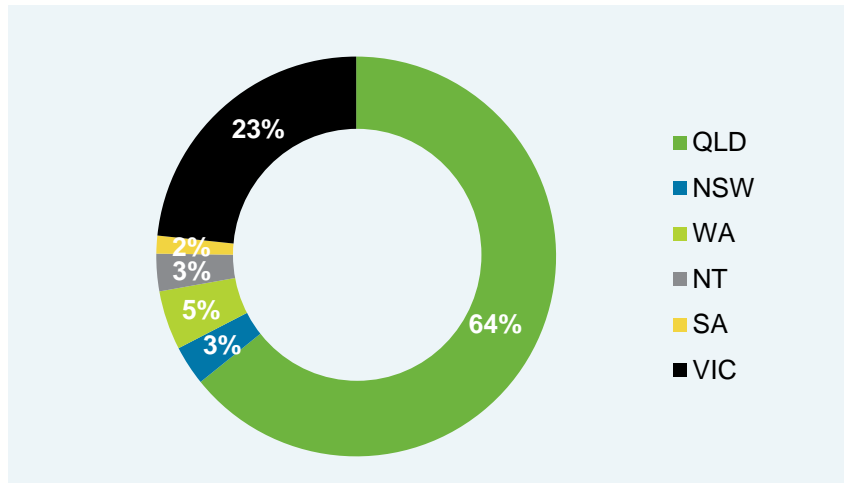
Note 2: FST NTA has been adjusted for material changes to the financial position since 30 June 2014. See page 15 for further details

Note 3: Based on the closing price of FET units as at 12 November 2014 of \$1.87

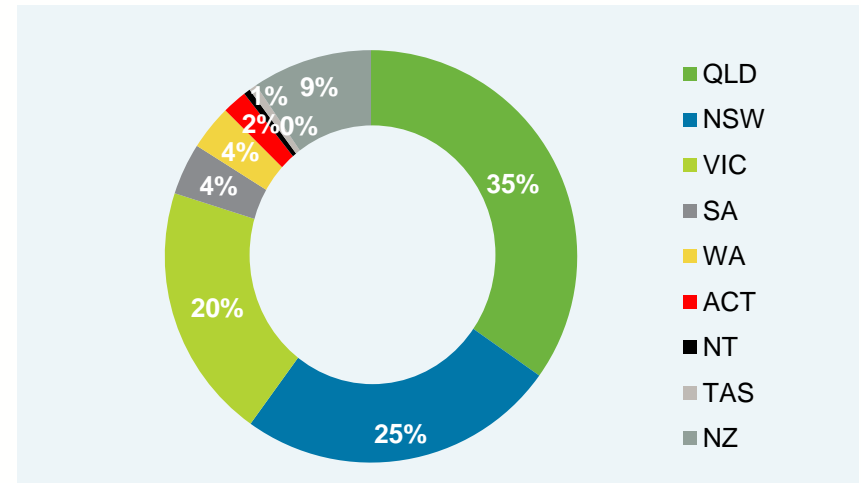
BENEFITS OF THE OFFER TO FST INVESTORS

- Increases diversification
 - increase in number of early learning centres from 47 to 401 in FET post merger
 - reduction in exposure to Queensland from 64% to 35% in FET post the merger
 - increases the number of operators from 6 to 27 in FET post merger
- Enhances growth profile via access to the active development pipeline of early learning properties within FET
 - FET has 6 early learning centres under development
 - FET has 2 development sites under contract to purchase
 - FET is in negotiations to acquire a further 6 sites for the purpose of undertaking early learning property developments

Geographic Diversification of FST¹



Geographic Diversification of FET (post implementation)¹






Note 1: Diversification by asset value as at 31 October 2014

BENEFITS OF THE OFFER TO FST INVESTORS (CONT'D)

- Reduction in ongoing management fees
 - reduction in management fees payable on FST assets from 1.0% per annum to 0.5% per annum¹
 - removal of acquisition and disposal fees on FST assets and duplicated administrative costs
- Increased market capitalisation and enhanced liquidity
 - FET included in the S&P/ASX 300 A-REIT Index
- Improved cost of capital and financial flexibility
 - considerable headroom on debt covenants



Management Fee ¹	Market Capitalisation ²	Liquidity ³
Stand alone 1.0%	Merged Entity \$455m	Merged Entity 0.10%
		
0.5% Merged Entity	\$77m Stand alone	0.06% Stand alone

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

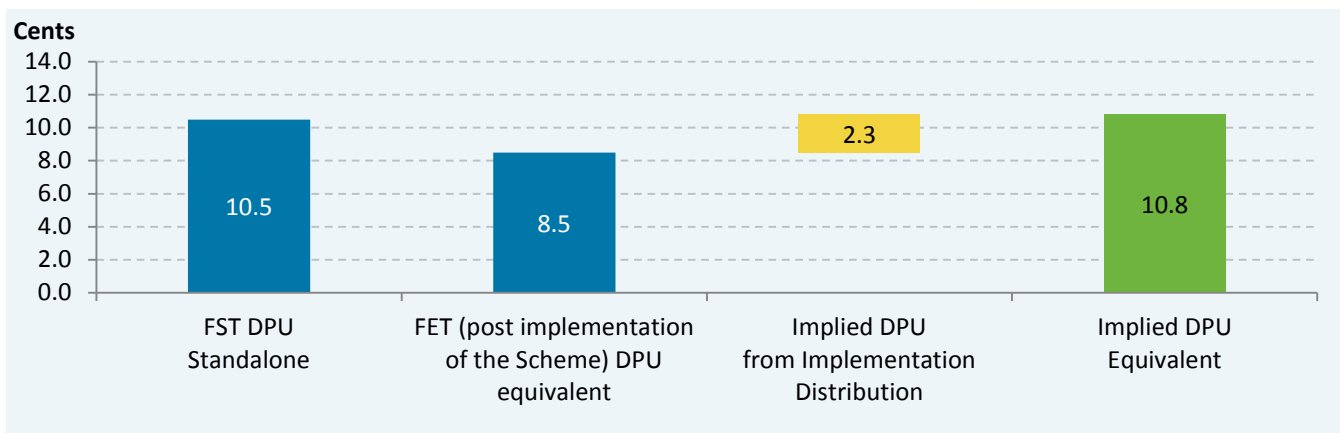
Note 2: Market capitalisation of FST (stand alone) based on the closing price as at 12 November 2014. Market capitalisation of merged entity based on the total number of Units on issue post implementation and the closing FET Unit price as at 12 November 2014

Note 3: % of average daily turnover which in respect of the merged entity is represented by the daily turnover of FET

FY15 DISTRIBUTION

- On standalone basis, FY15 distribution forecast of 21.0 cents per unit
 - 5.25 cents has been paid and 5.25 cents is to be paid for the quarter ending 31 December 2014 regardless of outcome of the Proposal
- Post implementation, FST unit holders will receive distribution of 8.5 cents per equivalent FST unit versus 10.5 cents on standalone basis for the 6 months ending in 30 June 2015
- FST unitholders will also receive one off Implementation Distribution of 67.5 cents per FST Unit
 - assuming an FST Unitholder reinvested their proceeds from the Implementation Distribution at the start of 1 January 2015 in FET units at the current market price, they would receive an additional 2.3 cents distribution per FST Unit per annum¹

Impact of Scheme Implementation on 2HFY15 Distribution



Note 1: Assumes that FST Unitholders were to invest the Implementation Distribution at the equivalent annualised unit distribution yield of FET (after implementation of the Scheme) of 6.8%

PROSPECTS FOR FST ON A STANDALONE BASIS

Whilst FST has performed strongly since its listing on the ASX in 2011, its ability to continue to grow may be hampered by the following challenges:

- **Lack of Scale**
 - Small-cap REIT's are typically more vulnerable to fluctuations in income and distributions
- **Limited geographic diversification of asset**
 - 64% of FST early learning assets are located in Queensland
 - Prone to geographic-specific adverse events such as flooding
- **Low liquidity**
 - FST's average daily turnover during last 12 months is 0.06% of FST Units on issue
 - Low liquidity results in wide buy/sell spreads
 - Deterrent to potential investors
- **Raising new equity without significant dilution to existing FST Unitholders is challenging**
 - FST currently trade at discount to NTA
 - Capital raising at below NTA value of FST may dilute FST Unitholder value, earnings and distribution



PROSPECTS FOR FST ON A STANDALONE BASIS (CONT'D)

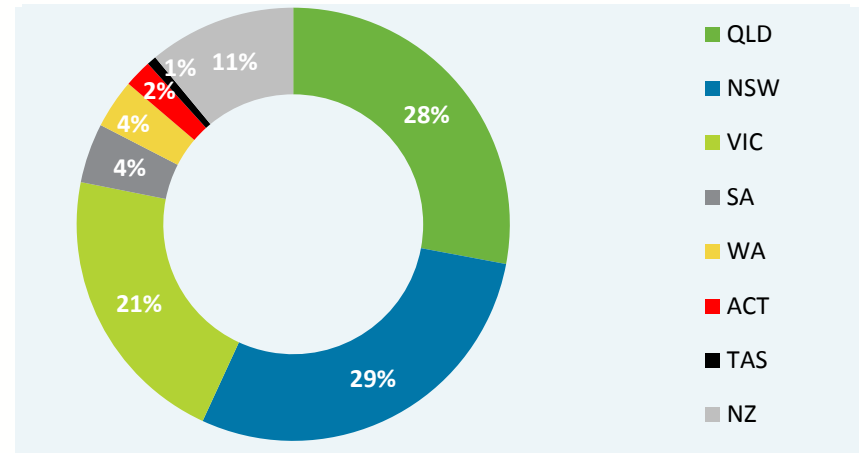
- The Independent Directors representing FST have considered a range of alternative strategies for FST including:
 - status quo and pursuit of organic growth
 - managed wind up
 - portfolio sale of FST's assets
 - a capital raising followed by further asset or portfolio acquisitions

The Independent Directors representing FST believe that the merger proposal is a SUPERIOR outcome to the alternative strategies

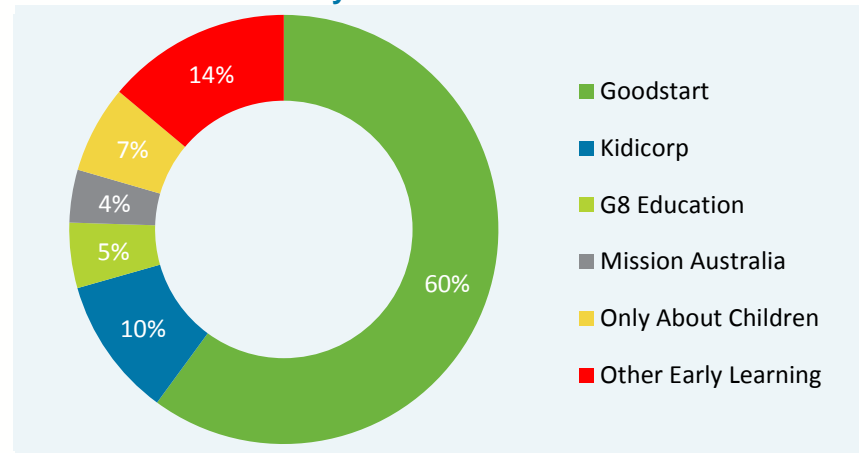
FET SUMMARY

- FET is an ASX listed A-REIT that is the largest Australian property trust investing in early learning properties in Australia and New Zealand
 - market capitalisation of \$385 million¹ and included in the S&P/ASX 300 A-REIT Index
 - owns and manages a geographically diverse portfolio with 354 properties located within Australia (303)² and New Zealand (51)
 - gross asset value of over A\$471 million (as at 31 October 2014).
 - Folkestone Investment Management Limited (“FIML”) is the responsible entity of FET and is a wholly owned subsidiary of Folkestone Limited (“FLK”).

FET – Geographical Diversification By Value



FET – Rental Income By Tenant



Note 1: Market capitalisation of FET based on the closing price as at 12 November 2014

Note 2: Includes 3 early learning properties FET has under contract for sale

CHARACTERISTICS OF FET (post implementation)

- 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

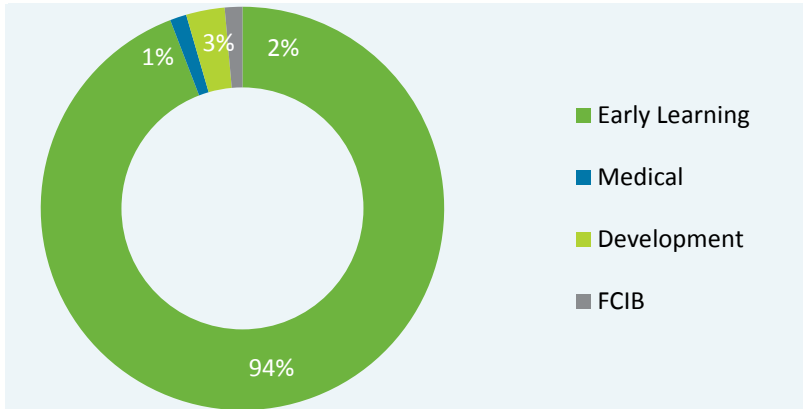
	FST		FET ²		Combined	
	No. of Properties	Carrying Value \$m's	No. of Properties	Carrying Value \$m's	No. of Properties	Carrying Value \$m's
As at 31 Oct 2014						
Direct Property						
Early learning properties	47	74	348	454	395	528
Medical property	1	7	-	0	1	7
Development sites	0	0	6	17	6	17
Total 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

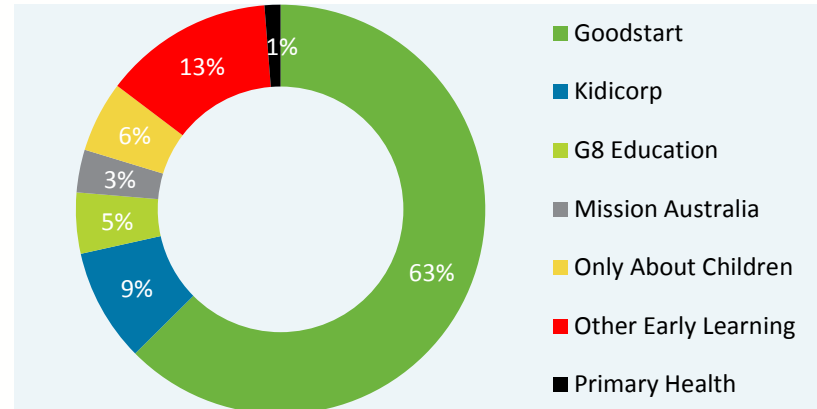
CHARACTERISTICS OF FET (post implementation) (cont'd)

FET Asset Composition (Post Implementation)



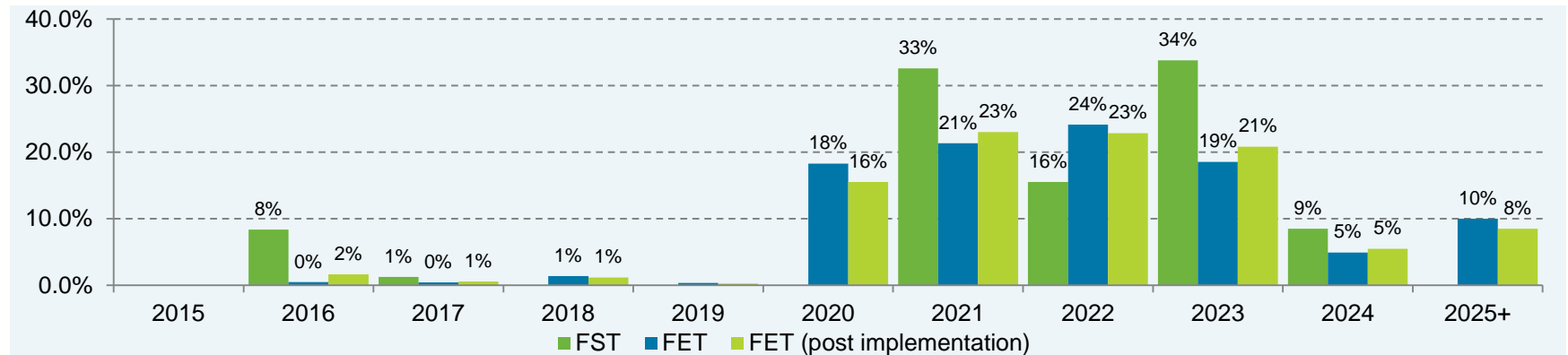
Asset composition by asset value

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

ASSET SALES AND REVALUATIONS

Divestment of FST Assets

- FST has successfully settled the sale of the following non core assets:
 - its holding in the Stockland Direct Retail Trust 1 (SDRT1) was sold for \$2.4 million, representing an 8% premium to the 30 June 2014 book value of \$2.2 million; and
 - its holding in the Australian Property Growth Fund (APGF) was sold for \$0.3 million, representing a 55% premium to the 30 June 2014 book value of \$0.2 million
- In addition, FST has entered into the following sale agreements which are conditional on the Proposal proceeding:
 - the sale of the Glen Iris self-storage facility for \$12.0 million (\$11.7 million net of costs), representing a 13% premium to the 30 June 2014 book value of \$10.4 million; and
 - the sale of 9,035,268 FET Units it holds to FLK for a price of \$1.86 per FST unit amounting to \$16.8 million, subject to FST Unitholder approval
 - the price was determined based on a 30 day VWAP of FET Units prior to the date of the Proposal being announced
 - provides FST with price certainty and further aligns the ongoing interests between the Folkestone Group and the merged FET
 - the proceeds from the sale of FET Units will be used to fund the majority of the Implementation Distribution

Property Portfolio Revaluations

- Independent valuations have been completed on 25 properties since 30 June 2014
- \$2.2 million (5% increase) uplift on valuation completed compared to 30 June 2014 book value

PRO FORMA BALANCE SHEET

Pro forma Balance Sheet¹

(\$m)	30 June 2014	Non core asset sales	Revaluations	30 June 2014 pro forma
Cash	0.6	2.7		3.3
Other assets	0.6			0.6
Securities	25.2	(2.4)	2.0	24.8
Investment properties	89.7		3.5	93.2
Total assets	116.1	0.3	5.5	121.9
Borrowings	34.3			34.3
Other liabilities	2.1			2.1
Total Liabilities	36.4	0.0	0.0	36.4
Net Assets	79.7	0.3	5.5	85.4
Units on issue (millions)	28.4			28.4
NTA per unit	2.80			3.00
Gearing	29.5%			28.1%

Pro forma adjustments (see page 14)

- Sale of unit holdings in SDRT1 (\$2.4 million) and APGF (\$0.3 million)
- Revaluation of FST's unit holding in FET to \$16.8 million to reflect the agreed sale price under the conditional contract
- \$1.3 million revaluation uplift of Glen Iris self storage facility to \$11.7 million to reflect the agreed sale price under the conditional contract
- Revaluation uplift of \$2.2 million on property portfolio following completion of 25 independent valuations

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

INDEPENDENT DIRECTORS RECOMMENDATION

The Independent Directors representing FST unanimously RECOMMEND the Proposal in the absence of a superior proposal and subject to the opinion of an independent expert that concludes that the Proposal is fair and reasonable and in the best interests of FST Unitholders

- The Independent Directors representing FST make the recommendation after considering:
 - the potential benefits to FST unitholders as Investors in New FST including:
 - increased geographic diversification
 - reduction in ongoing management expenses
 - increased market capitalisation and enhanced liquidity
 - improved cost of capital and financial flexibility
 - enhanced growth profile
 - the value of the Transaction Value
 - the prospects for FST as a stand alone entity
 - the alternate strategies available to FST

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

DIRECTORY

Folkestone Social Infrastructure Trust

ASX Code: FST

Website: www.sitrust.folkestone.com.au

Responsible Entity:

Folkestone Real Estate Management Limited

ABN: 29 094 185 092 AFSL: 238506

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Melbourne Vic 3000

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Vic Cottren - Chairman & Independent Non-Executive Director

Michael Johnstone - Independent Non-Executive Director

Warner Bastian - Independent Non-Executive Director

Senior Management:

Mark Stewien - Fund Manager

Travis Butcher - Chief Financial Officer

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