FOLKESTONE EDUCATION TRUST (ASX:FET)

Financial Results Presentation
For the Year Ended 30 June 2014

Folkestone
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Folkestone EDUCATION TRUST

PERFORMANCE OVERVIEW

ABOUT FET

- The Folkestone Education Trust (“FET or Trust”) aims to provide Unitholders with a secure, growing income stream and long-term capital growth through investing in education related direct property predominantly in the early learning sector.

FY14 KEY HIGHLIGHTS

- Distributable income of $24.4 million, an increase of $5.4 million or 28.4% on the previous corresponding period (“pcp”)
- Annual distribution of 12.0 cpu, an increase of 12.1% on pcp
- Net Tangible Asset (“NTA”) per unit of $1.50, an increase of 12.8% on pcp
- Completed acquisitions of Folkestone Childcare Fund (“FCF”) and 5 established centres increasing portfolio by 27 properties
- Established acquisition and development pipeline of contracted deals of $25 million
- Amended debt facility which extended maturity to June 2017 and improved margin
- Completed $45 million equity raising
- 100% occupancy across the portfolio
- Inclusion in the S&P/ASX 300 Index

FY15 OUTLOOK

- FY15 distribution forecast of 12.7 cpu (+5.8% on pcp)
- Solid pipeline of opportunities

FINANCIAL RESULTS TO 30 JUNE 2014

Key Financial Metrics

For the year ended June	2014	2013	Change %
Operating Revenue ($m)	44.7	41.0	9.0
Operating Expenses ($m)	12.2	11.4	7.0
Finance Costs ($m)	8.1	10.6	-23.6
Distributable Income ($m)	24.4	19.0	28.4
Distribution (cpu)	12.0	10.7	12.1
Net Profit ($m)	53.8	39.7	35.5

As at June	2014	2013	Change %
Total Assets ($m)	464.6	368.5	26.1
Borrowings ($m)	147.3	125.8	17.1
NTA per unit ($)	1.50	1.33	12.8
Gearing (%)	31.7	34.1	-2.4

- Operating revenue increased by 9% due to:
  - average annual rental growth of 2.6% across the portfolio; and
  - acquisition of FCF and 5 early learning properties in December 2013 contributing an additional $2.4 million of lease income
- Operating expenses increased by 7.0% due to additional property expenses in relation to acquired properties (predominantly recoverable)
- Finance costs decreased by 23.6% primarily due to the debt refinancing and hedging restructure which occurred in the prior year (Feb 13)
- Net profit increased by 35.5% due to increase in distributable income and positive net revaluation increments on investment properties of $29.2 million
- Total assets increased by 26.1% due to:
  - acquisitions of $65.5 million during the year; and
  - positive net revaluation increments of $29.2 million

CAPITAL MANAGEMENT

BANKING

As at 30 June 2014

Debt Facility Limit	$173.0 million
Debt Drawn Amount	$147.0 million
Overdraft Facility	$10 million
Facility Maturity	June 2017
LVR Covenant	50% of all Secured Property
ICR Covenant	Not to be less than 2.0 x measured on a 6 monthly basis
Cost of Debt	Cost of debt is 5.1% (excl. borrowing costs) and 5.6% pa (incl borrowing costs)

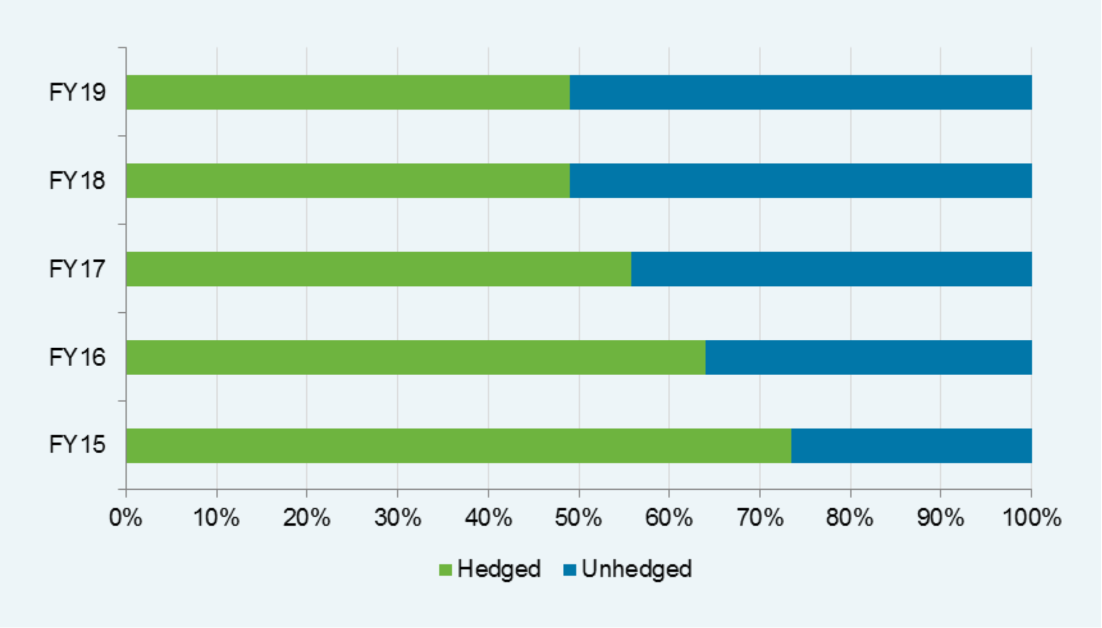
- Debt facility was amended in June 2014
  - increase in facility by $50 million to partly fund acquisitions pipeline
  - extension of maturity to June 17 (previously Feb 16)
  - improved margin lowering FET's cost of debt
- Retained FCF facility of $9.2m rolled into new FET facility

CAPITAL MANAGEMENT

HEDGING

- As at 30 June 14, FET had hedged $82.6 million at a fixed rate of 4.25% pa. for FY15
- Additional hedging entered into in July 2014
- Staggered hedging positions through to June 2019 with 73% hedged through to June 2015
- Average hedged positions of 58% through to June 2019
- Unhedged component currently benefits from relatively low debt costs

Current Hedging Profile
Based on debt of $147.0 million as at 30 June 2014



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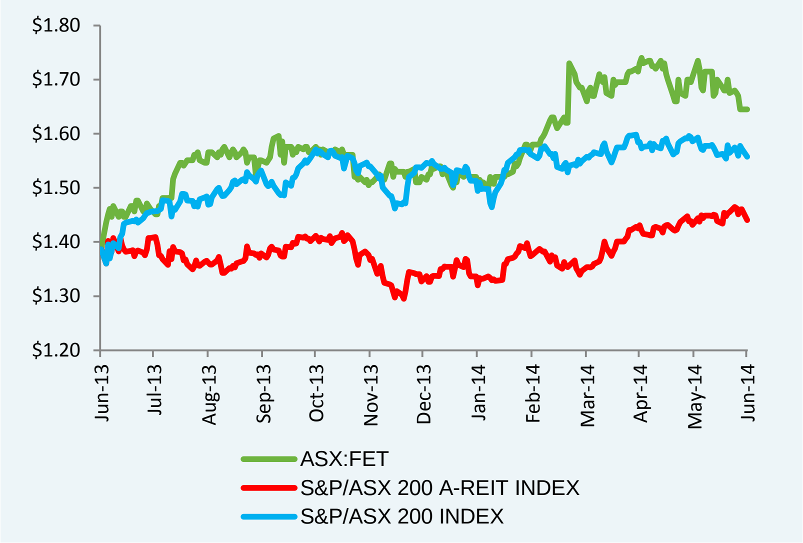
MARKET PERFORMANCE

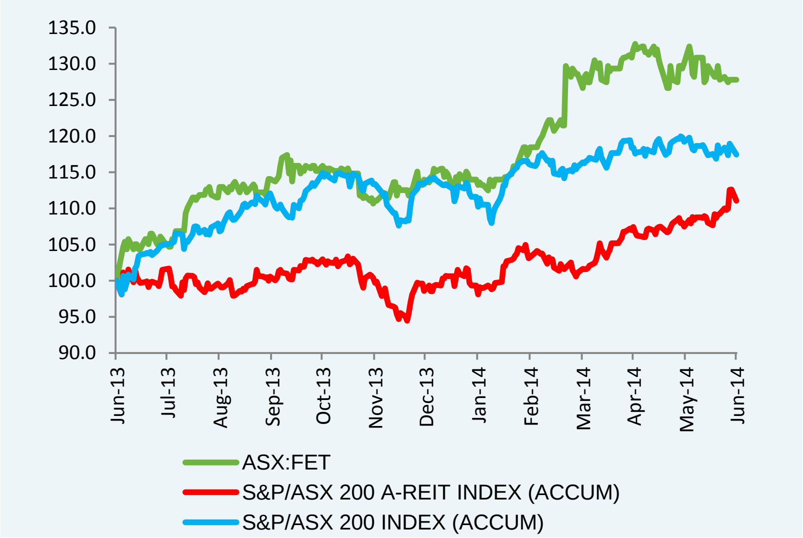
MARKET PERFORMANCE

- Total returns for FET over a one, three and five year periods, compared to the S&P ASX 300 A-REIT Index were 27.8% pa (v 11.1%), 38.8% pa (15.2%) and 55.7% pa (14.3%)*
- Net effective rental nature of FET's leases minimises the need for additional capital to sustain capital values via incentivised rents
- Investors who participated in the December 2013 capital raising have received a total return of 14.1% on their investment to 30 June 2014

FET Unit Price v S&P/ASX 200 and A-REIT Index – 12 months to 30 June 2014



FET Total Return v S&P/ASX 200 and A-REIT Index – 12 months to 30 June 2014



* Source: UBS S&P/ASX 300 Property Accumulation Index

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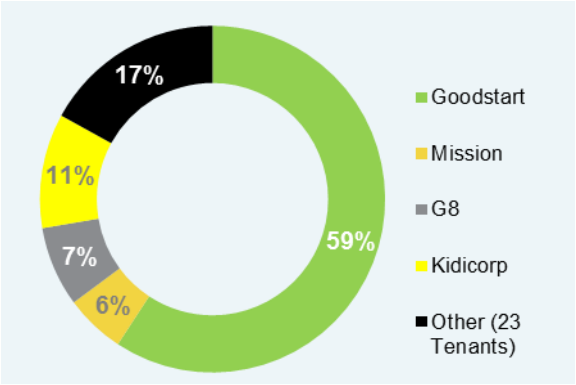
PROPERTY PORTFOLIO

KEY METRICS

- 357 properties, 303 in Australia and 54 in New Zealand
- 352 operating learning properties and 5 development sites
- WALE of 8.0 years (8.2 years pcp)
- Passing yield of 9.0%, comprising freehold properties at 8.7% and leasehold properties at 13.2%
- Year on year rental growth of 2.6%

Tenants by Income



Portfolio Profile by Type and Location

As at 30 June 2014	No. of Properties	Carrying Value $m's	Current Rent (pa) $m's
Australia	298	391.0	36.5[1]
New Zealand	54	53.5	4.4[2]
	352	**444.5**	**40.9**
Development Sites	5	16.0	-
Total Properties	**357**	**460.5**	**40.9**

[1] Includes head-lease rent on leasehold properties of $1.1 million.
[2] Based on NZD rent of $4.7 million at an exchange rate of 1.0735 as at 30 June 2014.

PROPERTY PORTFOLIO

VALUATIONS

Independent Valuations

	No. of Properties Valued	Carrying Value $m's	Movement %
NSW/ ACT	24	28.6	9.4
QLD	26	29.4	3.2
VIC	16	25.3	13.2
SA	8	6.6	1.8
WA	3	4.2	20.1
TAS	2	3.3	19.6
New Zealand	21	22.0	20.9
Total	**100**	**119.4**	**10.6**

Director Valuations

	No. of Properties Valued	Carrying Value $m's	Movement %
NSW/ ACT	53	71.5	7.0
QLD	78	97.3	4.0
VIC	46	73.5	10.2
SA	15	15.1	1.7
WA	7	9.4	7.6
New Zealand	33	31.5	14.8
Total	**232**	**298.3**	**7.1**

Passing Yields – Total Portfolio

	No. of Properties	Carrying Value $m's	Yield %
NSW / ACT	77	109.6	8.5
QLD	101	125.8	9.6
VIC	56	92.6	8.0
SA	19	20.3	9.1
WA	10	13.6	8.5
TAS	2	3.4	7.9
New Zealand	54	53.5	8.2
Total Freeholds	**319**	**418.8**	**8.7**
Leaseholds	**33**	**25.7**	**13.2**
Total	**352**	**444.5**	**9.0**

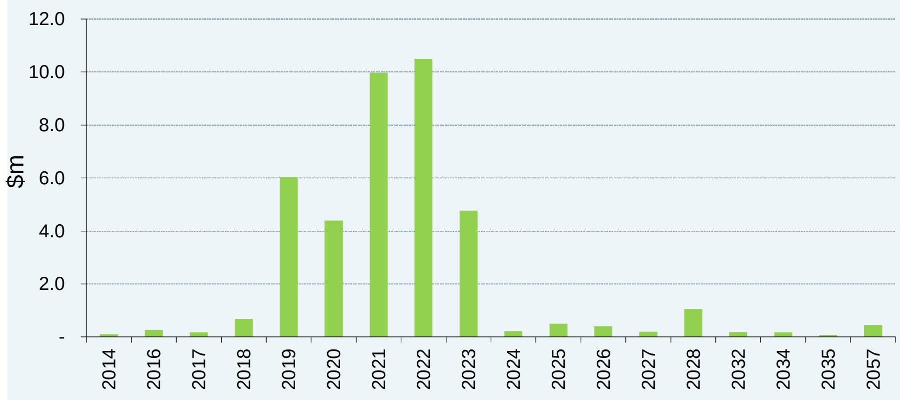
- Properties independently valued on a 3 year rolling basis. 100 properties independently valued increased by an average of 10.6%
- Strong growth in Victoria, NSW and WA with emerging growth in SA, Qld and Tasmania
- Directors valuations adopted for 232 properties (recent acquisitions and leasehold properties excluded) to reflect rent increases and yield compression, consistent with independent valuation metrics

PROPERTY PORTFOLIO

LEASES

- Generally triple net leases (ex land tax)
- 5 year tenant refurbishment provisions
- Typical early learning centre:
  - initial lease term 15 years plus two 5 year options
  - 5 year notice period to take-up options
- 100% occupancy
- No significant expiry until 2019

Lease Profile - Expiry Profile by Annual Rent



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OPTION RENEWALS

- 51 option renewals due in December 2014, with corresponding leases extending to December 2019
- To date, only one FET lease has not been extended by the sitting tenant
- Non renewal of FET’s leases is a significant opportunity to unlock value by:
  - introducing tenant competition for the centres and increasing rental value at lease expiry
  - bringing forward the redevelopment potential of the sites
  - bringing existing operators into the real estate purchase arena, capturing goodwill
  - providing development opportunities/profits with limited ingoing transaction expense
- The highest and best use of many sites is now driven by demand for medium density housing
- Operator interest in existing freehold childcare sites with short lease terms is high
- Shorter lease terms/expiries are an opportunity for FET

EARLY LEARNING PROPERTY MARKETPLACE

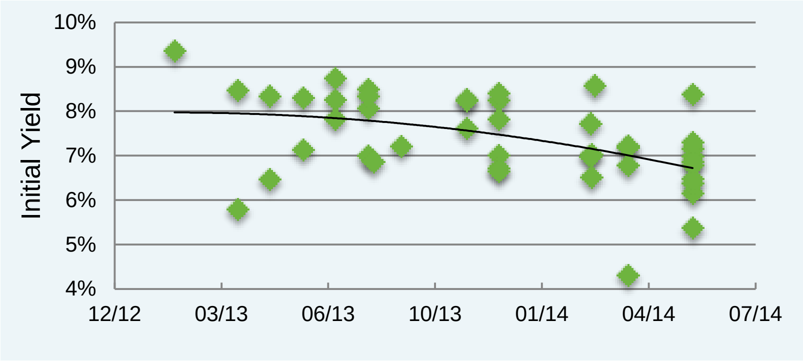
Drivers of the strong activity in the market have included:

- Growing confidence in the underlying businesses including increased consolidation amongst operators of centres, in particular from listed operators G8 Education (ASX:GEM) and Affinity Education (ASX:AFJ)
- Increased demand for places and higher rental levels
- Lack of comparative value investments that offer similar lease term and future use characteristics
- Greater investor confidence and recognition of the importance of childcare to the wider community

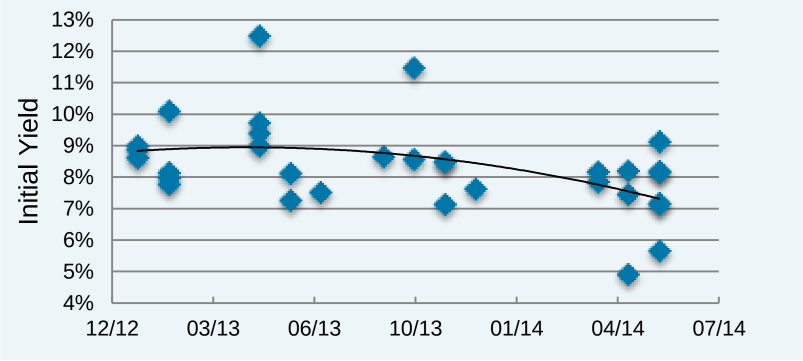
FY14 early learning property market has seen significant compression in average yields:

Year	Reported Sales*	Value* $m's	Average Yield %
FY12	61	$101	8.76
FY13	55	$84	8.64
FY14	57	$119	7.60
Total	**173**	**$304**	

Metropolitan Yields 2012-2014 (Aust)*



Regional Yields 2012-2014 (Aust)*



* Source: Various sources compiled by Folkestone Asset Management

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ACQUISITIONS & DEVELOPMENTS

New FET centre at Gungahlin, ACT

STRATEGY

- FET's growth strategy is based upon selecting prime quality sites, matched to the best operators and with FET's standard lease
- Focus is on sites within a ~15km radius of CBDs, rapidly growing growth areas and opportunistic purchases
- Underlying land values and future versatility of sites are key criteria, with a focus on medium density housing as a target future use, if required
- Development sites fit the strategy and are cost effective by minimising transaction costs, predominantly stamp duty
- Enhance asset quality, earnings growth and future utility of sites within FET's portfolio
- Due diligence on operators to determine financial and operational ability is a key part of the strategy
- NTA accretive transactions

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ACQUISITIONS & DEVELOPMENTS

FY14 TRANSACTIONS

Consistent with the Trust's strategy, FET entered into the following transactions:

- Acquisition of 5 early learning centres in premium Sydney metropolitan locations
- Acquisition of the Folkestone Childcare Fund, an unlisted property fund comprising 22 early learning centres
- Acquisition of a new early centre located in Canberra's growth corridor, Gungahlin (settlement due in first half of FY15)
- Acquisition of 8 pre-committed development sites in Sydney, Melbourne and Perth metropolitan locations to be constructed on a fund-through basis (3 settlements pending, due in first half of FY15)



FET Centres at Remuera NZ, Dannemora, NZ, Albany NZ

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ACQUISITIONS & DEVELOPMENTS

New FET Childcare Centre, Cremorne, Sydney

DEVELOPMENT PIPELINE & FUNDING

- Development and acquisition pipeline ~$25 million in committed transactions entered into in FY14
- These developments are expected to be completed by March 2016
- Further qualified but uncommitted opportunities
- Existing developments provide immediate cashflow based on a ‘fund through’ formula
- Developments to be funded by a mix of:
  - asset disposals
  - potential re-activation of the Distribution Reinvestment Plan (“DRP”)
  - bank debt under current facility, however remaining within FET’s target LVR range of 30-40%

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DISPOSALS

- Driven by redeployment of capital and sound portfolio management
- During FY14, FST contracted to sell six properties for ~$8 million, three of which have settled post 30 June 2014 with the remainder due before 30 September 2014
- FY14 sales yielded an average 6.85% initial yield, returned a significant capital uplift and provided an ungeared, real estate IRR of approximately 12.5% (based on a eight year holding period)
- A small number of centres will be disposed of during FY15 with an estimated $10 million to $15 million of proceeds
- Sale proceeds to be redeployed to partly fund new acquisitions
- Demand is currently strong as investors recognise the benefits of investing in childcare relative to other asset classes
- Sales are not required to fund new acquisitions however, the capital redeployment to new centres will provide a stronger long term outlook for FET

FET Childcare Centres, South Morang, Vic, Gungahlin, ACT and Cremorne, NSW

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PRODUCTIVITY COMMISSION

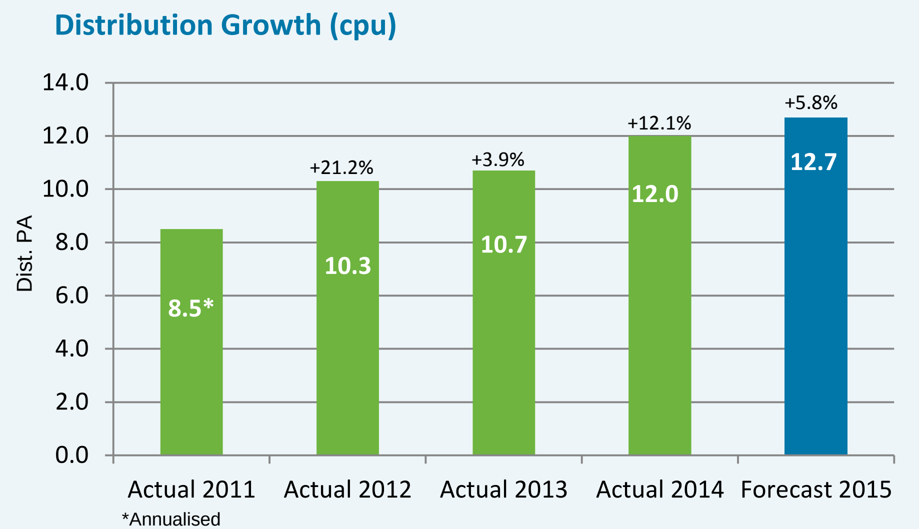
DRAFT REPORT JULY 2014

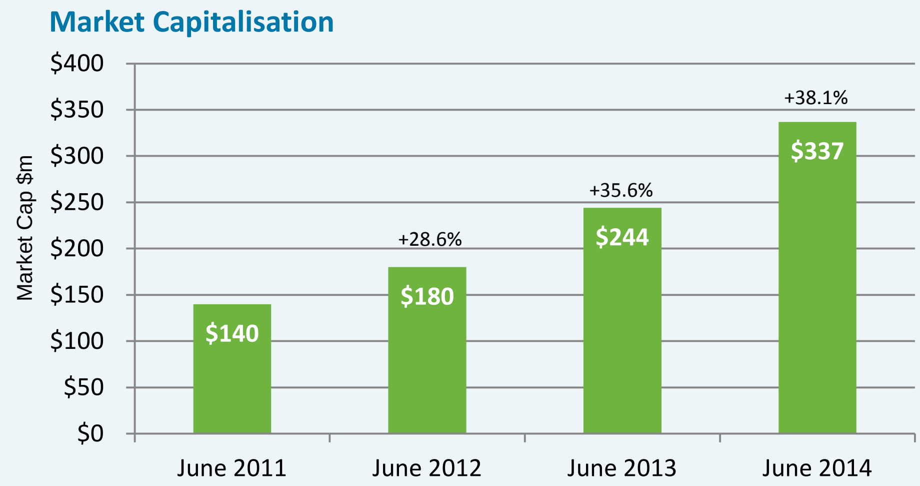
- Productivity Commission has issued a draft report, with a final report due in October 2014
- Forty-one recommendations to be considered by the Federal Government
- Report identified key drivers for childcare such as:
  - approximately 165,000 parents with children under 13 years of age could join the workforce but have opted not to due to the cost and accessibility of childcare
  - 46% of mothers with children under 5 are not in the workplace. This compares to 21% for mothers with children at least 10 years of age
- Key recommendations include:
  - existing subsidies (the Childcare Rebate & Benefit) be merged and means tested into one new subsidy, the Early Care and Learning Subsidy (ECLS)
  - ECLS would be 90% of the ‘deemed cost’ for families with household income below $60k reducing to 30% for families with an income over $300k
  - the ‘deemed cost’ (similar to the aged care funding model, initially estimated at $7.53 per hour or $90.36 per day), to be calculated annually. Parents contributions to be the difference between the deemed cost and their percentage subsidy, plus any fees charged above the deemed hourly rate
  - ECLS would be extended to include informal care, including qualified nannies. Cost to parents of a nanny is typically from $23 per hour. Potentially attractive to parents with two or more children in long day care. National Quality Framework standards to apply
  - payroll tax exemption for not-for-profit operators should be abolished
  - relaxation of the mandatory 12 hour day, allowing operators flexibility and reducing wage costs

PRODUCTIVITY COMMISSION

- Potential outcomes include:
  - it estimated that if its recommendations were accepted, labour supply would be likely to increase by 47,000 or 0.4% and as such, demand for childcare would rise
  - new funding of $1.2bn proposed by the Commission would be partially offset by increased taxes and related government revenue
  - operator profitability may improve in areas with lower family incomes through increased occupancies driven by greater affordability
  - opening hour flexibility will reduce costs for operators by matching opening hours to demand
- To be noted:
  - Commission did not support tax deductibility of childcare expenses
  - public hearings are scheduled in August
  - final report is due in October
  - Federal Government is not obliged to accept any of the recommendations

FY15 OUTLOOK





Portfolio Income

- Sustainable increases through predominantly CPI based annual indexation
- Market rental reviews have to date provided good rent uplift
- Focus on growth in income for FY15 and beyond through portfolio management and accretive acquisitions

Growth

- Selective, strategy based acquisitions and disposals to enhance the portfolio and as a catalyst for future growth

Asset Values

- Yield compression together with further indexed rental growth may provide further capital appreciation.
- NTA growth for FY14 of 12.8%

Distribution Estimate

- FY15 estimated distribution of 12.7 cpu, up 5.8% on FY14

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APPENDICES

- 27 Tenants
- 100% Occupancy
- Bank Guarantees held of $23 million
- WALE of 8.0 years
- Triple Net Leases
- Solid Pipeline

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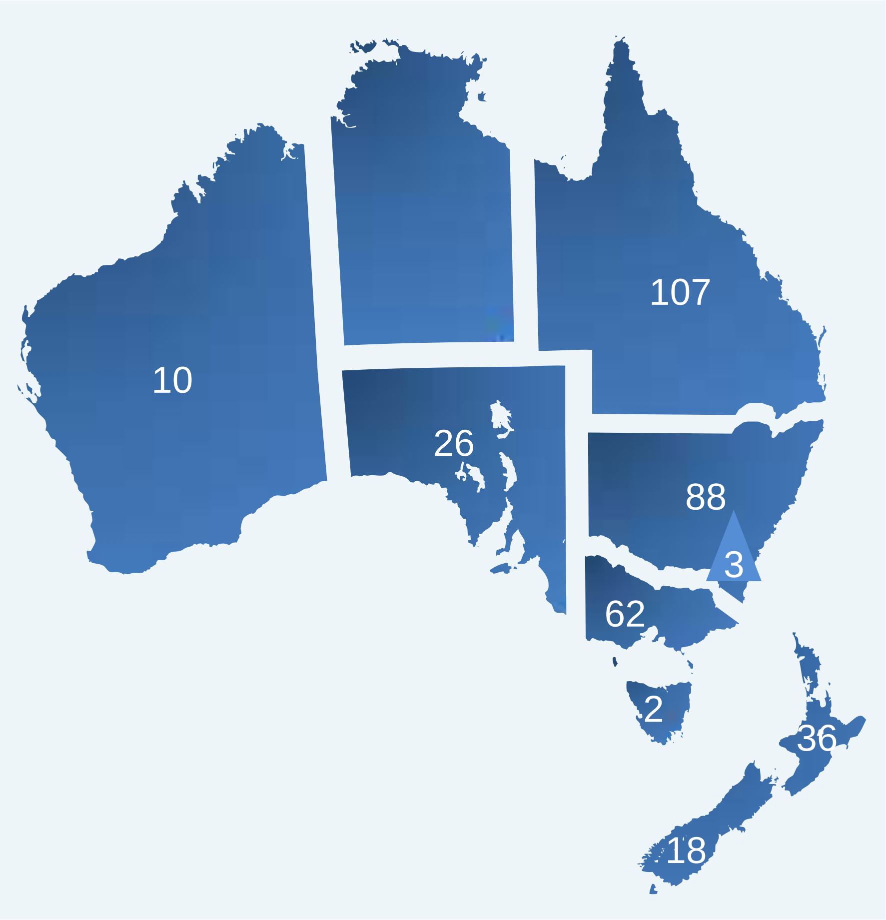
APPENDIX 1

PROPERTY PORTFOLIO



- FET's properties are leased to 27 tenants
- FET's tenant base is increasing with a defined strategy of dealing only with quality operators with a proven track record
- Asset spread and geographic diversification provides overall stability to the portfolio
- FET holds approximately $23 million of bank guarantees, most on a 'pooled guarantee' basis from its tenants

State	No. of Properties	% of Income
QLD	107	31%
NSW	88	27%
VIC	62	20%
SA	26	6%
WA	10	3%
ACT	3	1%
TAS	2	1%
NZ North Island	36	8%
NZ South Island	18	3%
Total	**352**	**100%**

Note: Operating Centres Only

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