

FOLKESTONE

AGM PRESENTATION

22 October 2015

A Specialist Funds Manager And Developer
Providing Real Estate Wealth Solutions

WELCOME & INTRODUCTION

**Garry Sladden
Chairman**

AGENDA

- Welcome & Introduction – Garry Sladden, Chairman
- Ordinary Business and Voting
 - Item 1: Financial Statements
 - Resolution 1: Re-election of Mark Baillie
 - Resolution 2: Adoption of the Remuneration Report
 - Resolution 3: Ratification of the Placement of Shares to Institutional Investors in December 2014
 - Resolution 4: Approval for Additional Share Placement Capacity
 - Resolution 5: Approval for Consolidation of Share Capital
- Folkestone Overview – Greg Paramor, Managing Director
 - FY15 Results
 - Folkestone Funds Management
 - Direct Investments
 - Outlook

ORDINARY BUSINESS & VOTING

ITEM 1

- Financial Statements
 - “To receive and consider the Directors’ Report, Financial Statements and Independent Auditor’s Report for the year ended 30 June 2015”

RESOLUTION 1

- To consider and, if thought fit, to pass the following as an ordinary resolution:
 - “That Mr Mark Baillie a Director retiring from office by rotation in accordance with Article 58 of the Constitution, being eligible, is re-elected as a Director of the Company”

FOR:	216,367,350	92.26%
OPEN:	18,148,066	7.74%
AGAINST:	2,000	0.00%

RESOLUTION 2

- To consider and, if thought fit, to pass the following as an ordinary resolution:
 - “That the Remuneration Report for the financial year ended 30 June 2015 be adopted”

FOR:	143,062,417	99.28%
OPEN:	499,970	0.35%
AGAINST:	537,054	0.37%

RESOLUTION 3

- To consider and, if thought fit, to pass the following as an ordinary resolution:
 - “That the issue of 78,756,571 ordinary Shares in the Company to institutional investors on 4 December 2014, as described in the Explanatory Memorandum accompanying this Notice of Meeting convening the Meeting, is ratified and approved for the purposes of ASX Listing Rule 7.4 and for all other purposes”

FOR:	104,370,256	97.07%
OPEN:	3,155,808	2.93%
AGAINST:	2,000	0.00%

RESOLUTION 4

- To consider and, if thought fit, to pass the following as a **special*** resolution:
 - “That, for the purposes of ASX Listing Rule 7.1A and for all other purposes, approval is given for the issue of an additional 10% of the issued Shares in the Company at the time of issue calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Memorandum”

FOR:	193,045,955	89.63%
OPEN:	18,648,036	8.66%
AGAINST:	3,678,249	1.71%

* A special resolution requires 75% of shareholders that voted, to vote in favour for the Resolution to pass.

RESOLUTION 5

- To consider and, if thought fit, to pass the following as an ordinary resolution:
 - “That, for the purposes of section 254H(1) of the Corporations Act and for all other purposes, the Share capital of the Company be consolidated through the conversion of every five fully paid Shares in the Company into one fully paid Share in the Company and that any resulting fractions of a Share be rounded up to the next whole number of Shares with the consolidation to take effect in accordance with the timetable and otherwise on the terms and conditions set out in the Explanatory Memorandum”

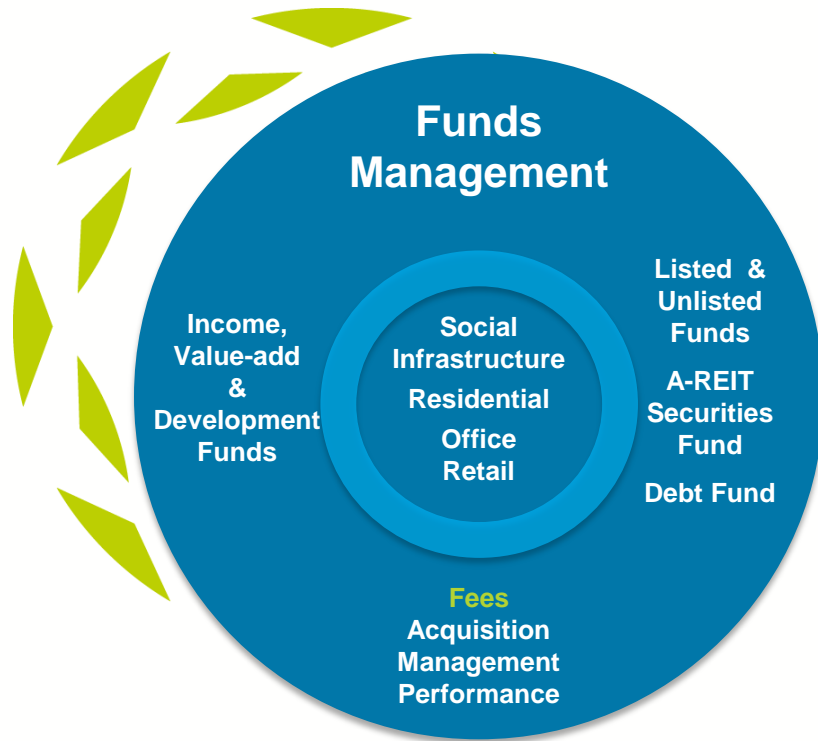
FOR:	215,677,078	91.97%
OPEN:	18,648,036	7.95%
AGAINST:	182,302	0.08%

FOLKESTONE OVERVIEW

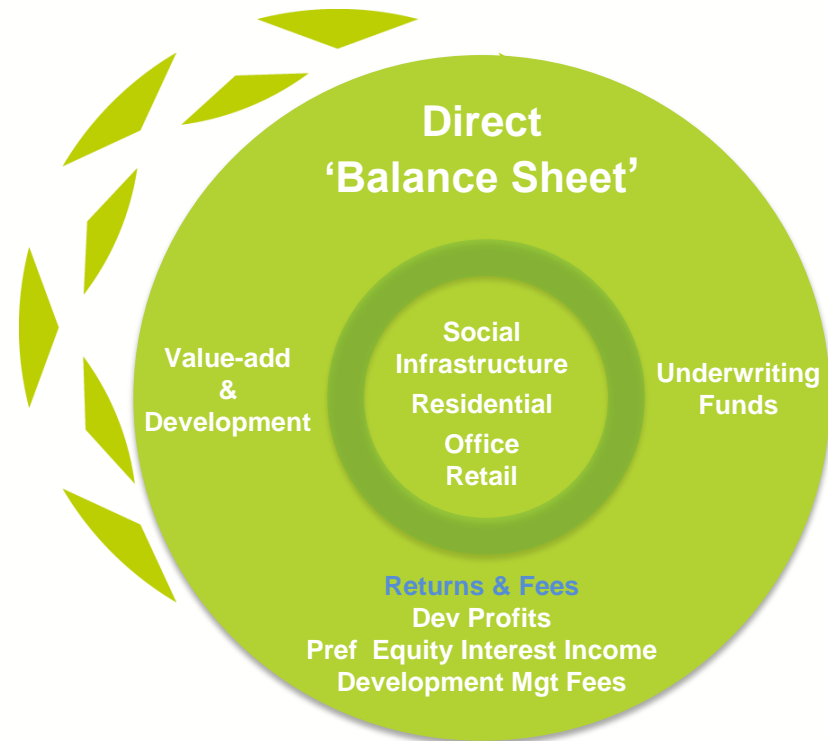
Greg Paramor
Managing Director

FOLKESTONE'S BUSINESS

AN ASX LISTED REAL ESTATE FUND MANAGER AND DEVELOPER
PROVIDING REAL ESTATE WEALTH SOLUTIONS FOR
PRIVATE CLIENTS AND SELECT INSTITUTIONS



Offers listed and unlisted real estate funds to private clients and select institutional investors
\$917 million in funds under management¹



On balance sheet activities focus on value-add and opportunistic (development) investments
Market capitalisation of \$155 million¹

¹ As at 30 June 2015.

FY15 RESULTS – HIGHLIGHTS

- Net profit after tax of \$7.0 million¹, up 122.6% on FY14
- Earnings per share of 1.1 cents, up 57.1% on FY14
- Net asset value (NAV) per share of 17.5 cents, up 21.5% on FY14
- Funds under management of \$917 million, up 12.8% on FY14
- Raised \$42 million from a Placement and Entitlement offer
- Launched the Folkestone Truganina Development Fund
- Folkestone Social Infrastructure Trust merged with the Folkestone Education Trust (FET)
- Acquired interests in three new development opportunities
- Secured strong pre-sales across the active developments
- Completed development of Stage 1 at Millers Junction and entered into JV for Stage 2

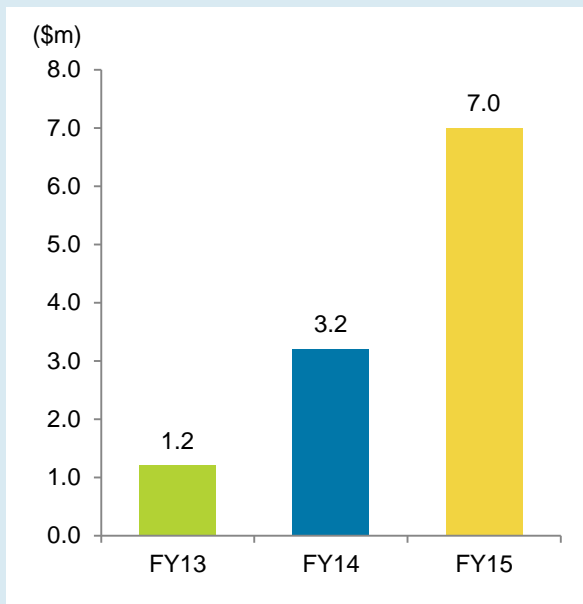
¹ The net profit after tax for the Consolidated Group in FY15 was \$8.2 million. The Consolidated Group includes Folkestone West Ryde Development Fund ("Fund") even though Folkestone only owns 50 per cent of the units in the Fund. The Consolidated Group's net profit after tax includes a net profit after tax contribution of \$2.4 million from the Fund relating to its share of development profits recognised during the period net of fund administration costs. 50 per cent of the net profit after tax from the Fund (\$1.2 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax after adjusting for 50 per cent of the Fund's profit is \$7.0 million.



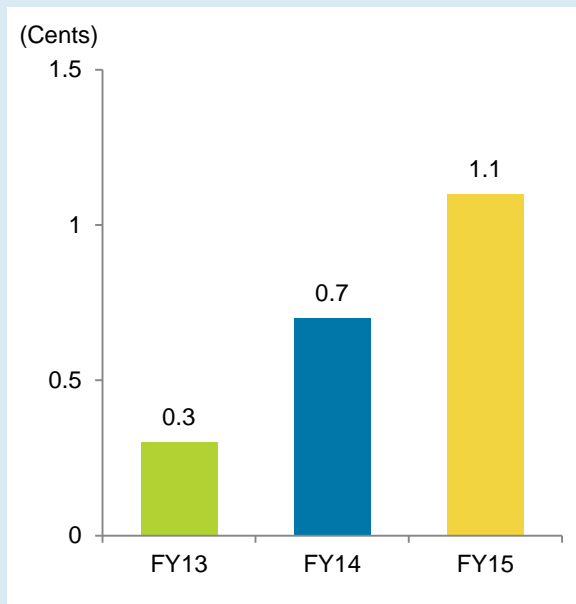
Corporate Square
Folkestone Real Estate Income Fund at Wollongong

FY15 RESULTS – PERFORMANCE

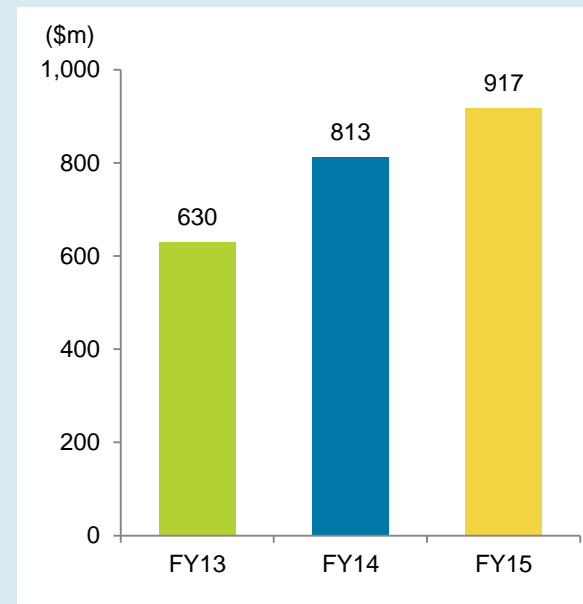
Net Profit After Tax



Earnings Per Share



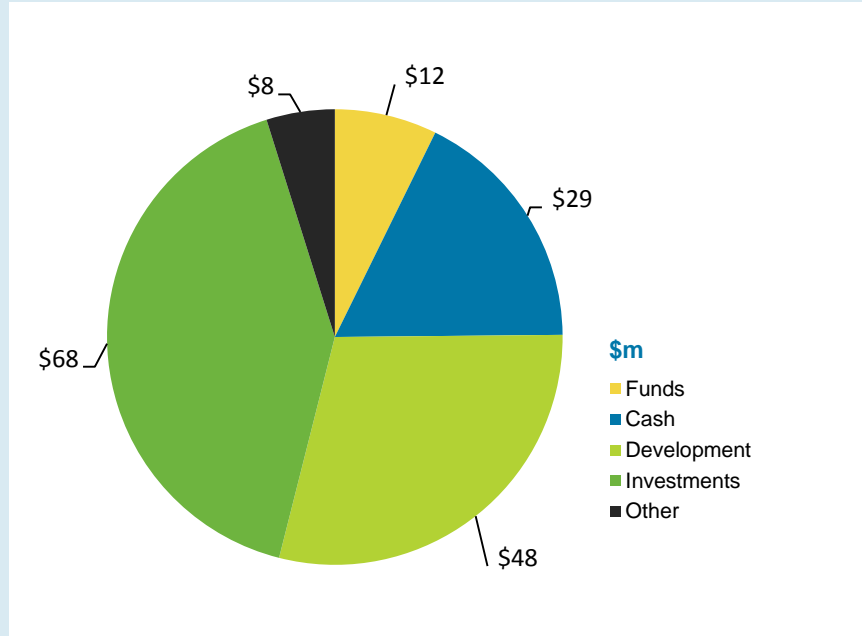
Funds Under Management



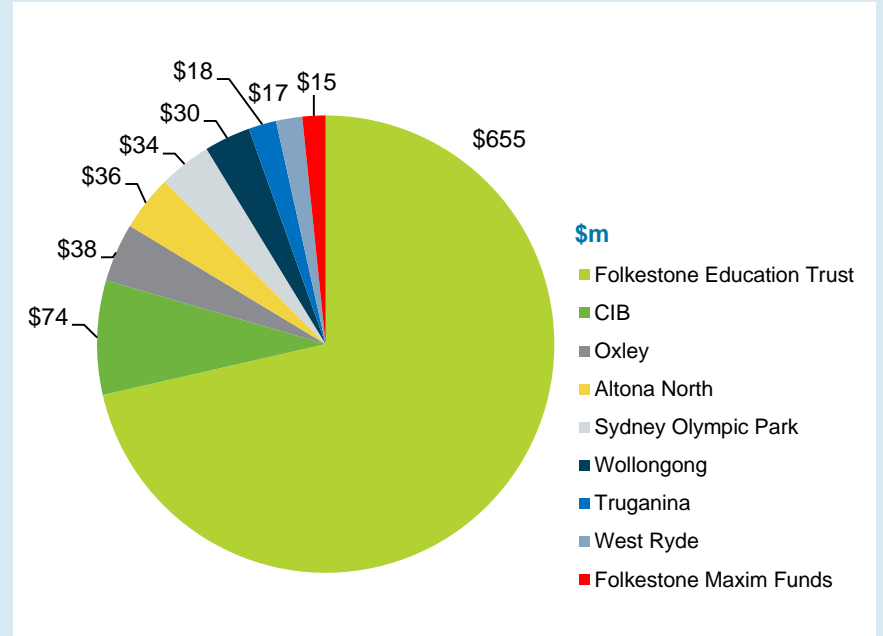
“Folkestone continues to execute on its strategy of growing its funds management platform and its on balance sheet exposure to quality residential and non-residential development”

FOLKESTONE'S ASSETS & FUNDS UNDER MANAGEMENT

BALANCE SHEET ASSETS - \$165m
30 June 2015



Funds Under Management - \$917M
30 June 2015





Public
Markets

Equity (Listed)

Listed A-REITs

- Folkestone Education Trust (ASX: FET)

A-REIT Securities Funds

- Folkestone Maxim A-REIT Securities Fund & SMA

\$917 MILLION IN FUM AND 7,291 INVESTORS¹

- A menu of real estate funds across:
 - public (listed) and private (unlisted) markets, debt and equity to meet the various risk/return requirements of our clients
 - sectors - office, retail, residential and social infrastructure
 - private clients and select institutions



Private
Markets

Equity (Private Funds)

Income Funds

- Altona North
- CIB
- Oxley
- Sydney Olympic Park
- Wollongong

Development Funds

- West Ryde
- Truganina



¹ As at 30 June 2015 and includes Folkestone and all its funds.

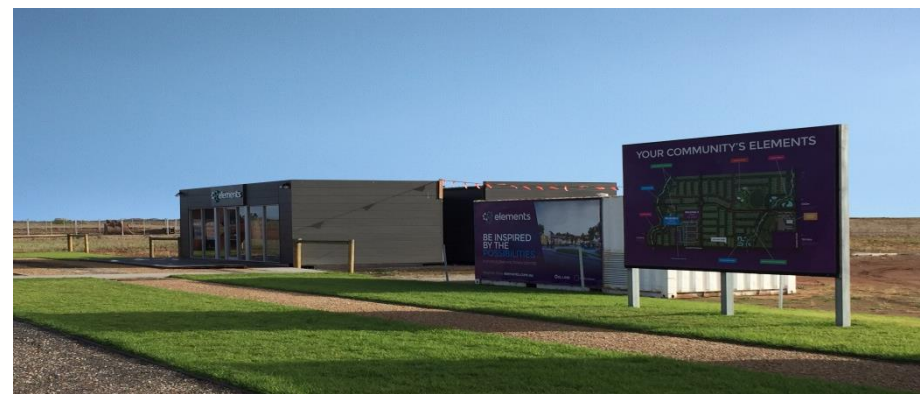


- FET is Australia's pre-eminent owner of early learning centres
- FET merged with Folkestone Social Infrastructure Trust (FST) on 6 January 2015
- FET's centres are leased to 25 tenants including Goodstart Early Learning, G8 Education and Affinity
- Average property yield 8.0%, 99.7% occupancy, 7.9 year WALE (by rental income)
- FET has generated strong outperformance 35.8% vs 20.2% for Benchmark¹
- FLK holds 12.8 per cent of FET units on issue²
- FLK generated an unrealised gain of \$4.5 million on its investment in FET in FY15
- FY16 forecast distribution of 13.4 cpu, up 4.7% on FY15

Profile	As at 30 June 2015
Type	Listed
Sector	Early Learning
Location	Australia & New Zealand
No. of Properties	396
Occupancy (%)	99.7
Gross Assets (\$m)	655
FY15 Distribution (cpu)	12.8
FY16 Forecast Distribution (cpu)	13.4

¹ S&P/ASX 300 A-REIT Accumulation Index as at 30 June 2015

² Excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund.



- Unlisted development fund in a 80/20 JV with ID_Land
- Residential land sub-division comprising circa 690 lots and 3.1 hectare town centre
- Located 20 kms west of Melbourne CBD in the 4th fast growing LGA in Australia
- The Project received approval by Minister for Planning as part of Truganina Precinct Structure Plan (“PSP”) in November 2014
- Project due to be completed by June 2019
- Fund closed oversubscribed – FLK co-investment (18.8%)
- Strong pre-sales to date - almost double the number of lots in the Base Case Feasibility
- Construction commenced June 2015 with first settlements expected late 2015

Profile	As at 30 June 2015
Type	Unlisted
Sector	Residential Land
Location	Truganina, VIC
Fund Share – Project (%)	80
JV Partner	ID_Land
No. of Lots	Circa 690
Area (ha)	52.5
Forecast Gross Project Revenue – Project (\$m)	159
Fund Equity (\$m)	18.25
FLK Co-Invest in Fund (\$m)/(%)	3.425/18.8
Fund Target Return p.a. (%)¹	Equity IRR: 18 Return on Equity: 77
Forecast Fund Completion	2019

¹ Post fees, pre tax.

DIRECT INVESTMENTS (On Balance Sheet)

DIRECT INVESTMENTS

Millers Junction, Altona North
The Ranges, Karratha
Potter's Grove, Officer
Northside, Officer
North-West, Sydney

Central Square, Folkestone West Ryde Development Fund



EXISTING PROJECTS - SUMMARY

PROJECT NAME	TYPE	LOCATION	SIZE	STATUS	FLK SHARE (%)	FORECAST COMPLETION VALUE (\$m)	FORECAST FLK VALUE (\$m)	FORECAST COMPLETION
Potters Grove	Residential	Officer, VIC	~240 Lots	Under Construction	50	44	22 ²	Late 2015
Potters Northside	Residential	Officer, VIC	~140 Lots	Planning	50	28	14	Mid 2017
Elements	Residential	Truganina, VIC	~690 Lots	Under Construction	16 ³	159	25	Mid 2019
The Ranges	Tourism	Karratha, WA	~110 Villas	Under Construction	25	64	16 ²	Late 2016
Millers Junction Stage 2	Office/Retail/Warehouse Mews	Altona North, VIC	~60 Mews	Marketing	50	30	15	Late 2018
Millers Junction Stage 3	Retail/Large Format Retail/Community	Altona North, VIC	~13,000 sqm	STCA ¹	100	60	60	Early 2018
Truganina Neighbourhood Activity Centre	Retail	Truganina, VIC	~5,000 sqm	STCA ¹	100	30	30	Mid 2018
Knoxfield	Office/Retail/Warehouse Mews	Knoxfield, VIC	~83 Mews	Marketing/STCA ¹	50	31	16	Early 2020
North-West Sydney	Mixed-use	North-West Sydney NSW	~600 Apartments	STCA ¹	50	435	218	Mid 2020
South Dural	Residential	Dural, NSW	~1500 lots	STCA ¹	50	670	335	
TOTAL						1,551	751	

- FLK current projects – forecast completion value \$1,030m and FLK share \$453m
- Exposure to key residential markets – Sydney apartment and Melbourne land
- Strong JV Partners – ID_Land, Toga, Wilmac, Lyon Group

¹ STCA – subject to council approval.

² Forecast total value based on Folkestone's share of Project - Folkestone has already commenced receiving distributions from these projects.

³ Folkestone holds 18.76% of the Folkestone Truganina Development Fund which has a 80% interest in the project.

DEVELOPMENT OPPORTUNITIES

- FLK seeks to regularly recycle its balance sheet capital for development opportunities to:
 - invest directly (on-balance sheet)
 - sell down to an FLK fund (recycle)
 - co-invest with an FLK fund (invest along side)
- Key focus – residential, retail & social infrastructure in strategic alliances through off-market transactions
- Under exclusive due diligence on 5 development projects with a combined estimated end value of circa \$615 million (FLK indicative share circa \$308 million)
- FLK is in negotiation on one further opportunity in retirement/aged-care

UNDER EXCLUSIVE DUE DILIGENCE	LOCATION	STATUS	FLK INDICATIVE SHARE (%)	ESTIMATED COMPLETION VALUE (A\$m)	FLK INDICATIVE VALUE (A\$m)
Residential (~600 lots)	VIC	STCA ¹	50.0	110	55
Mixed Use (health, aged care, retail, hotel)	NSW	STCA ¹	50.0	250	125
Office	VIC	Tender	50.0	65	33
Retirement Villages	NSW	Negotiation	50.0	190	95
Total				615	308

¹ STCA – subject to council approval.

CASE STUDY



Stage 3

Stage 1

Stage 2

Millers Junction – Home Centre, Business & Retail
Note: Stage 2 is an artists impression

MILLERS JUNCTION, ALTONA NORTH (Stage 1)

DIRECT



- In September 2014 FLK completed development of Millers Junction Home - a large format retail centre anchored by Bunnings, Officeworks & JB Hi-Fi Home and sold to a FLK fund on a fund through basis
- Demonstrates FLK's ability to recycle capital and "manufacture" product for its funds management platform
- In December 2014 settled sale of a 0.8 hectare parcel of land to ALDI for a new supermarket which was developed by ALDI and opened in April 2015

Profile	As at 30 June 2015
Sector	Large Format Retail
Location	Altona North, VIC
Size (sqm)	22,016
Client	Folkestone Real Estate Income Fund at Altona North
Completion	September 2014
Millers Junction Home - Sale Price (excluding transaction costs) (\$m)	30.4

MILLERS JUNCTION, ALTONA NORTH (Stage 2)

DIRECT



- FLK entered a 50/50 JV with Wilmac Properties in September 2014
- Approximately 60 strata style office/warehouse/retail mews - forecast gross revenue of \$30 millers
- As at October 2015, 25 pre-sales had been secured, representing 39% of the forecast sales revenue
- Construction commenced in September 2015

Profile	As at 30 June 2015
Sector	Office/Warehouse/Retail
Location	Altona North, VIC
Area (ha)	2.6
Acquired / Date of JV	Dec 2007 / Sept 2014
FLK Share (%)	50
JV Partner	Wilmac Properties
No. of Mews	Circa 60
Forecast Project Value – Gross Revenue (\$m)	30.0
Forecast Completion Date	Late 2018

MILLERS JUNCTION, ALTONA NORTH (Stage 3)

DIRECT



Note: Stage 2 is an artists impression

- A master plan is currently being prepared for Stage 3 with focus on retail, large format retail and family – early learning and other community facilities
- May 2015, FLK entered into a call option agreement with BWP Trust to purchase the former Bunnings site adjacent to Millers Junction. Subject to planning approval, the 3.4 hectare parcel will be consolidated with FLK's existing Stage 3 land holding of 4.4 hectares to create a substantial development opportunity
- In line with FLK's strategy of growing its funds management platform, FLK expects to establish a fund to own the completed development in Stage 3

Profile	As at 30 June 2015
Sector	Retail/Large Format Retail /Community
Location	Altona North, VIC
Area (ha)	4.4 Owned 3.4 Optioned
Acquired	Dec 2007
Optioned Land Exercise Date	January 2016
FLK Share (%)	100
Forecast Project Value – Gross Revenue (\$m)	60.0
Forecast Completion Date	Early 2018



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Blog

Australian Cities – Globally Competitive But Can They Stay There?

The recent appointment of Jamie Briggs as the Minister for Cities and the Built Environment sends a strong message that our Federal leaders finally recognise that our cities are an essential ingredient in driving Australia's economic and social prosperity. Our cities are home to our most valuable capital –...

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Steady As She Goes For Non-Residential Property Returns in FY15

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FOLKESTONE OUTLOOK



FOLKESTONE OUTLOOK

- Well positioned with strong balance sheet to continue to deliver on the strategy to:
 - grow its suite of listed and unlisted real estate funds
 - seek value-add and opportunistic (developments) acquisitions for its on-balance sheet investments and funds management platform
- Continue to be disciplined in seeking new opportunities that offer appropriate risk-adjusted returns given the current position in the real estate cycle
- Undertake earnings accretive, opportunistic acquisitions for its funds management platform, on-balance sheet investments and to seed/co-invest, in development funds with a focus on:
 - eastern seaboard markets
 - residential – land and apartments in Sydney and selective locations in Melbourne and Brisbane
 - non-residential – neighbourhood retail, office and office/retail/industrial mews
 - social infrastructure – early learning, retirement/aged care
 - mixed-use – inner and middle ring suburbs
 - developments where FLK can manufacture quality product for its funds management platform
- FLK intends to re-institute paying dividends - forecast fully franked dividend of at least 0.5 cents per share in respect of FY16 assuming no material change in market conditions



Millers Junction Home, Folkestone Real Estate Income Fund at Altona North



Elements, Folkestone Truganina Development Fund

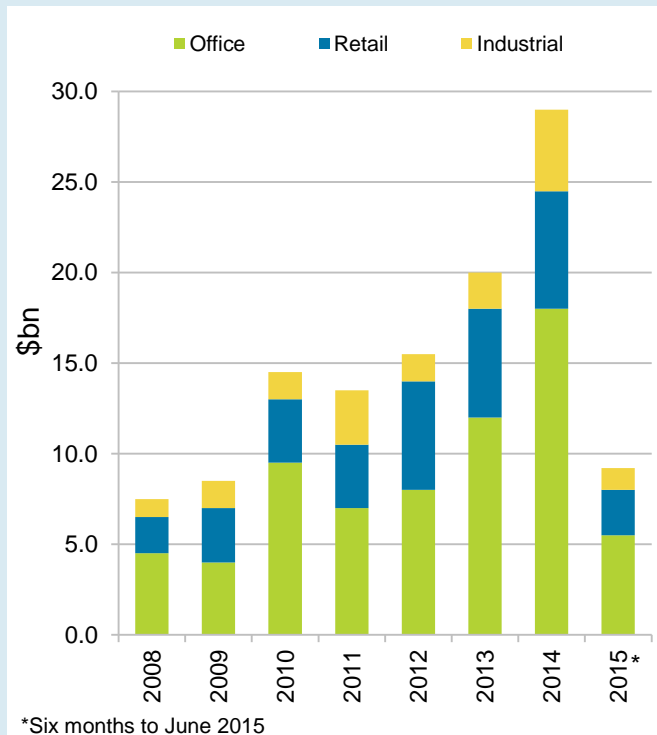
APPENDIX – Market Outlook



Sydney Olympic Park

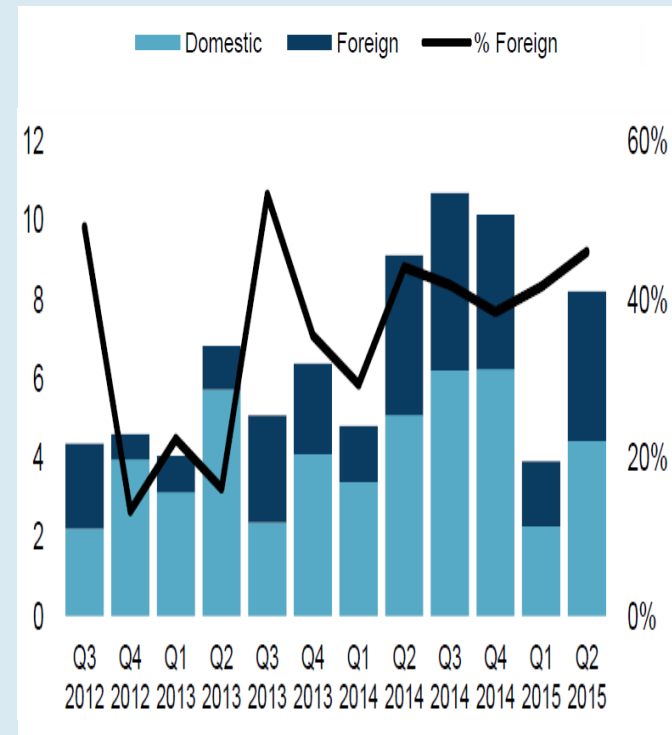
AUSTRALIAN MARKET CONDITIONS – TRANSACTIONS

Non-residential Transaction Volume By Key Sector: 2008 – 2015



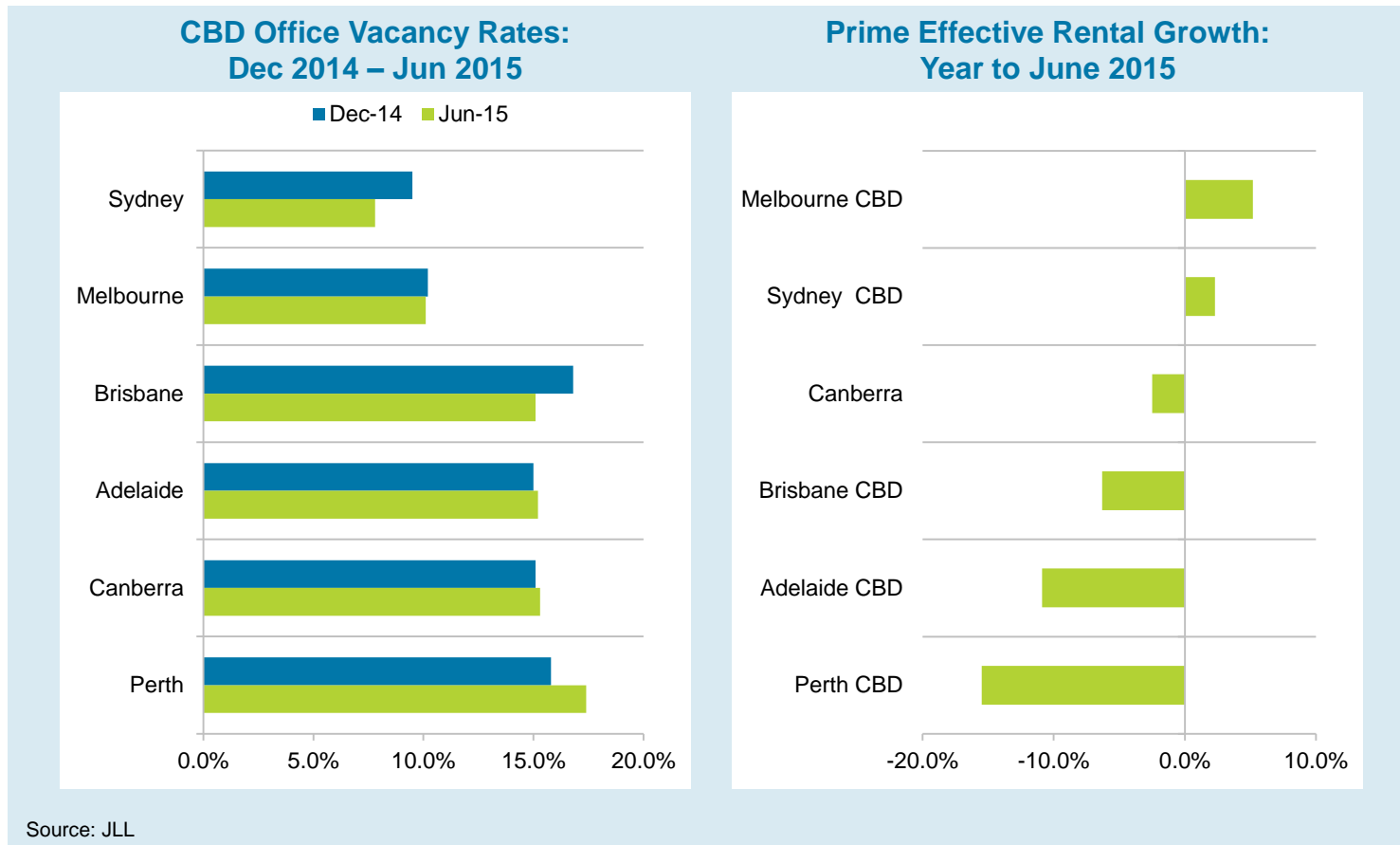
Source: DTZ

Domestic vs. Foreign Investment Activity: 2012 - 2015



- In 6 months to June 2015, just under \$10 billion was transacted in the office, retail and industrial sectors
- Activity running below levels in 1st half of 2014 due to stock availability rather than capital drying up
- Foreign investors accounted for 45% of transaction value in the past six months
- Office remains the key target for foreign investors (Sydney and Melbourne), although growing interest in prime industrial and hotels

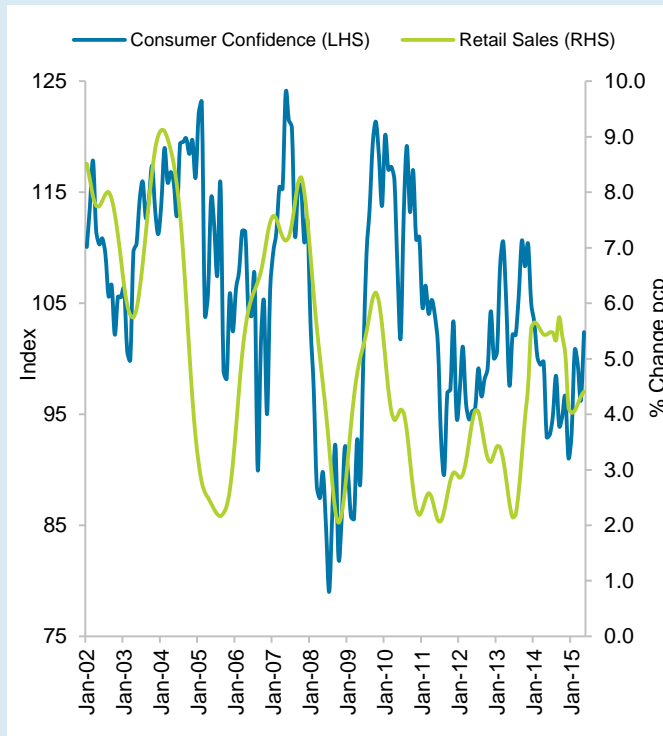
AUSTRALIAN MARKET CONDITIONS – OFFICE



- Vacancy rates reflect divergent economic growth prospects of the major markets
- Sydney the only CBD market to record a single digit vacancy – 7.8%
- Effective rental growth has been subdued in Sydney and Melbourne and negative in other CBDs due to high vacancy and elevated incentives

AUSTRALIAN MARKET CONDITIONS – RETAIL

**Retail Sales vs. Consumer Confidence:
2002 – 2015**



Source: ABS

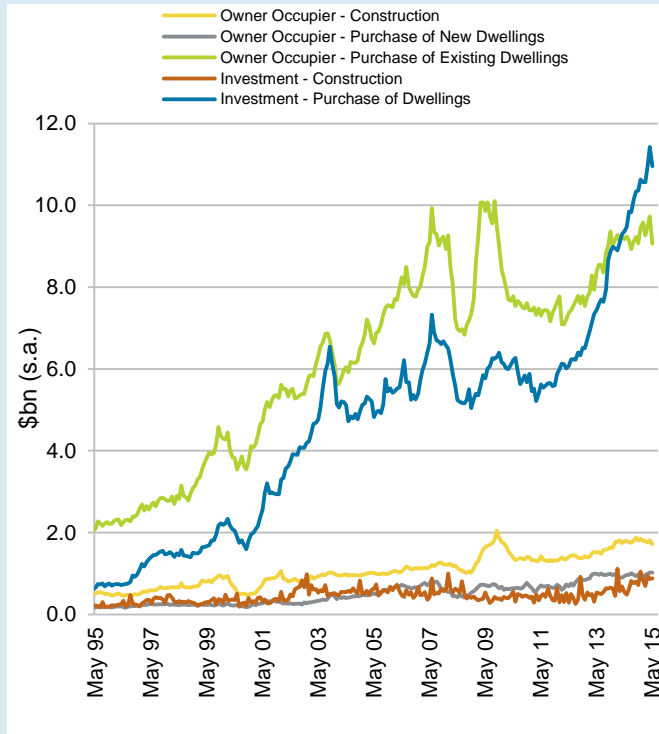
**Retail Turnover by Type:
Year to June 2015**



- Retail sales growth has improved but driven by household goods (impact of strong housing market)
- Consumer confidence remains weak – therefore cautious on spending
- However, lower confidence partly offset by strong population growth, rising house prices and equity values (the “wealth effect”)

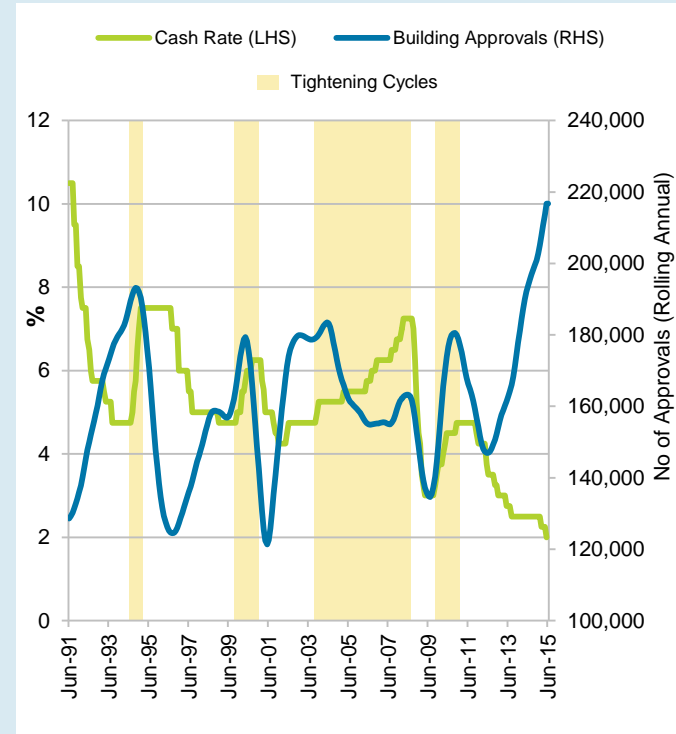
AUSTRALIAN MARKET CONDITIONS – RESIDENTIAL

Housing Finance by Type of Borrower: 1995 – 2015



Source: ABS

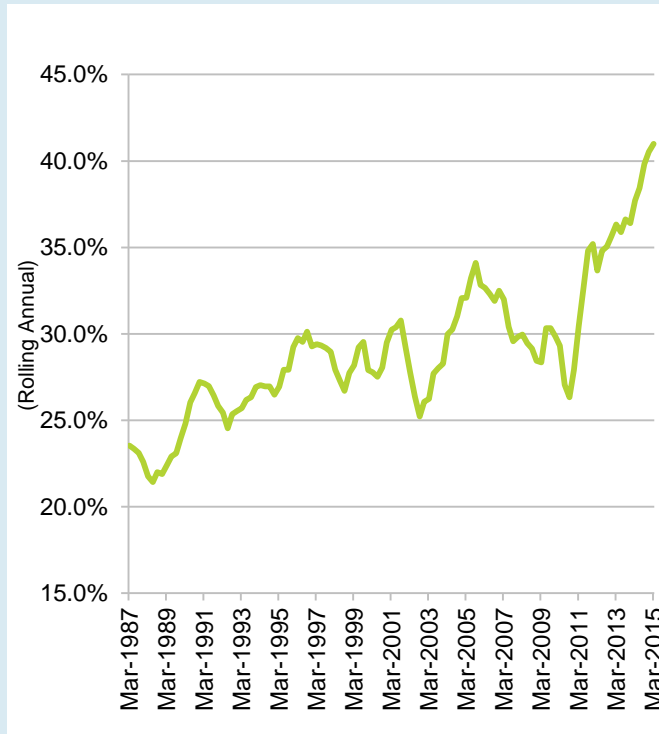
Building Approvals and Monetary Policy: 1991 - 2015



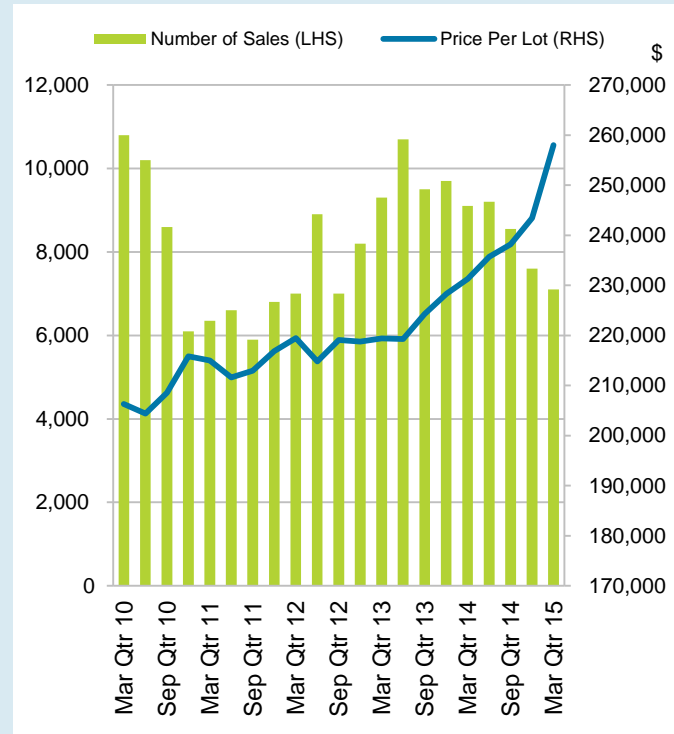
- Investor activity is driving the residential market
- However, despite all the hype about apartments off-plan sales, investors are preferring established housing
- APRA macro-prudential controls on bank lending will impact the investor market
- Strong link between interest rates and housing sector – investors need to be cognisant of interest rate increases down the track

AUSTRALIAN MARKET CONDITIONS – RESIDENTIAL

Multi-Unit Dwelling as % of Total Dwelling Completions: 1986 - 2015



Residential Land Sales and Medium Lot Values – Capital Cities: 2010 - 2015

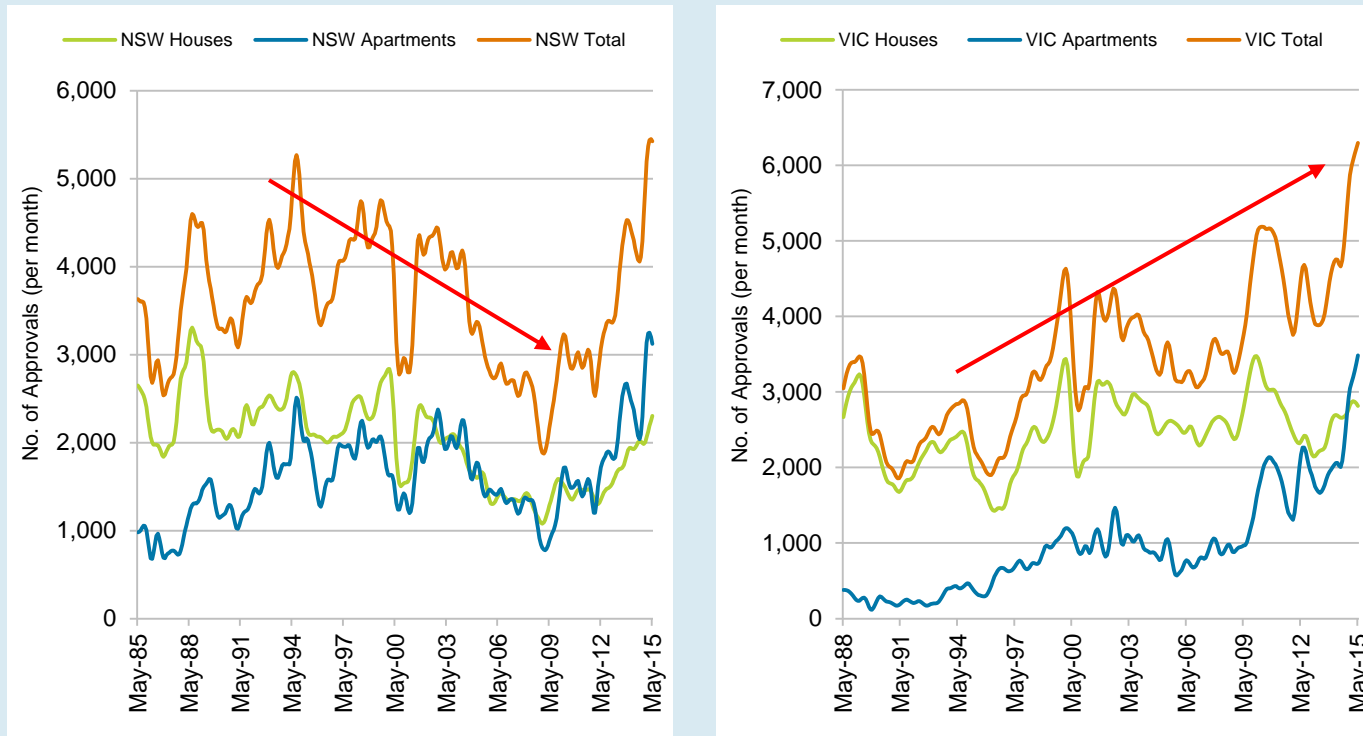


Source: ABS, HIA, CoreLogic RPData

- Apartments now key part of the market – circa 40% of completions – due to lifestyle/demographic changes, affordability (apartments 28% cheaper than houses in Sydney) and planning changes
- Inner Melbourne, inner Brisbane & South Sydney apartment markets heading for an oversupply – better value in middle/outer ring suburbs, mixed-use developments and around transport nodes
- Land sales falling across Australia since peaking in 2013 – driven by Sydney where lot sales down 29.7% in March quarter and almost 50% below record set in December quarter 2013
- Media lot price in Sydney now \$365,000 - 64% higher than Melbourne (\$222,000) and Brisbane (\$228,000)

AUSTRALIAN MARKET CONDITIONS – RESIDENTIAL

House and Apartment Approvals – NSW and Victoria: 1988 – 2015

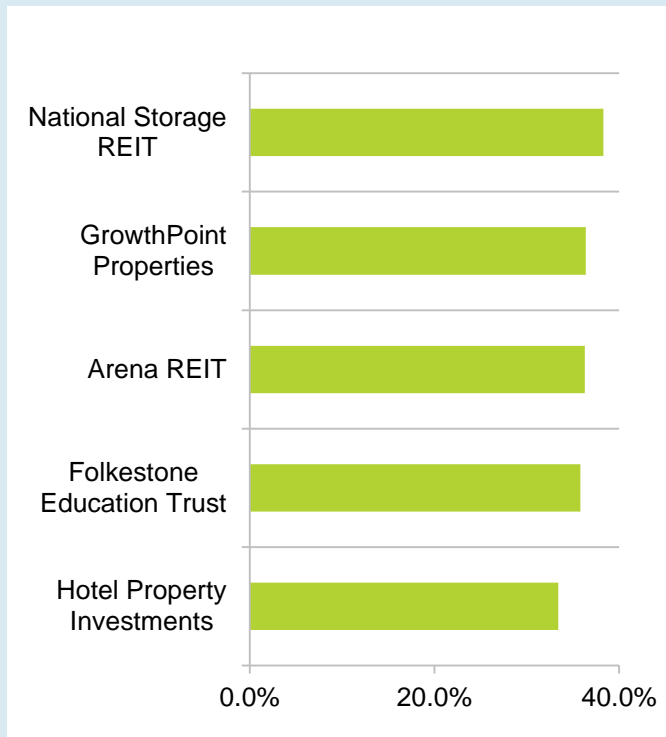


Source: ABS

- NSW approvals declined significantly between 2003 and 2008 – leading to current undersupply and price pressures
- VIC approvals continue to run ahead of long-term average and also ahead of NSW – better planning system
- Declining affordability, concerns of oversupply in some sub-markets, supply bottlenecks (Sydney planning) will see supply taper off in 2016

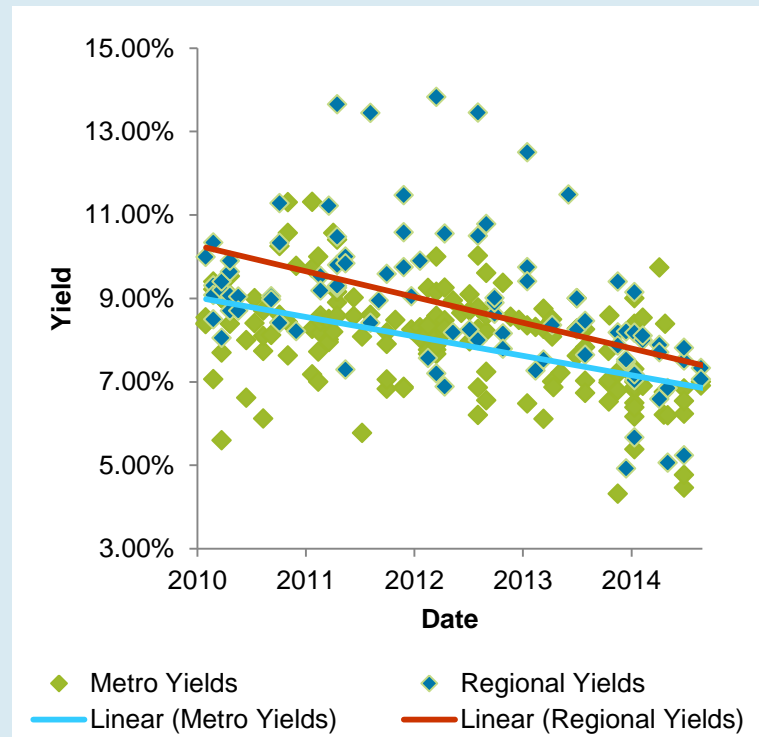
AUSTRALIAN MARKET CONDITIONS – SOCIAL INFRASTRUCTURE

Performance of the Top Five A-REITs:
Year to June 2015



Source: ABS

Early Learning Centre Sale Yields:
2010 - 2015



- More capital being allocated in both the listed and unlisted real estate markets to alternative assets such as early learning, medical/health and seniors living
- 4 of the top 5 performing A-REITs in the year to June 2015 were social infrastructure related
- Alternate sectors typically higher yields than office, retail and industrial, although yield gap closing due to growing investor interest in alternate assets
- Benefits of investing in social infrastructure typically include longer leases (often 10 years or more), net or triple net leases (whereby the operator/ tenant pays outgoings and is responsible for repairs and maintenance), often government backed cash flows and lower volatility compared to other assets

MARKET OUTLOOK SUMMARY

- Australia's economic growth to remain below trend
- Wall of money chasing real estate assets, especially non-residential assets will continue
- Biggest challenge for investors will be finding attractive investment opportunities in a competitive market place
- Industrial and real estate related social infrastructure to outperform
- Seniors living sector is expected to offer significant investment opportunities
- Wide divergence in performance of Australia's housing sub-markets to continue
- Momentum in the Sydney and Melbourne residential markets is set to slow
- Strong return from A-REITs in FY15 unlikely to be repeated – move back to long-term average
- Investors need to identify and quantify the risk in their real estate portfolios and focus on the underlying real estate fundamentals
- **Remember there is a real estate cycle**

QUESTIONS

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Folkestone Limited

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Mark Baillie – Non-Executive Deputy Chairman

Greg Paramor – Managing Director

Ross Strang – Non-Executive Director

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Scott Martin

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