

# INVESTOR REVIEW

## FY16



Folkestone

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Folkestone's real estate expertise spans across the residential (land and apartment), non-residential and real estate related social infrastructure sectors. We own, manage and develop real estate for the benefit of our shareholders and investors in our funds.

# FY16 HIGHLIGHTS

Folkestone continued to execute on its strategy of growing its funds management platform and its on-balance sheet exposure to quality residential and non-residential developments.

## \$19.9m

REVENUE

▲ 31.8%

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## \$5.0m

NPAT<sup>1</sup>

▲ 71.2%

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## \$1.05bn

FUM

▲ 14.7%

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## 2.5cps

DIVIDEND

1<sup>ST</sup> SINCE 2008

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1. Normalised NPAT after adjusting for a one-off tax credit in FY15 and in FY16 one-off gains on the sale of FET units and A-REIT Securities and due diligence costs on transactions not proceeding.

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Folkestone delivered a strong result in FY16 driven by a focused execution of our strategy to deliver real estate wealth solutions by growing our funds management platform and undertaking quality residential and non-residential developments on our balance sheet.



ECLIPSE EARLY EDUCATION CENTRE, LYNDHURST, VIC - AN ASSET OF FOLKESTONE EDUCATION TRUST



SYDNEY OLYMPIC PARK, NSW - AN ASSET OF FOLKESTONE REAL ESTATE INCOME FUND AT SYDNEY OLYMPIC PARK



ELEMENTS, TRUGANINA, VIC - AN ASSET OF FOLKESTONE TRUGANINA DEVELOPMENT FUND



MILLERS JUNCTION BUSINESS - ALTONA NORTH, VIC (ARTIST IMPRESSION) FOLKESTONE AND WILMAC'S DEVELOPMENT

We are pleased to have generated a normalised net profit after tax for the year ending 30 June 2016 of \$5.0 million<sup>1</sup>, a 71.2 per cent increase over FY15. The statutory net profit after tax was \$5.5 million<sup>2</sup>, down 22.3 per cent over FY15.

Our balance sheet is in excellent shape with more than \$20 million in cash and an undrawn facility of \$25.0 million, providing us with the financial flexibility to take advantage of new investment opportunities across both our funds management platform and on-balance sheet investments. Gearing at 30 June 2016 was a low 4.2 per cent.

Folkestone's net asset value (NAV) was 98.9 cents per share at 30 June 2016, up from 87.5 cents per share at 30 June 2015 (restated from 17.5 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period).

## FUNDS MANAGEMENT

Folkestone's funds management division is a specialist real estate funds manager. During the reporting period, Folkestone increased its funds under management from \$917 million to \$1.05 billion, an increase of 14.7 per cent compared to 30 June 2015.

**"The positive result for FY16 reflects strong contributions from both our funds management platform and our on-balance sheet development activities"**

### Greg Paramor, Managing Director

Total funds management revenue was \$15.9 million, up 51.6 per cent on FY15 driven by:

- 4.7 per cent increase in recurring fee income and cost recoveries to \$6.3 million;
- 61.5 per cent increase in transaction fees to \$2.2 million;
- 36.0 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to \$4.2 million;
- \$1.6 million performance fee from the West Ryde Development Fund; and
- \$1.2 million realised profit on the sale of 1.2 million Folkestone Education Trust units.

In addition, Folkestone also generated a \$16.9 million unrealised gain (\$11.8 million net of tax) from its co-investment in Folkestone Education Trust.

All Folkestone's listed, unlisted and A-REIT securities funds outperformed their respective investment performance benchmark in FY16.

The largest fund managed by Folkestone, the ASX listed Folkestone Education Trust, with gross assets of \$754 million, continued its stellar performance in recent years with a total return of 34.8 per cent outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 24.6 per cent, and over 3 years has returned 32.8 per cent per annum compared to the Index of 18.5 per cent per annum.

The West Ryde Development Fund is an example of Folkestone delivering strong returns to its fund investors and the broader Folkestone group. The Fund completed a 229 residential development project located in West Ryde, Sydney in a 50/50 joint venture with the Toga Group. The Fund's forecast equity internal rate of return (IRR) increased from 18 per cent per annum to 30 per cent per annum and the forecast return on equity increased from 32 per cent to 50 per cent (pre-tax, net of fees). Folkestone co-invested \$8.7 million in the Fund and has generated a return on equity of 79 per cent including \$0.9 million in acquisition and management fees, a \$1.6 million performance fee earned in FY16 and a net profit before tax of \$4.4 million on its investment in the Fund of which \$3.3 million was earned in FY16.

## DIRECT INVESTMENTS - DEVELOPMENTS

During FY16, Folkestone continued to execute its strategy for existing on-balance sheet developments and also announced three new investments in joint venture with its existing joint venture partners.

Folkestone's development division generated a net development return of \$3.59 million in FY16, down 10.4 per cent on the previous year. Whilst net development profit from projects was up 52 per cent to \$3.9 million and preferred equity income was up 2,104 per cent to \$1.1 million, Folkestone incurred a full year of rental expenses (\$1.6 million) on the Bunnings owned land it has an option over at Altona North which is earmarked to be consolidated with Folkestone's existing Stage 3 land holding of 4.4 ha to create a substantial development opportunity which will include traditional retail, large format retail and commercial activities. The expense was partially offset by a \$1.5 million reversal of prior impairments on the Stage 3 land holding. As announced at the HY16 results, a \$1.2 million impairment provision in relation to Karratha was made during the current reporting period.

During the year, Folkestone advanced a number of developments and recorded strong sales across both its residential and commercial developments. Our residential land and commercial developments in Melbourne are in the key growth corridors and are performing strongly. Our residential and mixed-use sites in north-west Sydney, once planning approvals have been achieved, will provide strategic development opportunities in one of Sydney's fastest growing corridors and will benefit from key road

1. The normalised figures are non-statutory amounts and in Folkestone's view better reflect the underlying operating performance of the business. Normalised net profit after tax (NPAT) is arrived at after adjusting the Group's statutory NPAT in FY15 relating to a \$4.1 million income tax benefit arising from the re-recognition of \$13.6m of carried for tax losses previously derecognised in prior reporting periods and in FY16 of \$0.8 million in due diligence costs associated with transactions not proceeding and \$1.44 million in realised gains from the sale of units in Folkestone Education Trust and units that seeded a new Folkestone Maxim A-REIT Securities Managed Investment Account.

2. The statutory NPAT for the Consolidated Group was \$9.0 million. The Consolidated Group includes the Folkestone West Ryde Development Fund ("Fund") even though Folkestone only owned 50 per cent of the units in the Fund. The Consolidated Group's statutory NPAT includes a net profit of \$7.2 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 profit from the Fund (\$3.6 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's statutory NPAT is \$5.5 million after adjusting for 50 per cent of the Fund's profit.

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT

and rail infrastructure built in this corridor. Key highlights in FY16 include:

- Millers Junction Business, Altona North (69 commercial mews/units) - 43 of the 58 mews (74 per cent) released to the market in FY16 were pre-sold. Construction of Stage 1 (28 mews, a café and office suite) commenced in September 2015 and is forecast to be completed in the September 2016 quarter. Construction of Stage 2 (14 mews) commenced in March 2016 and is forecast to be completed in September 2016;
- Knoxfield – (90 commercial mews/units) Marketing of Stage 1 (20 mews) commenced with a total of 15 pre-sales (75 per cent) secured at 30 June 2016. An additional 2 pre-sales were secured on Stage 2, ahead of the sales launch in July 2016. Construction of Stage 1 commenced in June 2016 and is forecast to be completed in April 2017;
- Potters Grove, Officer (240 lot residential land subdivision) - As at 30 June 2016, 239 lots had been

*“We are firmly of the view that real estate related social infrastructure (childcare, seniors living and medical/health) will offer attractive investment returns in the coming year”*

## Greg Paramor, Managing Director

settled with 41 of these settlements occurring in the current reporting period leaving one lot to sell. In August 2016, this lot was contracted for sale. The project has delivered Folkestone an equity IRR of 26.8 per cent on funds invested and a total return before tax of \$4.5 million;

- Northside, Officer (146 lot residential land subdivision) - Settlement of the first tranche of land (3.6 ha) took place in August 2015 and the remaining tranche (4.7 ha) was settled in August 2016. Stage 1 commenced in the September 2015 quarter and was completed in May 2016. First settlements for the project commenced in July 2016. Pre-sales secured to date remain ahead of program. As at 30 June 2016 only 21 lots were unsold;
- Truganina (707 lot residential subdivision) - the Folkestone Truganina Development Fund which Folkestone owns 18.76 per cent of the units in the Fund, continued to see strong sales activity with 469 pre-sales at 30 June 2016, almost twice the number forecast in the base case feasibility. As at 30 June 2016, Stages 1-4 of the project comprising 183 lots had been completed and a total of 154 lots had settled. Due to the acceleration of the project, the Fund's current forecast equity IRR has increased from 18 per cent per annum to 21.5 per cent per annum (pre-tax, net of fees) on drawn equity.
- Hornsby (mixed use apartment development) – In FY16, Folkestone and its joint venture partner, the Lyon Group, contracted to acquire a further small mixed use retail and office property covering a land area of 348 square metres to add to the 2,855 square metres

of land it had already acquired or optioned directly opposite the Hornsby Railway Station and Westfield Hornsby. During the year, master-planning activities continued and negotiations progressed with key stakeholders in respect of the site. The joint venture is seeking to consolidate further land adjoining the existing properties to unlock a significant mixed-use development opportunity in this key location.

During the year, Folkestone also boosted its development book with the following acquisitions:

- Nunawading (73 commercial mews/units) - In March 2016, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop 73 strata commercial mews in Nunawading, Victoria with an anticipated end value of \$31 million. The land has been acquired on deferred terms with settlement forecast to occur in September 2016. Marketing of Stage 1 (26 mews) is scheduled to commence in August 2016. Planning consent is forecast to be received in September 2016.
- Wollert (500 lot land subdivision) - In December 2015, Folkestone announced that it had entered into a fourth joint venture with ID\_Land, to develop a 48 ha residential master-planned community in Wollert in Melbourne's rapidly growing Northern Growth Corridor. The project is located within the Wollert Precinct Structure Plan (PSP) which is expected to receive Government approval in 2016. The project will encompass circa 500 residential lots, with an end value of approximately \$120 million. The land is being acquired on a staged settlement basis with a series of payments required between December 2015 and 2019. Following the PSP approval, Folkestone and ID\_Land anticipate selling down part of their investment in the project to third party investors similar to the process for the Folkestone Truganina Development Fund.
- South Dural (60ha land subdivision) - In October 2015, Folkestone announced that it had entered into a 50/50 joint venture with the Lyon Group, to acquire development rights over 60 ha of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. South Dural is strategically located between the rapidly growing suburbs of Glenhaven and the established areas of Castle Hill and Cherrybrook in Sydney's north-west. The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working collaboratively with Hornsby Shire Council and the NSW State Government to have approximately 240 ha (including the land over which it has development rights), rezoned for residential and mixed-use development under the NSW Government's Gateway Determination dated 4 March 2014.

## SENIORS LIVING

In November 2015, Folkestone announced the appointment of Stuart Nicolson as CEO of Seniors Living to drive Folkestone's development of a seniors living platform.



The move into seniors living is a natural extension of our strategy to be a key player in the social infrastructure space and we are in discussions with a number of groups to add to this initial acquisition at Castle Cove.

In July 2016, Folkestone announced it had exchanged contracts for the acquisition of Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore, the first asset for its seniors living platform and the Folkestone Seniors Living Fund No.1 (FSLF).

## FY16 DIVIDEND

Since the recapitalisation of the Company in March 2011, the Company has focussed on increasing its recurring income, providing a stable funding source for the payment of the fixed operating costs of the business. Given the growth in our recurring income and our strong balance sheet, Folkestone confirms that it will pay a fully franked dividend of 2.5 cents per share in respect of FY16, the first dividend to be paid to investors in 8 years. The ex-date for the dividend will be 8 September 2016, the record date will be 12 September 2016 and the payment date will be 27 September 2016.

## OUTLOOK

Folkestone is well placed to build upon the growth recorded in FY16 by its funds management and development divisions.

Despite the uncertain economic outlook, the low interest rate environment is supporting both residential and non-residential sectors. With the exception of a few markets where demand is weak – particularly those markets exposed to the mining sector or where supply is elevated – particularly inner Melbourne, South Sydney and inner Brisbane apartments, the outlook for real estate in FY17 is positive, barring any major global economic or capital market shock.

The challenge in this low interest rate environment is to avoid simply taking greater risk in the search for higher returns. There is a significant amount of both domestic and international capital chasing real estate assets and as we have demonstrated in recent years, we continue to believe it is critical to remain disciplined in deploying Folkestone's and our investors' capital into real estate.

We are firmly of the view that real estate related social infrastructure (childcare, seniors living and medical/health) will offer attractive investment returns in the coming year. The demographic drivers (workforce participation and population growth for childcare and an ageing population for seniors living and medical/health) and a shortage of quality accommodation in all three sectors will see investors increasingly look at these investments as a legitimate part of a real estate investment portfolio.

We have been actively building our development pipeline in recent years, and a number of projects are set to gain momentum in the year ahead. Some of these projects may be sold down, or joint ventured with a Folkestone managed fund, thereby ensuring we can realise profits, drive our return on equity and recycle our balance sheet capital. We will continue to look for development opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement), and where appropriate, undertaken in joint venture with quality partners.

Folkestone confirms that its current intention is to pay a fully franked dividend of 2.625 cents per share in respect of FY17, an increase of 5.0 per cent on the FY16 dividend assuming no material change in market conditions.

**Garry Sladden**  
Non-Executive Chairman

**Greg Paramor AO**  
Managing Director

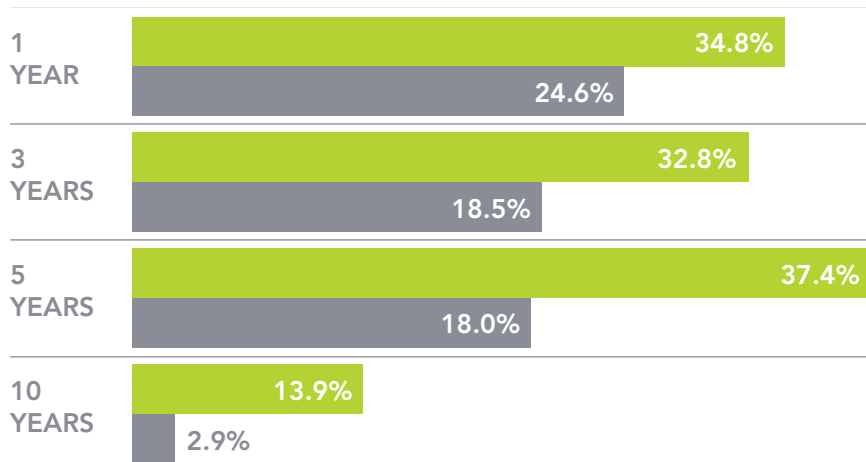
# LISTED A-REIT

## FOLKESTONE EDUCATION TRUST (ASX CODE: FET)

YEAR ENDED 30 JUNE	2015	2016	VAR. %
Distributable Income (\$m)	29.7	34.5	16.2
Distribution (cpu)	12.8	13.4	4.7
AS AT 30 JUNE	2015	2016	VAR. %
Total Assets (\$m)	655	754	15.1
Investment Properties (\$m)	627	720	14.7
Borrowings (\$m)	193	200	3.7
Net Assets (\$m)	445	532	19.6
Gearing <sup>1</sup> (%)	29.5	26.6	(2.9)
NTA per Unit (\$)	1.82	2.14	17.6

### TOTAL RETURN (P.A.)

■ FET ■ S&P/ASX 300 A-REIT ACCUMULATION INDEX



The ASX listed Folkestone Education Trust (ASX: FET) is the leading provider of early learning accommodation with 393 early learning centres and sites in Australia and in New Zealand.

FET continued to deliver strong returns to its investors – distributions per unit were up 4.7 per cent to 13.4 cpu in the year to 30 June 2016. The total return for the year was 34.8 per cent, substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 24.6 per cent. FET has outperformed the Index significantly over 1, 3, 5 and 10 year periods.

In FY16, FET acquired four centres (total value of \$12.8 million) and settled four development sites which will be

developed as centres (total end value of \$24.7 million).

FET continued its active program of selling non-core centres, with six centres sold for a total of \$9.5 million at an average yield of 7.0 per cent and a 25.3 per cent premium to their prevailing carrying values.

FET's quality portfolio; 99.5 per cent occupancy and long-term leases averaging 8.2 years, together with low gearing of 26.6 per cent and a strong acquisition and development pipeline, is well placed to continue to provide investors with predictable and secure long-term cashflows with the opportunity for capital growth.

Portfolio as at  
30 June 2016

VALUE OF INVESTMENT  
PROPERTIES

**\$720M**

FY16 ANNUAL  
DISTRIBUTABLE INCOME

**\$34.5M**

AVERAGE LEASE  
INCOME INCREASE  
(Y-O-Y)

**2.8%**

AVERAGE PROPERTY  
YIELD

**7.3%**

DEVELOPMENT  
PIPELINE

**\$103.4M**

OCCUPANCY RATE

**99.5%**

WEIGHTED AVERAGE  
LEASE EXPIRY  
(BY INCOME)

**8.2YRS**

NUMBER OF TENANTS

**29**

FY17 DISTRIBUTION  
FORECAST

**14.2CPU**

1. Gearing is calculated by borrowings / total assets.



# PRIVATE FUNDS

## FOLKESTONE REAL ESTATE INCOME FUND AT SYDNEY OLYMPIC PARK



### FUND TOTAL RETURN

# 29.9%

Type	Unlisted
Sector	Office
Location	Sydney Olympic Park
No of Properties	1
Gross Assets (\$m)	38.1
Occupancy (%)	100
FY16 Annualised Distribution (%)	9.0
Fund Expires	Dec 2017

The Fund owns 7 Murray Rose Avenue, Sydney Olympic Park, a 5,931 square metre commercial office building, completed in December 2012, with ground floor retail and basement car parking.

The office space is 100 per cent leased to Thales Australia on a ten year lease term commencing 1 December 2012. The five retail tenancies on the ground floor are leased to a range of food and service providers.

As at 30 June 2016, the building was 100 per cent occupied with an weighted average lease expiry of 5.7 years by income.

The Fund generated a total return of 29.9 per cent in the year to 30 June 2016.

## FOLKESTONE REAL ESTATE INCOME FUND AT ALTONA NORTH



### FUND TOTAL RETURN

# 28.9%

Type	Unlisted
Sector	Large Format Retail
Location	Altona North, Victoria
No of Properties	1
Gross Assets (\$m)	40.0
Occupancy (%)	100
FY16 Annualised Distribution (%)	8.75
Fund Expires	Nov 2020

The Fund owns a large format retail centre, known as Millers Junction Home, which is anchored by Bunnings and includes Officeworks, JB Hi-Fi Home, Repco, PETstock, petVET and Pitt Stop Cafe. Millers Junction Home was developed by Folkestone on behalf of the Fund and opened in September 2014.

As at 30 June 2016, 100 per cent of the Centre was leased with a weighted average lease expiry by income of 8.8 years and 9.4 years by area. Millers Junction Home is performing well, based on the positive feedback from tenants.

The Fund generated a total return of 28.9 per cent in the year to 30 June 2016.

## PRIVATE FUNDS

### FOLKESTONE REAL ESTATE INCOME FUND AT WOLLONGONG



#### FUND TOTAL RETURN

# 24.1%

Type	Unlisted
Sector	Office
Location	Wollongong
No of Properties	1
Gross Assets (\$m)	32.9
Occupancy (%)	98.7
FY16 Annualised Distribution (%)	11.0
Fund Expires	June 2019

The Fund owns 43 Burelli Street, Wollongong, a six level A-Grade office building comprising 9,827 square metres together with parking for 88 vehicles. Central Square comprises a strong tenancy mix anchored by Commonwealth and State Government tenants who currently contribute the majority of the asset's income.

Folkestone's active management of the asset continued in the past year. Folkestone completed Stage 2 of a major capital works program to enhance the operational efficiency, appearance and amenity of the building. Works completed during the year included major upgrades to the common areas on levels 1-5 and an upgrade to the foyer including the addition of a small cafe. The building was awarded a 5 Star NABERS energy rating in May 2016 in recognition of the success of the Stage 1 capital expenditure program and the significant reduction in energy use within the building.

The Fund generated a total return of 24.1 per cent in the year to 30 June 2016.

### FOLKESTONE REAL ESTATE INCOME FUND AT OXLEY



#### FUND TOTAL RETURN

# 17.4%

Type	Unlisted
Sector	Neighbourhood Retail
Location	Oxley, QLD
No of Properties	1
Gross Assets (\$m)	39.8
Occupancy (%)	98.9
FY16 Annualised Distribution (%)	8.1
Fund Expires	April 2020

The Folkestone Real Estate Income Fund at Oxley was established in April 2014. The Fund owns a 7,098 square metre neighbourhood shopping centre in the inner Brisbane suburb of Oxley. The Centre is anchored by a 3,200 square metre Woolworths supermarket and the Queensland Government's Department of Communities, Child Safety and Disability Service which occupies 2,400 square metres of office space on level 1 of the Centre. The Centre was completed in July 2013.

The Centre continues to build market share in its trade area, with moving annual turnover up 6.9 per cent to \$34.3 million at 30 June 2016.

The Fund generated a total return of 17.4 per cent in the year to 30 June 2016.

# PRIVATE FUNDS

## FOLKESTONE CIB FUND



### FUND TOTAL RETURN

# 31.9%

Type	Unlisted
Sector	Police Stations & Courthouses
Location	Victoria
No of Properties	11
Gross Assets (\$m)	84.9
Occupancy (%)	100

The Folkestone CIB Fund is a closed wholesale fund that owns nine police stations and two law court complexes. The State Government have recently exercised the five year option to extend the lease expiry on all sites to 30 November 2020. Discussions continue in relation to a further extension of all leases across the portfolio.

The Fund generated a total return of 31.9 per cent in the year to 30 June 2016.

## FOLKESTONE TRUGANINA DEVELOPMENT FUND



### LAND SUB-DIVISION

# ~707 LOTS

Type	Unlisted
Sector	Residential Land
Location	Truganina, VIC
No of Lots	Circa 707
JV Partner	ID_Land
Fund Interest in Project (%)	80
Fund Equity (\$m)	18.25
FLK Co-Investment in Fund (%)	18.8
Forecast ROE/Equity IRR (%) <sup>1</sup>	75/21.5
Fund Expires	July 2019

The Folkestone Truganina Development Fund has an 80 per cent interest in Elements, a residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. The Fund is developing, in joint venture with ID\_Land (20 per cent), circa 707 residential lots and a 3.1 hectare town centre. Truganina is located approximately 20 kilometres west of the Melbourne CBD in the Western Growth Corridor.

The land is being acquired on a staged settlement basis with the final payment due in late 2016. Elements was launched in November 2014 and as at 30 June 2016 we have pre-sold 469 lots compared to the 258 originally forecast to be sold by this date reflecting 1.8 times the original forecast sales volumes, equating to 91 per cent of lots released to date and 76 per cent of total lots.

The Fund's forecast investment return has been recently upgraded to an equity IRR (post fees, pre-tax) of 21.5 per cent and a return on equity of 75.0 per cent.

1. Post fees, pre-tax. Forecast as at 30 June 2016.

## PRIVATE FUNDS

### FOLKESTONE SENIORS LIVING FUND NO.1



#### TARGET IRR

# 15.0%

Type	Unlisted
Sector	Seniors Living
Location	Castle Cove, NSW
No of Properties <sup>1</sup>	1
Net Assets (\$m)	23.4 <sup>2</sup>
Fund Equity (\$m)	26.6
FLK Co-Investment in Fund (%)	10.0
Forecast Equity IRR (%)	15.0
Fund Expires	2023

In July 2016, Folkestone announced it had exchanged contracts for the acquisition of Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore, the first asset for its seniors living platform and the Folkestone Seniors Living Fund No.1 (FSLF).

FSLF will seek to acquire a portfolio of high quality retirement living communities in Sydney. This will be achieved by investing in existing retirement living communities and also by joint venturing with partners to develop and ultimately own such communities. FSLF is expected to benefit from increasing demand for seniors living facilities and services driven by an ageing population and growing acceptance of retirement living communities as a quality housing option for Australia's seniors population.

Folkestone is raising initial equity of \$26.6 million to acquire Watermark Castle Cove. The Fund may undertake subsequent capital raisings if suitable retirement living communities can be acquired that are consistent with the investment strategy of the Fund within three years of the conclusion of the Initial Offer.

1. It is proposed to acquire additional assets in the Fund
2. Following completion of the acquisition of Castle Cove

## A-REIT SECURITIES FUNDS

### FOLKESTONE MAXIM A-REIT SECURITIES FUND

The Folkestone Maxim A-REIT Securities Fund provides access to a diversified portfolio of quality ASX listed real estate securities which owns office, retail industrial, residential and real estate related social infrastructure assets. The Fund employs a high conviction, active investment strategy, which focuses on building a portfolio based on individual merit and not by benchmark weights.

The Fund generated a total return of 25.9 per cent (after fees, before tax) in the year to 30 June 2016, outperforming the S&P/ASX300 A-REIT Accumulation Index which returned 24.6 per cent. The Fund was the best performing fund in the Morningstar A-REIT Survey over one and three years to 30 June 2016.

During the year, the Fund received upgraded ratings from three major research houses.

#### MANDATES

During FY16, Folkestone Maxim was awarded four separate mandates, offering clients a customised portfolio of A-REIT securities.

### FOLKESTONE MAXIM A-REIT SECURITIES SMA

The Folkestone Maxim A-REIT Securities SMA actively invests in a diversified portfolio of Australian listed real estate investment trusts and real estate related securities. The SMA has exposure to a broad range of real estate assets including, but not limited to, retail, residential, commercial, industrial and real estate related social infrastructure.



# DIRECT INVESTMENTS

## MILLERS JUNCTION BUSINESS (STAGE 2)



### FORECAST GROSS REVENUE

# \$32.3M

Sector	Enterprise Parks
Location	Altona North, VIC
Size	Circa 69 mews
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	2.0
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	32
Construction Commenced	September 2015
Forecast Completion Date	Early 2018

Folkestone announced in September 2014, a 50/50 joint venture with Wilmac Properties to develop Stage 2 of the Millers Junction precinct into circa 69 office/warehouse/retail mews providing a mix of flexible business, retail and storage space. Millers Junction Business when completed, will be a prominent new business hub in the inner western suburbs of Melbourne. The project has a forecast gross revenue of approximately \$32 million.

Marketing of the mews has commenced and as at 30 June 2016, 74 per cent of mews released had been pre-sold. Construction of Stage 1 (28 mews, a cafe and one office suite) has commenced and is due for completion in the September 2016 quarter. Stage 2 (14 mews) is due for completion in September 2016.

Marketing of Stage 3A (13 mews) was launched in January 2016 with Stage 3B (12 mews) to be launched in the September quarter 2016.

As at the reporting date, Folkestone's funds invested in this project were \$2.0 million.

## MILLERS JUNCTION RETAIL & FAMILY (STAGE 3)



### LAND HOLDING<sup>1</sup>

# 7.8HA

Sector	Large Format Retail, Retail and Community Use
Location	Altona North, VIC
Land Area Owned (ha)	4.4
Land Area Optioned (ha)	3.4
Folkestone Interest (%)	100
Folkestone Invested Capital (\$m)	9.9
Forecast Gross Revenue (\$m)	65 <sup>2</sup>
Construction Commences	2017
Forecast Completion Date	2018

Millers Junction Retail and Family is the third and final stage in Folkestone's Millers Junction development, in Altona North, Victoria.

Folkestone entered into an option agreement in May 2015 with BWP Trust and Bunnings Group Limited to purchase the former Bunnings site adjacent to the Stage 3 land. Subject to planning approval, the 3.4 hectare parcel will be consolidated with Folkestone's existing Stage 3 land holding of 4.4 hectares to create a substantial development opportunity which will include traditional retail, large format retail and social infrastructure investments. An agreement for lease have been secured with a major supermarket operator. A planning application was lodged in March 2016.

As at the reporting date, Folkestone's funds invested in this project were \$9.9 million.

1. Owned - 4.4 hectares and Optioned - 3.4 hectares.

2. Subject to Council Approval.

# DIRECT INVESTMENTS

## KNOXFIELD



### FORECAST GROSS REVENUE

# \$37.3M

Sector	Enterprise Parks
Location	Knoxfield, VIC
Size	Circa 90 mews
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	1.8
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	37.0
Construction Commences	June 2016
Forecast Completion Date	Early 2020

Folkestone announced in April 2015 that it has agreed terms to enter into a second 50/50 joint venture with Wilmac Properties to develop approximately 90 strata office/warehouse/retail mews in Knoxfield, Victoria.

Knoxfield is 27 kilometres south-east of the Melbourne CBD and the site lies within an established business park precinct with excellent access to the Eastlink and M1 Motorways.

The Knoxfield site was acquired on deferred settlement terms with the land settled in March 2016. As at 30 June 2016, 15 pre-sales had been secured for Stage 1 representing 75 per cent of the 20 mews released for this stage. An additional two pre-sales were secured as at 30 June 2016 on Stage 2, ahead of the sales launch in July 2016. Construction of Stage 1 commenced in June 2016 and is scheduled to complete in April 2017.

As at the reporting date, Folkestone's funds invested in this project were \$1.8 million.

## NUNAWADING



### FORECAST GROSS REVENUE

# \$35.0M

Sector	Enterprise Parks
Location	Nunawading, VIC
No. of Lots	Circa 73 mews
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	0.5
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	35.0
Construction Commences	Early 2017
Forecast Completion Date	Mid 2020

In May 2015, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop 73 strata office/warehouse/retail mews in Nunawading, Victoria with an anticipated end value of \$31 million.

Nunawading is located 18 kilometres east of the Melbourne CBD. The site is well located near major road infrastructure – it is 5 minutes from the Eastlink Motorway and 2 minutes from the major East-West arterial, Maroondah Highway and the North-South arterial, Springvale Road. The site is also conveniently located near the Nunawading train station which provides connectivity to the CBD and further eastwards via the Ringwood Interchange and close proximity to the 'Golden Mile', a well-known large format retail precinct with anchor tenants as Bunnings, The Good Guys, Super Amart and Harvey Norman.

The land has been acquired on deferred terms with settlement forecast to occur in September 2016. Marketing of Stage 1 (26 mews) is scheduled to commence in August 2016. Planning consent is forecast to be received in September 2016. Construction is forecast to occur in early 2017.

# DIRECT INVESTMENTS

## POTTERS GROVE, OFFICER



### RETURN ON EQUITY

# 26.8%

Sector	Residential Land
Location	Officer, VIC
No of Lots	240
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	0.2
JV Partner	ID_Land
Forecast Gross Revenue (\$m) <sup>1</sup>	44.4
Lots Sold <sup>2</sup>	240
Forecast Completion Date	September 2016

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID\_Land.

As at 30 June 2016, 239 lots of the 240 in the estate, had been settled with 41 lots settled in FY16. The remaining lot was contracted for sale in August 2016.

Potters Grove has delivered Folkestone a total return of \$4.5 million before tax and an equity IRR of 26.8 per cent.

## POTTERS NORTHSIDE, OFFICER



### PRE-SALES OF LOTS

# 85.6%

Sector	Residential Land
Location	Officer, VIC
No of Lots	Circa 146
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	2.2
JV Partner	ID_Land
Forecast Gross Revenue (\$m)	29.9
Construction Commenced	August 2015
Forecast Completion Date	Mid 2017

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID\_Land, a call option over 8 hectares of land in Officer, south-east Melbourne. The land is located on the northern side of the Princes Highway in Officer, diagonally opposite Folkestone and ID\_Land's Potters Grove residential land sub-division. Officer is located in the Cardinia Shire which is in the south-east growth corridor of Melbourne, one of the fastest growing areas in Melbourne.

The joint venture acquired the land on deferred terms providing a capital efficient structure with the first tranche of land settled on 25 August 2015 and the second tranche on 5 August 2016. Stage 1 commenced in the September 2015 quarter and was completed in May 2016. First settlements commenced in July 2016. Pre-sales secured to date of 125 (85.6 per cent of total lots) remain ahead of schedule and as at 30 June 2016, only 21 lots remain to be sold.

As at the reporting date, Folkestone's funds invested in this project were \$2.2 million.

1. Total Project.

2. As at 24 August 2016.

# DIRECT INVESTMENTS

## HORNSBY, SYDNEY



### LAND AREA UNDER CONTROL

# 3,200 SQM

Sector	Mixed-use
Location	North-West Sydney
Land Area Optioned and/or Owned (sq.m.)	Circa 3,200
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	4.9
JV Partner	Lyon Group
Forecast Gross Revenue (\$m)	Circa 435
Forecast Construction	Mid 2018
Forecast Completion <sup>1</sup>	Mid 2019

In December 2014, Folkestone entered into a 50/50 joint venture with Lyon Group, a leading Sydney developer, to develop a strategically located, mixed-use site immediately opposite Hornsby train station and Hornsby Westfield in Sydney's north-west.

During FY16, the JV acquired a small building on 385 square metres of land, taking the total area either owned or optioned by the JV to circa 3,200 square metres. The JV is seeking to consolidate further land adjoining the existing properties to unlock a significant mixed-use (residential, commercial, retail and community) development opportunity in this strategic location. During FY16, master planning activities continued and negotiations progressed with key stakeholders in relation to the site.

Folkestone may sell down part of its investment to introduce third party capital into the project prior to rezoning/DA approval and/or at the development stage.

As at the reporting date, Folkestone's funds invested in this project were \$4.9 million.

1. It is assumed that the land is sold in 1st Half FY19 as a DA approved site. FLK may decide to develop this in JV with the Lyon Group or bring in other third party capital.

## SOUTH DURAL, SYDNEY



### LAND OPTIONED

# ~60 HA

Sector	Residential
Location	South Dural
Land Area Optioned and/or Owned (hectares)	Circa 60
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	6.7
JV Partner	Lyon Group
Forecast Gross Revenue (\$m)	Circa 610
Forecast Completion	2022

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group, to acquire development rights over circa 60 hectares of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. South Dural is strategically located between the rapidly growing suburbs of Glenhaven and Kellyville and the established areas of Castle Hill and Cherrybrook in Sydney's north-west.

The joint venture is seeking the rezoning of South Dural which comprises approximately 240 hectares (including the land over which it has development rights) to facilitate residential and mixed use development in an integrated manner under the NSW Government's Gateway Determination dated 4 March 2014. The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working collaboratively with Hornsby Shire Council and the NSW State Government to have South Dural rezoned.

As at the reporting date, Folkestone's funds invested in this project were \$6.7 million.



## WOLLERT



### LOTS

~500

Sector	Residential
Location	Wollert, VIC
No. of Lots <sup>1</sup>	Circa 500
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	3.1
JV Partner	ID_Land
Forecast Gross Revenue (\$m) <sup>1</sup>	104
Construction Commences	Early 2017
Forecast Completion Date	Mid 2021

In December 2015, Folkestone announced that it had entered into a fourth joint venture with ID\_Land, to develop a 48 hectare residential master-planned community of circa 500 lots in Wollert in Melbourne's rapidly growing Northern Growth Corridor. Wollert is located in the City of Whittlesea, approximately 25 kilometres north of the Melbourne CBD and is ideally positioned between Craigieburn and Mernda.

The project is located within the Wollert Precinct Structure Plan (PSP) which is expected to receive Government approval in 2016. The land is being acquired on a staged settlement basis with a series of payments required between December 2015 and 2019. Following the PSP approval, Folkestone and ID\_Land expect to sell down part of their investment in the project to third party investors consistent with the process completed for the Folkestone Truganina Development Fund.

As at the reporting date, Folkestone's funds invested in this project were \$3.1 million.

1. Subject to Council Approval.

## THE RANGES, KARRATHA



### NUMBER OF VILLAS COMPLETED

73

Sector	Accommodation
Location	Karratha, WA
No of Villas – Stage 1	108 (73 completed)
Folkestone Interest (%)	25
Folkestone Invested Capital (\$m)	3.3
JV Partner	Various Parties
Forecast Gross Revenue (\$m) <sup>2</sup>	55.0
No of Villas Sold	73
Forecast Completion Date	Under Review

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities in Karratha, WA. The first 41 dwellings in Stage 1A opened in December 2012.

Construction of Stage 1B (32 villas) was completed in the first half of FY16. As at 30 June 2016, a total of 16 settlements of Stage 1B villas have been completed to third parties. The remaining 16 villas will be acquired by the various joint venture partners in the project with Folkestone agreeing to acquire 4 villas.

Folkestone completed a review of the carrying value of its investment in this project which has been referenced by updated third party valuations which were completed following the completion of Stage 1B. As a result of this process, and in response to the current economic conditions in the region, Folkestone made a \$1.2 million provision against the carrying value of its investment in the project at 31 December 2015.

As at the reporting date, Folkestone funds invested in this project were \$3.3 million.

2. Total Project.



MILLERS JUNCTION HOME, ALTONA NORTH - AN ASSET OF FOLKESTONE REAL ESTATE INCOME FUND AT ALTONA NORTH, VIC



CENTRAL SQUARE, WOLLONGONG - AN ASSET OF FOLKESTONE REAL ESTATE INCOME FUND AT WOLLONGONG, NSW



ONLY ABOUT CHILDREN EARLY EDUCATION CENTRE, CAMBERWELL, VIC - AN ASSET OF FOLKESTONE EDUCATION TRUST



POTTERS GROVE, OFFICER, VIC - FOLKESTONE AND ID\_LAND'S DEVELOPMENT

# DIRECTORY

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ASX Code: FLK

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**Folkestone Investment Management Limited**  
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**Folkestone Maxim Asset Management**  
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**Folkestone Real Estate Management Limited**  
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## BOARD

**Garry Sladden**  
Non-Executive Chairman

**Mark Baillie**  
Non-Executive Deputy Chairman

**Greg Paramor AO**  
Managing Director

**Ross Strang**  
Non-Executive Director

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Social Infrastructure Funds

**Travis Butcher**  
Chief Financial Officer – Funds

**Ben Dodwell**  
Head of Real Estate

**Adrian Harrington**  
Head of Funds Management

**Scott Martin**  
Chief Financial Officer &  
Company Secretary

**Stuart Nicolson**  
Chief Executive Officer –  
Seniors Living

**Mark Stewien**  
General Counsel

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