

A guide to Charitable Bonds

Information for corporate investors

Introducing Charitable Bonds

Citylife's Charitable Bonds are unique financial tools that allow on balance sheet capital to be used for social benefit in a tax efficient and highly secure way. This means that demonstrable and measurable support for communities and social causes no longer has to be limited by the confines of corporate social responsibility budgets.

The benefits of investment in a Charitable Bond

- a high-impact, measurable demonstration of CSR in action
- initial investment returned in five years' time
- bonds retained as assets
- a high value, tax exempt yield for charity
- releases instant funds for charity
- five-year CSR dividends from a single transaction

About Citylife

Citylife is a national charitable organisation supporting causes that give people a better future. It is a society registered with the Financial Services Authority (FSA), recognised by HM Revenue and Customs as a charity and governed by independent trustees. As such Citylife is permitted to offer and issue certain bonds to the public in the United Kingdom based on the exemption under the Financial Services and Markets Act (section 85(5) and Schedule 11A).

Citylife's Charitable Bonds provide a unique and innovative way to raise new funds for social benefit.

How Charitable Bonds work

Citylife's Charitable Bonds work by providing a combination of grant funding and capital loans.

At the request of one or more charities, Citylife may create an offer of bonds on their behalf. Individuals and organisations may subscribe to invest in the bonds during a set offer period.

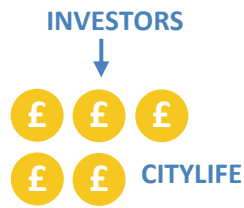
When the offer period closes, around 80 per cent* of the total raised is loaned at a commercial rate of interest to a registered provider of social housing. The housing provider is regulated by the Tenant Services Authority, and will use the loan as part of its business to develop and maintain affordable housing. The remaining 20 per cent or so after costs is immediately given as a tax exempt grant to the charity (or charities).

After five years, the housing provider repays the loan with interest – taking the fund to its original 100 per cent level – and bondholders are repaid in full. So on an investment of £100,000 for example, around £20,000 will immediately go to charity while the rest will work to create affordable places to live.

* Exact figure depends on commercial interest rates at time of issuing the loan – see example below.

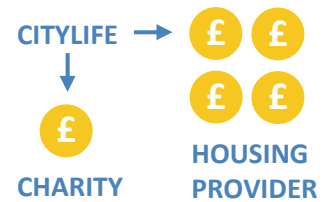
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Investors put their money in a fixed term Bond with Citylife



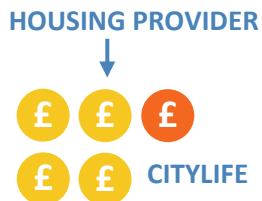
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Citylife immediately gives around 20% to charity and loans the rest to develop affordable housing



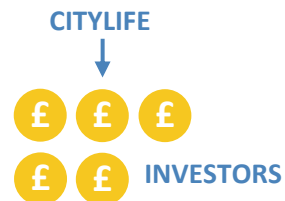
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After five years the loan is paid back plus interest that matches the sum given to charity



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Citylife gives investors back all the money they put in



Example

Citylife offers bonds on behalf of a charity which raise £1 million. Based on a commercial rate agreed in advance, Citylife will lend an exact proportion of this to a housing provider so that the sum repaid after five years is exactly £1 million. For example, at a rate of 5% per annum the proportion of the investment loaned would be £783,526.

This leaves a balance of £216,473 from which the costs of issuing the Bond are deducted, and the remainder is given as an unrestricted tax-exempt grant to charity.

Five years later, the housing provider pays back Citylife the money it borrowed plus £216,473 in interest. This totals £1 million, which is then used to pay back bondholders in full.

Corporate benefits of Charitable Bonds

Corporate social responsibility

Supporting a Charitable Bond is an effective, high-impact way of demonstrating CSR. It not only generates a high return on investment for social causes, it also creates a more dramatic message about your CSR commitment.

For example, if you invest £100,000 in the East London Bond at zero interest you may consider there to be an annual opportunity cost to your company. Whether you invest £100,000 in the Bond or give the value of this opportunity cost each year as a direct donation, charged to profit and loss, the cost to the company is the same. However, by investing in the Bond you can announce your six-figure support for charity while retaining the money as an asset on your balance sheet.

For the charities, there is greater benefit in receiving a lump sum now than the same amount (or less) over five years. And from one single transaction you will gain those CSR dividends reported every year for five years.

Immediate benefits to charity

An investment in a Charitable Bond will release immediate funding for the beneficiary charity for that Bond. This up-front grant will be of greater value and more effective in enabling the charity to achieve its mission than an equivalent amount in smaller donations spread over five years.

Value

Citylife will loan around 80% of the proceeds of each Charitable Bond to a registered provider of social housing. The exact proportion to be loaned will be calculated according to the rate of interest agreed, such that the total amount to be repaid after five years equals the amount required to repay bondholders in full.

By pooling the capital from multiple investors, Citylife is able to on-lend the investment in the Bond at a commercial margin above standard rates. Furthermore, since Citylife is a charity the interest gained on the loan is tax free.

This means that the proportion Citylife needs to loan to the housing provider is lower, and therefore the proportion that is given to the charity is higher.

Bonds retained as assets

The bonds you purchase are retained as assets. This means that buying a bond may not have any material impact on your Profit and Loss accounts.* In the event of changed circumstances the bonds could also be used as collateral against borrowing or transferred to a third party.

* Your accounting of bonds purchased will depend on your specific circumstances and you may wish to seek further professional advice.

Initial investment returned in five years' time

Investors will be given the opportunity to receive their principal investment at par five years from the date of issue of the Bond. At this point you may choose to donate all or part of your investment to the charity you have supported through the Bond, or to roll all or part into a subsequent Bond if available.

Purchasing bonds

There are different values of bond that you can buy, at £1,000,000, £100,000, £10,000, £1,000, and £100. This allows you to buy a combination of bonds for the amount you wish to invest, and after five years to invest some or all of the bonds in a new Bond if available, or to donate some or all of the bonds to charity.

Once the offer document for a Bond has been published, you need to complete an application form and send us payment for the amount you wish to invest. The bonds are officially purchased on the issue date when you will be sent a certificate confirming your purchase.

Level of risk

Citylife believes the risks of investment in a Charitable Bond to be very low.

The housing provider

The loan to the housing provider will be made for a term of five years and at a commercial rate of interest. The total amount repayable under the loan including interest will equal the amount required by Citylife to repay bondholders in full. The loan is assigned to an independent trustee (see below), which means that

investors are taking credit risk on the housing provider's ability to repay the loan, not on Citylife's financial standing.

Registered providers of social housing are regulated by the Tenant Services Authority (TSA), the government regulator for affordable housing. Part of the role of the TSA is to protect tenants' interests by ensuring that registered providers remain financially viable and settling the affairs of any providers who become insolvent.

Citylife only lends to providers that it is fully satisfied are of suitable credit based upon reports by the TSA and credit ratings by a bank or independent ratings agency. Details of the provider that Citylife will lend to for a particular Charitable Bond will be given in the offer document for that Bond.

The guarantee

Depending on the arrangements for a particular Charitable Bond, the loan to the housing provider may be backed by a bank guarantee. While the loan is considered by Citylife to be a very secure investment, the guarantee provides a further layer of protection. In the event that the housing provider is not able to repay the loan in part or at all, the guarantee means that the bank would pay the shortfall.

The arrangements for a particular Charitable Bond will be described in the offer document for that Bond.

The Trustee

The loan, and any associated guarantee, is assigned to a trustee. This means that even if Citylife were to stop trading, the trustee is in place to receive repayment from the housing provider and then to pay monies it receives to bondholders at maturity.

Possible risks

Like any financial investment, investing in a Charitable Bond contains certain risks. Some of the risks that Citylife believes are material are set out below. However, please note that there may be other risks involved in investing in a Bond and certain risks may be due to your individual circumstances. If you are concerned about these risks you must consult your independent financial advisor.

Social investment and access to capital

A Charitable Bond is a social rather than financial investment. The bonds do not pay interest or provide any capital gain and, except at Citylife's option (which it may not decide to exercise), the bonds are only repayable on the repayment date. The bonds are transferable, although there is a risk that you may not find a purchaser for bonds, and any purchaser may only be willing to buy the bonds at a discount.

This means that the bonds are not suitable for investors who require income or capital gains from their investment or investors who need ready access to their capital.

Credit risk on the housing provider

The bonds are limited recourse to the loan to the housing provider. In the event that the housing provider does not or is unable to repay the loan in full (or at all) then bondholders will not be repaid in full (or at all) on the repayment date. The general assets of Citylife are not available to make payments to bondholders.

As described above, Citylife only lends to housing providers with a low risk of default.

Credit risk on the guarantor

In the event that the housing provider does not repay the loan in full (or at all) then bondholders who have invested in a Charitable Bond with a bank guarantee may benefit from monies received under the guarantees. However, in the event that the guarantor does not or is unable to pay under its guarantee then bondholders will not be repaid in full (or at all) on the repayment date.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme does not apply to an investment in a Charitable Bond.

Contact us

We're happy to talk to you directly if you have any further questions about how Charitable Bonds work, although we cannot give you any financial advice. If you are in any doubt about whether an investment in a Charitable Bond is suitable for you or in respect of the tax consequences of the Bond then you must consult an independent financial advisor.

You can contact us at:

bonds@citylifeltd.org

01223 323481

Support for other Citylife Charitable Bonds

“When London businesses invest in the East London Bond they know they are getting value for their money, supporting East London charities more effectively than they could through an equivalent amount made up of smaller donations.”

Baroness Jo Valentine
Chief Executive, London First

“Business in the Community is delighted to champion this innovative and powerful approach to supporting two excellent organisations in East London, who are working hard to tackle the most pressing social issues in the area.”

Paul Buchanan
London Regional Director, Business in the Community

“Lack of suitable employment opportunity is at the route of most serious social problems. The Bond is an innovative and creative way of generating jobs and regeneration in deprived areas. Of equal importance the Bond encourages partnerships and develops community networks.”

Ian Gregg
Former chairman, Greggs

“At Sage we are proud to have invested in a Citylife Bond that has funded enterprise support in the North East. Part of our CSR strategy at Sage is based on giving back to the communities around us and our involvement with the Bond allows us to do just that. It continues to provide exciting opportunities to take enterprise directly into the hearts of communities, offering support and inspiration to the people who live in them.”

Alastair Mitchell
Finance Director, Sage (UK) Ltd

“The Sheffield Bond is good for the people and the City of Sheffield, and DLA Piper is proud to participate in it.”

Richard Taylor
Partner, DLA Piper

“Here at Hays Travel we were delighted to invest in a Citylife Bond and support a project which encourages enterprise, regenerates local communities and helps unemployed people get back to work. What’s more, the Bond is fully repayable so it doesn’t even cost us anything to help out. This is a fantastic scheme that we’re proud to be involved with.”

Hays Travel

“The Sheffield Bond played an important part in our Community Social Responsibility programme as it certainly helped to build a strong spirit of social, ethical and environmental responsibility within business communities in the city.”

Jill Davies
Chief Executive, Westfield Health

Glossary of terms

Application

Investors who wish to buy a bond must complete an application form based on the terms of the offer document. The bond is officially purchased on the issue date, or if for any reason the bonds are not issued, the money is returned to investors. Applicants can change their mind at any point up to the issue date and receive their investment back in full.

Beneficiary

The charity or organisation that receives a grant as a result of money invested in a Bond.

bond

A contract that is bought by an investor from an organisation, in which the organisation promises to repay the value of the bond at a later date on certain terms and conditions.

Bond

The collective term used in this document to refer to a particular offer of bonds.

Bondholder

The investor, whether an individual or company, who buys a bond.

Capital

The money invested in a Bond.

Charitable Bond

A type of Bond offered uniquely by Citylife to support social causes.

Closing date

The end of the offer period during which investors may subscribe. The date is published in the offer document but may be extended at the discretion of Citylife's trustees by notice in writing to each applicant.

Commercial rate

The agreed rate of interest that the housing provider will pay on the loan it borrows from the capital raised by the Bond. The rate is comparable to rates available to housing providers from other lenders, and is calculated by an agreed formula based on a standard measure which will vary according to market conditions. This means the actual interest rate, and therefore the percentage of the Bond fund given to the beneficiary, cannot be specified exactly in advance.

Compound interest

Interest that is calculated on both the original sum and the interest already accumulated. So if £100 is loaned at 5% annual interest, after one year the amount owed would be £105. After two years a further 5% on the £105 is owed, i.e. £110.25. Therefore if £100 is loaned for five years at an annual rate of 5%, the total amount owing after five years is £128, which is equivalent to 28% interest over five years.

Credit rating

The credit rating of a company is an evaluation from an independent ratings agency that states the risk of lending to that company. It measures the ability and willingness of the company to meet its financial obligations in full and on time.

Default

In financial terms this means a failure to satisfy the terms of a loan obligation or pay back a loan.

Financial Services Authority (FSA)

The FSA is an independent body that regulates the financial services industry in the UK. It is also the registering authority for societies which register under the Industrial and Provident Societies Act 1965.

Financial Services and Markets Act 2000

The Act that currently governs UK financial market regulation, under which Citylife is permitted to offer certain bonds to the public in the UK.

Fixed-term

Citylife's bonds have a fixed term of five years, meaning that investments will be repaid five years after bonds are issued. This period is fixed, meaning that Citylife cannot retain the investment longer than five years, and investors cannot withdraw their money during the period except by negotiation with Citylife.

Guarantee

The loan to the housing provider may be supported by a bank guarantee. In the event that the housing provider does not pay some or all of the loan when it is due then the guarantor will be liable to pay Citylife.

Guarantor

The provider of a guarantee.

Industrial and Provident Society

An industrial and provident society (IPS) is an organisation conducting an industry, business or trade, either as a co-operative or for the benefit of the community, and is registered under the Industrial and Provident Societies Act 1965.

Issue

The issue of bonds is the point at which the bonds are officially purchased. The decision for Citylife to issue bonds must be approved by its trustees, and the offer of bonds does not guarantee that they will be issued.

Limited recourse

Each Charitable Bond is limited recourse to the proceeds of the underlying loan made from the investment in that Bond. This means that Citylife is only liable to repay the bonds to the extent that it has received repayments under the loan and, where relevant, the guarantee. The general assets of Citylife are not available to make payments to bondholders.

Maturity

Maturity is the end of the fixed-term of a Bond when money is returned to investors.

Money laundering

Money laundering is the criminal practice of disguising illegally obtained funds so that they seem legal. Citylife has obligations under the Money Laundering regulations, the Proceeds of Crime Act, and The Terrorism Act to report any suspicious or unusual transactions to the authorities. Applicants for a bond on the basis of the offer document to be issued by Citylife may therefore be required to provide evidence of identity, address or both.

Offer document

A legally authorised document that sets out the information that potential investors need to know about a Bond before applying to invest. Applications for a Bond can only be made on the basis of an offer document.

Offer period

The period in which investors can apply to purchase a bond on the basis of the offer document. This period can be extended at the discretion of the trustees of Citylife. After the offer period closes, no further investments can be made in a Bond.

Redemption

The act of paying money back to investors.

Register

The bonds are in registered form. This means that ownership of the bonds will be recorded by the registrar in a register. The name of the bondholder, or in the case of joint bondholders the first named bondholder, as recorded in the register will be conclusive as to the owner of the bonds.

Registered provider

A registered provider of social housing, approved and regulated by the government through the Tenant Services Authority (TSA). Registered providers typically support people in need through provision of low-cost rental

accommodation and through financial schemes, such as shared ownership, to help those who cannot afford to buy their own homes outright. They may also offer other services such as sheltered housing or at home care.

Registrar

The registrar of a Bond holds all the records of investors and should be contacted in the event of any change of details.

Roll over

At the end of the fixed term of a Bond, bondholders may be offered the opportunity to roll all or part of their investment over into a subsequent Bond.

Subscription list

A financial term to describe the list of investors applying to buy bonds. The start and end of the offer period may be referred to as the opening and closing of the subscription lists.

Tenant Services Authority (TSA)

The regulator for affordable housing, which was set up as a result of the 2008 Housing and Regeneration Act. Its purpose is to protect the interests and needs of tenants, and part of its role is to monitor the performance of registered providers and ensure that they remain financially viable.

Transfer

Charitable Bonds are transferable, meaning you could sell your bond to someone else and that person would be paid the value of the bond at maturity.

Trustee

The trustee for a Bond is an independent organisation offering trustee services, which holds rights to the loan, and any connected guarantee, made by Citylife to the housing provider under trust for the bondholders. This means that even if Citylife were to stop trading, the trustee is in place to receive repayment from the housing provider and then to pay monies it receives to bondholders.

The trustee for a Bond should not be confused with Citylife's trustees, a board of volunteers who are legally responsible for the overall management and decision-making of the charity.

Zero interest

Charitable Bonds are zero interest, meaning that investors get back after five years exactly what they put in.