

# A guide to Charitable Bonds

Information for individual investors

## Introducing Charitable Bonds

Citylife's Charitable Bonds are a unique financial tool to allow money that might otherwise be sitting in savings accounts to be put to work for social benefit. That means you can now use your money to support charity without having to give it away.

### Why invest in a Charitable Bond?

- put your savings to work for the benefit of others
- a secure investment with a high return for charity
- release instant funds for charity
- support the development of affordable housing
- all your money back in five years' time

## 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.

## What is a bond?

A bond is a financial mechanism for investing money in an organisation, like a bank or a company, for a fixed period of time. It's a contract in which the investor effectively agrees to lend a certain amount of money, and the organisation promises to pay it back ('redeem' it) on certain terms at a later date ('maturity'). Citylife offers bonds at fixed denominations with zero interest, so if you buy a £1,000 bond from Citylife, you are buying a promise that Citylife will pay you £1,000 in five years' time.

In this document we use 'bonds' (with a lower case 'b') to refer to the bonds of different denominations that are bought by investors. Each offer of bonds is referred to in this document as a 'Bond' (with a capital 'B').

## How do Charitable Bonds work?

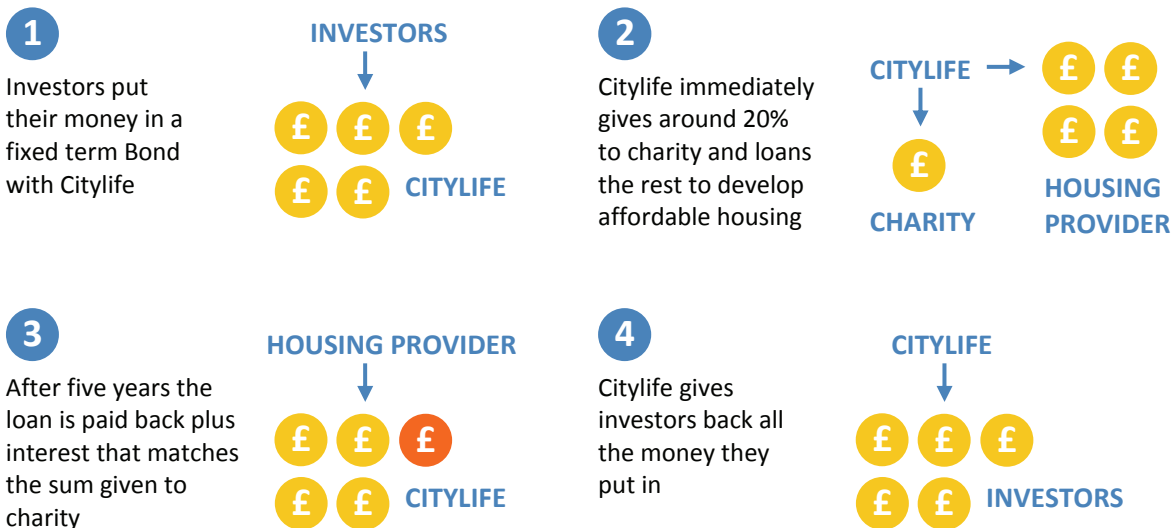
Citylife’s Charitable Bonds work by providing a combination of grant funding and capital loans.

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 £1,000 for example, around £200 will immediately go to charity while the rest will work to create affordable places to live. In effect, what you give is the interest you might have received over five years had you put the money in a bank or invested it elsewhere.

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



### 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.

## **How is investing in a Bond different to making a donation?**

Investing in a Charitable Bond is an additional way to support charity. By putting your savings to work for the benefit of others, you can give more than you can afford to donate, or still support charity even if you don't feel in a position to give money away.

Alternatively you may prefer investing in a Bond to giving outright. However, you should remember that around 20 per cent of your investment goes to charity, and ensure that buying a bond does not reduce the total amount you give to charity.

## **Why is a Charitable Bond a good investment?**

A Charitable Bond is the ideal opportunity for people who are more interested in making a social profit from their savings than a personal gain.

By supporting a charity through investing in a Charitable Bond, you are effectively releasing five years' worth of compound interest on your savings which is given to the charity on day one. This up-front grant will be more effective in enabling the charity to achieve its mission than an equivalent amount in smaller donations spread over five years.

Since Citylife is also a charity, it is able to make this immediate grant and lend the remainder without having to pay tax on the interest gained on the loan. What's more, by pooling the money of multiple investors, Citylife is able to on-lend the investment in its Bonds at a commercial margin above standard rates. This makes the Charitable Bond an effective and excellent value way to support charity.

Finally, a Charitable Bond is an entirely ethical investment. As well as releasing grant funding for charity, the underlying loan to a social housing provider will help to create affordable homes and provide services and support to those who live in them.

## **How do I purchase a bond?**

You can buy bonds as an individual or jointly with one other person.

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 just need to complete an application form and send us a cheque 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.

## **How much can I invest in a Bond?**

The minimum amount you can invest in a Charitable Bond is £500, and you can invest any amount greater than this in multiples of £100.

## **Can I get Gift Aid with a Bond?**

No, because the interest that is accumulated on your investment is already exempt from tax.

## **How is my money invested?**

To ensure that you get back what you put in, around 80 per cent of your investment is loaned at a commercial rate to one or more registered providers of social housing. These are government regulated housing providers that build, develop and maintain housing for local communities and key workers. They 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.

Citylife works with a number of housing providers, both because of the social benefits they deliver and because they are a secure investment (see risks section below). Details of the provider Citylife will work with for a particular Charitable Bond will be given in the offer document for that Bond.

## **How will I know what difference my money is making?**

The charity (or charities) you are supporting through a Charitable Bond will send you regular updates about how the yield from your bond is being spent and the difference it is making.

## **Will I be able to buy any further bonds?**

Once the offer period for a Bond has closed you will not be able to buy any more of those bonds. You will be able to invest in any subsequent Charitable Bonds issued by Citylife, although these Bonds may or may not support the charity of your choice.

## **What happens if I need the money before the end of the five years?**

Bonds are a fixed-term investment and are not suitable for those who may require access to their money before maturity. However, you can transfer your bond if someone is willing to buy it from you.

## **Could I transfer my bonds to someone else?**

Yes, Citylife's bonds can be transferred from the original investor to another person. However, you should note that Citylife cannot give any assistance in finding a purchaser for your bonds and a purchaser may only be willing to buy your bonds at a discount.

## **What happens if I die before my bonds mature?**

Regardless of whether the bond is held in your name solely or in joint names, your interest in the bond will be disposed of in accordance with your will (or in accordance with intestacy rules if you have not made a will). The bond will still be repaid in accordance with the terms and conditions of the bonds – but payment will be made to the then holder. Please note that Citylife cannot advise you on the inheritance implications or any tax implications – you must seek your own independent professional advice from an adviser that understands your circumstances.

## **What happens when my bonds mature?**

We will contact you before your bonds mature for instructions. You can choose to:

- receive all your initial investment back
- donate part or all of the value of your bonds to charity
- reinvest part or all of your bonds up to £20,000 in membership shares of Citylife
- you may be able to roll your investment over into a subsequent Bond.

If no instructions have been received, your investment will by default be repaid to you.

## **Will I have to pay tax on the money I get back?**

No tax should be payable by primary investors on redemption of their bonds as the repayment amount equals the investment amount and therefore no capital gain arises. Potential investors should seek advice from their professional tax advisors if in any doubt about the tax implications of an investment in a Charitable Bond. Nothing in this document or any other document issued by Citylife should be construed as tax advice.

## **How can I be sure I will get my money back?**

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.

## **What are the risks of investing in a Charitable Bond?**

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.

## **Where can I get more advice?**

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 or inheritance consequences of the Bond then you must consult an independent financial advisor. You can contact us at:

**[bonds@citylifeltd.org](mailto:bonds@citylifeltd.org)**

**01223 323481**

## **Support for other Citylife Charitable Bonds**

“The Bond is an easy way to help. A bit of surplus earning very little in a bank account can be put to better use.”

**Margaret Drabble, former bondholder**

“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**

“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 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**

“As someone who has invested in a Charitable Bond with Citylife before – and received all my money back, I can personally vouch for this excellent, tried and tested mechanism. The Bond is a smart, safe and great value way to release funds for charity and to satisfy our social responsibilities.”

**Brian Winterflood**

**Life President, Winterflood Securities Limited**

## **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.