

# the East London Bond

## Information for private investors

9 December 2009

This information guide is one of the background documents for the East London Bond and supersedes any previous versions and all other information (written or oral) concerning the Bond. Investments in the East London Bond must only be made on the basis of the offer document and relevant background documents.

The East London Bond is being offered by Citylife Limited, which is registered under the Industrial and Provident Societies Act 1965, No.28861R and is recognised as a charity by HM Revenue and Customs, No.XR29468.

The East London Bond is a Charitable Bond which will be offered by Citylife on behalf of the Bromley by Bow Centre and Community Links – two well established, nationally-renowned charities working in the heart of East London.

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 the East London Bond?**

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

## **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.

## **Bromley by Bow Centre and Community Links**

The Bromley by Bow Centre and Community Links are two well established, nationally-renowned charities working in the heart of East London. Community Links was founded in 1977, and the Bromley by Bow Centre was established in 1984.

Between them, these two charities are helping thousands of people every week in some of the poorest parts of the country. Newham is the sixth most deprived local authority out of 354, while Tower Hamlets is third. In this context of desperate need, the Bromley by Bow Centre and Community Links are helping to transform lives and turn their communities around.

Their innovative and successful approaches have influenced the work of community organisations across the country and government policy.

## **Partners for the East London Bond**

Citylife would like to thank Royal Bank of Canada Trust Corporation Limited for help towards underwriting the issue costs and providing trustee services for the East London Bond, and Linklaters LLP for providing legal advice to Royal Bank of Canada Trust Corporation Limited.

## 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.

### Example

The East London Bond raises £10 million. Citylife will lend an exact proportion of this sum to Places for People Homes (PfPH) such that the compound sum repaid after five years is exactly £10 million. For example, at an interest rate of 5%\* per annum the proportion of the investment loaned would be £7,835,262.

This would leave a balance of £2,164,738 from which the administration and marketing costs of issuing the Bond are paid,<sup>†</sup> and the remainder is disbursed equally as unrestricted tax-exempt grants to the Bromley by Bow Centre and Community Links.<sup>‡</sup>

Five years later, PfPH pays back Citylife the money it borrowed plus £2,164,738 in interest. This totals £10 million, which is then used to pay back bondholders in full.

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

† Costs of issuing and marketing the East London Bond are kept as low as possible thanks to pro-bono support from a number of partners. Citylife will recover costs plus a 1 per cent issuing fee up to a limit of 5 per cent of the subscription proceeds.

‡ The activities outlined in any marketing materials for the East London Bond illustrate the current funding priorities of Bromley by Bow Centre and Community Links, but grants will be spent where most needed for the benefit of the local communities.

## **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 the East London 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 investing in the East London Bond, you are effectively releasing five years' worth of compound interest on your savings as a grant to the Bromley by Bow Centre and Community Links on day one. This up-front grant will be more effective in enabling the charities to achieve their 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 the Bond at a commercial margin above standard rates. This makes the Bond an effective and excellent value way to support charity.

Finally, the East London Bond is an entirely ethical investment. As well as releasing grant funding for the Bromley by Bow Centre and Community Links, the underlying loan to Places for People Homes will help to create affordable homes and provide services and support to those who live in them.

## **How do I invest in the East London Bond?**

You can invest in the Bond as an individual or jointly with one other person.

Bonds can be purchased in a range of denominations: £1,000,000, £100,000, £10,000, £1,000, and £100. This allows investors to buy a combination of bonds for the amount they wish to invest, and after five years to reinvest some or all of the bonds in a new Bond if available, or to donate some or all of the bonds to charity.

Before applying to invest you should make sure you have read and understood the offer document and relevant background documents for the East London Bond. If you wish to invest on the basis of these documents, you just need to complete an application form and return this to us with a cheque for the relevant amount. The bonds are officially purchased on the issue date and you will be sent bond certificates in the relevant denominations.

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

The minimum amount you can invest in the East London 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 will be loaned at a commercial rate to Places for People Homes (PfPH), a not-for-dividend registered provider of social housing, regulated by the Tenant Services Authority. PfPH is the main asset owning company of Places for People Group, whose vision is to create neighbourhoods of choice – which means much more than just building homes. It also provides job and training opportunities, access to affordable childcare, support for businesses, financial products such as mortgages and loans, and specialist care and support services that enable people to live independently in their own home.

For more details about Places for People, including annual reviews and financial statements, see [www.placesforpeople.co.uk](http://www.placesforpeople.co.uk).

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

You will receive regular updates about how the funding released from your bond is being spent by the Bromley by Bow Centre and Community Links, and the difference it is making to local communities. You will also have opportunities to visit each charity and see the work in action, or get involved by volunteering in a range of activities from helping to transform local housing estates to working with children and young people.

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

Once the offer period for the East London Bond has closed you will not be able to buy any more of these bonds. You will be able to invest in any subsequent Charitable Bonds issued by Citylife, although these Bonds may or may not support the Bromley by Bow Centre or Community Links.

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

The East London Bond is a fixed-term investment and 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 bond matures?**

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 Bromley by Bow Centre and/or Community Links
- 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 Charitable 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 the 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 the 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 the East London Bond to be very low.

### **Places for People Homes**

The loan to Places for People Homes (PfPH) 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 PfPH's ability to repay the loan, not on Citylife's financial standing.

PfPH has a credit rating from Moody's Investors Service of Aa3 with a stable outlook. This means that its obligations "are judged to be of high quality and are subject to very low credit risk". The rating is composed of a baseline credit assessment of 8 (on a scale of 1 to 21, where 1 represents the lowest credit risk); and a high likelihood of support from the UK government (Aaa stable outlook) to prevent a default in case of need.

### **The Guarantee**

PfPH (as described above) has a credit rating of Aa3, but some investors may wish to have additional protection against the risk of PfPH defaulting on its obligations under the loan. Therefore, Citylife will be offering two types of bonds: Series I bonds and Series II bonds.

The Series I bonds will have the benefit that the proportion of the loan to PfPH which backs the Series I bonds will be supported by a guarantee from either or both Barclays Bank PLC and The Co-operative Bank PLC. The guarantors will decide, together with Citylife, the proportion of the loan that they will each guarantee, and the aggregate of these proportions will equal the proportion of the loan which backs the Series I bonds.

In the event that Places for People Homes does not pay some or all of the loan when due, then each guarantor will be liable to pay the proportion of the shortfall equal to the proportion of the loan that they agreed to guarantee. Neither guarantor will be liable to pay an amount greater than this agreed proportion in any circumstance, including the default of the other guarantor. The funds received by Citylife from the guarantors will go to repay the Series I bonds (but not the Series II bonds). It is important to note that the guarantee is not a guarantee of the Series I bonds, but of the proportion of the loan that supports the Series I bonds.

The guarantors will charge 3.75 per cent of the total amount of the Series I bonds over the period of the loan as a guarantee fee. This charge will be deducted from the funds that the charities will receive. However, investors in Series I bonds can offset this cost if they wish by making an additional donation at the point of application.

Unlike the Series I bonds, the investors in the Series II bonds are solely reliant on PfPH repaying the loan in order to be repaid in full when the Series II bonds are due. However, this means that no guarantee fee is deducted from the proceeds of the Series II bonds which go to the charities.

### **The Trustee**

The loan, and any associated guarantee, is assigned to Royal Bank of Canada Trust Corporation Limited as an independent trustee. This means that even if Citylife were to stop trading, the trustee is in place to receive repayment from PfPH and then to pay monies it receives to bondholders at maturity.

Royal Bank of Canada Trust Corporation Limited has not investigated the creditworthiness of Citylife, Places for People Homes or the guarantors and accepts no liability, beyond its duties as trustee, in the event that payment in full is not made on the maturity date.

### **What are the risks of investing in the East London Bond?**

Like any financial investment, investing in the 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 the 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**

The East London 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 Places for People Homes**

The bonds are limited recourse to the loan. In the event that Places for People Homes 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.

The Aa3 credit rating of PfPH from Moody's Investors Service means that its obligations "are judged to be of high quality and are subject to very low credit risk".

#### **Credit risk on the guarantors**

In the event that Places for People Homes does not repay the loan in full (or at all) then bondholders of Series I bonds only may benefit from monies received under the guarantees. However, in the event that the guarantors do not or are unable to pay under their respective guarantees then Series I bondholders will not be repaid in full (or at all) on the repayment date. Any proceeds from the guarantees will be divided equally between Series I bondholders.

Moody's Investors Service has given Barclays Bank PLC a credit rating of Aa3 and The Co-operative Bank PLC a credit rating of A2.

### **No guarantee of the Loan for Series II bondholders**

In the event that Places for People Homes does not repay the loan in full but monies are received under the guarantees, then such monies will be only be for the benefit of Series I bondholders. Series II bondholders do not benefit from monies received under the guarantees.

### **Financial Services Compensation Scheme**

The Financial Services Compensation Scheme does not apply to an investment in the East London Bond.

### **Losing contact with Citylife**

It is a duty of the bondholder to keep the registrar, on behalf of Citylife, informed of any change of address. If Citylife's attempt at repayment on the repayment date is unsuccessful, and if bond certificates are not presented within 10 years of the repayment date, the investment is forfeit and will be applied by Citylife for its charitable purposes.

### **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 the East London 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:

**[info@eastlondonbond.org](mailto:info@eastlondonbond.org)**

**0800 652 8776**

## **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 proportion of the loan to Places for People Homes which backs the Series I bonds will be supported by a guarantee from either or both Barclays Bank PLC and The Co-operative Bank PLC. In the event that Places for People Homes does not pay some or all of the loan which backs the Series I bonds when it is due then the guarantors will be liable to pay Citylife. The funds received by Citylife from the guarantors will go to repay the Series I bonds (but not the Series II bonds).

**Guarantor**

The provider of a guarantee. The guarantor for the East London Bond will be either or both Barclays Bank PLC and The Co-operative Bank PLC

**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**

The East London Bond is limited recourse to the proceeds of the loan to Places for People Homes. This means that Citylife is only liable to repay the bonds to the extent that it has received repayments under the loan and, in the case of the Series I bonds only, 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 the 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. For the East London Bond the registrar will be Wrigleys Solicitors LLP, a Limited Liability Partnership registered in England under No. OC318186, regulated by the Solicitors Regulation Authority and authorised and regulated by the Financial Services Authority. The registered office of Wrigleys Solicitors LLP is 19 Cookridge Street, Leeds, LS2 3AG.

#### **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**

The East London Bond is 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 the East London Bond is Royal Bank of Canada Trust Corporation Limited.

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**

The East London Bond is zero interest, meaning that investors get back after five years exactly what they put in.