



# Sceptre Funding No.1 PLC

Investor Presentation

July 2009

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# Executive Summary

## Executive summary

- Sceptre Funding No.1 PLC is pleased to present a £[370]m equivalent bond linked to the credit of the UK Government (“Bond”) backed by cash flows from a single commercial lease between the UK Government and the Land Securities Group
- The Secretary of State for Communities and Local Government (“DCLG”) is the current tenant on a robust commercial lease at 50 Queen Anne’s Gate / 102 Petty France, London SW1
- The Bond will derive cash flows solely from this lease and will amortise fully over the life of the transaction
- The Bond is expected to be rated [Aaa/AAA] by Moody’s/Fitch by virtue of the direct link to the UK Government tenant

## Summary of terms

The transaction does not contain any hedging arrangements since the fixed lease payments are matched by fixed rate Bond interest payments

• Amount	£[370] million equivalent
• Maturity	February 2027
• Duration	[8] years
• WAL	[11.3] years
• Status	Senior secured
• Repayment	Fully amortising over the life of the Bond
• Expected Rating	[Aaa/AAA]
• Coupon	Fixed Rate
• Frequency	Quarterly
• Pricing	4.5% Treasury 2019 + [•]
• Security	First ranking security over rents payable under the lease and bank accounts

# Lease Overview

# History of the lease

**The building is currently occupied by Department for Communities and Local Government**

- 50 Queen Anne's Gate / 102 Petty France is located at a premier location in Central London overlooking St James's Park
- The building was constructed in 1977 and is a 56m (184 ft) high, 14 storey office block providing a net internal area of 32,858 m<sup>2</sup> (353,680 sq ft) of office space in close proximity to the Houses of Parliament and Whitehall
- It is currently occupied by DCLG on a long lease determining in December 2028, with the right to break on 18 months notice at anytime from 23 December 2026
- The basic rent increases annually at a fixed rate of 2.5%
- At the Government's request, Land Securities agreed to refurbish the building in full to take the building back to the structural frame, with complete re-provision of the space to a modern Grade A standard from December 2005
- These works were completed in May 2008 and although the building was fully vacated in the interim, the Government continued to pay rent to Land Securities as per the terms of the lease
- To compensate Land Securities for the cost of the extensive refurbishment works the UK Government has agreed that all Government departments occupying the property through to December 2026 will pay a quarterly incremental rent in addition to the base rent
- This incremental income stream, which increases quarterly at 2.5% per annum compounded, is not performance based but payable at all times without fail and is equivalent in status to the basic rent



# Key terms of the lease

The Government is required to pay rent unconditionally without deductions

Criteria	Terms
<b>Rent</b>	<ul style="list-style-type: none"><li>• Requirement to pay rent without deductions in absolute and unconditional terms</li><li>• Rent is payable irrespective of the condition of the property</li><li>• The Government is required to pay rent even if it ceases to use or possess the property during the term of the lease</li><li>• Rent is payable even following an event of force majeure or frustration</li></ul>
<b>Assignment, Sharing and Underleasing</b>	<ul style="list-style-type: none"><li>• There is a general prohibition on assignment. However, the Government may, without the consent of Land Securities, allocate the whole of the property to various Government departments, or if guaranteed by the Government, Government related entities, which must be of equal economic strength as the Government</li><li>• The occupation of the whole or any part of the property may be shared between various departments of the Government</li><li>• The Government may make up to 30 underleases at any one time</li></ul>

# Key terms of the lease

There are no operational requirements or obligations on Land Securities under the terms of the lease so the rental income from the lease structure should not be impaired

Criteria	Terms
Insurance and Repair	<ul style="list-style-type: none"><li>• The Government is required to repair and maintain the quality of the property and is required to make good any damage caused to the property by the removal of any of its fixtures, fittings or other items</li><li>• The Government is required to indemnify the landlord against legal liabilities in respect of the injury or death of any person or damage to any property due to the Government breaching its repairing covenants or as a result of any unauthorised user of the property</li><li>• The Government is required to repair and rebuild the property in the event of damage or destruction to the property or any part of it</li><li>• The Government is also required to provide the necessary funds for reinstatement and to keep the landlord indemnified in respect of any loss or damage arising from the damage or destruction of the Property</li><li>• There are no provisions for the cesser of rent or the termination of the lease in the event of damage or destruction by an insured or uninsured risk</li><li>• There is no obligation on either party to insure under the lease. In view of the obligations listed above the government self insures, which is their standard practice</li></ul>

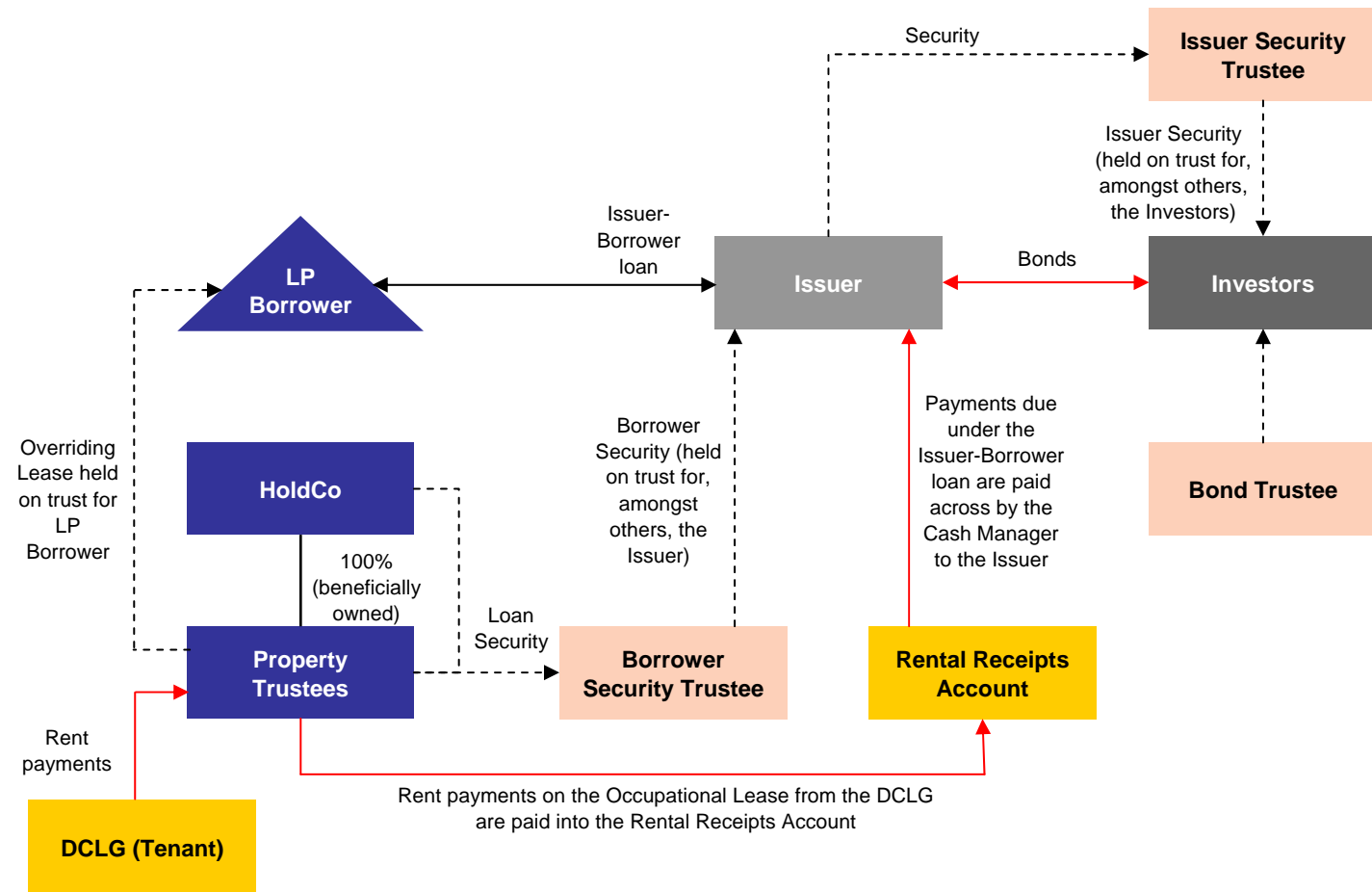
# Financing Structure

# Transaction structure

The adjoining diagram provides an overview of the transaction structure

The LP Borrower is a limited partnership between a General Partner and Limited Partner, wholly owned by the Land Securities Group

The Holdco will be 100% beneficially owned by the General Partner of the LP Borrower



# Structure description

**The separation of legal and beneficial ownership between the Property Trustees and the Borrower is to protect the transaction from 'administration' risk**

- The Borrower has been established as a limited partnership and is part of the Land Securities Group
- The Borrower will be a UK tax resident entity and will not have any tax obligations on account of its LP status
- The Borrower is the beneficial owner in an overriding lease of the building for a term commencing on the date of the lease and expiring in December 2026
- The legal ownership of the overriding lease will be held by two bankruptcy-remote English SPVs called the Property Trustees
- Pursuant to the overriding lease, the rights and benefits of the landlord in respect of occupational lease are vested in the Property Trustees, who hold these rights on trust for the Borrower
- The Property Trustees will hold the overriding lease on trust for the Borrower, and will receive rent from DCLG on behalf of the Borrower
- The transaction structure includes the Property Trustees and HoldCo to control the security over the overriding lease and circumvent the inability to appoint an administrative receiver at the Borrower on account of its LP status
- The Issuer will be a newly established UK tax-resident bankruptcy-remote orphan securitisation company
- It will be created for the sole purposes of issuing the Bonds and on-lending the proceeds to the Borrower and will be managed independently of Land Securities

## Transaction steps

**The periodic rent payments from the UK Government will be used to meet the transaction costs and the debt service payments on the Bonds**

- At the closing date, the Issuer will sell the Bond to investors and lend the proceeds from the issuance to the Borrower through an Issuer-Borrower loan
- The Bonds will be secured on the Issuer-Borrower loan and the Issuer bank accounts
- The Issuer-Borrower loan will be secured on the overriding lease and the various Borrower cash accounts
- The General Partner, Property Trustees and HoldCo will guarantee the Borrower's obligations under the Issuer-Borrower loan
- On a periodic basis, rent payments will be paid directly into the Rental Receipts Account which is managed by the Cash Manager on behalf of the Property Trustees
- On each interest payment date, the Cash Manager will apply amounts standing to the credit of the Rental Receipts Account in accordance with the Borrower pre-enforcement priority of payments
- These amounts will include the payment of the Borrower's expenses and payments to the Issuer of expenses, interest and principal then due to the Issuer under the Issuer-Borrower loan
- The Issuer will then use these payments to first cover its own expenses and then pay interest and principal on the Bonds, with the Bonds amortising fully over the life of the overriding lease

# Overreaching

**The overreaching structure mitigates against the risk of Borrower administration**

- In the unlikely event of a default (e.g. non-payment) by the Borrower on the Issuer-Borrower loan, a demand will be made against the Property Trustees under the guarantee
- Since the Property Trustees have a right to be indemnified from trust assets, the Borrower does not have a claim against the rental income until the liability of the Property Trustees under the guarantee has been paid in full
- Therefore, if the Borrower goes into administration, the rental income will be applied to service the debt and payments will be made under the guarantee by the Property Trustees directly to the Borrower Security Trustee without the funds being paid via the Borrower
- The Borrower Security Trustee has the ability to appoint an administrative receiver to HoldCo to control the Property Trustees, if the Borrower goes into administration.
- An administrative receiver appointed to the HoldCo will have the ability to control the Property Trustees. Legal title to the rent stream can then be sold by the Property Trustees which would carry the beneficial interest to a purchaser
- Thus, the beneficial interest of the Borrower can be “overreached” and the structure can be protected if the Borrower went into administration

# Security package

The transaction provides a comprehensive security package comprising the lease and bank accounts

## **Issuer**

- Fixed and floating charges over Issuer cash and bank accounts
- Rights under Issuer-Borrower loan and rights under the Borrower security documents
- First floating charge over all assets

## **General Partner**

- First fixed security over shares in HoldCo
- First floating charge over all assets

## **Borrower**

- First fixed security over beneficial interest in the overriding lease and rental payments under the occupational lease
- First floating charge over all assets

## **HoldCo**

- First fixed security over shares in the Property Trustees
- First floating charge over all assets

## **Property Trustees**

- First fixed security over legal interest in the overriding lease and rental payments under the occupational lease
- First floating charge over all assets

The General Partner, Holdco and Property Trustees will guarantee the Borrower's obligations under the Issuer-Borrower loan



# Investor reporting

Quarterly investor reports  
will be provided with this  
transaction

- Quarterly investor reports will be provided on this transaction by the Cash Manager in the following format at <https://tss.sfs.db.com/investpublic/>

**Sceptre Funding No. 1 PLC**  
**Quarterly Investor Report - [Date]**

**A. Summary of the Bonds**

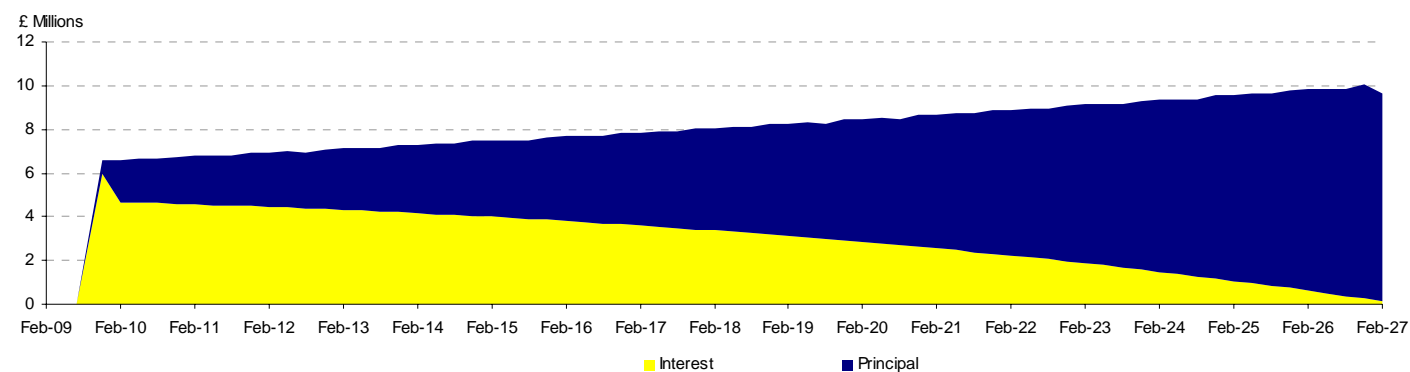
ISIN	[•]
Principal amount of the Bonds at Issue	[•]
Coupon rate	[•]
	£
Principal amount of the Bonds (beginning of period)	[•]
Scheduled interest payment	[•]
Scheduled principal repayment	[•]
Actual interest payment	[•]
Actual principal repayment	[•]
Principal amount of the Bonds (end of period)	[•]

**B. Summary of Cash Position**

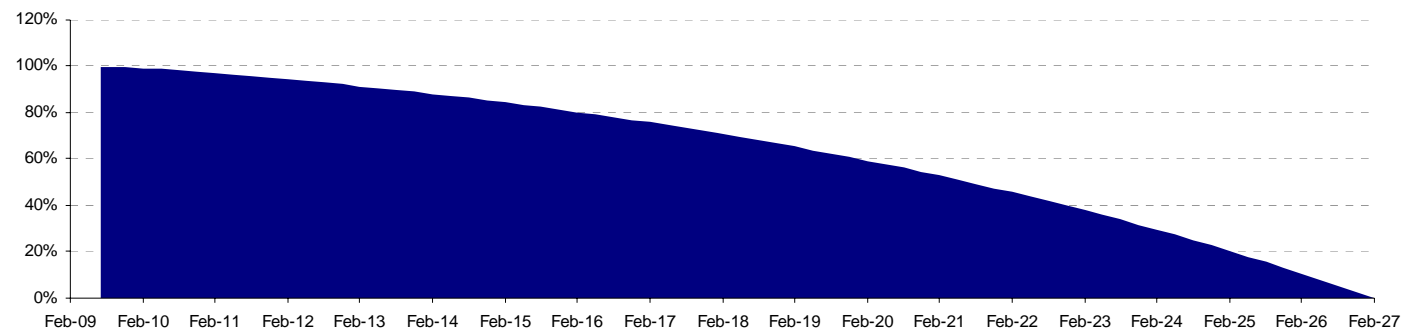
	£
Cash in Rental Receipts Account (beginning of period)	[•]
Additions from rent receipts	[•]
Withdrawals to meet debt service	[•]
Withdrawals to meet other payments (expenses, taxes and distributions)	[•]
Cash in Rental Receipts Account (end of period)	[•]

# Debt service profile

## Indicative Debt Service Profile



## Indicative Amortisation Profile



# Timetable and Contacts

# Timetable

- Roadshow
- Book-building
- Pricing
- Closing

10-14 July 2009

w/c 13 July 2009

w/c 13 July 2009

w/c 20 July 2009

# Contacts

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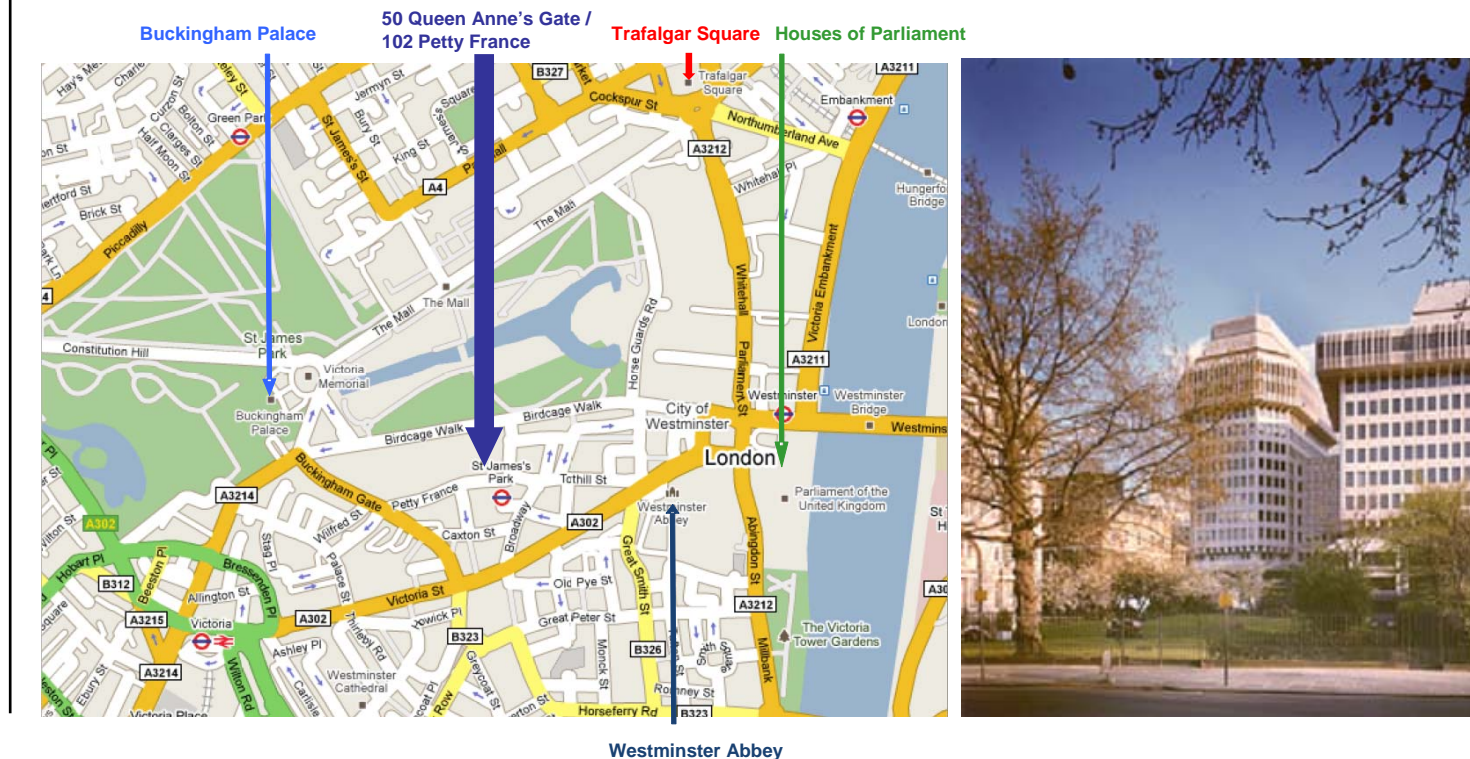
Tel: 020 7991 5360

# Appendix

## Property and Tenant Overview

# Property Overview

- 50 Queen Anne's Gate / 102 Petty France is located in a premier location in Central London overlooking St James's Park and in close proximity to Buckingham Palace and the Houses of Parliament
- The building is 56 m (184 ft) high, with 14 floors providing net internal area of 32,858m<sup>2</sup> (353,680 sq ft) of office space and is let solely to the UK Government



# Department for Communities and Local Government

**The Department for Communities and Local Government has been occupying the property since April 2009**

- The original lease on the property is between Land Securities and the First Secretary of State
- The tenancy is currently vested in the Secretary of State for Communities and Local Government, a direct department of the UK Central Government (rated AAA)
- DCLG is the lead department responsible for two of the Government's highest priorities:
  - To increase long term housing supply and affordability by setting policy on local government, housing, urban regeneration, planning and fire and rescue
  - To build more cohesive, empowered and active communities and has the responsibility for all race equality and community cohesion related issues
- The Secretary of State for Communities and Local Government heads DCLG and is supported by the Minister for Local Government and the Minister for Housing and Planning
- To plan and execute Government policy effectively, DCLG's Ministers work closely with:
  - A Board of senior managers
  - Four Executive Agencies
  - Seventeen Public Bodies