

13 June 2017

US Bank Trustees Limited

(in its capacity as Issuer Security Trustee)

125 Old Broad Street

London EC2N 1AR

Attention: Structured Finance Relationship Management

Delivered by email to Laurence.griffiths@usbank.com

Copy to: **UPP Bond 1 Issuer Plc**

40 Gracechurch Street

London EC3V 0BT

Attention: Company Secretary

Delivered by email to Julian.benkel@upp-litd.com

Dear Sirs

Proposed consent to the UPP Bond 1 Issuer plc (the "Issuer") to consent to UPP (Exeter) Limited (the "AssetCo") to enter into a Settlement and Remediation Deed and certain additional documents and consents in relation to remedying certain Latent Defects (BCP Ref.: UPP Waiver 14)

Monitoring Adviser Recommendation

We refer to UPP Bond 1 Limited's MA Proposal Request dated 8 June 2017 (copy attached for ease of reference) addressed to yourselves and ourselves as the Monitoring Adviser (the "**MA Proposal Request**"), pursuant to the terms of the Monitoring Services Agreement dated 5 March 2013 (the "**MSA**") and our Category Determination dated 12 June 2017 (copy attached for ease of reference).

Terms defined in the Common Terms Agreement (the "**CTA**") dated 5 March 2013 between, amongst others, the Issuer and the Issuer Security Trustee shall have the same meaning in this Monitoring Adviser Recommendation, unless specified as being defined elsewhere.

The Monitoring Adviser has prepared this Monitoring Adviser Recommendation based upon information received by the Monitoring Adviser from the Issuer and AssetCo. This Monitoring Adviser Recommendation has not been prepared on the basis of any information that has been identified as Inside Information. The Monitoring Adviser has no responsibility for the adequacy or accuracy of any of the information or documentation provided to it in connection with the

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services provided by it under the MSA and the Monitoring Adviser may act on the opinion or advice of, or a certificate or any information from, advisers or experts. In preparing this Monitoring Adviser Recommendation the Monitoring Adviser has performed only those services it is obliged to carry out in accordance with the Monitoring Services Agreement and has done so in accordance with the Monitoring Standard. The Monitoring Adviser is not a fiduciary and is not liable for any loss, liability, claim, expense or damage suffered or incurred by any Holders of Securities, any other Issuer Secured Creditor, the Issuer, the ParentCo, any AssetCo or any other transaction party with respect to the performance of its obligations under the Monitoring Services Agreement or the Issuer Deed of Charge, save for any loss suffered by the Holders of Securities resulting from its fraud, gross negligence or wilful default.

The Monitoring Adviser makes no representation or warranty, express or implied, that the documentation and opinions referred to herein, or the information contained or the assumptions on which they are based are accurate, complete or up-to-date in each case other than the opinions of the Monitoring Adviser as at the date of this Monitoring Adviser Recommendation based upon such information. The Monitoring Adviser has no obligation to update any such opinions other than in accordance with its obligations under the Monitoring Services Agreement.

This Monitoring Adviser Recommendation is not a recommendation or inducement to buy, sell or hold any securities (including those issued by the Issuer).

Pursuant to Clause 3 (*Monitoring Adviser Recommendation*) and Clause 4 (*MA Direction Matter*) of Schedule 2 (*AssetCo Monitored Activity Decision Procedures*) of the MSA it is our Monitoring Adviser Recommendation that the Issuer Security Trustee approves (and we hereby direct the Issuer Security Trustee to approve) the Consents and Waivers (as defined in the MA Proposal Request) on behalf of the Issuer Secured Creditors subject to:

- The Settlement and Remediation Deed executed between the AssetCo and Balfour Beatty Construction (SW) Limited ("Balfour Beatty") being materially consistent with the draft Settlement and Remediation Deed provided to the Monitoring Adviser concurrently with the MA Proposal Request with such amendments as may be approved by the Monitoring Adviser. A copy of the signed Settlement and Remediation Deed is to be provided to the Monitoring Adviser and the Issuer Security Trustee for their records.
- The amendment agreement to the Strategic Partnership Agreement executed between the AssetCo and Exeter University (the "University") being materially consistent with the draft amendment agreement to the Strategic Partnership Agreement provided to the Monitoring Adviser concurrently with the MA Proposal Request with such amendments as may be approved by the Monitoring Adviser. A copy of the signed amendment agreement to the Strategic Partnership Agreement is to be provided to the Monitoring Adviser and the Issuer Security Trustee for their records.
- AssetCo and the University complying with all requirements under the terms of the amendment agreement to the Strategic Partnership Agreement between AssetCo and the University in relation to the works detailed in the Remediation Works Plan (the "Remediation Works") and all other requirements detailed therein.

- AssetCo (and any other referenced UPP Group Limited company) complying with any conditions imposed by the University.
- AssetCo complying with all requirements imposed under the Settlement and Remediation Deed and the Strategic Partnership Agreement.
- The provision of a deed of confirmation in a form to be agreed providing that the Balfour Beatty PLC parent company guarantee previously provided in relation to the obligations of Balfour Beatty to the AssetCo shall extend to the obligations of Balfour Beatty under the Settlement and Remediation Deed.
- Provision by AssetCo to the Monitoring Adviser of monthly reports prepared by Bailey Partnership along with commentary from the Issuer / AssetCo as detailed in the MA Proposal Request.

The reasons for our Monitoring Adviser Recommendation are that the proposed Remediation Works are not expected to materially adversely affect the interests of the Issuer Secured Creditors. Specifically, we note:

- The Remediation Works will be undertaken by Balfour Beatty entirely at Balfour Beatty's cost. Bailey Partnership will independently monitor the Remediation Works and provide regular reporting to UPP Exeter, the Monitoring Adviser and the University.
- Remedying the Latent Defects will help ensure that the security available to the Bondholders retains its value and remains fit for purpose, remedying certain risks related to the properties whilst also retaining their marketability to students in the longer term.
- The University is evidently marketing the rooms, notwithstanding the Remediation Works, with incentives available to students in respect of disruption caused. As we understand it, the University understands the necessity for the Remediation Works and is co-operating with AssetCo and Balfour Beatty.
- The forecast ADSCR for AssetCo and ParentCo are projected to remain at consistent levels through the current and prospective five-year period (as detailed in Schedule 3 of the MA Proposal Request). We have asked UPP to conduct certain stress scenarios to the cash flows; debt service to bondholders is sustainable under each of the scenarios.
- Both Moody's and Standard & Poor's, in recent commentary in relation to the Notes¹ reference the Remediation Works and neither have highlighted that entering into the Settlement and Remediation Deed is likely to trigger a negative rating action.
- If, following execution of the Settlement and Remediation Deed, Balfour Beatty were to be unable to continue to fulfil its contractual commitments, we anticipate that AssetCo would pursue contractual remedies, whilst arranging for the Remediation Works to continue through another contractor. Under such scenarios, AssetCo might find itself entering into lock-up or even default. The terms of the Notes contemplate enhanced rights for the Issuer Secured Creditors under such circumstances through which a plan

¹ Moody's Investors Service Credit Opinion dated 4 April 2017 and S&P Global Ratings Transaction Update dated 24 March 2017

would likely be developed to resolve the situation arising. In addition, it has been agreed in the MA Proposal Request (see paragraph 1.6 (i)) that, to the extent liabilities arise to AssetCo as a consequence of the Remediation Works not being completed or AssetCo failing to perform its obligations in respect of the Remediation Works, there will be a consequential, limited lock-up on equity distributions.

- The Issuer has confirmed that all necessary notifications and consents relative to the Remediation Works, including to the University, the students and its insurance providers, have or will be provided.
- That the Issuer and AssetCo have provided, in response to our request, several confirmations, addressed to the Issuer Secured Creditors within the MA Proposal Request. These include that:
 - It is not anticipated that the Remediation Works will have a material adverse impact on students, considering the compensation package being offered to students;
 - Appropriate insurance cover is maintained by AssetCo and the Contractor; and
 - The Remediation Works will be carried out in accordance with applicable planning conditions, building and fire regulations, health and safety requirements, any authority approvals and other applicable laws and regulations.
- UPP Group Limited has provided a letter of support dated 7 June 2017; this letter emphasizes, in our opinion, UPP's intent to provide management support to its subsidiary (UPP Exeter) to 'resolve the remediation of defects and manage the financial consequence arising, including the use of the Bond group's cash flows if Balfour Beatty failed to perform'.

Yours sincerely,

For and on behalf of Bishopsfield Capital Partners Ltd, as Monitoring Adviser



Authorised Signatory



Authorised Signatory

Encl.

- MA Proposal Request dated 8 June 2017 (including attachments)
- Category Determination dated 12 June 2017