



# **BOSTON PRIVATE INCOME FUND**

## **QUARTERLY REPORT**

*For period ending 31 March 2017*

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## **OUR TEAM**

Director and Chairman	Mr. Derryn Harrison
Director	Mr. Bradford Gower
Director	Mr. Paul Jones
Non-Executive Director	Mr. Tim Power
BPIF Fund Manager	Mr. Paul Jones
BPIF Deputy Fund Manager	Mr. Daniel Hoang

## **FUND STRUCTURE**

Register	Boardroom Pty Limited
Joint Trustee	BMIL Nominees Pty Limited
Manager	Boston Managed Investments Limited
Auditor of the Fund	Thomas Hopper & Partners
Custodian	Australian Executor Trustees Limited



## INVESTMENT STRATEGY

The strategy of the Boston Private Income Fund (BPIF) is to invest at both the senior and subordinated finance level of commercial lending platforms that feature in the Non-Bank Financial Institution (NBFII) sector. BPIF will invest primarily through trust structures in a carefully selected portfolio of high yielding, income producing assets providing returns commensurate with the underlying level of risk. These assets may be in rated and non-rated structures. It is expected that BPIF will generate quarterly returns without capital uplift.

## OBJECTIVES

The primary objective of BPIF is to build a portfolio of notes at the senior and subordinated level within the debt capital structure of targeted NBFII's. In addition to meeting the stringent risk weighting criteria of senior funders, a strict approach to performance benchmarking and risk management ensures the preservation of investor capital and strong returns. BPIF seeks to take advantage of the regulatory arbitrage that has evolved within the Australian Commercial Debt sector following the introduction of rules with respect to debt capital ratios imposed by the Basel conventions. BPIF has been designed to take advantage of these changes to international banking protocols. The evolution and growth of BPIF has come about through careful identification of assets that demonstrate long term serviceability and appropriate risk/reward characteristics.

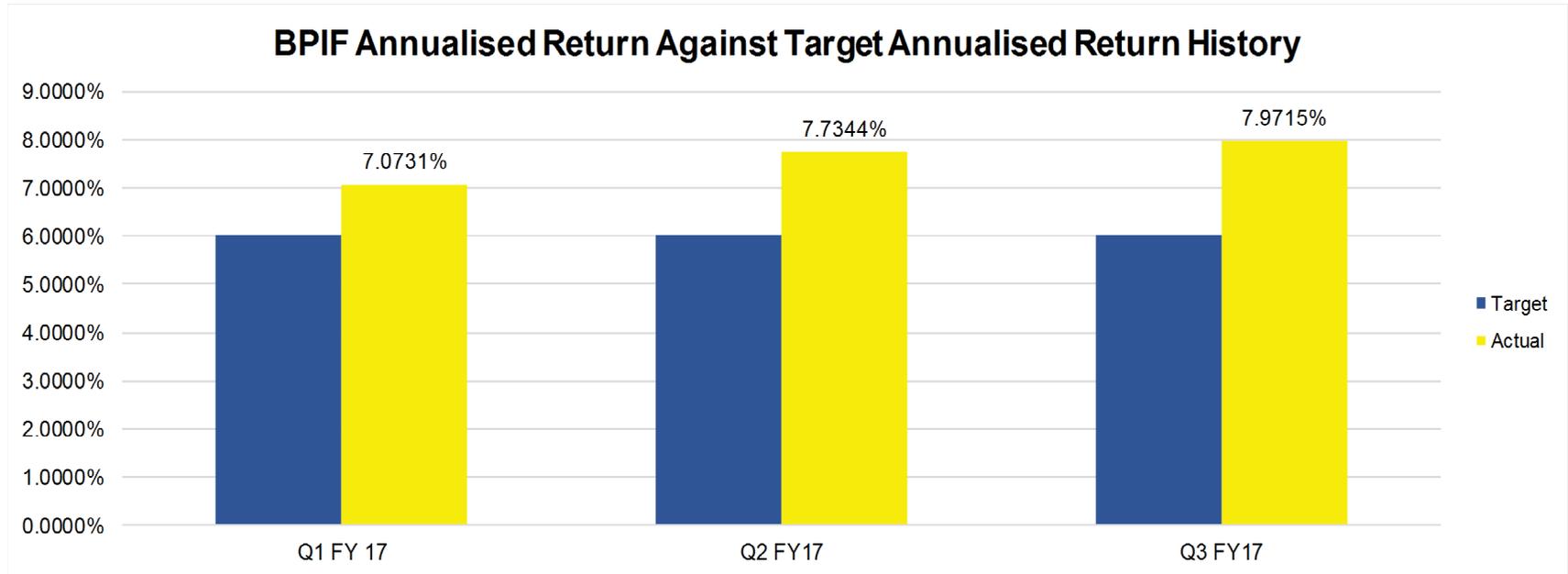
## IMPORTANT REMINDER - NET TARGETED RETURN [as at 31 March 2017 is 6.025%](#)

Boston Managed Investments Limited (BMIL) is targeting a minimum annualised return for the Boston Private Income Fund (BPIF) of 4.40% or 440 basis points above the Bank Bill Swap Rate (BBSW30), after fees. Bank Bill Swap Rate is 1.625% or 162.5 basis points as at 31 March 2017. The current outperformance of the BPIF is welcome by both BMIL and investors alike, the BMIL investment committee reiterates its continuing advice that it expects the ongoing returns to revert towards the Net Targeted Return over time.

## FUND PERFORMANCE TABLE

Period	Days	Actual Return for the Quarter	Annualised Return for the Quarter	Bank Bill Swap Rate (BBSW30) at end of Quarter	Margin Over BBSW30 at end of Quarter <sup>1</sup>	Actual Annualised Return <sup>2</sup>	Achievement Against Target	Targeted Annualised Return <sup>2</sup>
20/09/16 – 30/09/16	11	1.7825%	7.0731%	1.615%	5.4581%	7.0731%	▲	6.0150%
01/10/16 – 31/12/16	92	1.9495%	7.7344%	1.640%	6.0944%	7.8898%	▲	6.1777%
01/01/17 – 31/03/17	90	1.9656%	7.9715%	1.625%	6.3465%	8.0274%	▲	6.1630%

1. Margin over Bank Bill Swap Rate: Calculated by subtracting the Bank Bill Swap Rate at the end of the Quarter from the Annualised Return for the Quarter.  
 2. Actual and Targeted Annualised Return: Calculated over the last 12 months with quarterly distributions reinvested at the conclusion of each quarter.



## **FUND MANAGERS COMMENT—MR. PAUL JONES**

The Boston Private Income Fund (BPIF) is reporting a return of 1.9656% for the March 2017 quarter. This level of quarterly return is equivalent to an annualised return of 7.9715%.

Boston Managed Investments Limited (BMIL), as manager, acknowledges that the Boston Private Income Fund has thus far consistently overachieved the performance goals and investment criteria set out in the BPIF Information Memorandum (IM). As the underlying investment program matures it is expected that the rate of return will gravitate closer to our long term expectations.

Independent quantitative research indicates that the targeted return of the BPIF, with which the targeted (and current) annualised return is consistent, ranks the BPIF in the top end of a Fair Value band that has been derived from a comparative analysis of a wide range of interest bearing securities released to the market by major domestic Authorised Deposit-Taking Institutions (ADI's) – including all four big Australian banks. A graphical analysis of this independent research is shown on Page 6 of this report.

The investment strategy established for the BPIF is to hold both senior and subordinated notes within both long established and new commercial funding warehouses operated by the non-bank financial institution Think Tank Group Pty Ltd ("Thinktank"). At the conclusion of the March 2017 quarter Thinktank is reporting a total loan book value of \$535.9 million across 841 first registered mortgages secured by Australian commercial and industrial property. In comparison to the value of the loan book 12 months ago in the March 2016 quarter the loan portfolio has grown by 32.8%.

Deeper loan book metrics taken from the Thinktank commercial property loan portfolio at the conclusion of the March 2017 quarter are equally as encouraging and are moving in parallel with our expectations. The Weighted Average Loan to Value Ratio (LVR) across the portfolio at the end of the March 2017 quarter is 64.4%. The loan book LVR has managed to track within a very minor percentage standard deviation on each side of this figure for several years. Due to careful ongoing management proportion of loans in the core commercial loan trust, classified as being in arrears, have been held below the level of 1% at the conclusion of the March 2017 quarter, both in terms of the number of loan accounts and the value of loans under management.

In November 2016, Think Tank successfully settled their second Commercial Mortgage Backed Securitisation (CMBS) issuance. The transaction was stringently analysed by Standard & Poor's Global Ratings Agency (S&P) and was quickly taken up by a combination of domestic and international financial and commercial institutions.

### **FUND MANAGERS COMMENT CONTINUED...**

The category, class and nature of the assets that make up the focus of the BPIF's investment strategy are similar to those that comprise the basis of BMIL's longest running fund, the Boston Income Fund (BIF). We point out that the consistent outperformance of the fund in its early stages, when compared to its targeted Annualised Return, since the funds inception is partly a function of the immaturity of the underlying investment strategy. As the fund grows in quantum of funds under management and the underlying investments align with that strategy returns are expected to consolidate closer to the original targets.

Finally, Mortgage Broker insider magazine, "The Advisor", recently announced the results of its annual survey of brokers working with Non-Bank Financial Institutions. Pleasingly, Thinktank was announced the 2017 winner of the Commercial Lending category as the NBFIs brokers rated as the best to deal with. Boston Managed Investments Limited extends our warmest congratulations to the entire team at Think Tank.

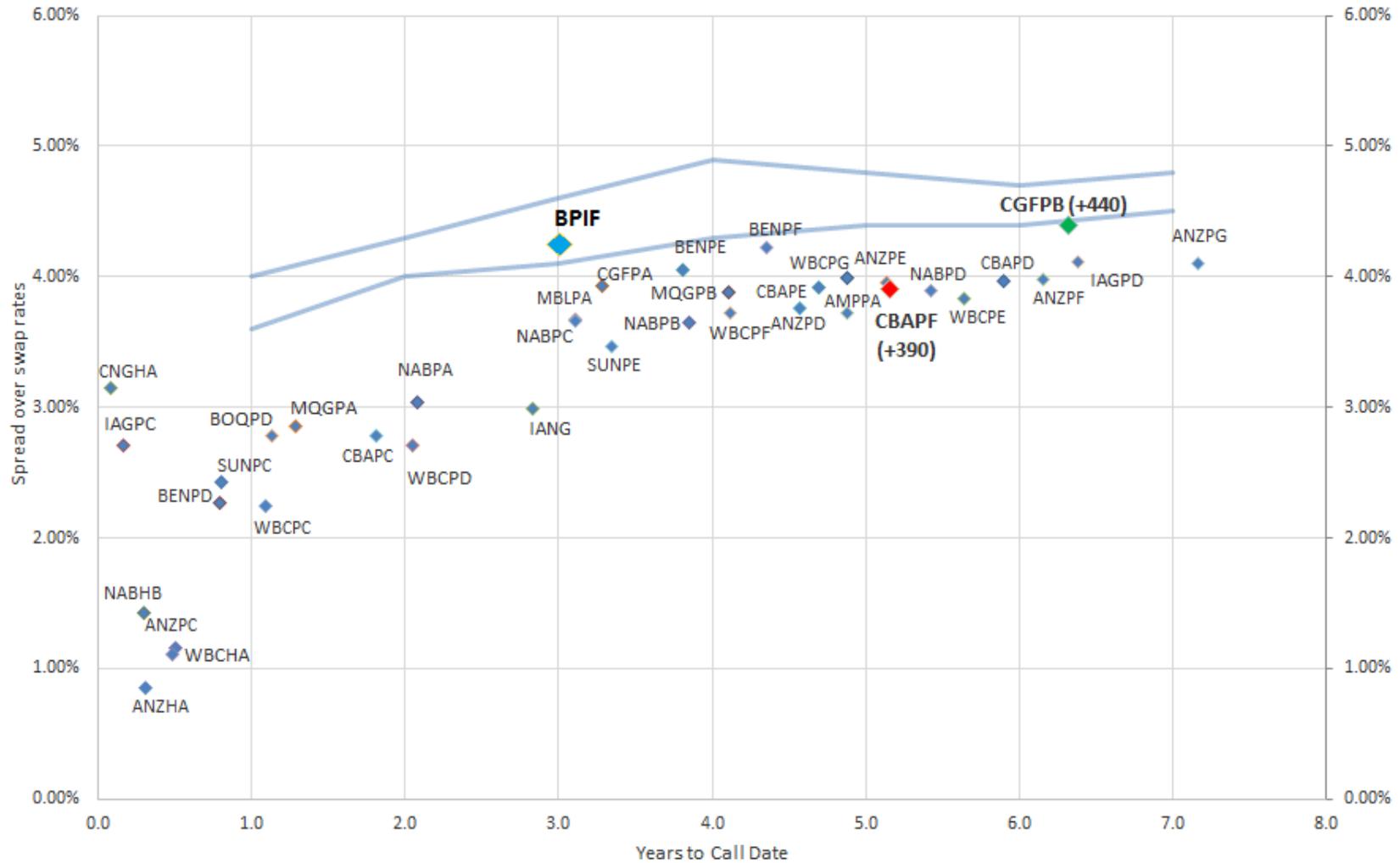
If you have any questions about this statement or if you wish to discuss your investment in the Boston Income Private Fund please feel free to contact Paul Jones on (02) 8920 8886.

### **ANALYSIS OF THE BOSTON PRIVATE INCOME FUND**

During the development of the Boston Private Income Fund (BPIF) the key variables and characteristics of the fund were carefully considered by an independent researcher and applied to a valuation process for Australian Interest Rate securities. The results of this analysis are shown in the table below. The lines shown in red represent arbitrary allowances that have been factored in by the analyst to account for the risks relevant to the BPIF. The final model determined the Fair Value Margin of 4.30% falls within the anticipated range for an interest rate security with the same key features as the BPIF. This Fair Value figure is marginally below the cash rate margins already achieved by the BPIF since inception.

Base Margin (Investment Grade) :	3.00%	Market revaluation margin for 5yr Sub RMBS
Structured Premium : (Essentially applies S&P notching)	n/a	Not applicable in this case
Duration Premium :	0.30%	Based on market observed CPR of 4.5 years
	0.50%	Liquidity
Specific Premium :	0.25%	Lack of transparency re: loan interchanges
	0.25%	Relative concentration exposure
	1.00%	
<b>Fair Value Margin :</b>	<b>4.30%</b>	<b>Range of 4.0% - 4.6% for Fair Value</b>

## GRAPHICAL ANALYSIS OF THE BOSTON PRIVATE INCOME FUND



**NOTE:** The above chart has been prepared and provided to Boston Managed Investments Limited by Mr. Brad Dunn of Ord Minnett which is the trading name of Ord Minnett Limited and is supplied and published in this report for the attention of Wholesale and Sophisticated investors as defined by Section 761(G) of the Corporations Act 2001. The codes listed in **bold text** above refer to the following : **BPIF** (Boston Private Income Fund), **CBAPF** (CommBank PERLS IX Capital Notes) and **CGFPB** (Challenger Capital Notes 2). Lines in blue represent the Fair Value Range band based on Spread over Swap Rates and Year to Call Date.

Watch the Fund Manager's Comment at <https://youtu.be/B7enr6oTt7g>



## CONTACT US

Tel. +61 2 8920 8886

Email. [bmil@thebostongroup.com.au](mailto:bmil@thebostongroup.com.au)

Level 5, 68 Alfred Street Milsons Point NSW 2061

Fax. +61 2 8920 8887

Web. [www.bmilimited.com.au](http://www.bmilimited.com.au)

P.O. Box 67 Milsons Point NSW 1565

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Disclaimer: This document is not intended to be read by anyone other than a Wholesale Client or Eligible Investor (as defined in Section 761G of the Corporations Act 2001) and should be read in conjunction with the Information Memorandum for Boston Private Income Fund dated **1 October 2016**. A copy of the Information Memorandum can be obtained by contacting Paul Jones on (02) 8920 8886 or at [paul.jones@thebostongroup.com.au](mailto:paul.jones@thebostongroup.com.au). Boston Managed Investments Ltd (AFSL No. 469808).