



# BOSTON PRIVATE INCOME FUND

## QUARTERLY REPORT

*For period ending 30 September 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**

Registry	Boardroom Pty Limited
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 (NBFI) 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 NBFIs. 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.

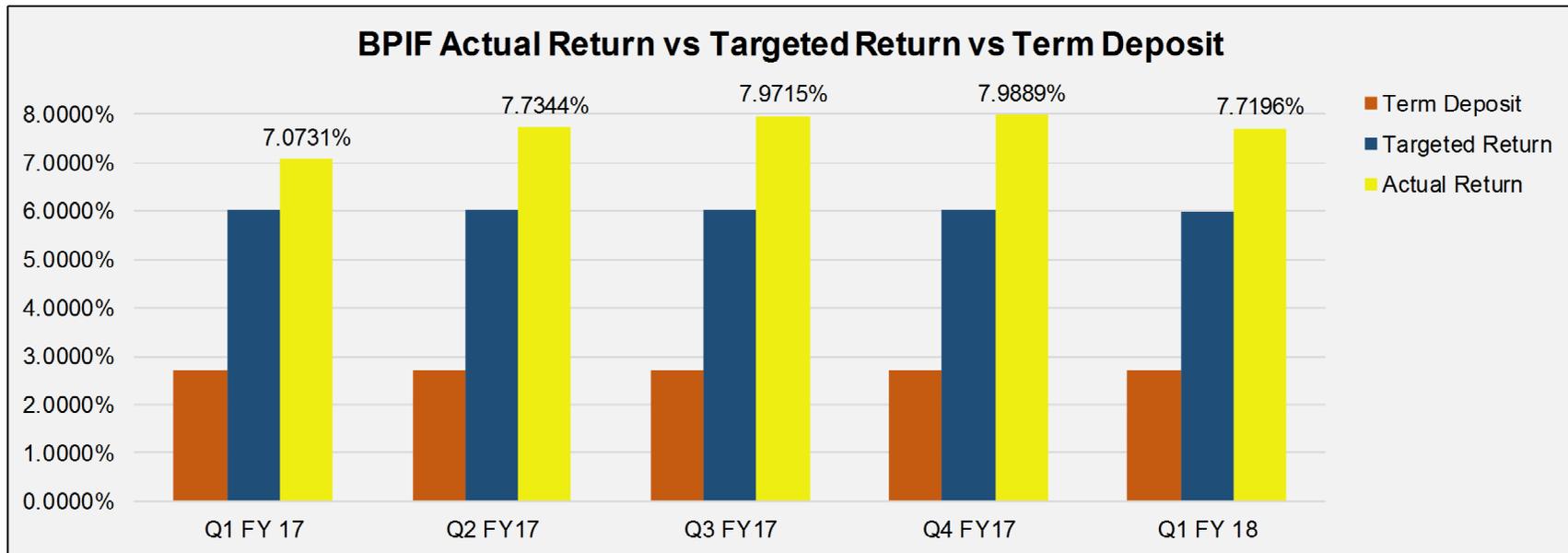
## IMPORTANT REMINDER - NET TARGETED RETURN [as at 30 September 2017 is 6.00%](#)

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 1.60% or 160.0 basis points as at 30 September 2017. The current outperformance of the BPIF is welcomed 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. Please refer to the chart shown on page 6 of this report which provides an analysis of projected future activity in rates according to an analysis of cash rate futures markets.

## 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%
01/04/17—30/06/17	91	1.9918%	7.9889%	1.615%	6.3739%	8.0858%	▲	6.1557%
01/07/17—30/09/17	92	1.9458%	7.7196%	1.600%	6.1196%	8.0458%	▲	6.1477%

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 1.9458% for the September 2017 quarter. This level of quarterly return is equivalent to an annualised return of 7.7196%.

Boston Managed Investments Limited (BMIL), as manager, acknowledges that the BPIF has thus far consistently overachieved the performance goals 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. It is worth noting that the outperformance is entirely to the benefit of investors as BMIL does not impose any performance fee as is common with other Fund Managers.

Independent quantitative research developed at the inception of the BPIF indicates that the targeted return, which the current and projected annualised return exceeds, ranks the BPIF at 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 of the “big four” Australian banks.

Think Tank Group Pty Ltd (Thinktank) has again performed strongly over the September 2017 quarter, outperforming our expectations in a number of critical metrics. As at the completion of the September 2017 quarter the total value of loans under management was \$640.8 million across 982 loan accounts. In comparative terms the value of the loan book has grown since the September 2016 quarter by \$173.1 million, an annual overall growth rate of 27%.

Deeper loan book metrics taken from the Thinktank commercial property loan portfolio at the conclusion of the September 2017 quarter are equally satisfactory. The Weighted Average Loan to Value Ratio (LVR) across the portfolio at the end of the September 2017 quarter is 64.05%. The loan book LVR has managed to track within a very minor percentage deviation on each side of this figure for several years.

Due to good discipline and best practice, combined with careful management of credit risk and diligent borrower monitoring over previous quarters, the 12 month rolling average of loan accounts classified as being in arrears remains below 1% as a proportion of the total loan book at the completion of the September 2017 quarter. Overall, the management of the BPIF believes that loan arrears at these levels do not pose a significant nor material risk to the performance of the Thinktank loan book in the near to medium term.

The category, class and nature of the assets that make up the focus of the BPIF's investment strategy are aligned with 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 quantum of funds under management grow, underlying investments align with the strategy of the fund, returns are expected to move closer to the original targets.

*[Continued...]*

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

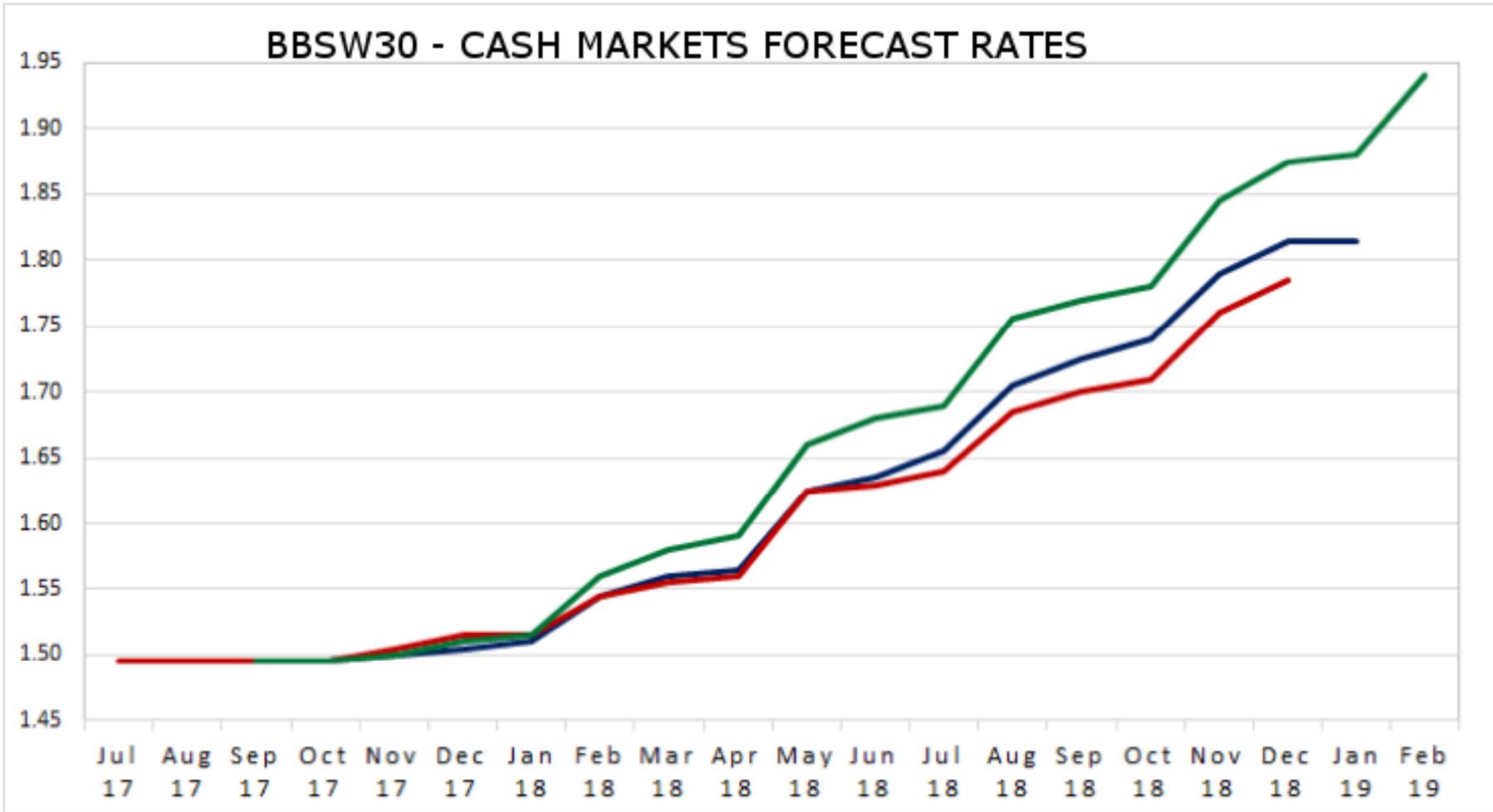
Investors should note that Quarterly Distribution Statements for Boston Private Income Fund have been sent out on 13th of October 2017. If this information has not been received by the end of October 2017 please contact Boston Managed Investments to follow up.

If you have any questions about this statement or if you wish to discuss your investment in the Boston Private Income 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 slightly below the margin over cash rate 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
Specific Premium :	0.50% 0.25% 0.25% 1.00%	Liquidity Lack of transparency re: loan interchanges Relative concentration exposure
<b>Fair Value Margin :</b>	<b>4.30%</b>	<b>Range of 4.0% - 4.6% for Fair Value</b>



**NOTE:** The above chart uses data from Cash Rate Futures Markets to indicate the likelihood of future rises in the cash rates and an implication of potential increases in the Official Cash Rate set by the Reserve Bank of Australia (RBA). As shown in the chart cash rate futures are implying rates will hold steady until February 2018 with a rise in rates fully factored in by traders for August 2018 with more to follow around February 2019. The Red trend line shows rate expectations from futures contracts settled by 31 July 2017. The Blue trend line shows rate expectations from futures contracts settled by 31 August 2017. The Green trend line shows rate expectations from futures contracts settled by 29 September 2017.

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



**PAUL JONES - FUND MANAGER**  
**BOSTON PRIVATE INCOME FUND**

## CONTACT US

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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).