



BOSTON PRIVATE INCOME FUND

QUARTERLY REPORT

For period ending 30 September 2016



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INDEX

Investment Strategy	2
Objectives	2
Fund Performance Table	3
Fund Analysis Summary	3
Fund Manager's Comment	4

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 (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.

TARGETED RETURN

Boston Managed Investments Limited is targeting a minimum annualised return for the BPIF of 4.4% above the Bank Bill Swap Rate (BBSW30) after fees.

FUND PERFORMANCE TABLE

Period	Days	Actual Return for Period	Annualised Return for the Quarter	Official Cash Rate at end of Quarter (Date of Rate Change)	Margin Over Cash Rate at end of Quarter ¹	Actual Annualised Return ²	Targeted Annualised Return ²
20/09/16 – 30/09/16	11	1.7825%	7.0735%	1.50%	5.5735%		

1. Margin over Cash Rate: Calculated by subtracting the Official Cash Rate at the end of the Quarter from the Annualised Return for the Quarter.
 2. Annualised Return: Calculated over the last 12 months with quarterly distributions reinvested at the conclusion of each quarter.

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 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
Structure 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%	Liquidity
	0.25%	Lack of transparency re: loan interchanges
	0.25%	Relative concentration of exposure
	<u>1.00%</u>	
Fair Value Margin:	4.30%	Range of 4.0% - 4.6% for Fair Value

FUND MANAGERS COMMENT—MR. PAUL JONES

The Boston Private Income Fund (BPIF) is reporting a return of 1.7829% for the September 2016 quarter. This level of quarterly return is equivalent to an annualised return of 7.0735%.

Boston Managed Investments Limited (BMIL), as manager, firmly believes that the fund is behaving in line with the performance goals and investment criteria set out in the BPIF Information Memorandum (IM).

Independent quantitative research also shows that the targeted return of the BPIF, which the current annualised return is consistent with, ranks the BPIF in the top end of the Fair Value band derived from a comparative analysis of a wide range of interest rate bearing securities released to the market by major domestic Authorised Deposit-Taking Institutions (ADI's) – including all of the four pillar Australian banks.

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 September 2016 quarter Thinktank is reporting a total loan book value of \$470.9 million across 742 first registered commercial property loans accounts located within Australia. At this level the loan book has grown by 35.9% compared to the value of the loan book at the conclusion of the September 2015 quarter.

Deeper loan book metrics taken from the Thinktank commercial property loan portfolio at the conclusion of the September 2016 quarter are equally encouraging and are moving in parallel with our expectations for the BPIF. The Weighted Average Loan to Value Ratio (LVR) across the portfolio is at 64.80% at the end of the September 2016 quarter and has managed to track within a very minor percentage standard deviation on each side of this figure for several years. The levels of loan arrears are also positive at the conclusion of the September 2016 quarter. The proportion of loans in the core commercial loan trust classified as being in arrears has not exceeded 1%, both in terms of the number of loan accounts and the current value of loan balances under management. It is additionally encouraging to see that of these arrears figures no loan accounts were classified as being greater than 60 days in arrears during the September 2016 quarter.

FUND MANAGERS COMMENT CONTINUED...

The category, class and the nature of the assets that make up the focus of the BPIF's investment strategy are the same as those that lay at the core of BMIL's longest running income fund, the Boston Income Fund. Accordingly we suggest that investors look to the success and consistency of the BIF when considering the expected performance of the new BPIF. Please contact the Fund Manager for the BPIF, Mr. Paul Jones, to source past copies of BIF Quarterly Reports.

Whilst the September 2016 quarter is represented by only 11 days of activity we now move in to the final quarter of the 2016 calendar year. As we do BMIL as the manager of the fund will monitor and continually review the newly established Think Tank 2016 Series-1 trust that is made up of risk adjusted and rated notes as this will form the key driver for the success of the BPIF. Likewise, we will also be focused on the performance and expansion of the existing and long running Think Tank W01 Commercial Trust. This will of course entail constant and regular monitoring the key metrics such as loan book growth, LVR levels and arrears management to ensure that they maintain the consistency of historic levels and remain in line with our own management criteria.

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



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. Boston Managed Investments Ltd (AFSL No. 469808).