

# Boston Provident, LP Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Boston Provident, LP. If you have any questions about the contents of this brochure, please contact us at 212-421-3737. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Boston Provident is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

Boston Provident's most recent update to Part 2 of Form ADV was made in March 2012. Boston Provident's business activities have not changed materially since the time of that update.

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## Advisory Business

Boston Provident, LP a Delaware limited partnership organized in April 1992, is owned and controlled by Orin S. Kramer. Boston Provident, LP and its affiliate Boston Provident Administration, Inc. (together, "Boston Provident") currently provide discretionary investment advisory services and management services to three private pooled investment vehicles (each a "**Fund**" and collectively "**Funds**") and one separately managed account.

The Funds are structured as a "master-feeder": Boston Provident Partners, L.P. and BPP Offshore, Ltd, (each a "**Feeder Fund**" and collectively, "**Feeder Funds**") invest all of their investible assets in BP Master Fund, L.P., ("**Master Fund**"). Boston Provident then manages the Master Fund in accordance with its investment objectives, strategies, restrictions, and guidelines and does not tailor investment decisions to any particular Fund investor (each an "**Investor**"). Investors invest through one of the Feeder Funds and have no opportunity to select or evaluate any Fund investments or strategies. Boston Provident selects all Fund investments and strategies. Since Boston Provident does not provide individualized advice to Investors, Investors should consider whether the Fund meets their investment objectives and risk tolerance prior to investing. Information about each Fund can be found in its offering documents, including its private placement memorandum (the "**PPM**").

Investors in the Funds may include high net worth individuals and a variety of institutional

investors. Such investors must meet the requirements for an “accredited investor” under the Securities Act of 1933, as amended and a “qualified client” under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”).

In addition to investing in the Funds, Boston Provident also offers discretionary investment advisory services in separately managed accounts (“SMAs, together with the Funds are “Clients”) to banks or thrift institutions; pension or profit sharing plans; trusts, estates, or charitable organizations; and corporations. Boston Provident typically does not tailor its advisory services to the individual needs of SMAs, but manages each such account *pari passu* to the Funds. Reasonable restrictions may be imposed on SMAs, subject to approval of Boston Provident.

Boston Provident generally invests Client assets in public equities through different financial instruments in companies in the financial services industry. Because Boston Provident may seek to exploit opportunities by identification of both overvalued and undervalued securities, an investment portfolio may include both long and short positions. For purposes of this description, companies in the financial services industry include banks, thrifts, insurers, reinsurers, mortgage banks, brokerage firms, consumer and commercial finance companies, real estate investment trusts (“REITS”), real estate holding companies, companies that service any of the foregoing, and companies that, in the opinion of Boston Provident, derive a substantial portion of their revenues or economic value from the sale of financial services or products.

As of December 31, 2012 Boston Provident managed \$193.3 million on a discretionary basis on behalf of approximately 4 Clients, including the 3 Funds.

## **Fees and Compensation**

The Funds are charged an annual management fee of 1.5%, payable quarterly, in advance, at a rate equal to 0.375% per quarter of the net market value of the Fund at the end of the prior quarter. Boston Provident, in its sole discretion, may waive or reduce the management fee with respect to one or more Investors (including employees or affiliates of Boston Provident) for any period of time, or agree to apply a different management fee for that Investor. Fees are deducted directly from the Funds.

Investors are also subject to a 3% redemption fee if the Investor’s limited partnership interest is withdrawn within twelve months of the initial investment. The Funds offer quarterly redemption with a 45 day written notice. Please refer to the Fund’s PPM for more information.

Boston Provident offers SMA management at an annual investment management fee of 1.5% of assets under management. Fees are negotiable. SMAs are charged fees quarterly, in advance, based on the account value at the beginning of the quarter. Clients may authorize Boston Provident to deduct fees automatically from their brokerage accounts, but Clients may request that Boston Provident send quarterly invoices to be paid by check.

SMA accounts that terminate the investment management agreement with Boston Provident in the middle of a billing period will receive a refund for an amount that is pro-rated based on the number of days that the account was not managed.

## Expenses

Each Client account is responsible for its own costs and expenses, such as:

- trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges);
- interest and commitment fees on loans and debit balances; and
- fees and charges of custodians, clearing agencies and banks.

Each Fund is also responsible for paying various expenses relating to the Fund's ongoing operations and offering of the Fund's interests, including, but not limited to, administration, accounting, auditing, valuation, and legal services. Notwithstanding the foregoing, no sales commissions or placement fees shall be paid by the Funds in connection with the sale of the Fund's interests.

## **Performance Based Fees and Side-by-Side Management**

Boston Provident also receives a performance based fee or incentive allocation ("performance fees") from each Investor of 20% of net profits (including both realized and unrealized gains and losses) otherwise allocable to that Investor. However, performance fees are subject to a preferred return of 7%.

In addition, Boston Provident typically charges from each SMA a performance fee equal to 20% of net profits of the account (including both realized and unrealized gains and losses).

Performance fees and performance allocations are assessed in arrears on an annual basis, and are only applied to profits that exceed the cumulative losses previously incurred by or allocated to the Client. Boston Provident complies with Rule 205-3 under the Advisers Act to the extent required by applicable law.

Boston Provident's ability to earn performance-based compensation aligns the interests of Boston Provident and the Clients in some ways, but the arrangements also pose potential conflicts of interest. Boston Provident may have an incentive to invest the Funds' capital more speculatively than would otherwise be prudent in an effort to generate outsized returns. Also, performance fees for the Clients are based on realized and unrealized gains and losses, so Boston Provident could have an incentive to overvalue the Clients' holdings. However, performance fees are only charged on realized returns for the side pocket investments of the Funds. These potential conflicts are mitigated by a variety of factors, including: personal investments in the Funds by Boston Provident's employees discourage imprudent risk-taking, independent valuation by Funds' administrator on a daily basis, and valuation practices are reviewed by the Funds' independent auditors at least annually.

## **Types of Clients**

Boston Provident primarily provides investment management services to the Funds and SMAs. SMA clients may include high-net-worth individuals and associated trusts, estates, banks and thrifts institutions, pension and profit sharing plans, and other legal entities.

Boston Provident generally requires a minimum initial investment of \$1,000,000 for Funds and a minimum account size of \$25,000,000 for SMAs. These minimums may be waived by Boston Provident in its discretion.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

Boston Provident considers “top-down” conditions (for example, fiscal and monetary policy, the economic environment, legislative and regulatory policy with respect to financial institutions, and the business outlook for specific sectors of the financial services industry) in making asset allocation decisions. Under normal conditions, however, Clients’ portfolios will primarily reflect a “bottom-up” analysis of individual firms by Boston Provident. Boston Provident will generally seek to hold a portfolio diversified among various sectors of the financial services industry. That diversification is designed to maximize return and reduce the volatility otherwise inherent in a sector-based strategy. As a general principle, the Clients’ portfolios will tend to be concentrated in companies that Boston Provident believes will be leaders and long-term winners in the financial services industry, companies that are perceived to be attractively priced, candidates for acquisition through the consolidation process, or companies that may benefit from some anticipated event not reflected in current market valuations. Boston Provident will use portfolio hedging devices to minimize risk, although the Clients’ portfolio may not be substantially hedged at all times.

Boston Provident’s “bottom-up” analysis focuses on identifying disparities between franchise value and market value. Franchise value, which is the price an informed buyer would pay for the control of a business, cannot be calculated with precision and can only be estimated through extensive fundamental analysis. Franchise value, however, tends to be reasonably stable and changes slowly over time. By contrast, market value is both knowable with precision and volatile. The core premise underlying the Boston Provident’s investment approach is that over time, franchise and market values will converge.

In analyzing companies in the financial services industry, Boston Provident uses a range of valuation tools, since no single approach is appropriate in all cases. For the average savings and loan institution, the primary focus might be on net asset value (*i.e.*, marked to market book value adjusted for perceived reserve deficiencies and off-balance sheet assets). Yet even here, other factors (*e.g.*, quality of deposit franchise, specialized asset generation skills, or scarcity value) can affect valuations. For an automobile or home equity finance company or specialty insurer, the earnings outlook might be the key determinant of value. Ultimately, valuation is a multi-faceted process incorporating judgments about the quality and shareholder orientation of management, asset values, earnings power, market position, and risks. The decision to purchase a security reflects a determination that market value is significantly below franchise value or that franchise value will appreciate more rapidly than is currently reflected in market prices.

Value-based investing in financial services is frequently more complex and requires greater specialization than for other industry groups for four primary reasons. First, the product cost is frequently unknowable until some substantial period after the product is sold. For some products, such as standard auto insurance, life insurance, or residential mortgage lending, that cost can often be estimated with some reasonable degree of accuracy. For other products, such as product liability insurance or lending to sub-prime credits, estimates of product cost (that is, future losses) are often problematic and may not be known with precision until many years after the product was sold. For the vast majority of companies in the financial services industry, reported earnings and stated book values reflect implicit and imperfect estimates of those future costs. The methodologies used by Boston Provident to analyze the reliability of those future estimated costs are specific to each particular financial services sector.

The second distinguishing characteristic of financial services is that the businesses tend to operate with substantial leverage. Leverage magnifies the effect of errors in estimating future loss costs.

The third, somewhat distinctive characteristic is that most financial services businesses have thin operating margins, which can amplify the earnings effect of shortfalls in economic performance.

Finally, many (but not all) companies in the financial services industry are mature businesses that are poorly positioned for the evolving restructuring of the industry. Beyond being difficult to calculate, franchise value is often an eroding asset. Hence, Boston Provident believes that a mechanistic, value-based approach is frequently inadequate in assessing investments in financial services. In many instances where franchise value is above the current market price but is also eroding, judgments as to the time frame within which that value is likely to be unlocked are critical to generating attractive investor returns.

The Funds may trade futures and options on futures (collectively, “futures”) as part of its investment strategy and, therefore, will be deemed to be a commodity pool under the Commodity Exchange Act, the operator of which must register as a commodity pool operator (“CPO”) with the Commodity Futures Trading Commission (“CFTC”) or qualify for an exemption from such registration. Boston Provident has claimed an exemption from CPO registration under CFTC Rule 4.13(a)(3). CFTC Rule 4.13(a)(3) exempts from registration CPOs of pools in which investments in futures are limited in a manner that is consistent with the rule. Rule 4.13(a)(3) requires that at all times either: (a) the aggregate initial margin and premiums required to establish commodity interest positions do not exceed five percent of the liquidation value of the partnership’s investment portfolio or (b) the aggregate net notional value of the partnership’s commodity interest positions does not exceed one-hundred percent of the liquidation value of the partnership’s investment portfolio.

### Risk Factors

Investing in securities is inherently risky. An investment in individual securities or in a portfolio of securities could lose money. The investments selected by Boston Provident should be deemed speculative investments and are not intended as a complete investment program. These types of investments are designed for sophisticated investors who fully understand and are capable of bearing the risk of loss of their entire investment. Boston Provident cannot give any guarantee

that it will achieve its investment objectives or that any client will receive a return of its investment.

Boston Provident may rely on information that turns out to be wrong. Boston Provident selects investments based, in part, on information provided by issuers to regulators or made directly available to Boston Provident by the issuers or other sources. Boston Provident is not always able to confirm the completeness or accuracy of such information, and in some cases, complete and accurate information is not available. Incorrect or incomplete information increases risk and a result in losses.

Boston Provident may fail to identify successful companies. Identifying undervalued securities and other assets is difficult, and there are no assurances that such a strategy will succeed. Furthermore, clients may be forced to hold such investments for a substantial period of time before realizing any anticipated value.

Concentrating investments in a single industry may result in losses due to factors that affect an entire industry. Each particular industry or sector may be affected by unique risks, and the value of investments in a particular industry will differ from the value of the overall stock market. Fluctuations in specific market sectors are often more extreme than fluctuations in the overall market. Therefore, concentrating investments in a single industry exposes an investor to the risk that a single set of events or circumstances will decrease the value of the investor's overall portfolio.

Certain classes of the Funds will invest up to 10% of total assets in securities that are not traded in any market or exchange. Moreover, many of these investments may be held by relatively few investors or have low trading volume. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, Boston Provident may find it difficult to sell such instruments. Consequently, Boston Provident may be forced to sell at prices lower than if the instruments were widely held or more actively traded. In addition, Boston Provident may not be able to sell the investment at all, resulting in a total loss. Finally, dispositions of investments that are subject to limitations on transfer tend to adversely affect the terms obtainable upon a disposition. Please refer to the Funds PPMs for more information.

## **Disciplinary Information**

Boston Provident and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

Boston Provident and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Boston Provident has adopted a written Code of Ethics that establishes various procedures with respect to investment transactions in accounts in which employees of Boston Provident or related persons have a beneficial interest or accounts over which an employee has investment discretion.

Boston Provident's Code of Ethics was adopted to avoid possible conflicts of interest, avoid the inappropriate use of material, non-public information, and ensure the propriety of its employees' and principals' trading activity.

The foundation of the Code of Ethics is based on the underlying principles that:

- Employees must at all times place the interests of the client first,
- Employees must make sure that all personal securities transactions are conducted consistent with the Code of Ethics, and
- Employees should not take inappropriate advantage of their position.

Employees of Boston Provident must obtain pre-approval for transactions in any financial services sector from the Chief Compliance Officer.

In addition, employees may not participate in any initial public offering or engage in any outside business activities or private placements before obtaining authorization from the Chief Compliance Officer.

All Boston Provident employees must direct their brokers to send duplicate copies of trade confirmations and brokerage statements to the Chief Compliance Officer. These records are used to monitor compliance with the foregoing policies.

Boston Provident's Code of Ethics is available upon request.

## **Brokerage Practices**

Boston Provident seeks to pay reasonable commissions and other transaction costs to reputable broker-dealers in exchange for high-quality execution services. Boston Provident's Best Execution Committee meets semi-annually to evaluate trading counterparties based on a variety of factors, including cost, execution capabilities, the provision of proprietary research reports and analysis, reputation, and responsiveness. The Best Execution Committee also considers whether Boston Provident experienced any conflicts of interest in connection with its selection of trading counterparties.

### Soft Dollar Benefits

Transaction costs may be paid to broker-dealers who execute transactions for Clients and who supply or pay for (or rebate a portion of the Clients' transaction costs to the Client for payment of) the cost of property or services (such as research services, news and quotation equipment, and publications) utilized by Boston Provident. It is anticipated that substantially all of the portfolio transactions for Clients will be effected through agency transactions. Boston Provident generally



intends to comply with Section 28(e) of the Securities Exchange Act of 1934, as amended, which establishes a “safe harbor” for the use of “soft dollars” in certain circumstances.

Boston Provident may pay a brokerage commission in excess of that which another broker-dealer might charge for effecting the same transaction in recognition of the value of the brokerage, research and other services and soft dollar relationships. In such a case, however, Boston Provident determines in good faith that the commission is reasonable in relation to the value of brokerage, research and other services and soft dollar relationships provided by such broker/dealer, viewed in terms of either the specific transaction or Boston Provident’s fiduciary duty to its Clients. Any research and other benefits resulting from brokerage relationships that do provide soft dollar benefits would benefit all accounts managed by Boston Provident or its operations as a whole.

Boston Provident’s use of soft dollars presents a potential conflict of interest because Boston Provident is effectively using Client assets to pay for research that Boston Provident might be able to generate internally or would otherwise have to purchase. This conflict of interest could motivate the Company to allocate trades to research providers, even if those providers were not offering the best available execution. Boston Provident considers the amount and nature of research services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its Clients, such as the Funds, on the basis of that consideration. In addition, broker-dealers sometimes suggest a level of business that they would like to receive in return for the various services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above. A broker-dealer is not excluded from receiving business because it has not been identified as providing research services.

During Boston Provident’s last fiscal year, it acquired the following types of products and services with client brokerage commissions or markups:

- Bloomberg Terminals
- SNL Analytics Platform
- Financial Industry Publications

#### Client Referrals

In selecting broker-dealers, Boston Provident does not take into consideration Client or Investor referrals from a broker-dealer or other third party.

### Directed Brokerage

Clients may not direct Boston Provident to effect Securities transactions in the Client's account through a specific broker-dealer.

### Aggregated Trades

Boston Provident generally manages all Client accounts on a *pari passu* basis and the accounts, over time and as deemed appropriate by Boston Provident, will hold substantially similar portfolio securities and will buy and sell positions in parallel. In executing transactions, Boston Provident may combine Clients' orders, which may at times reduce the number of securities available for purchase by each Client. Investments will be allocated to each Client primarily on the basis of available capital, guidelines established by the Client, and applicable tax and regulatory considerations. Circumstances may occur, however, in which an allocation could have adverse effects on one of the Clients with respect to the price or size of securities positions obtainable or saleable.

Boston Provident may allocate investment opportunities among its Clients for which it provides investment advice in a manner which is deemed in the good faith discretion of Boston Provident to be fair and equitable.

### Trade Errors

To the extent that errors occur in SMAs, the errors will be corrected in such a manner that the affected client incurs no loss. The cost of errors in the Funds will be borne by the Funds unless an error is the result of bad faith, gross negligence, or willful misconduct by Boston Provident.

## **Review of Accounts**

Accounts under Boston Provident's management are reviewed on at least a monthly basis by Orin S. Kramer, the managing partner and portfolio manager for Boston Provident, to assure conformity with the investment objectives and guidelines. In addition, all accounts are reviewed in light of emerging trends and developments.

SMA Clients receive account statements directly from the account custodian.

Each Fund Investor will receive monthly statements from the Fund Administrator, who independently values security holdings, detailing their capital account information including the capital account's beginning and ending equity, and the capital account's performance for that period. Additionally, each Investor will receive the audited financial statements of the Fund within 120 days of such Fund's fiscal year end.

## **Client Referrals and Other Compensation**

Boston Provident does not compensate third parties for Client or Investor referrals.

Other than the previously described "soft dollars" (see **Brokerage Practices** above) that Boston Provident may receive from broker-dealers, Boston Provident does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

## **Custody**

All Clients' accounts are held in custody by unaffiliated broker/dealers or banks.

Boston Provident can access SMAs through its ability to debit advisory fees. For this reason Boston Provident is considered to have custody of Client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by Boston Provident.

Boston Provident may have access to Client accounts since it or an affiliate serves as the managing member or general partner of Funds. Fund Investors will not receive statements from the custodian. Instead the Funds are subject to an annual audit and the audited financial statements are distributed to each limited partner. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the partnership's fiscal year end.

## **Investment Discretion**

Boston Provident has investment discretion over all Clients' accounts pursuant to a grant of authority in each Fund's limited partnership agreement or a limited power of attorney in each SMA's account agreement. Boston Provident's discretion over SMAs may be limited by requirements that the SMA Client advises Boston Provident of: the investment objectives of the account, any changes or modifications to those objectives, and any specific investment restrictions relating to the account.

## **Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, Boston Provident has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Boston Provident receives will be treated in accordance with these policies and procedures.

Boston Provident's authority to vote proxies for Clients is established by limited partnership agreements, investment advisory agreements, or comparable documents. Boston Provident has established proxy voting policies and procedures and the Chief Compliance Officer oversees the proxy voting process. The proxy voting procedures are designed to ensure that proxies are voted in the best interest of the Clients. In addition, the proxy voting policy includes guidelines for the Chief Compliance Officer to follow if a material conflict of interest arises between Boston Provident, its employees, and/or its Clients to ensure that any material conflict is resolved in the best interest of the Client.

In the event that Boston Provident receives notice of a class action that could result in a recovery for Client accounts, the CEO will determine whether or not to participate in the class action on clients' behalf. The Chief Compliance Officer shall oversee the completion of Proof of Claim forms and any associated documentation, the submission of such documents to the claim

administrator, and the receipt of any recovered monies. The Chief Compliance Officer will maintain documentation associated with clients' participation in class actions.

A copy of Boston Provident's proxy voting policies and procedures, as well as specific information about how Boston Provident has voted in the past, is available upon written request.

## **Financial Information**

Boston Provident does not require or solicit prepayment of fees six months or more in advance. Boston Provident has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.