The US economy rebound and its positive effects on the Moonstone Lending SICAV performance

September 2021

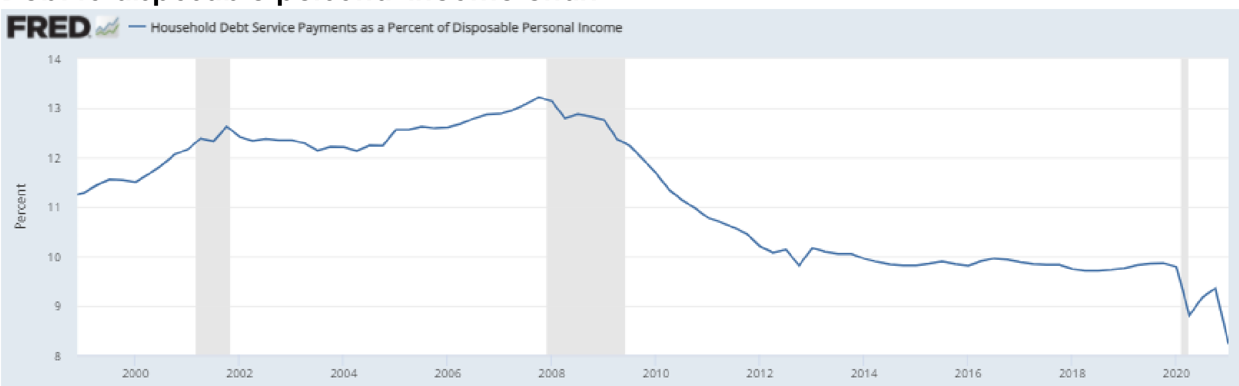
Financial assistance, the savings rate and the household debt ratio

The direct financial support provided by the US government led to a sharp increase in accumulated savings and disposable income for US households. The primary use of these funds was debt reduction and consumer spending, as shown in the graphs below:

Disposable Personal Income chart

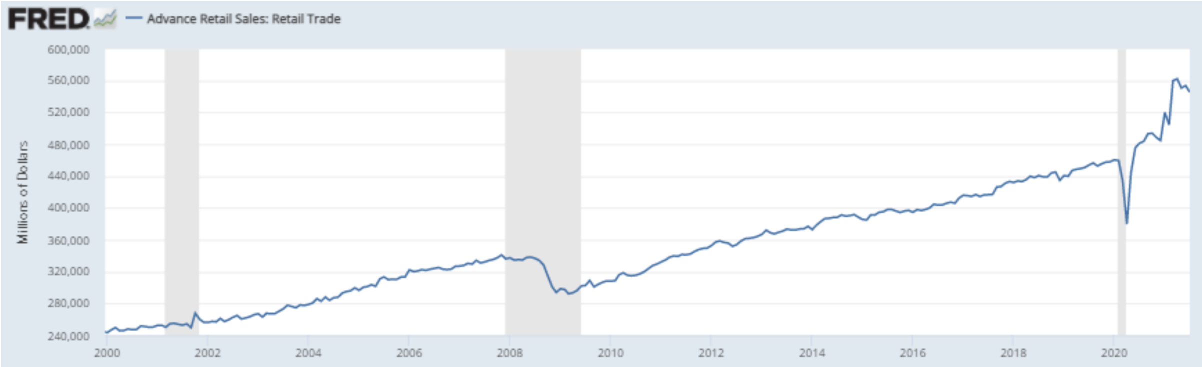
Source: FRED Saint Louis, US Census Bureau

Debt to disposable personal income chart



Source: FRED Saint Louis, US Census Bureau

Advance Retail Sales



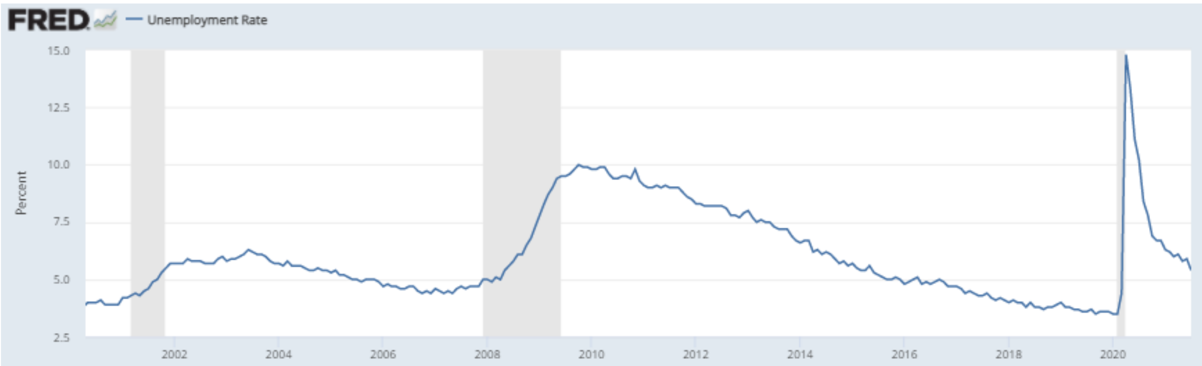
Source: FRED Saint Louis, US Census Bureau

The data shows that the US consumer position is healthy and at the highest level in 20 years.

A sharp drop in unemployment

Although the unemployment rate has not yet returned to its pre-Covid level, it has fallen drastically after peaking in April 2020 (14%).

Unemployment Rate

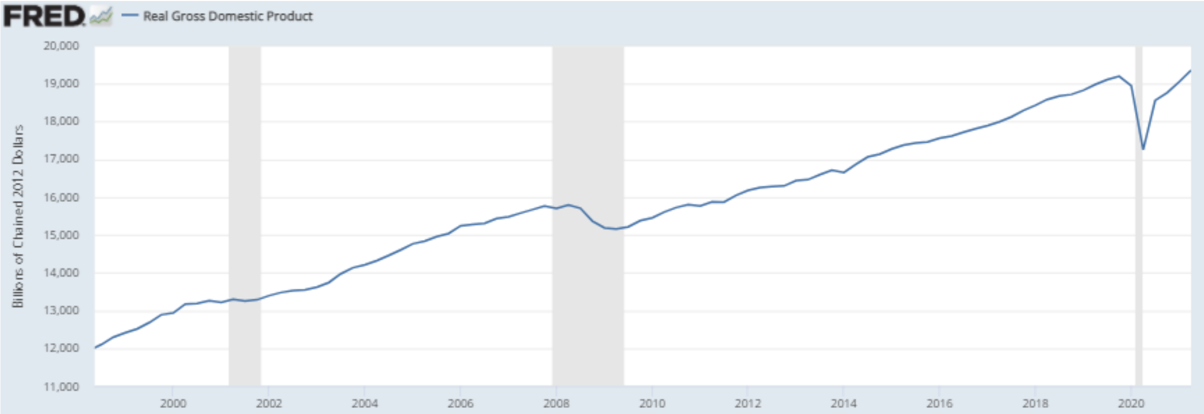


Source: FRED Saint Louis, US Bureau of Labor Statistics

GDP in catch up mode

The continuing impact of economic recovery and the federal government's support programs is visible in the GDP figures. The annualized GDP growth rate is 6.6% in the second quarter of 2021 and is higher than in the fourth quarter of 2019.

Real Gross Domestic Product



Source: FRED Saint Louis, US Bureau of Economic Analysis

As can be seen from these few graphs, since the peak of the health crisis, the US economic situation trending towards normal after a year of rapid catching up as vaccination against COVID-19 progressed.

During this correction phase, American consumers were supported by the 'hardship' programmes (spreading of debts by creditors), very quickly supplemented by massive support from the federal government in the form of weekly cheques. This direct support is beginning to end state by state as unemployment rates fall. States that have stopped additional direct support to the unemployed have experienced an acceleration of the decline in the unemployment rate, which is very reassuring as to the economic consequences of ending this support mechanism.

Return to normalcy and its impact on the performance of the Moonstone Lending fund

The Fund benefited from two positive effects during this period of economic support:

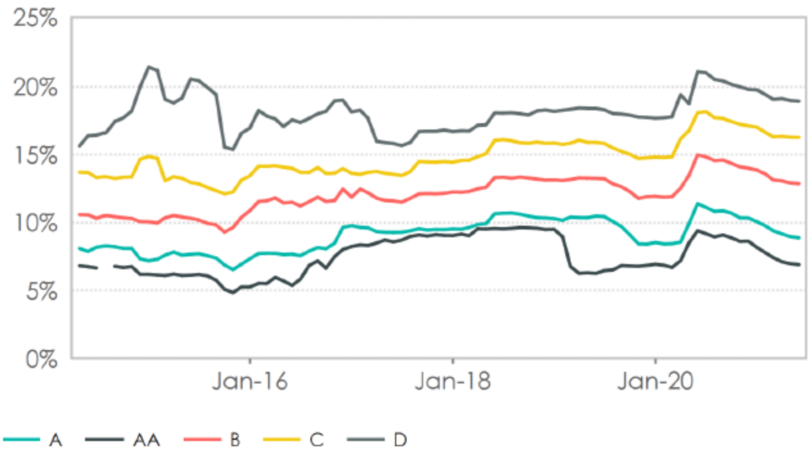
- Low default rates ("hardship" and "helicopter money") have enabled the Fund to post a yield for the USD portion of 6.60% in YTD and 13% in rolling 12 months. Default rates in the Fund's portfolio for the US Consumer loans portion (which represents more than 90% of the portfolio) are at a historically low level (graph below) of around 3% and should not rise significantly in the short term.

Moonstone Lending SICAV's Historic Charged Off Rates

Source: Smart Lenders AM, as of 29.08.2021

- Lending rates on platforms increased by 2% to 3% compared to the pre-covid period in anticipation of an increased risk of default linked to rising unemployment, which ultimately did not occur (graphs of a platform below):

Upstart, Interest Rate by Grade



Source: Smart Lenders AM

The combined impact of these two positive effects could normalize depending on the evolution of the economic cycle and result in an IRR above the historical average for 2022/2023. A consequent return of return around 6% in USD (all other things being equal) beyond 2023 would be realistic; the equivalent of roughly 5% in EUR and CHF as long as the spread of short rates is used to calculate the cost of the currency hedge remains stable at 100 bp.

Conclusion

The Moonstone Lending Fund, which celebrated its fifth year in July 2021, has weathered the health crisis and proved the resilience of the asset class and our expertise. The period of exceptional returns since May 2020 should gradually give way to a strong performance in 2022 and 2023 and a return to historical trends beyond.

The visibility on the US economy and the 12–24-month yield outlook, its low duration, and its resilience to economic shocks, as recently proven, make this asset class an attractive investment product.

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