



Communication on Progress

UN Global Compact

March 2020 - 2021

First Publication



This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.



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A message from our CEO

"At the start of Smart Lenders AM in 2014 at the first office in the heart of London, our primary goal has been to serve as a trusted partner to institutional and professional investors by creating a safe and reliable channel between Europe and the US consumer lending market. Our ambition is to actively seek out new opportunities and we pride ourselves in the use of cutting-edge research and technology, including big data and AI as well as various quantitative and qualitative factors, as part of our algorithmic risk analysis that keeps Smart Lenders AM at the forefront in this unique space. By setting the highest standards for both the company and the partner platforms, we deliver a performance that is stable, diversified, and communicated with transparency to all stakeholders.

Since beginning our journey, the company has grown and achieved proof of concept by building a solid track record while navigated periods of great uncertainty - first through Brexit and now through the global pandemic of COVID-19. Our activity has evolved from a single route into a hub, as we have since relocated our office to Paris and expanded our portfolio to include participatory financing to SMEs in the US and Europe. As our global footprint broadens, it is increasingly imperative that as a company we take a holistic approach and adopt practices that will create value for not only our stakeholders but for all the communities that we reach. To this end, Smart Lenders AM has become a signatory participant of the United Nations Global Compact and engaged a European leader in extra-financial ratings to accompany the development of an ESG charter. By taking these first steps, we pledge our support to the UNGC's ten principles in the four critical areas and will contribute to the achievement of the 17 Sustainable Development Goals by 2030 and raise awareness of the actions that need to be taken to sustainably finance the future."

Erich Bonnet

CIO & CEO (Founder)





An overview of our company

Our business

Smart Lenders AM is a French asset management company that is positioned as the trusted partner of European institutional investors for access to investment in consumer credit and SMEs issued through online lending platforms in Europe and the United States.

Its unique activity is the use and processing of data to study and evaluate on one hand the intermediary platforms and on the other hand the loans they offer online. Smart Lenders AM is not an online lending platform, but the client of the lending platforms. We manage funds made up of loans that are usually selected individually from their offerings.

Smart Lenders AM invests mainly in the following instruments:

- Single-issuer loans and debt obligations
- Single-issuer bonds or similar instruments

Milestones & achievements

- Created in London in 2014 by Erich Bonnet
- A team of 10 professionals exclusively dedicated to the online lending industry
- Partners represent an average of 25+ years of experience in asset management, high yield, credit distressed, derivatives, and illiquid portfolio management.
- Launch of the first product line, "pass-through" bond issues, in February 2015 for a total raised of USD 120 million.
- Launch of the Luxembourg SICAV-SIF Moonstone Lending, USD 260 million under management
- Transfer of activity to Paris on January 1, 2018
- Regulated by the AMF, AIFM status Full scope
- Development of internally developed rating, acquisition, and risk management systems. Our approach is based on qualitative and quantitative analysis, more precisely on data analysis or big data, artificial intelligence, and machine learning; an approach rewarded by the status of "Young Innovative Company" (JEI) in April 2019.
- Since inception, acquisition of more than USD 800 million in consumer and VSE/SME credit (including reinvestment), underlining the robustness of the approach, the evaluation, and the operational rigor of the risk and financial flow management.





Our Core Values



Innovation

Disintermediation of traditional banking models disrupted by new technology companies

Proprietary credit scoring approach built on Data Analysis and Machine Learning

Excellence

Multiple axes of alpha generation

Simplified access to Digital Lending for European investors with the highest standards of professionalism and control, through its AIFM Full Scope status

Integrity

Focus on quality, diversification, and transparency

Independence from platforms and no conflict of interest

Caring

Improving access to credit that favors financial inclusion for borrowers

Supporting job creation by financing the real economy



Implementation of ESG principles

Methodology and presentation of our approach

To achieve its objectives, Smart Lenders AM has decided to formalize a concrete and coherent ESG strategy that can be applied to its VSE/SME investments. This strategy is based on a **negative selection process** (the exclusion of companies that do not correspond to the values and beliefs of Smart Lenders AM), and a **positive selection process**, which favors the most mature platforms in terms of ESG. The positive selection is based on a benchmark that aims to assess the ESG maturity of the platforms and consists of 51 criteria grouped into 4 different families. Smart Lenders AM is also encouraging platforms to set up a system for evaluating companies and projects that incorporate ESG criteria.

EXCLUSIONS

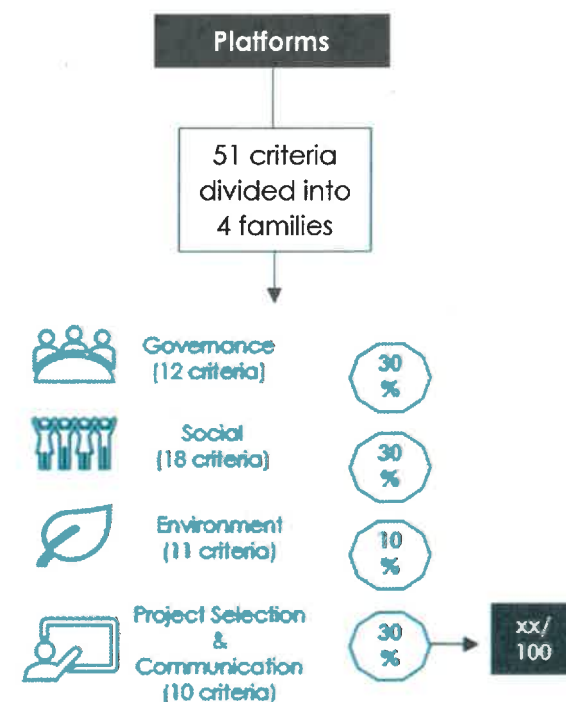
Sectors

- Production and distribution of **conventional weapons**, if this is the main source of income for the business.
- Production and distribution of **gambling** if this is the main source of income for the business.
- Production and distribution of **pornography** if this is the main source of income for the business.
- Production and distribution of **nuclear energy**
- Production and distribution of **coal**
- Production of **fossil fuels**
- Production of **tobacco**
- Production and distribution of **fur products**
- Production and distribution of **breast milk substitutes**
- Manipulation of **embryonic stem cells** and **foetal tissue**

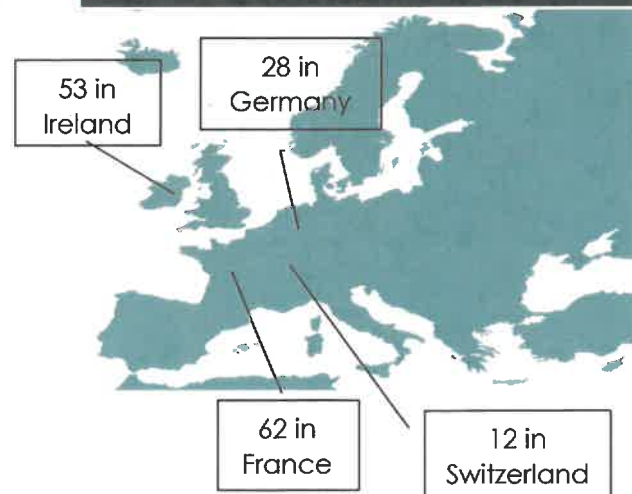
Standards

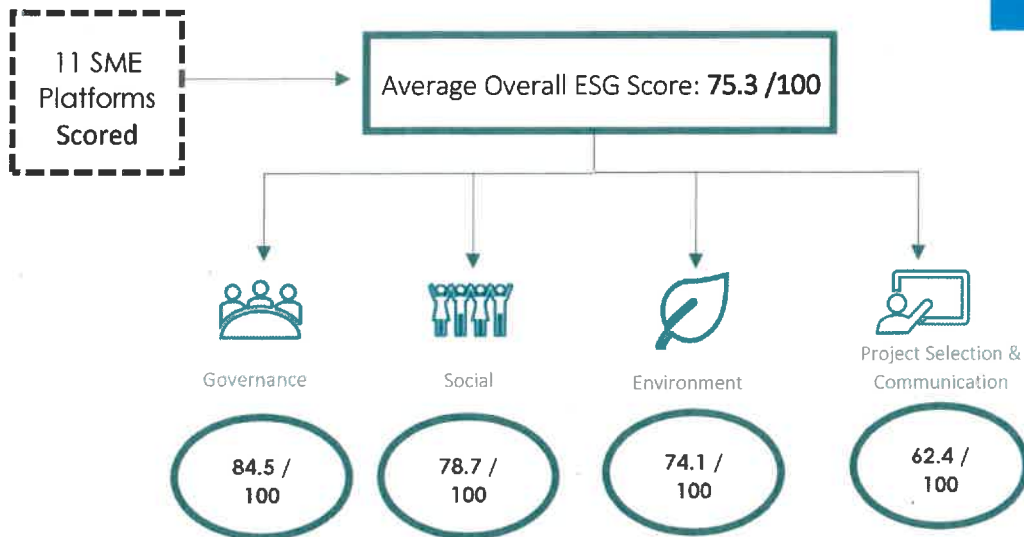
- Projects carried out by companies that contradict the principles of the **UN Global Compact**
- Companies that specifically violate the **United Nations Guidelines on Business and Human Rights** and the **conventions of the International Labour Organization**

FRAMEWORK

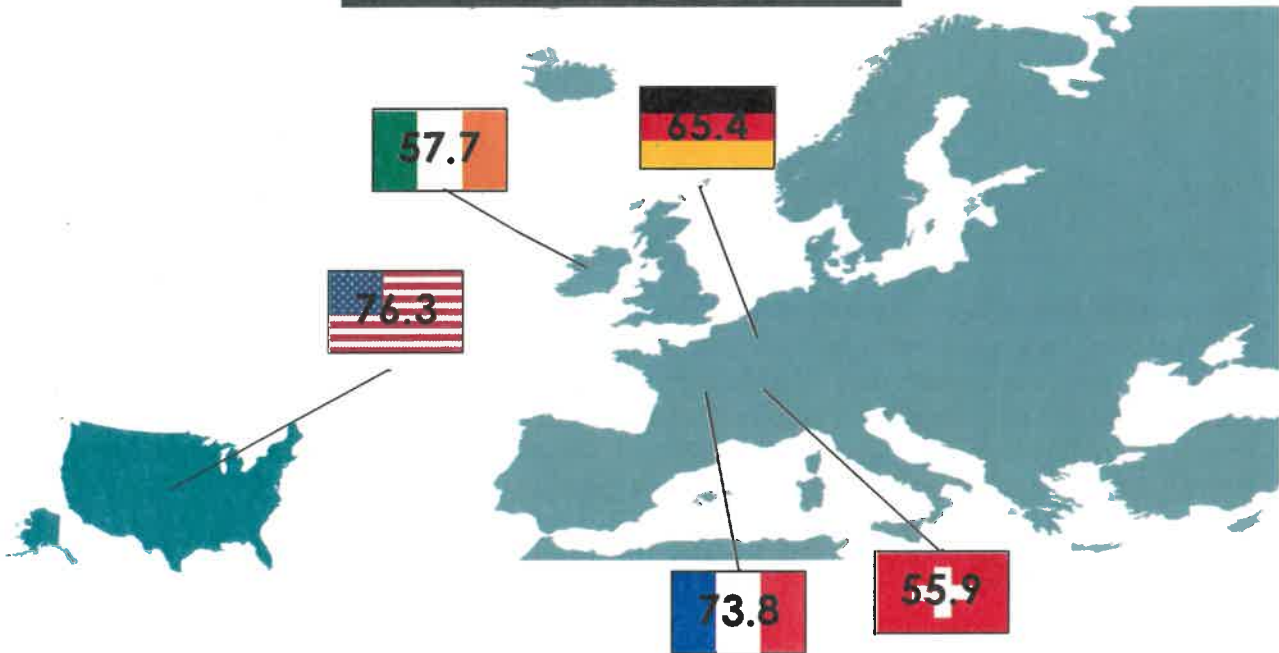


Location of Projects Financed





Average Score by Country



Dialogue with the platforms

The innovative approach of creating a dialogue and raising awareness of ESG criteria vis-à-vis the financing platforms is the backbone of Smart Lenders AM's ESG strategy, which aims to infuse ESG into funding channels and tools that have historically been little concerned with these issues, even though they make an important contribution to the financing of small and medium-sized enterprises. The conversation is continuously being held with the platforms for the duration of their partnership relationship with Smart Lenders AM to support them as they ramp up their ESG integration. This report is intended to illustrate Smart Lenders AM's engagement approach and to provide an overview of the various initiatives carried out by the platforms.

Examples of some **best practices** that have been identified:



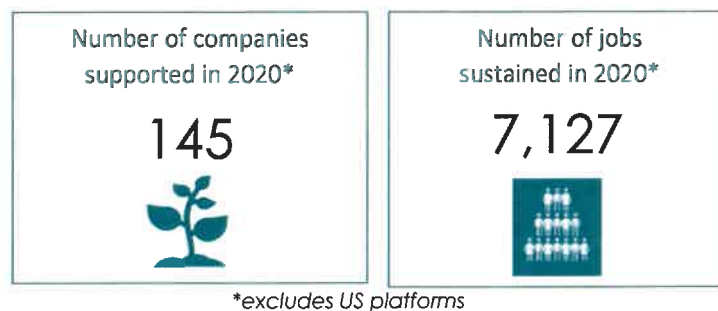
"Our platform uses a dual governance structure, with both a supervisory board and an executive board"

"We organize seminars and meet with business owners and educate them on the opportunities available to them"

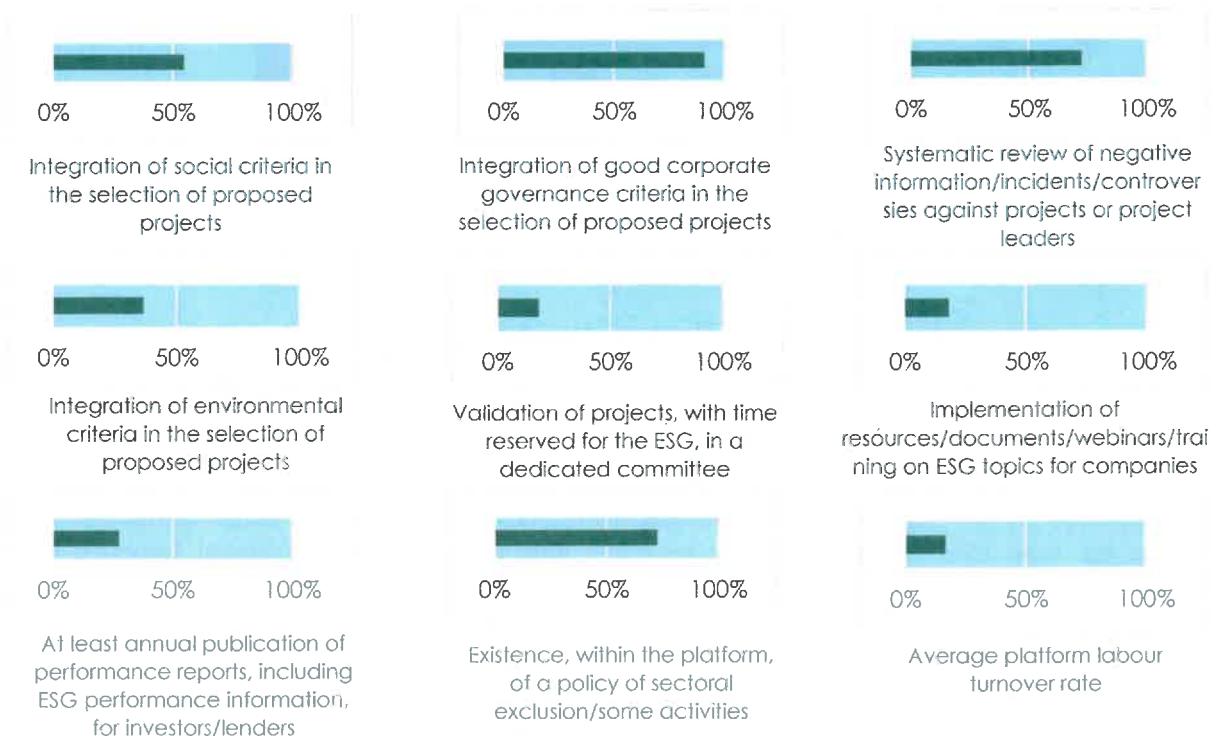
"We want to highlight energy efficiency ratings in the offers we propose to investors"

"Applications from businesses in controversial industries are knocked out during the early stages of underwriting."

Measuring Impact



The impact measurement is carried out within the framework of Smart Lenders AM's objectives, which aspires, on the one hand, to direct the capital of French and European investors towards SMEs that generate growth and jobs through new methods of financing and, on the other hand, to raise the awareness of financing platforms to the selection of projects and companies that have a positive impact on society and the environment. The following measures provide the rate of implementation among the platforms the Smart Lenders works with.





Most of the platforms take into consideration **corporate governance** when selecting projects, which would be inherently relevant to the level of credit risk that the SMEs have. Secondly, more than half of the platforms consider the **social impact** of the SMEs and systematically check for negative incidents that may have a negative reputational impact.

Adherence to the Ten Principles

As a company, Smart Lenders AM utilizes its best effort to address these four critical areas:

1. **Human Rights:** Smart Lenders AM recognizes and respects all internationally proclaimed human rights and declines participation in any investment or activity that could potentially be complicit in a human rights violation. Smart Lenders AM has an established Code of Ethics and has a zero-tolerance policy regarding any physical, verbal, sexual or psychological harassment, abuse, or threats in any form.
2. **Labour:** Smart Lenders AM does not discriminate against, restrict, or force any of their potential or existing employees in any way. Employees benefit from a collective labour agreement that is governed by the laws and regulations in force and by the French national collective agreement of technical design offices, consulting engineering firms, consulting companies dated December 15, 1987, and extended by decree of April 13, 1988. Employee remuneration respects the legally established minimum wage and is revised annually through a comprehensive performance review.
3. **Environment:** Smart Lenders AM has implemented internal policies to reduce their environmental impact, such as eliminating single-use plastics, recycling waste products according to the availability of local channels, prolonging the useful life of the equipment and prioritizing repairs over replacement to reduce technological waste, purchasing supplies made of organic or recycled materials whenever possible. Smart Lenders AM has a business continuity plan in place if the work environment is affected by a natural disaster or becomes hazardous in any way.
4. **Anti-Corruption:** As an asset manager authorized and regulated by the AMF (*Autorité des marchés financiers*), Smart Lenders AM has policies and procedures in place regarding KYC (Know Your Customer), AML (Anti-Money Laundering), CFT (Combating the Financing of Terrorism), and the detection of fraud. Employees participate regularly in ongoing training to remain aware of the risks and necessary actions in case they encounter any form of corruption or bribery, as well as any deceptive or potentially misleading information.

Smart Lenders AM currently has 10 employees, of which 10% are female and 30% are foreign nationals (non-French). The rate of occupational diseases, injuries, and absenteeism is 0%. The Executive Committee has 3 members, of which 0% are female. The Strategic Committee has 5 members, of which 20% are female.

As a signatory member of the United Nations Global Compact, Smart Lenders AM adheres to the Ten Principles of the UN Global Compact, which are the following:

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.
- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;



- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.
- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.
- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

When onboarding potential partnering platforms, Smart Lenders AM performs in-depth due diligence that is updated annually and endeavors to check that none of the platforms violate these ten principles. At the level of the individual investments, it is not possible due to the partial availability of relevant information and potentially applicable privacy regulations to verify that the VSE/SMEs do not violate the Ten Principles. Nevertheless, Smart Lenders declines participation in any projects where a reasonable doubt or uncertainty regarding a potential violation may exist and performs independent verification of politically exposed persons and global sanctions lists.

Contributions to SDGs

Smart Lenders AM pays particular attention to the contribution of its investments to Sustainable Development Goals. For this reason, its teams asked their platform partners to measure the total contribution to the SDGs of the various projects financed – currently, the platforms reported on average that 1% of the projects they financed met at least one of the 17 SDGs. In comparison with the platforms overall, 19% of the projects financed in Smart Lenders' European SME portfolio addressed at least one SDG.



Goals for Progress

Smart Lenders AM's goals for continuing to progress in strengthening their ESG policies, adhering to the Ten Principles of the UN Global Compact, and contributing to the SDGs include the following next steps:



- Continue the sensibilization of partnering platforms as well as any other potential stakeholders in the marketplace lending ecosystem on the topics of ESG
- Leading by example and formalizing an internal ESG policy
- Encourage platforms to apply ESG criteria during the project selection process to increase the percentage of projects that adhere to at least one of the 17 SDGs
- Apply the platform scoring mechanism to our consumer lending partners in addition to our SME lending partners.



Glossary

Exclusions: exclusion of certain companies based on their involvement in activities deemed harmful. They may be sector-specific (tobacco, pornography), or normative (Oslo or Ottawa Convention).

ESG integration: Implementation of a voluntary questionnaire as part of the Smart Lenders due diligence process for platforms. This questionnaire is the reference for evaluating the ESG integration process of the platforms in which Smart Lenders AM invests.

Impact measurement: measurement of the extra-financial performance of the fund through indicators in line with Smart Lenders AM's values, in particular those concerning job creation.

SDG: Sustainable Development Goals adopted in 2015 by the United Nations.

Contribution to SDGs: measurement of the share of activities financed by platforms contributing to the United Nations Sustainable Development Goals, and in line with the United Nations Global Compact.

Contact Us

Smart Lenders Asset Management SAS is a company incorporated in France with registered number 832482095 whose registered office is at 109 Boulevard Haussmann F-75008 Paris, France. Smart Lenders Asset Management SAS is authorised and regulated by the Autorité des Marchés Financiers (AMF) under number GP-17000031.

Phone: +33(0)140062980

Fax: +33(0)140062988

E-Mail: info@smartlenders-am.com

 https://twitter.com/smart_lenders/

 <https://www.linkedin.com/company/smart-lenders-asset-management-ltd/>

www.smartlenders-am.com

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