



## Communication on Progress

UN Global Compact  
March 2021 - 2022  
*Second 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

"Since beginning our journey in 2014, the company has continued to grow and build a solid track record while navigated periods of great turmoil – particularly as the COVID-19 pandemic remains an ongoing concern. Our activity has evolved to include new and innovative actors who seek to meet the emerging financing needs of businesses and consumers alike amid global supply chain disruptions and dramatic shifts in purchasing behavior. Our portfolio has largely been able to withstand macroeconomic shocks thanks to our use of cutting-edge research and technology, including big data and AI as well as our algorithmic risk analysis that keeps Smart Lenders AM at the forefront in this unique space. By continuing to set the highest standards for both ourselves and our partner platforms, we deliver a superior performance that is stable, diversified, and always communicated with transparency.

The second annual publication of our Communication on Progress represents one of many first experiences that we will have while strengthening our position as an engaged European leader in the implementation of extra-financial investment criteria. This year we look at our achievements during 2021 and measure the impact of our actions and their results since our first publication last year.

As we wrap up our current investment vehicle and look towards our next fund, one of our top priorities is integrating ESG criteria and generating a tangible positive impact. To achieve this, Smart Lenders AM remains a signatory participant of the United Nations Global Compact and an engaged European leader in the implementation of extra-financial investment criteria. We would like to renew our pledge to support to the UNGC's ten principles in the four critical areas and further 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.

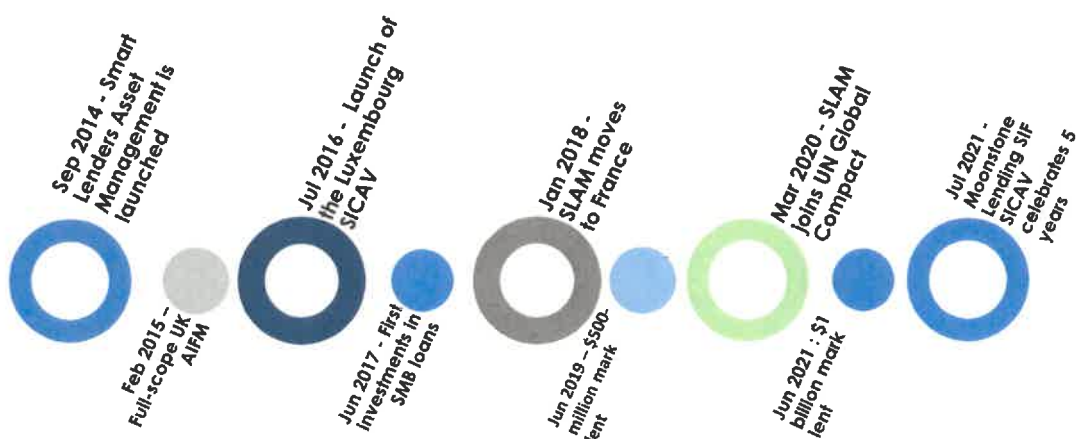
Its unique activity is the use and processing of data to study and evaluate on one hand the intermediary platforms and on the other hand the loans they offer online. Smart Lenders AM is not an online lending platform, but the client of the lending platforms. We manage funds made up of loans that are 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 12 professionals exclusively dedicated to the online lending industry
- Partners represent an average of 35+ 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 in July 2016, USD 452 million under management as of 31 January 2022
- 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.
- In March 2020, SLAM becomes a signatory member of the UN Global Compact and drafts its ESG charter
- Since inception, acquisition of more than USD 1 billion 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.
- The Moonstone Lending SIF SICAV celebrated its 5-year anniversary in July 2021





## 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

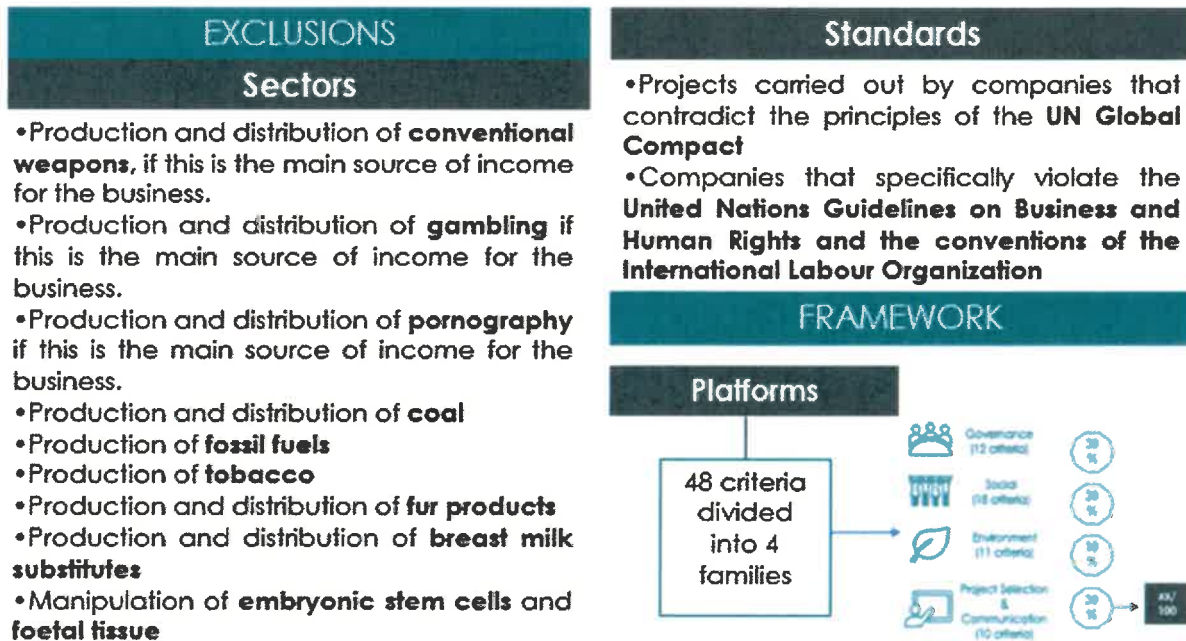
### Methodology and presentation of our investment approach

To achieve its objectives, Smart Lenders AM has formalized a concrete and coherent ESG strategy that can be applied to its investments. The two-pronged strategy uses a **negative selection process** applicable exclusively to the VSE/SME investments (the exclusion of companies that do not correspond to the values and beliefs of Smart Lenders AM), and a **positive selection process** applicable to both consumer and VSE/SME investments, which favors the most mature platforms in terms of ESG. The positive selection is based on a

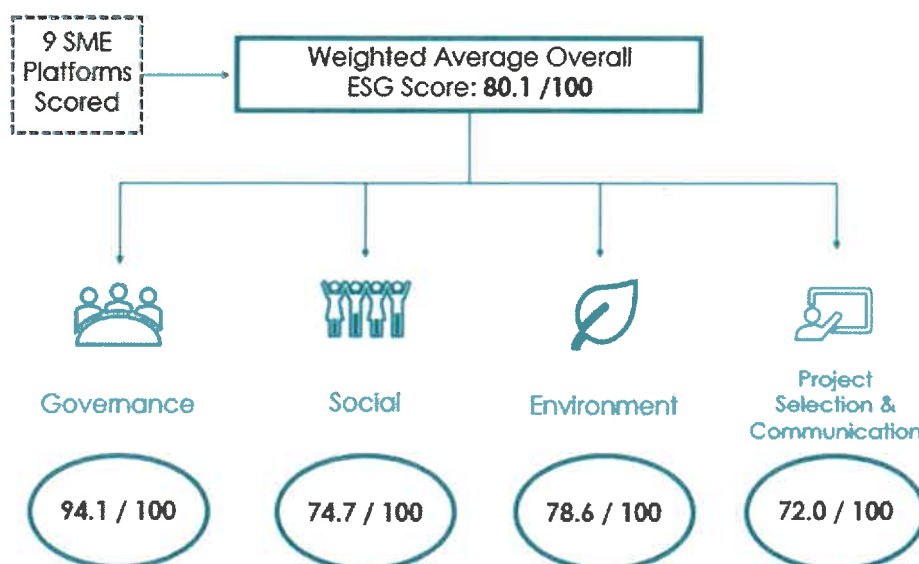


benchmark that aims to assess the ESG maturity of the platforms and consists of 48 criteria grouped into 4 different families. Smart Lenders AM also encourages platforms to set up a system for evaluating companies and projects that incorporates ESG criteria.

On 2 February 2022, the European Commission approved in principle a Complementary Climate Delegated Act<sup>1</sup> including, under strict conditions, specific nuclear and gas energy activities in the list of economic activities covered by the EU taxonomy. The criteria for the specific gas and nuclear activities are in line with EU climate and environmental objectives and will help accelerating the shift from solid or liquid fossil fuels, including coal, towards a climate-neutral future. For this reason, the production and distribution of nuclear energy has been removed from our listed of excluded sectors.



### Partner Platform Notation



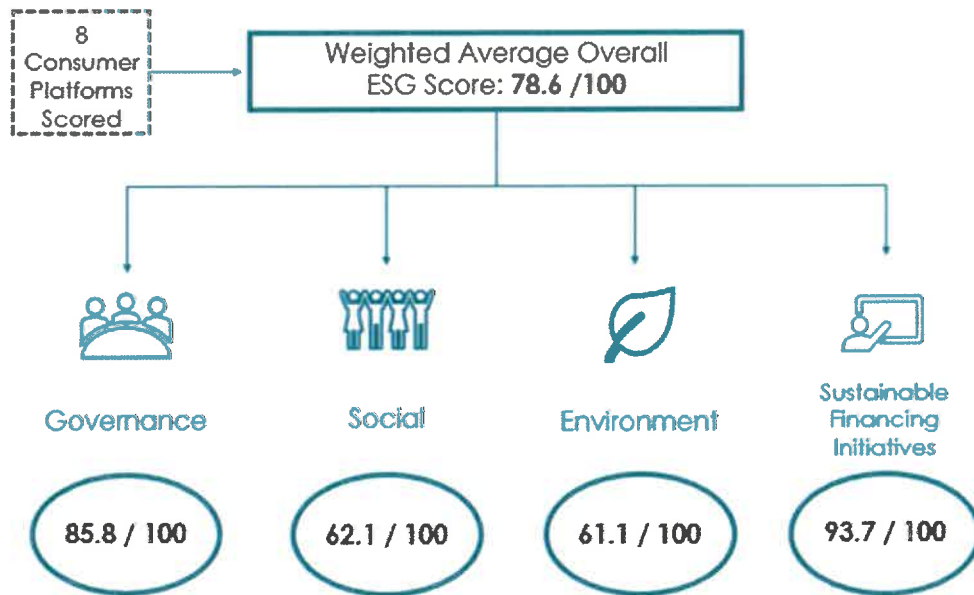
<sup>1</sup> [https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2022-631\\_en.pdf](https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2022-631_en.pdf)





2021 SME Platform	Weighting	Biz2Credit	Credit.fr	Creditshelf	Flender	Homunity	Linked Finance	Mansa	Neocredit.ch	Swisspeers
Governance	30%	100.0	80	90.0	100	100	90	70	70	90
Social	30%	84.5	75	82.0	75	22.5	82	54	74	69
Environment	10%	100.0	100	47.5	63	92.5	52	44	64	44
Project Selection & Communication	30%	92.0	54	62.0	56	84	64	56	46	22
<b>Global</b>		<b>93.0</b>	<b>72.7</b>	<b>75.0</b>	<b>75.6</b>	<b>71.2</b>	<b>76</b>	<b>58.4</b>	<b>63.4</b>	<b>58.7</b>

The weighted average global score has increased **+4.8 points** since last publication. Two SME lending platforms that were previously scored in 2020 did not respond to the ESG questionnaire for 2021 and consequently were removed from consideration. Smart Lenders no longer invests through these platforms and solely monitors the existing portfolio until extinction. A third platform was onboarded during 2021 and has not yet returned the completed questionnaire; they have been granted a grace period.



2021 Consumer Platforms	Weighting	Climb Credit	Lending Club	Marlette	Pledg	Prosper	Stift	Upgrade	Upstart
Governance	30%	80.0	100.0	80.0	90.0	100.0	70.0	80.0	90.0
Social	30%	88.0	34.0	81.0	76.0	78.0	71.0	90.0	53.0
Environment	10%	66.0	83.0	54.0	84.0	52.0	0.0	68.0	85.5
Sustainable Financing Initiatives	30%	91.1	91.1	91.1	62.2	100.0	91.1	82.2	100.0
<b>Global</b>		<b>84.3</b>	<b>75.8</b>	<b>81.0</b>	<b>76.9</b>	<b>88.6</b>	<b>69.6</b>	<b>82.5</b>	<b>81.4</b>

This is the first year that Smart Lenders has applied the ESG scoring to the consumer lending platforms. To be able to assess the consumer platforms, the "Project Selection & Communication" category used with the SMEs was changed to "Sustainable Financing Initiatives" for the consumer platforms. The nature of lending to individuals does not typically have the same amount of information available regarding the end use of the funds or measuring ESG impact, which is why we focused on the platform's commitment to provide sustainable financing to underserved and underrepresented communities. The government,



social, and environmental questions used were the same for both the SME and consumer platforms.

One consumer platform has not yet responded provided the responses to our ESG questionnaire; this platform is granted grace period because they have been recently onboarded during 2021 and their investments represent 1.78% of the consumer portfolio.

### 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:

*“All facilities are powered by 100% renewable energy; when a new data center is built, they go through a rigorous process in regard to the land and possible environmental effects.”<sup>2</sup>*

*“[Our platform] is working alongside the NAACP Legal Defense and Education Fund, Inc. (LDF) and the Student Borrower Protection Center. Ultimately, we share the same goals – improving access to credit for the underserved. [We are] excited to partner with thought leaders on fairness in credit access.”<sup>3</sup>*

*“We have an established information security management system (ISMS) in place. It is audited by independent consultant - Deloitte every year and the SOC2 report is shared with a board appointed representative.”<sup>4</sup>*

### Measuring Impact



\*Excludes US platforms

<sup>2</sup> Prosper

<sup>3</sup> Upstart

<sup>4</sup> Biz2Credit

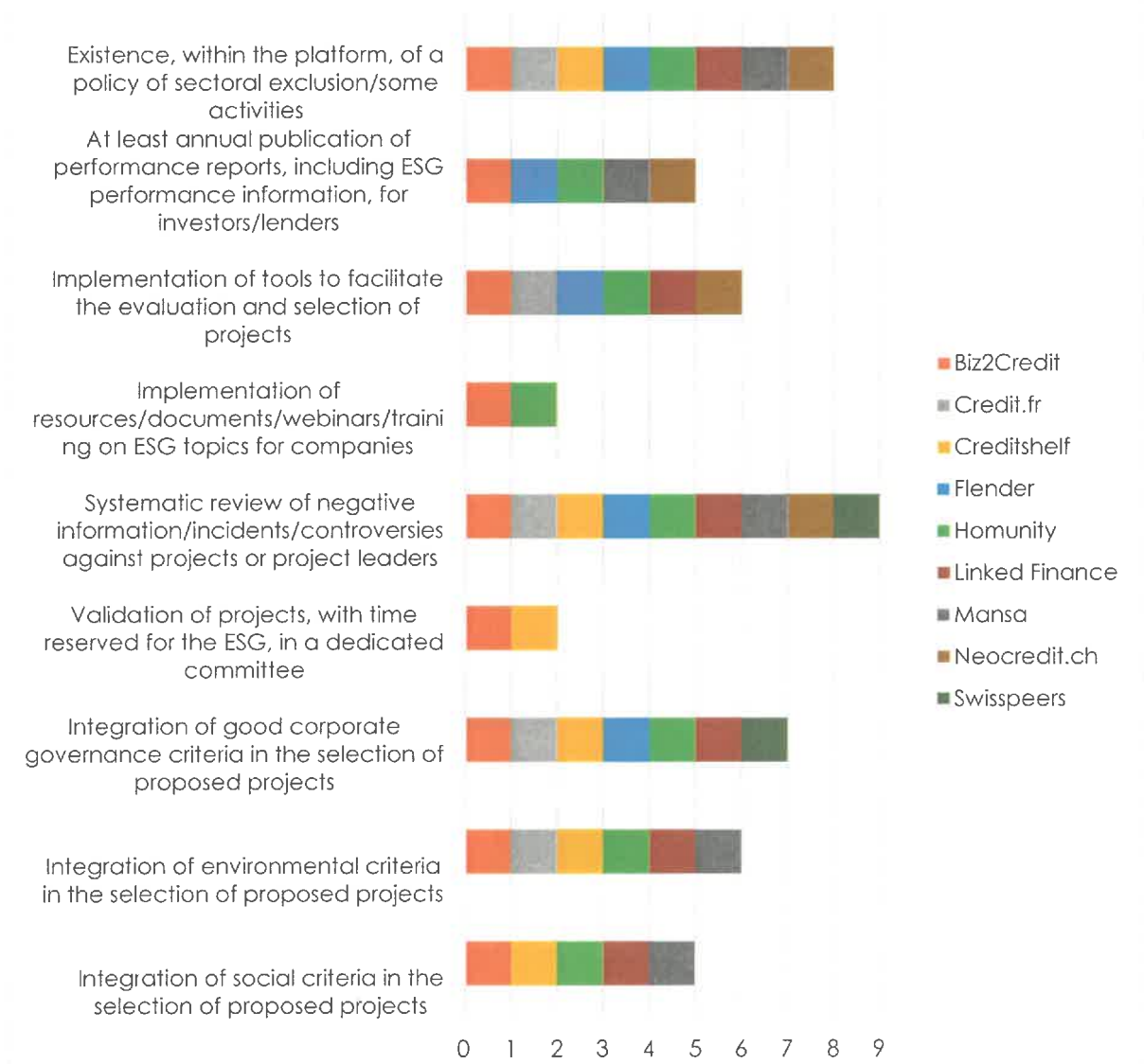




The impact measurement is carried out within the framework of Smart Lenders AM's objectives, which aspires, on the one hand, to direct the capital of French and European investors towards SMEs that generate growth and jobs through new methods of financing and, on the other hand, to raise the awareness of financing platforms and encourage the implementation of extra-financial objectives that have a positive impact on society and the environment. Compared to 2020, 150% more companies were supported by the loans that Smart Lenders invested in. However, the number of jobs directly impacted dropped by 66%; this can be explained by a shift in investment strategy from larger manufacturing companies to companies with leaner structures that proved to be more resistant to the macroeconomic shock of the COVID-19 pandemic.

The following highlights the implementation of various project selection criteria among the SME platforms that Smart Lenders works with.

## Project Selection & Communication

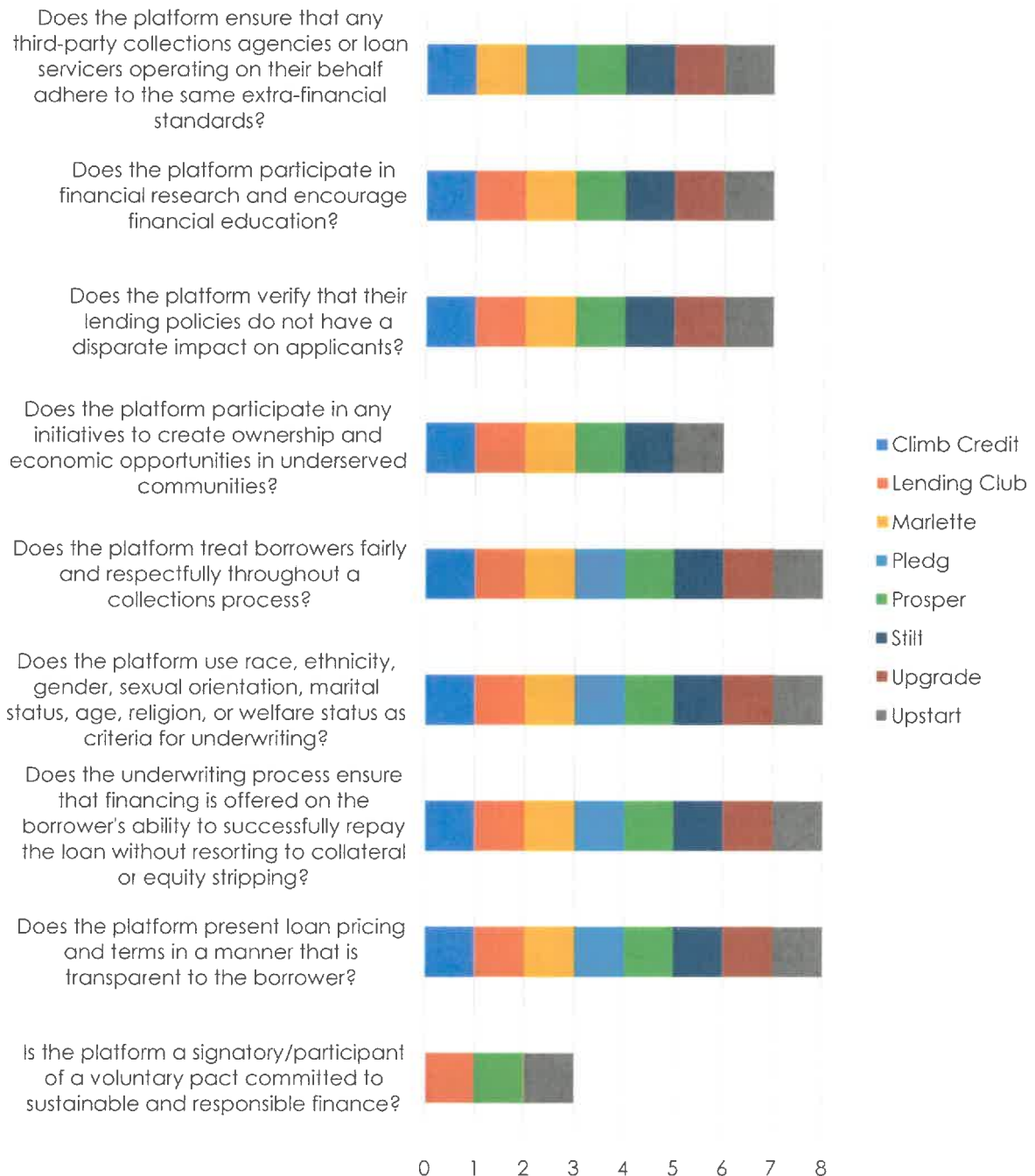


All the SME platforms consider **sector and industry exclusions**, which is also inherently relevant to the level of credit risk that the SMEs have. Secondly, most platforms take into consideration the **adverse reputation risk** of the SMEs and systematically check for incidents or controversies that may have a negative impact.



The following highlights the implementation of sustainable financing initiatives among the consumer lending platforms that Smart Lenders works with.

## Sustainable Financing Initiatives



All the consumer lending platforms that we selected report using **fair and transparent pricing**, ensuring that they consider the **affordability and sustainable repayment**, underwriting loans **without discriminating against borrowers**, and treating borrowers with **fairness and respect during the collections process**.



## 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 is a team of 12 people, of which 17% are female and 25% 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 SDOs of the various projects financed – for 2021, the SME lending platforms reported on average that 6% of the projects they financed met at least one of the 17 SDGs (500% increase from 2020).

For the consumer platforms, 1% of the portfolio directly addresses SDG 4 “Quality Education” by providing higher education loans to US immigrants. Additionally, all the consumer portfolio touches on SDG 1 “No Poverty” because they consider the affordability of the loan as part of the underwriting process, and they do not grant loans that would be unsustainable to borrowers and cause undue financial difficulties.



## Goals for Progress

In the first publication of the CoP, Smart Lenders AM set the following goals for 2021:

1. Continue the sensibilization of partnering platforms as well as any other potential stakeholders in the marketplace lending ecosystem on the topics of ESG
2. Leading by example and formalizing an internal ESG policy
3. 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
4. Apply the platform scoring mechanism to our consumer lending partners in addition to our SME lending partners.

Goals 1 and 3 were done primarily through the due diligence process by asking our partner platforms to respond to our ESG questionnaire. These goals are an ongoing process that will



continue to advance as Smart Lenders further develops its ESG initiatives and they remain relevant during 2022. Goal number 4 was achieved by adapting our ESG questionnaire to reflect the relevant challenges faced by consumers – namely changing the fourth section of the questionnaire which is "Platform Selection & Communication" for SMEs to "Sustainable Financing Initiatives" for consumer platforms.

Goal 2 was not achieved because the internal mechanisms needed to measure the company's current impact have not been put in place and without them there cannot be a basis for measurable improvement. This goal will be maintained during 2022.

Smart Lenders is setting the following goals for 2022 to continue strengthening their ESG policies, adhering to the Ten Principles of the UN Global Compact, and contributing to the SDGs:

1. Continue the sensibilization of partnering platforms as well as any other potential stakeholders in the marketplace lending ecosystem on the topics of ESG
2. Formalizing an internal ESG policy and begin measuring our own greenhouse gas emissions (Scope 1 and 2)
3. Continue encouraging 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
4. Orient the strategy for our new funds towards using a "best efforts" approach to target investments with social and environmental objectives
5. Evaluate the possibility of becoming a fund that adheres to Article 8 of the EU's Sustainable Finance Disclosure Regulation.





## 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

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