SMART LENDERS
ASSET MANAGEMENT

Sustainability Risk Management Policy

Sustainability risk is defined as the occurrence of an ESG event or condition that could potentially cause a material adverse impact on the value of the fund's investment. Sustainability risks may either represent a risk in their own right or have an impact on other risks and therefore contribute significantly to risks such as market, operational, liquidity, or counterparty risks.

Smart Lenders Asset Management distinguishes five typologies of sustainability risks that can affect the financial value of its investments:

I. Climate change transition risks

Climate change transition risks correspond to the fund's exposure to the economic and legal consequences of the implementation of a low-carbon economic model. These risks are mainly related to potential carbon taxation mechanisms or to the Smart Lenders Asset Management exposure to the technology solutions sector. The latter is notably subject to regulatory changes at several levels of its value chain, and particularly at the level of data centers (e.g. Regulation 517/2014 "F-Gas" on refrigeration systems)

Smart Lenders Asset Management is currently hedging against these risks though a dialogue with the platforms in order to probe their knowledge of their regulatory environment with regard to energy consumption. Smart Lenders Asset Management may also conduct a benchmark of their hosting solution providers and the practices they undertake in the medium term with regard to the global warming potential (GWP) of their refrigerant practices.

Eventually, Smart Lenders Asset Management relies on the implementation of its industry exclusion policy which excludes platforms sourcing projects in sectors that may carry adverse reputational and sustainability risks, such as the production of carbon and fossil fuels from the scope of the fund's investments.

II. Physical risks related to climate change and biodiversity

The physical risks linked to climate change correspond to the direct losses associated with the damage caused by climate hazards on economic actors. We can distinguish between acute physical risks (increase in the frequency of extreme events - cyclones, hurricanes, floods) and chronic risks (increase in average temperatures, rise in sea levels, etc.).

Biodiversity risks refer to the losses associated with the damage caused by the erosion of different plant and animal species and the ecosystems in which they live.

Through the nature of their operations and those of the partner platforms, Smart Lenders Asset Management considers the geographic location of data centers as well as the platform's business continuity and IT risk management plans when assessing environmental risk. The location of an IT server and its data center is important because different climate conditions have different energy requirements that are related to the amount of climatization needed for the equipment to function. It also is important to identify the location of the data and proactively prepare in the event of a natural disaster or other extreme circumstance that could endanger communities and pose a threat to biodiversity in the local ecosystem.

Smart Lenders Asset Management is also inviting platforms to develop an analysis of the climate change adaptation solutions deployed by them and their suppliers, considering in particular the risks of flooding or fire.

Smart Lenders Asset Management also encourages partners to highlight any action plans they may have in place in favor of the promotion of biodiversity as part of the annual questionnaire.

III. Litigation and liability risks related to environmental factors

Liability risks correspond to compensation to be paid by a legal entity deemed responsible for the consequences of climate change. These risks refer to the European Union principle of "Do not significantly harm" the environment.

The risks mentioned below can, if they occur, damage the reputation of issuers and Smart Lenders. We therefore raise awareness of environmental and social issues through our engagement policy. Smart Lenders also conducts research into controversies with our stakeholders in order to identify potential shortcomings in the environmental or social due diligence of issuers and take the necessary measures

- Legal
  - Fines for pollution associated with the location of the data centers
  - Breaches of energy or climate change that could affect the activities of the platforms
  - Tax violations related to environmental policies, which may differ from one country to another. For example, in France the tax known as TICFE (Taxe Intérieure sur la Consommation Finale d'Electricité) has been reduced several times.

- Reputational Risks
  - Significant negative feedback from customers and stakeholders that may have a material impact on the business or lead to the stigmatization of the business sector. Coverage of controversial events in the media that may lead to a reduction in demand for a product or service (businesses and platforms)
  - Breach of contract or failure to meet payment terms that may result in supply chain disruptions

IV. Social risks

Discriminatory factors related to age, gender, ethnicity, income, employment status, and education can modify the relationship between socioeconomic status and inequalities that increase the exposure to environmental and health-related inequalities. The occurrence of human rights violations is an important risk factor, as there could be a negative impact on employees and the surrounding communities where there is forced labor, slavery, discrimination, inadequate remuneration, a hazardous working environment, and a lack of social protections.

As a signatory to the UN Global Compact, Smart Lenders Asset Management ensures that platforms that do not act in accordance with international standards such as the United Nations Universal Declaration of Human Rights, the International Labor Organization's (ILO) labor standards, and the OECD guidelines are excluded from the Smart Lenders Asset Management's portfolios.

Smart Lenders also identifies and guards against material social risks for platforms due to the specificity of their activities:

- By refusing to collaborate with platforms making "predatory" loans in consideration of national rules and practices

- By warning about the risks linked to the precariousness of the final beneficiaries of the loans made by the platforms

- Calling for a policy of good governance and a responsible social policy in the activities of the platforms

V. Governance and other ethical risks

Corporate governance risks include the risks tied to the corporate governance structure, remuneration of its directors, risks tied to regulatory conventions, and risks with regards to corruption and the potential for conflicts of interest.

As a company, Smart Lenders Asset Management ensures that good corporate governance practices are integrated not only at the platform level but also in the selection of projects proposed by the platforms. The presence of an independent board, the transparency of the director remuneration policy, positive feedback from regulatory audits, and the declaration (and subsequent remediation) of any known conflicts of interest are key considerations regarding partner platforms. At both the platform and the borrower level, Know-Your-Customer (KYC), politically exposed person (PEP), and sanction checks are performed to identify any risks related to embargoes, terrorism, corruption, bribery, resource appropriation, tax evasion, and violations of data protection regulations.