SMART LENDERS
ASSET MANAGEMENT

MOONSTONE LENDING SICAV

MARKET UPDATE: RISKS AND OPPORTUNITIES

Paris March 20th, 2023

You might be swamped with papers on the current bank tensions and liquidity crisis, so we decide to update you with a concise memo, in the shape of 8 bullet points.

1. SVB

The fund has no direct exposure to SVB nor to any other smaller banks in trouble. No account there, no deposits, no loans.

Two platforms, through which the SICAV has acquired small volume of loans, used SVB mainly as transit account for collection, with minimum overnight exposure. They have now moved these accounts away. A collapse of SVB could have put them in trouble and trigger the transfer the servicing of the loans (i.e. the management of cashflows and the chasing of late collection) to back-up servicers. The loans themselves are held by Millenium Trust in Chicago, an institutional custody company that specializes in alternative assets.

2. Credit Suisse

The fund's custodian is Credit Suisse in Luxembourg.

The cash balance held on the Credit Suisse account is not material, except for a few days around month-end when we have redemptions, and we transfer the required amount from Wells Fargo to Credit Suisse before crediting investors. **The takeover by UBS is good news, even though our risk was very low.**

3. Defaults

We estimate the expected default rate per platform per grade for loans we purchase. As a leading indicator, we monitor the rate of delinquent* loans against our expectations. This rate appears in the charts below as a grey line and interval:

As you will see, **delinquencies (turquoise line) are returning to the expected level after increasing above expectations** (less obvious yet for Marlette). This increase was due to the poor 2021 vintage, where issuing criteria had been relaxed after the Covid economic rebound and before the Ukraine + inflation troubles.

**Delinquent: Between 30 days and 120 days late. After 120 days, the loan is considered "charged-off".*

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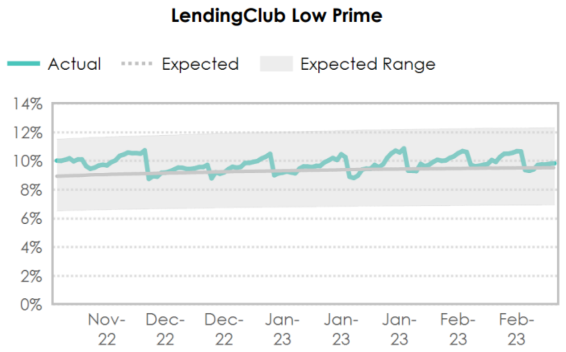

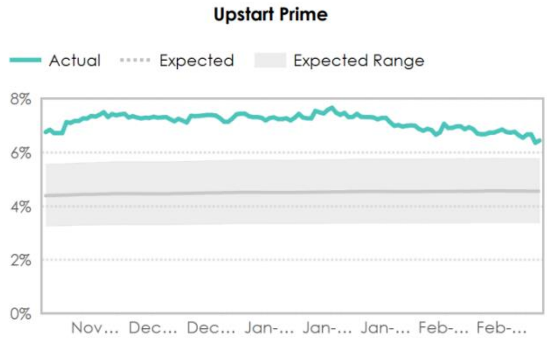

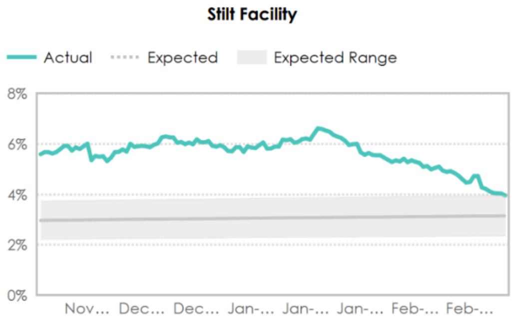

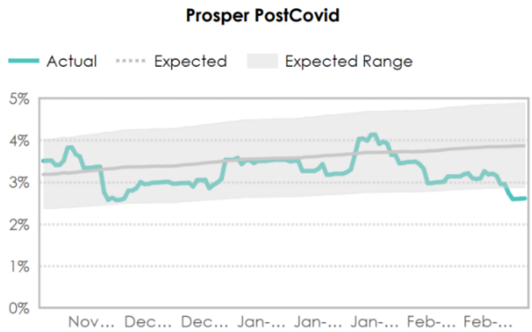

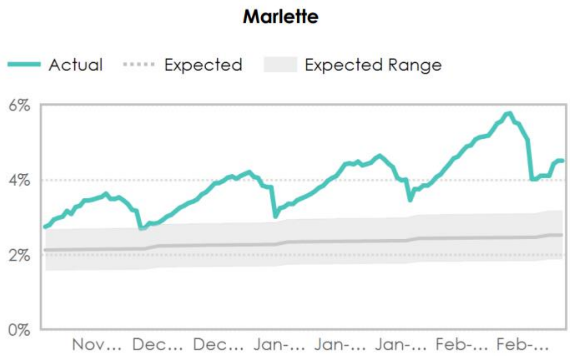

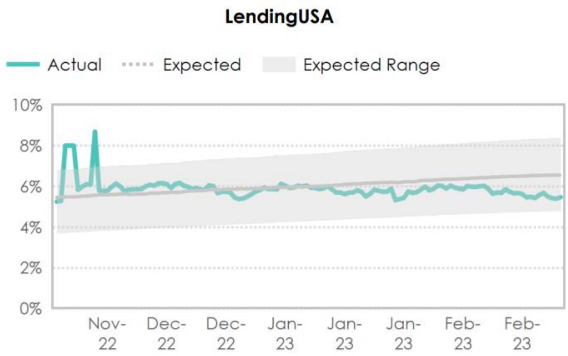

4. High rates and tighter credit scoring criteria

Through 2022, the Ukraine conflict and Fed's higher interest rates to fight inflation pushed platforms to raise rates and to apply tighter credit criteria. Therefore, **the current loan production is offering higher yields and better credit quality combined.** We started to reinvest significantly from November onwards and will benefit from that.

Higher rates pushed the independent calculation agent of the fund to lower the price of the stock of loans held. Currently priced at 97.41%, the performing portfolio offers a higher yielding, therefore a higher level of protection against defaults.

5. Rates down

The 1 and 2-year US rates start to decline after the SVB crisis, creating room for price improvement of our loans, from the level mentioned above.

6. Lower FX hedging cost

As short-term US rates decline and the BCE pushing EU rates higher**, the interest rates differential**, that is the basis for the FX hedging of the EUR and CHF share classes**, is decreasing, reducing accordingly the performance differential between the USD and the EUR & CHF share classes.**

7. Crisis surfing

The fund is nearly 7-year-old with a positive track record, year on year and have performed despite the pandemic, the rapid US rate surge and now the banking liquidity crisis**. This asset class has proven extremely resilient in all these circumstances**, providing low volatility returns thanks to its unique combination of low duration and high yield.

8. Comparable

The SICAV is often compared to alternatives such as high yield bonds and bank deposits.

Bank deposits, that seemed a decent alternative as rates increased have just proved their limit, with a refreshed perception of bank risk, despite the SVB happy ending.

Spreads on high yield bonds have widened rapidly, linked to liquidity concerns such as future refinancing of LBOs in a tight liquidity environment and the global repricing of credit risk. **The unique amortizing nature of US consumer loans is isolating the Moonstone Lending fund from that risk**.

Here are the points we wanted to update you about, without adding chapters to read to your already full inbox.

Do not hesitate to reach us with questions you may have.

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About Smart Lenders AM

Smart Lenders AM is an asset management company specialised in managing portfolios of loans issued through established marketplace lenders, online-lending platforms and Crowdlending platforms. In January 2018, the company relocated from London to Paris where it is regulated by the AMF and is accredited with the AIFM full-scope status.

Our primary activity is to select loans and construct portfolios with a quantitative and algorithmic approach focusing specifically on consumer and SMB loans in the US and Europe. Since its launch, Smart Lenders AM has invested in over $1.5bn of loans on behalf of European institutional and professional investors.

A leading player in online credit investing for European investors.

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