SMART LENDERS
ASSET MANAGEMENT

MOONSTONE LENDING SIF SICAV SPECIAL COVID 19 REPORT

This special report aims at answering questions investors may ask relative to three aspects of our fund in this unprecedented period:

1) the computation of the NAV in the current turmoil,
2) a simulation of the fund IRR with using different hypotheses regarding future default rates,
3) the granularity of the portfolio and its detailed composition.

We have prepared this report to share with you the information necessary to better understand our portfolio and maintain our commitment to transparency. Please do not hesitate to contact us if you request additional information.

Executive summary

The fund's March NAV is down 5,02% for the US share class. This valuation reflects unprecedented market conditions and a gloomy economic outlook. It compares favorably to most other credit markets that were hardly hit in March. For example, the Bloomberg Barclays U.S. Credit Index declined by 6.63%, and the Bloomberg Barclays U.S. Corporate High Yield Index dropped by 11.46%. The March valuation does not reflect actual default losses, but rather expectations of a sharp rise in default rates over the next 12 months. The current NAV represents a default rate (CDR) multiplied by 1.9 during a 12-month period (x2,3 in 2009 by comparison), with unchanged discount factors.
According to our stress testing analysis, we find that the current levels of valuation should be sufficient to resist severe economic downturn scenarios, ensuring positive return from this March valuation for a portfolio in a run-off mode facing a default rate increasing just under 4 times.
Indeed, the extreme granularity of the portfolio combined with the amortising nature of the underlying loans and the short duration derived from this, act as a shock absorber compared to bullet bonds that also would eventually need to be refinanced.

1) NAV analysis: methodology and parameters

The overall fund's performance includes several components: interest received, sale of charged-off loans, recoveries, cash position, and the variations of the valuation of the loans. This month, the latter component was the most important factor in the fund's total return. This month's performance also includes the cancellation of the first two months of provisions for performance fees.

The loans in the portfolio are valued using a discounted cash flow method. This method requires making two base assumptions: the first is the expected default rate (expressed as the Conditional Default Rate or "CDR") used to project the future cash flows and the second is the discount rate to discount the cash flows and calculate the net present value of the portfolio.

The expected default rates (CDR) are usually derived from historical default rates for similar borrowers. The discount rate is based on the primary origination market assuming that loans are issued at par (so that the discount rate broadly equals the expected IRR, given expectations of defaults). These parameters are established by the fund's independent valuation agent.

Given the unprecedented situation presented by the current health crisis, there is no historical data that could be used to estimate the expected future default rates. Therefore, the valuation agent has chosen to adapt its methodology to account for the current market uncertainty based on observations from the securitization market. Traded prices on the secondary market of securitizations on consumer loans (Prosper, LC, Upstart, etc, …) were used to derive the valuation of the underlying pool of loans used as the collateral of the securitization. Therefore, to re-price our portfolio, a sharp increase in the discount rate (used for the net present value calculation) was used.

Relative to February's valuation, this could be interpreted either as an increase of roughly 800bps of the discount factors <u>or</u> as a 90% increase in the CDRs on a 12-month period, which would be applied to the entire loan book and translates into a near doubling (1.82) of the cumulative defaults (see yellow cells on Table 1). In other words, the new valuation assumptions imply a near doubling of default rates for the next 12 months.
These new parameters impacted the price of the portfolio of loans by about 6% (see Table 1). Table 1 shows the loan book price sensitivity to changes in the discount rate and different CDR multiple assumptions (using an increased risk of default for 12 months and no prepayments during the stress period). This table converts the discount rate spread into an equivalent CDR Multiple. The table shows several pairs of discount factors and CDR multiples and the corresponding loan book price adjustment.

We expect these parameters to be refined in future valuations as the epidemiologic situation develops and new data from the platforms becomes available.

For the future, we expect that the valuation agent will adjust the CDRs to the adequate level and reduce the discount rate.

Table 1 NAV INTERPRETATION TABLE

Price Change		CDR Multiple - 12 Months (no prepay)										
		1	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2
Discount Rate Spread	**0.0%**	0.0%	-0.6%	-1.2%	-1.9%	-2.6%	-3.3%	-4.0%	-4.7%	-5.4%	-6.2%	-6.9%
	1.0%	-0.9%	-1.5%	-2.2%	-2.8%	-3.5%	-4.2%	-4.9%	-5.6%	-6.3%	-7.0%	-7.8%
	2.0%	-1.7%	-2.4%	-3.1%	-3.8%	-4.4%	-5.1%	-5.8%	-6.5%	-7.2%	-7.9%	-8.6%
	3.0%	-2.5%	-3.4%	-4.0%	-4.7%	-5.3%	-6.0%	-6.7%	-7.3%	-8.0%	-8.7%	-9.4%
	4.0%	-3.3%	-4.3%	-4.9%	-5.5%	-6.2%	-6.8%	-7.5%	-8.2%	-8.9%	-9.6%	-10.3%
	5.0%	-4.1%	-5.1%	-5.8%	-6.4%	-7.0%	-7.7%	-8.3%	-9.0%	-9.7%	-10.4%	-11.0%
	6.0%	-4.9%	-6.0%	-6.6%	-7.3%	-7.9%	-8.5%	-9.2%	-9.8%	-10.5%	-11.2%	-11.8%
	7.0%	-5.7%	-6.9%	-7.5%	-8.1%	-8.7%	-9.3%	-10.0%	-10.6%	-11.3%	-11.9%	-12.6%
	8.0%	-6.4%	-7.7%	-8.3%	-8.9%	-9.5%	-10.1%	-10.8%	-11.4%	-12.1%	-12.7%	-13.4%
	9.0%	-7.2%	-8.5%	-9.1%	-9.7%	-10.3%	-10.9%	-11.6%	-12.2%	-12.8%	-13.5%	-14.1%
	10.0%	-7.9%	-9.3%	-9.9%	-10.5%	-11.1%	-11.7%	-12.3%	-12.9%	-13.6%	-14.2%	-14.8%
Cumul. Loss Rate Ratio		1.00	1.20	1.28	1.35	1.43	1.51	1.59	1.66	1.74	1.82	1.91

2) Forward-looking scenarios

Table 2 shows the results of the March portfolio simulated under multiple CDR assumptions representing varying levels of increase in the default rate. The performance is calculated using the March valuation level to support a decision starting from today.
Simulations are done on the USD share class, before management fees, on a portfolio in run-off mode.

Table 2

Scenario	Description	Gross IRR (from March NAV)	CO Multiple
March 2020 Valuation	Pre-crisis expected default rates increased by a factor 1.9 for 12 Months and no prepayment for 12 months.	7.44%	1.8
Covid A	Pre-crisis expected default rates multiplied by 1.5 during a 6-month period	12.44%	1.2
Covid B	Pre-crisis expected default multiplied by 2 during a 6-month period	10.32%	1.4
Covid C	Pre-crisis expected default rates multiplied by 3 during a 6-month period	5.28%	1.9
Covid D	Pre-crisis expected default rates multiplied by 4 during a 6-month period	-1.36%	2.4
Covid E	Pre-crisis expected default rates multiplied by 4.5 during a 6-month period	-5.48%	2.7

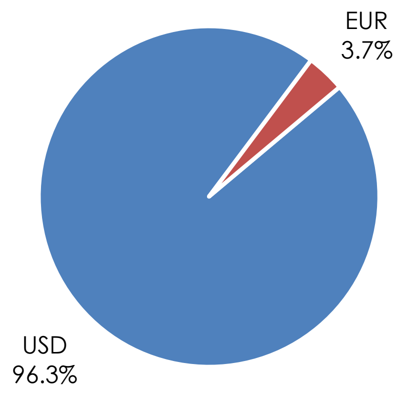
This analysis suggests that at the current pricing level, the portfolio should be resilient to a severe increase in delinquencies.

Along with this table, investors should also consider a number of mitigating factors such as the US CARES ACT, the support provided by the platforms who offer 3-month hardship plans (deferral of payments due) to borrowers in need, the fact that 2020 is an election year in the US, and the recovery rate in China.

3) Portfolio Composition (excluding cash)

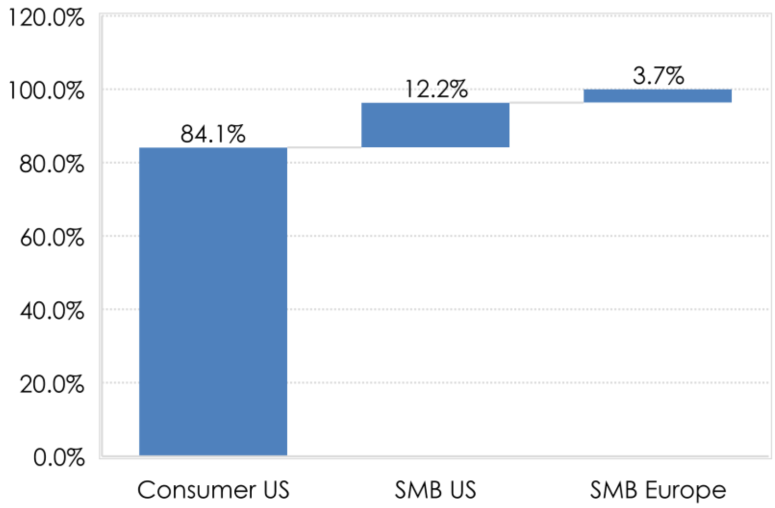
3.1) Split by Currency

A vast majority of our portfolio is invested in the USA



3.2) Split by type of loans

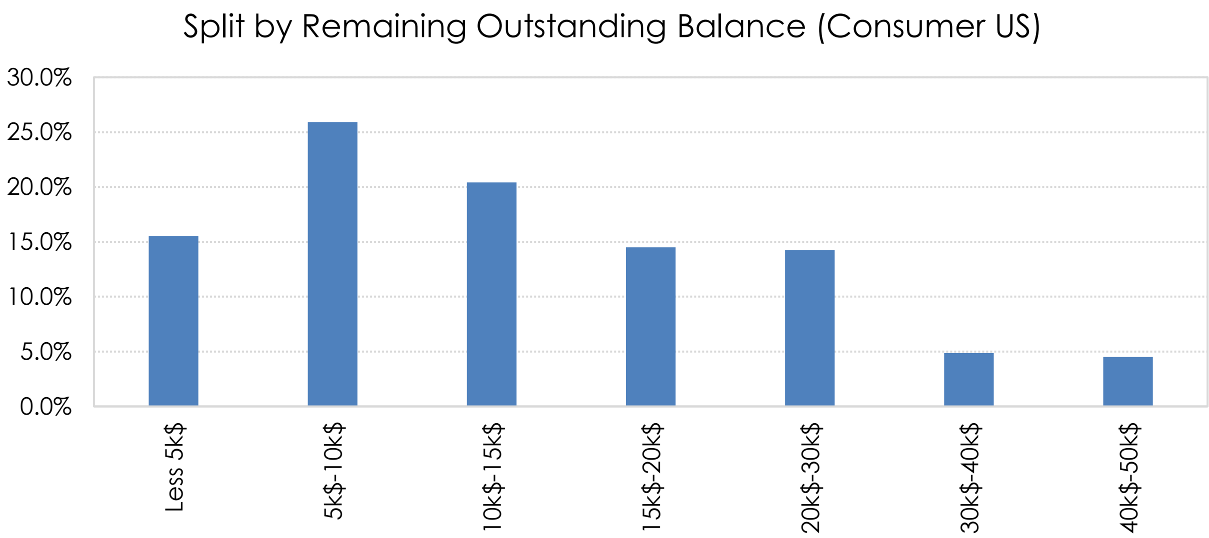
Our largest exposure is on the consumer loans market:



SMART LENDERS
ASSET MANAGEMENT

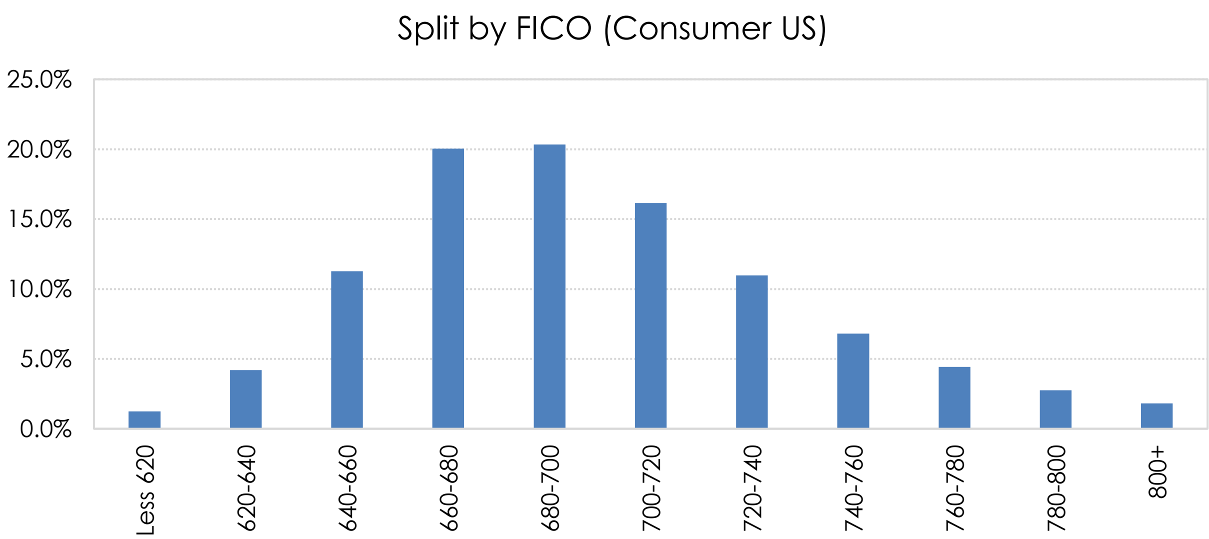
3.3) Split by Remaining Outstanding Balance

40% of the consumer portfolio has less than $10,000 of nominal outstanding. The lower the outstanding nominal, the lower the probability of default because it makes little sense for a borrower to default and suffer the consequences, after having repaid a large part of its initial debt.

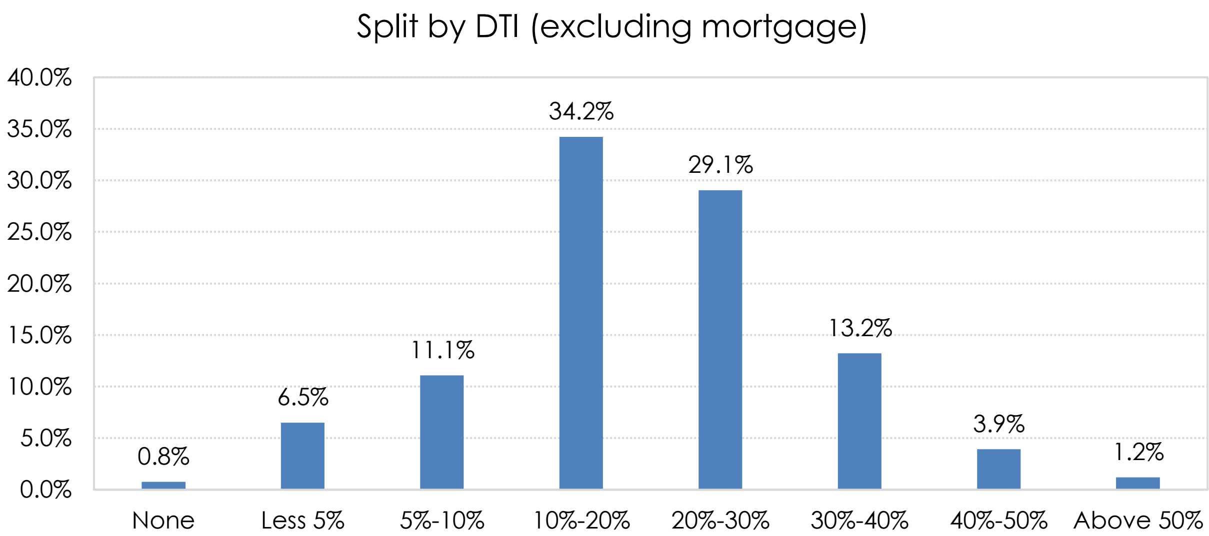


3.4) Split by FICO and Debt to Income Ratio (DTI)

Two third of our borrowers have FICO between 660 and 740, i.e. Prime or super-prime:



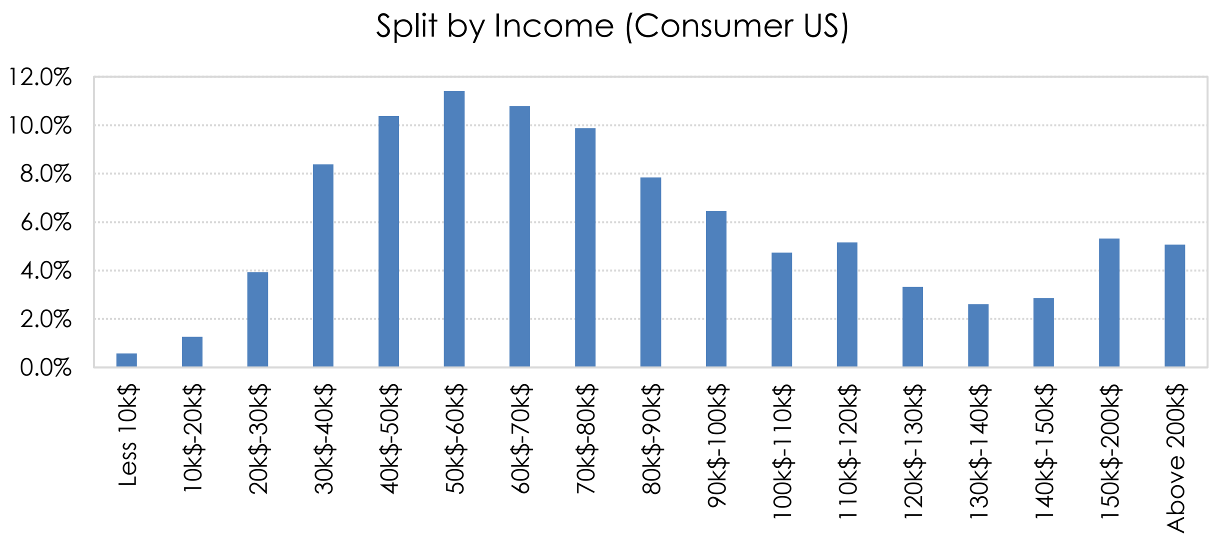
SMART LENDERS
ASSET MANAGEMENT



More than 80% of our borrowers have a DTI below 30% (excluding mortgage)

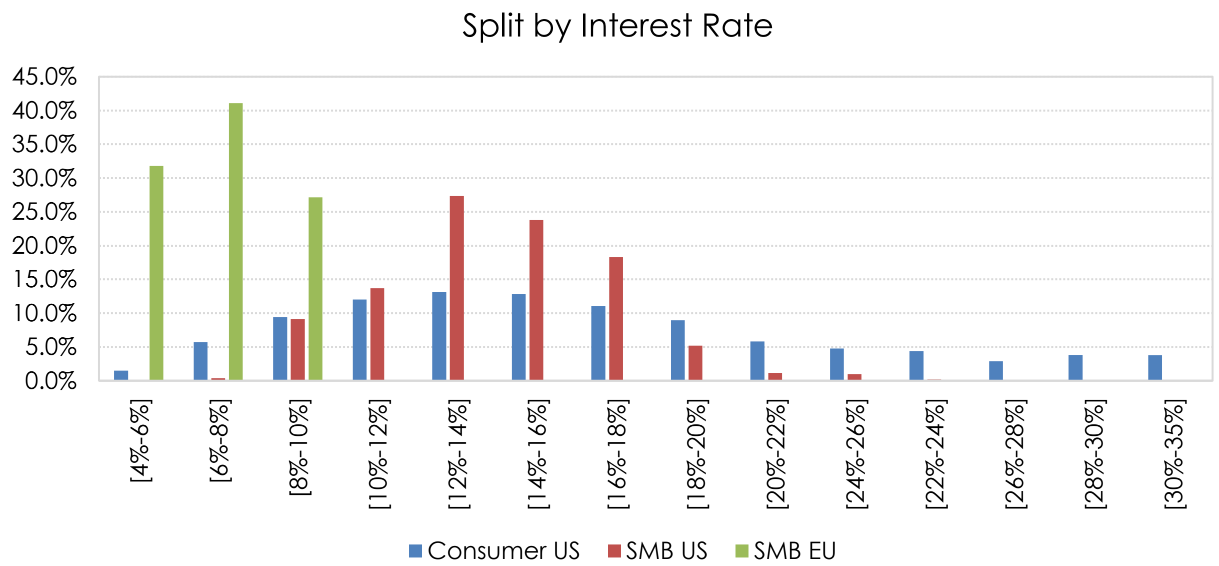
3.5) Split by Income

More than 50% of our borrowers should benefit from the one-time direct pay-out from the Federal Government:



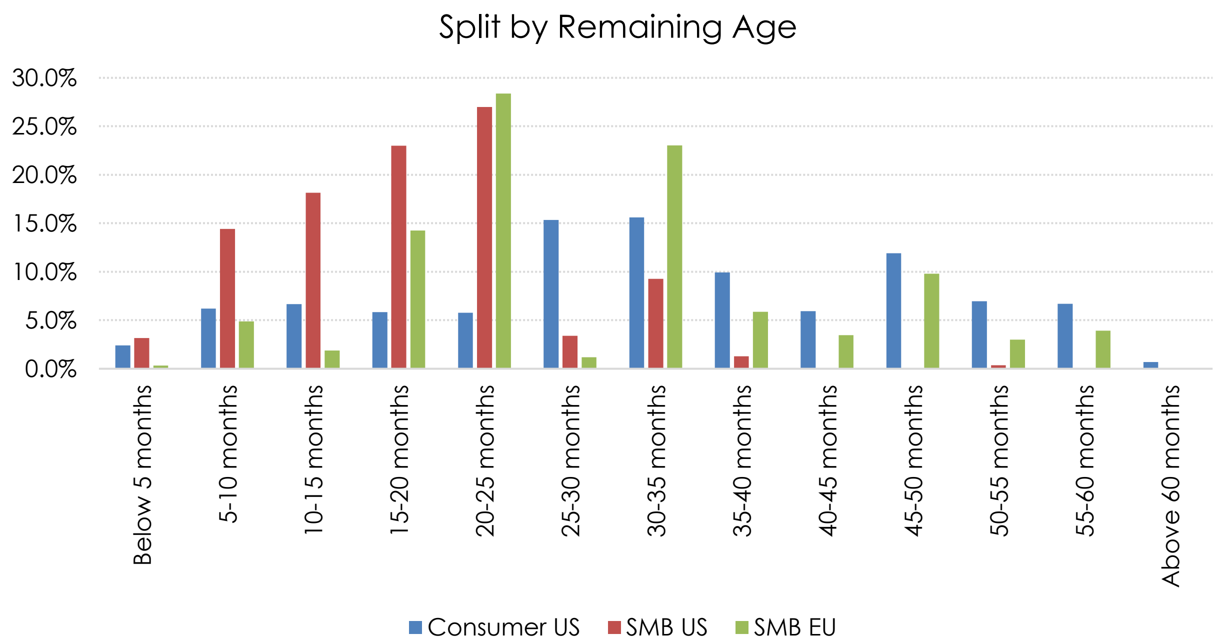
3.6) Split by interest Rate

Higher rates on the US consumers and small businesses loans should enable to offset a significant rise in defaults:



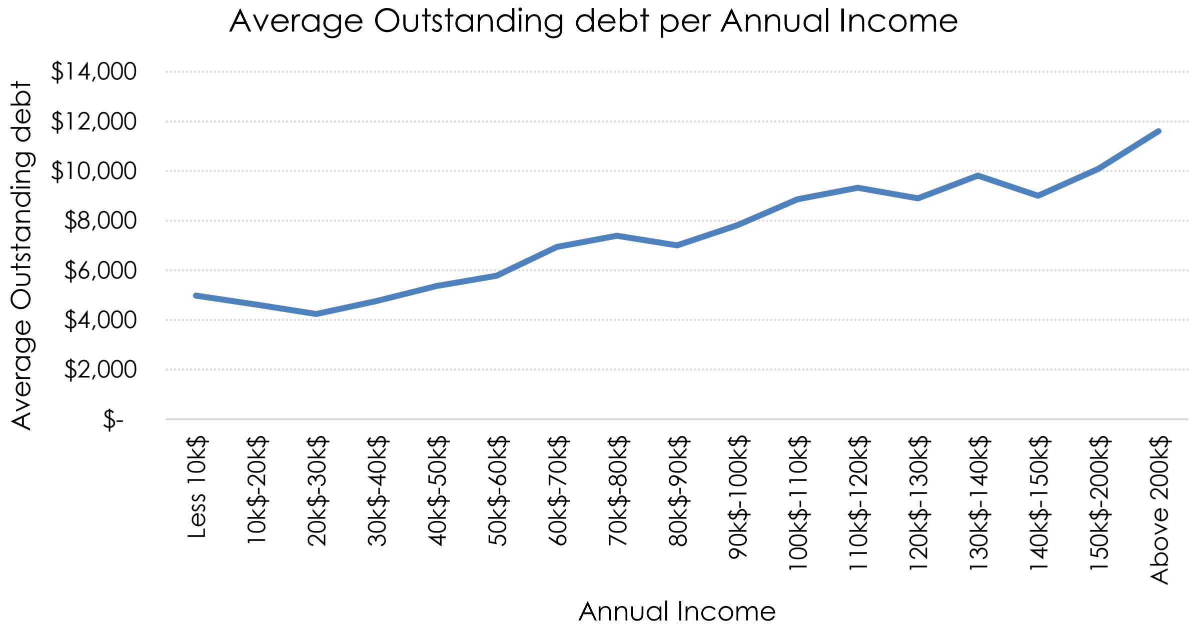
3.7) Split by remaining Age

Duration of the portfolio is around 12 months and well distributed throughout the maturity curve. Duration is lower on US Small Business loans and slightly higher on European Small Business loans



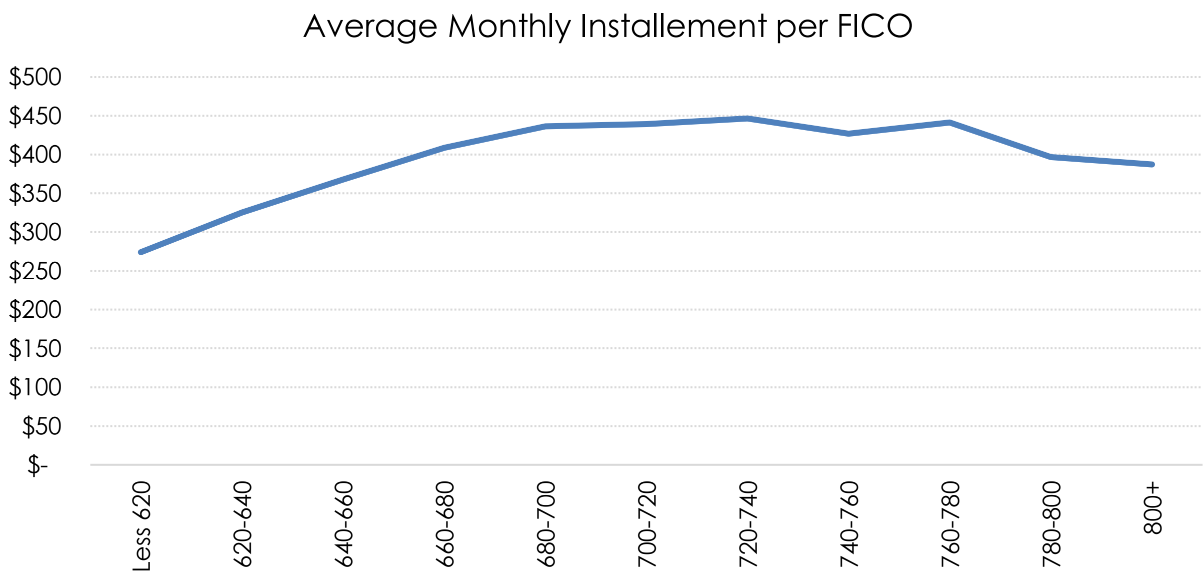
3.8) Average outstanding by annual income (US Consumer only)

There is no imbalance between the outstanding debt and the level of income of the borrowers:



3.9) Average monthly installment by FICO

Monthly installments are low (around USD 400 in average) for our borrowers, of course, compared to disposable income, but also compared to the US government recently voted aid:



SMART LENDERS
ASSET MANAGEMENT

3.10) Split by US States for both consumer and SMB loans (ie 96.3% of the portfolio)

US States	Allocation
California	14.32%
Texas	9.12%
Florida	7.28%
New Jersey	5.20%
Illinois	4.55%
New York	5.62%
Pennsylvania	3.77%
Georgia	3.86%
Virginia	3.05%
Ohio	3.36%
North Carolina	2.70%
Washington	2.74%
Massachusetts	3.03%
Michigan	2.27%
Arizona	2.31%
Maryland	2.10%
Minnesota	1.77%
Tennessee	1.58%
Missouri	1.54%
Indiana	1.59%
Nevada	1.22%
South Carolina	1.21%
Oregon	1.19%
Wisconsin	1.30%
Louisiana	1.27%
Colorado	1.18%

US States	Allocation
Kentucky	0.81%
Alabama	0.87%
Oklahoma	0.82%
Mississippi	0.82%
Connecticut	0.68%
Arkansas	0.65%
Utah	0.76%
Kansas	0.53%
New Mexico	0.52%
Rhode Island	0.58%
Hawaii	0.55%
Nebraska	0.48%
New Hampshire	0.49%
Idaho	0.23%
Montana	0.22%
Maine	0.22%
North Dakota	0.20%
Dist. Of Columbia	0.27%
Delaware	0.31%
South Dakota	0.18%
Alaska	0.20%
Wyoming	0.12%
West Virginia	0.19%
Iowa	0.11%
Vermont	0.06%
Others[1]	0.01%

[1] Others includes borrowers located all over the world due to their military obligations.

CONTACT

Smart Lenders Asset Management SAS
109 boulevard Haussmann
75008 Paris, France
www.smartlenders-am.com

Smart Lenders Asset Management SAS is authorised and regulated by the French regulator, the Autorité des Marchés Financiers (AMF), number GP17-000031.

Erich Bonnet, CEO
+33 (0)1 40 06 29 70 – ebonnet@smartlenders-am.com

Jerome Camblain, Partner, Investor relations
+33 (0)1 40 06 29 81 – jcamblain@smartlenders-am.com

DISCLAIMER

Issued by Smart Lenders Asset Management SAS, a company registered in France, RCS 832482095, 109 boulevard Haussmann 75008 Paris, authorised and regulated by the French regulator the Autorité des Marchés Financiers (AMF) under number GP17-00031. Smart Lenders Asset Management SAS is the AIFM of Moonstone Lending SICAV SIF, a Luxembourg fund (AIF) regulated by the Commission de Surveillance du Secteur Financier (CSSF) under VISA 2019/157185-8836-0-PC and registered at 5, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. The investment products of Moonstone Lending SICAV SIF are only available to well-informed investors within the meaning of the MiFID Directive; they are not available to retail clients. This document does not constitute an offer to buy or sell securities in any compartment of Moonstone Lending SICAV SIF nor an offer to buy or sell shares or units in any fund or funds managed or advised by Smart Lenders Asset Management SAS. The Offering Memorandum may only be distributed in accordance with the laws and regulations of each appropriate jurisdiction in which any potential investor resides. Investors are also reminded that past performance should not be seen as an indication of future performance and that they may not get back the amount originally invested. Investment in this fund carries risks which are more fully described in the Offering Memorandum. The Fund has appointed Acolin Fund Services SA, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. Banque Cantonale de Genève, 17 Quai de l'Ile, CH-1208 Geneva, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to shares distributed in or from Switzerland is the registered office of the Representative.