

MAIN™ Webinar Series

# Answers to the Top 5 Questions about Marketplace Loans & How P2P may Fit into Your Clients' Fixed Income Strategy

May 17, 2016



# SPEAKERS

## Moderator:



**Meg Zwick**  
SVP, Director of Alternative  
Custody Services



## Presenters:



**Jeff Andrews**  
VP of Retail Distribution



**Sid Jajodia**  
Chief Investment Officer



# TODAY'S AGENDA

- What is Marketplace Lending?\*
- Why Invest?\*
- Where does it fit?\*
- What are the risks?\*
- How you can get started\*
- Millennium Trust's role as custodian\*\*
- Question & Answer session

\*Lending Club is solely responsible for the content of this portion of the presentation.

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# Answers to Your Clients' Top 5 Questions about Marketplace Lending

Presented by Lending Club

FOR SEC-REGISTERED INVESTMENT ADVISERS ONLY

# Disclaimer



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**Short** Duration

**High** Yield

**Low** Volatility

**Solid** Returns

This information is not intended to be investment advice. Historical performance is not a guarantee of future results. Actual results may vary. Lending Club Notes are not guaranteed or insured, and investors may lose some or all of the principal invested. Notes are offered by prospectus filed with the SEC and investors should review the risks and uncertainties described in the prospectus prior to investing. Individual portfolio results may be impacted by, among other things, the diversity of the portfolio, exposure to any single Note, borrower, or group of Notes or borrowers, as well as macroeconomic conditions.

# Answers to Your Clients' Top 5 Questions



- 1 What is marketplace lending?
- 2 Why invest?<sup>1</sup>
- 3 Where does it fit?<sup>1</sup>
- 4 What are the risks?<sup>2</sup>
- 5 How can I get started?

1. Lending Club does not provide investment, tax, or legal advice, and the information presented here is not intended to be investment, tax or legal advice.

2. The risks of investing mean that investors may lose all or most of their investment. Before purchasing any of our Notes, investors should carefully read our Prospectus, particularly the "Risk Factors" section, which provides detailed information about the risks of investing in our Notes. The Notes are not guaranteed or insured by any governmental agency or instrumentality or any third party.



# What is Marketplace Lending?

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# Marketplace Lending: A Direct Connection



All Loans originated and issued by our federally regulated issuing bank partners.

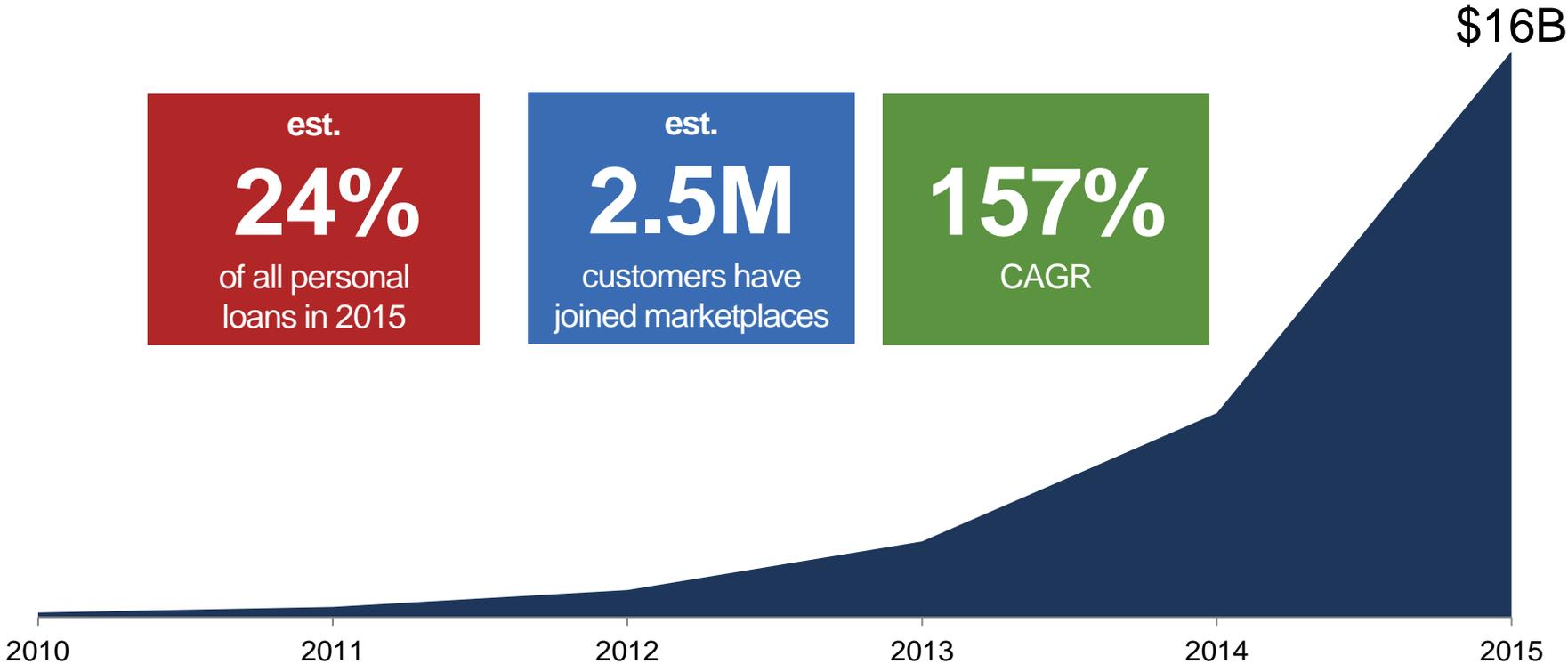
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# Today: Serving Millions of Borrowers



## U.S. Marketplace Lending Platforms Personal Loan Facilitations (in \$B)



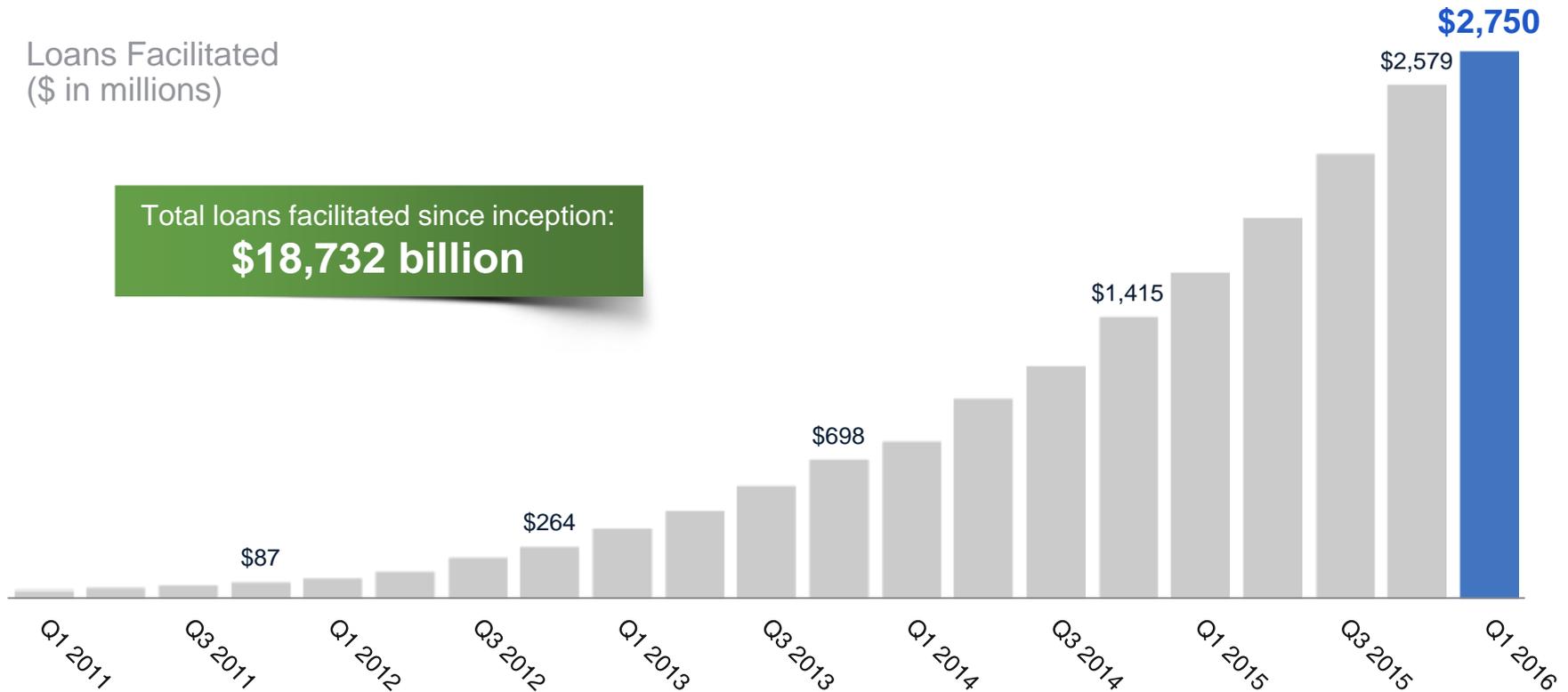
Source: TransUnion, Morgan Stanley, Lending Club analysis.

# Lending Club is the Leader



Lending Club is the world's **largest online marketplace connecting borrowers and investors**. Over the last 7 years, we've facilitated over **\$18 billion** in loans.

Loans Facilitated  
(\$ in millions)



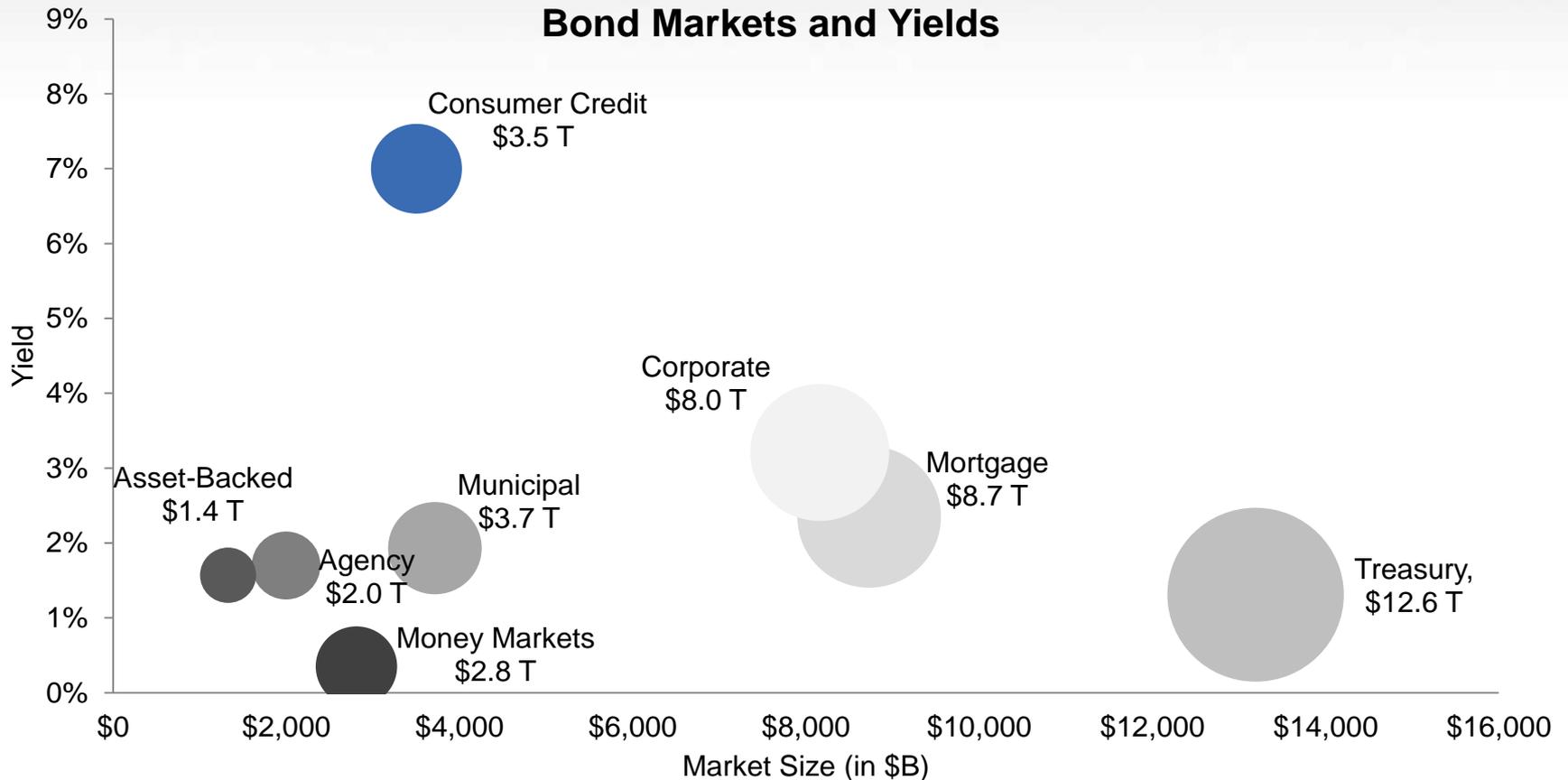
As of March 31, 2016



# Why Invest?

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# An Untapped Opportunity



Sources: SIFMA, US Bond Market Issuance and Outstanding as of September 2015. Board of Governors of the Federal Reserve System, "Consumer Credit - G.19" as of December 2015. Bond market yields as of September 2015 from Barclays and S&P. Consumer Credit differs from other fixed income sectors in many ways. Some factors include: liquidity, transaction costs, methods of accessing the asset class, risk characteristics, and whether or not the instrument is collateralized. Historical performance is not a guarantee of future results. Actual results may vary.

# 3 Key Benefits



**Higher  
Yield**

**Monthly interest and principal payments** from consumers in the top 10% of the U.S. population<sup>1</sup>



**Lower  
Risk**

**Short duration, uncorrelated** assets<sup>2</sup>



**Return  
Potential**

**5-9%** average historical returns<sup>3</sup>

1. Based on total annual income in 2010. Source: United States Census Bureau, Current Population Survey, Annual Social and Economic Supplement, ["https://www.census.gov/hhes/www/cpstables/032011/perinc/new01\\_001.htm"](https://www.census.gov/hhes/www/cpstables/032011/perinc/new01_001.htm)

2. Historical performance is not a guarantee of future results. Lending Club Notes are not guaranteed or insured, and investors may lose some or all of the principal invested.

3. As of March 31, 2016. To be included in the Historical Returns calculation, a Note must have been originated prior to September 30, 2014. Historical Returns are Lending Club's adjusted net annualized returns (Adjusted NAR) for Notes with Grades A through C. Adjusted NAR is calculated using the formula described [here](#). Adjusted NAR is based on monthly borrower payments actually received net of Lending Club's service fees, actual charge offs, recoveries, and adjustment for estimated future losses. To estimate future losses, we apply a loss rate estimate to the outstanding principal of any loans that are past-due but not charged off. The loss rate estimate is based on historical charge off rates by loan status over a 9-month period. Historical Returns are not a promise of future results. Lending Club Notes are not insured or guaranteed and investors may have negative returns. Individual portfolio results may be impacted by, among other things, the diversity of the portfolio, exposure to any single Note or group of Notes, as well as macroeconomic conditions. Notes are offered by [prospectus](#) filed with the SEC and you should review the risks and uncertainties described in the prospectus prior to investing in the Notes.



# Where Does it Fit?

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# Like An Individual Bond, but Different<sup>1</sup>



1 **Term** loans

2 **Monthly** payments

3 **Consumer**, not corporate

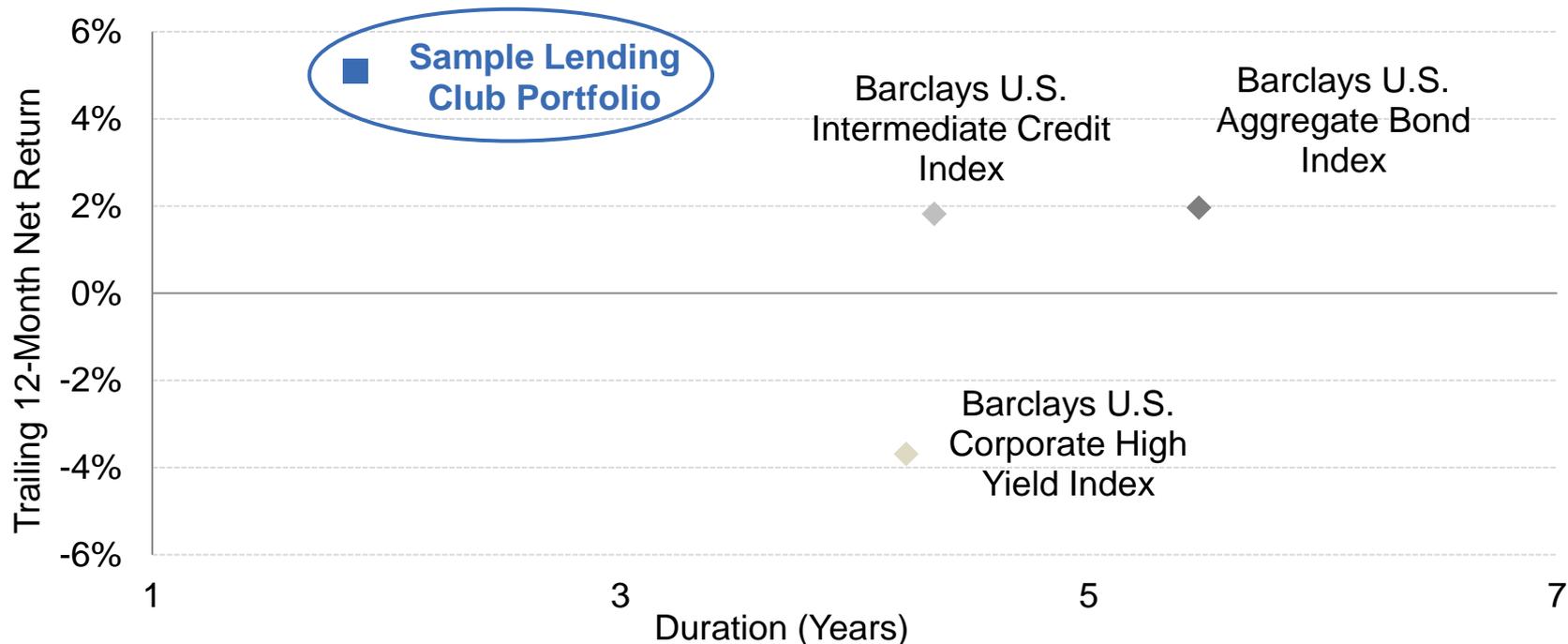
	Lending Club Notes	Corporate Bonds
Borrower	Individual consumers	Corporations
Prepayments	May be prepaid without penalty	May or may not be prepaid with or without penalty
Scheduled Payments	Monthly	Semi-annual
Amortization	Fully amortizing	Interest only until principal at term
Underlying Asset	Fractions of loans	Whole loan
Collateral	Unsecured, no guaranteed payment	
Loan Ratings	Assigned Lending Club grade A-G <sup>2</sup>	Rated by agency

1. Lending Club does not provide investment, tax, or legal advice, and the information presented here is not intended to be investment, tax or legal advice. Investment comparisons are for illustrative purposes only and are not exhaustive. Additional considerations may include tax treatment, fees, and other factors. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products' prospectuses. Please visit [www.lendingclub.com/public/rates-and-fees.action](http://www.lendingclub.com/public/rates-and-fees.action) for more information.

# A Higher Yield, Shorter Duration Addition



Over the last year, a sample Lending Club Portfolio **returned over 2.5x** as much as a broad U.S. bond index with just over **1/3 the duration**.



Sources: Lending Club and Morningstar. Based on net monthly total returns from April 2015 – March 2016. Sample Lending Club Portfolio consists of a mix of 40% 36 month loans and 60% of 60 month loans across all grades with grades A-C across all terms averaging 65% and D-G averaging 32% of the portfolio. Individual portfolio results may be impacted by, among other things, the diversity of the portfolio, exposure to any single Note or group of Notes, as well as macroeconomic conditions. Notes are offered by [prospectus](#) filed with the SEC and you should review the risks and uncertainties described in the prospectus prior to investing in the Notes. The performance quoted represents past performance and does not guarantee future results. Annual returns reflect reinvestment of proceeds and the deduction of fees and expenses. Index returns are for illustrative purposes only. Index performance does not reflect the deduction of any fees or other expenses. One cannot invest directly in an index.

# Uncorrelated to Broad Markets



1 Low to **bonds**

2 Low to **stocks**

3 More to **unemployment** of the borrower<sup>2</sup>

	Sample Lending Club Portfolio <sup>1</sup>	Barclays U.S. Aggregate Index	Barclays U.S. Intermediate Credit Index	Barclays U.S. Corporate High Yield Index	S&P 500
Sample Lending Club Portfolio <sup>1</sup>	1.00				
Barclays U.S. Aggregate Index	-0.10	1.00			
Barclays U.S. Intermediate Credit Index	-0.03	0.93	1.00		
Barclays U.S. Corporate High Yield Index	0.23	0.35	0.59	1.00	
S&P 500	0.19	-0.01	0.23	0.76	1.00

Sources: Lending Club and Morningstar.

1. Individual portfolio results may be impacted by, among other things, the diversity of the portfolio, exposure to any single Note or group of Notes, as well as macroeconomic conditions. Notes are offered by [prospectus](#) filed with the SEC and you should review the risks and uncertainties described in the prospectus prior to investing in the Notes. The performance quoted represents past performance and does not guarantee future results. Based on net monthly total returns for the trailing 3 years ending 3/31/16. Index performance does not reflect the deduction of any fees or other expenses, and is for illustrative purposes only. One cannot invest directly in an index. Sample Lending Club Portfolio consists of a mix of 40% 36 month loans and 60% of 60 month loans across all grades with grades A-C across all terms averaging 65% and D-G averaging 32% of the portfolio.

2. Source: Bloomberg.



# What Are the Risks?

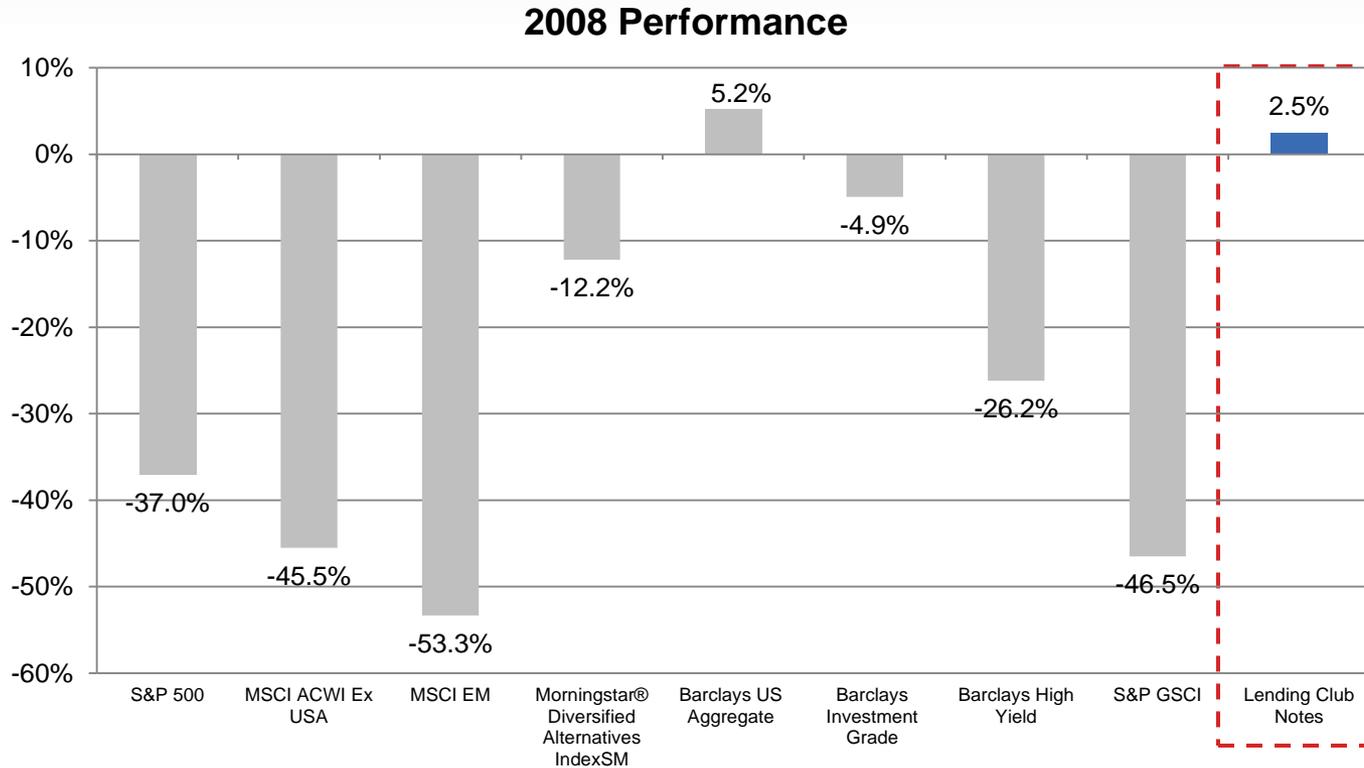
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# Performance in a Downturn



Lending Club's 2008 vintage delivered adjusted net annualized returns of **2.5%**



Source: Lending Club and Morningstar. Based on Prime Program loans only. All Loans originated and issued by WebBank, a Utah-chartered industrial bank, Member FDIC. Adjusted NAR is calculated using the formula described at [www.lendingclub.com/public/about-nar.action](http://www.lendingclub.com/public/about-nar.action). It is based on actual borrower payments received each month, net of fees, actual charge offs, recoveries, and estimated future losses. This chart is not a prediction of how a particular portfolio will perform. The actual performance of any particular portfolio may be impacted by, among other things, the size and diversity of the portfolio, the exposure to particular notes or group of notes, as well as macroeconomic conditions and actual portfolios, may perform differently than those presented in this chart. Historical performance is not a guarantee of future results. Actual results may vary.

# Liquidity Options



**Folio Investing** operates a Note Trading Platform<sup>1</sup> where investors may buy and sell Lending Club Notes to and from each other.

Note Trading Platform 

The **Note Trading Platform** was designed to provide investors with the chance to realize some liquidity in transactions with other Lending Club members.

1. FOLIO/n Investments, Inc. ("Folio Investing") is a registered broker-dealer and member of FINRA and SIPC and operates the Note Trading Platform. Folio Investing is based in McLean, VA and is not affiliated with Lending Club. Folio Investing has no role in the original issuance of the Notes and is not responsible for and does not approve, endorse, review, recommend or guarantee the Notes or the accuracy, reliability, or completeness of any data or information about the Notes. More information about Folio Investing is available at [www.folioinvesting.com](http://www.folioinvesting.com). Notes have limited liquidity and Note investors can only sell their Notes through the Folio Investing platform, which may result in investors being unable to sell any or all of their Notes. Before purchasing any of our Notes, investors should carefully read our Prospectus, particularly the "Risk Factors" section, which provides detailed information about the risks of investing in our Notes.



# How Can I Get Started?

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# An Integrated, Billable Asset



Utilizing Millennium Trust as custodian, you can turn Lending Club Notes into a **billable asset** that works for you:

## Account Set Up

- Lending Club representatives can help you get started

## Simple Billing

- Set your % fees and get seamless payments

## Reporting

- Receive reports daily, monthly and quarterly

## Adjusting Credit Criteria

- Adjust at your discretion



**Short** Duration

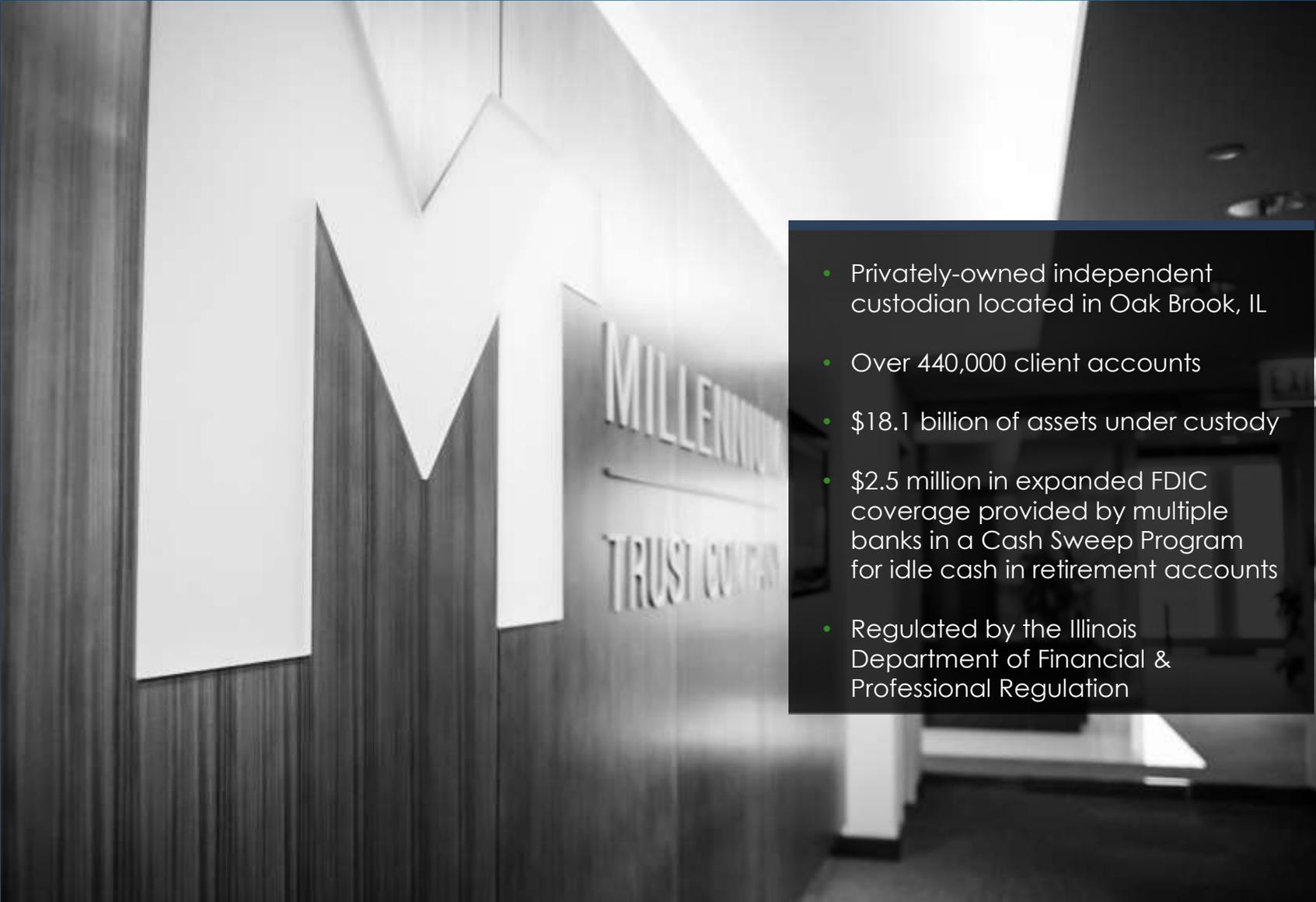
**High** Yield

**Low** Volatility

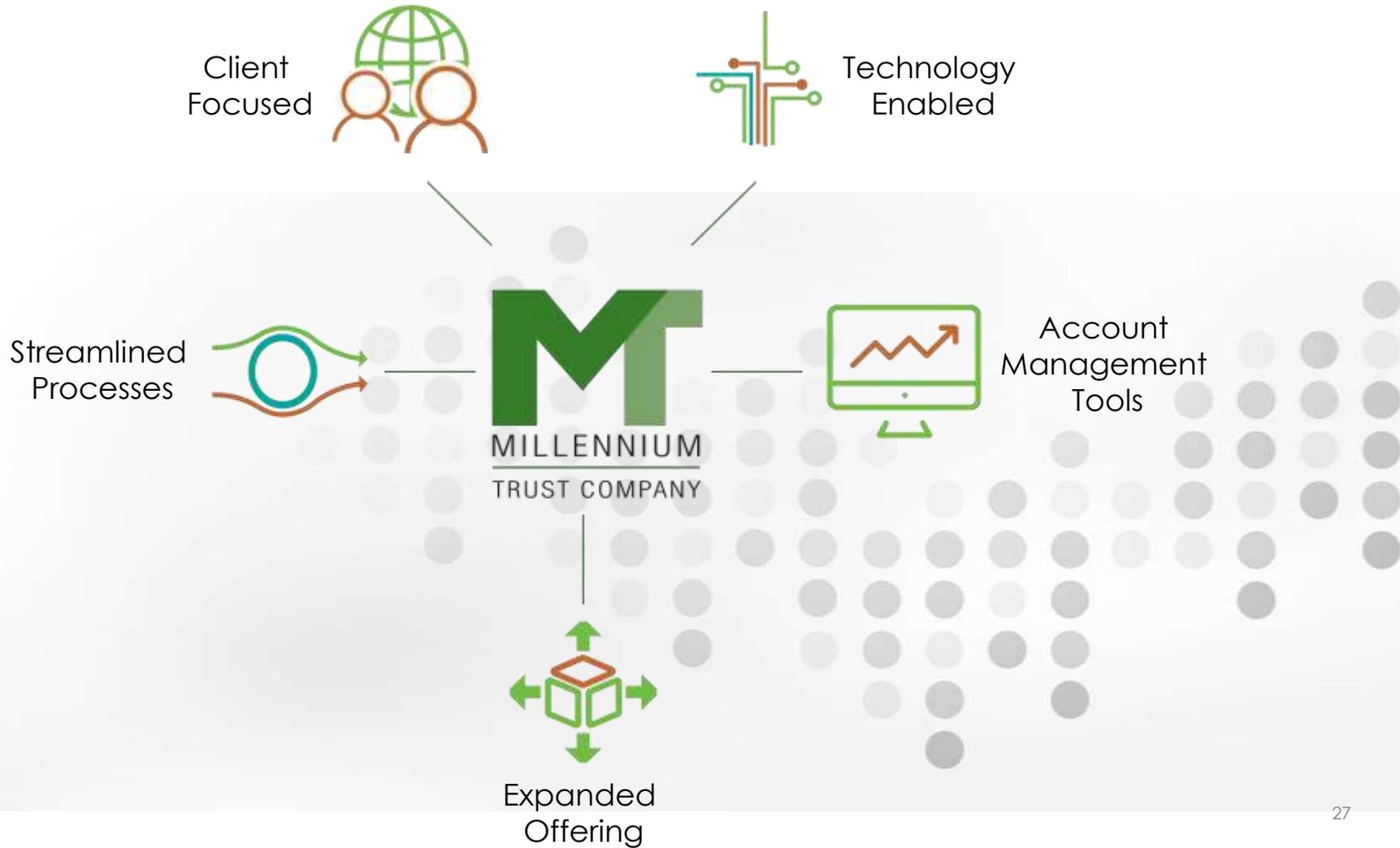
**Solid** Returns

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# ABOUT MILLENNIUM TRUST COMPANY

- 
- Privately-owned independent custodian located in Oak Brook, IL
  - Over 440,000 client accounts
  - \$18.1 billion of assets under custody
  - \$2.5 million in expanded FDIC coverage provided by multiple banks in a Cash Sweep Program for idle cash in retirement accounts
  - Regulated by the Illinois Department of Financial & Professional Regulation

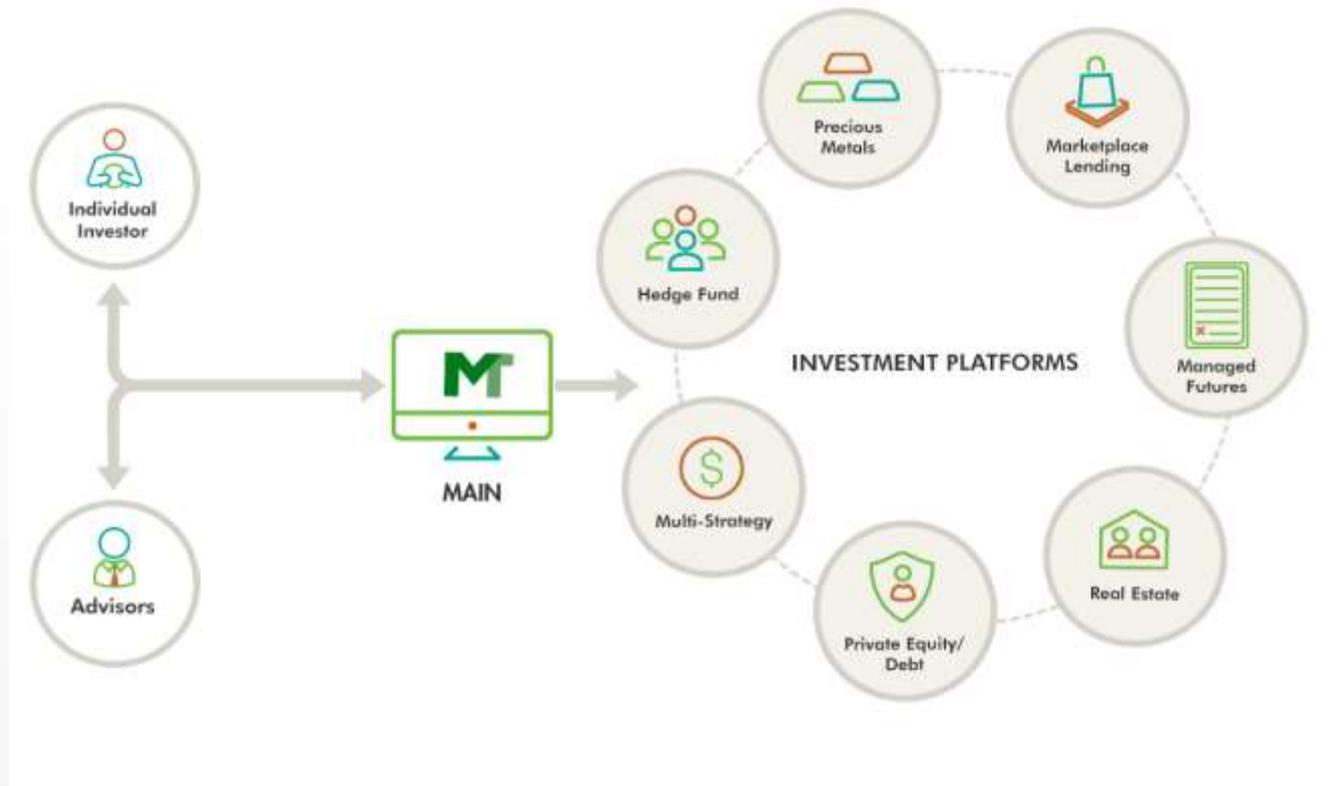
# WHY CHOOSE MILLENNIUM TRUST



# SUPPORTED PORTFOLIO MANAGEMENT SYSTEMS

Available Data for:	Client Information	Portfolio/ Holdings	Pricing/ Securities	Transactions
Portfolio Center	X	X	X	X
Advent	X	X		X
PrincipiaCAMS	X	X	X	X
Orion	X	X	X	X
Envestnet	X	X	X	X
eMoney	X	X	X	
Black Diamond	X	X	X	X
Addepar	X	X	X	X
Power Advisor	X	X	X	X

# MILLENNIUM ALTERNATIVE INVESTMENT NETWORK™ (MAIN)™



SOURCE: Millennium Trust Company, Schematic Illustration

Millennium Trust does not endorse any platform or investment, including platforms and investments accessible through MAIN. Millennium Trust performs the duties of a custodian and, as such, does not provide any investment, tax or legal advice, or perform any due diligence on behalf of account holders or any third party.

# Question & Answer Session

# MAIN WEBINAR SERIES



Tuesday, June 21  
3:00 p.m. CT

## How to Participate in the Alternatives Market

Presented by: FNEX

Marketplace Lending

Private Equity

Metals

Hedge Funds

Other

Thank you for attending!



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