Performance Report Q4 2018

A member of El Polo, a coffee cooperative and Root Capital client in Nicaragua. In spite of the political crisis that has paralyzed parts of the country, this business continues to create opportunities for farmers and to invest in its community.

OVERVIEW

We are deeply grateful to our donors, investors, staff, and clients for helping make 2018 a successful year for Root Capital, both in terms of our impact and our financial performance. We are proud to report a year-end surplus driven by exceptional fundraising.

In 2018, Root Capital reached 202 businesses that connected more than 631,000 smallholder farmers—including 243,000 women—to markets and services. These enterprises generated $864 million in revenue, of which more than 81 percent was paid directly to producers. Since the beginning of the year, we have provided more than 3,000 days of financial, agronomic, and mobile technology training to 430 high-impact businesses. In Q4 alone, Root Capital delivered over 900 days of training to both current and potential borrowers.

When we invest in these businesses, they transform rural communities. They raise incomes and create jobs, empower women and young people, sustain peace, and preserve vulnerable ecosystems. With the help of our supporters, employees, and client businesses, we are achieving lasting positive impact around the world.

Portfolio Performance and Impact

In Q4 2018, our average active loan portfolio was $47.2 million, a 23 percent decrease over this time last year ($61.3 million). Loan disbursements in 2018 were $97 million, 19 percent less than in 2017 ($119.8 million). Seventy percent of loans in the portfolio were additional, meaning that Root Capital filled credit needs unaddressed by commercial lenders.

Loans to coffee businesses continue to form the majority of our portfolio, composing 63 percent of our Q4 average portfolio balance. This was followed by legacy loans in the fisheries sector ($4.7 million, 10 percent), loans to cocoa businesses ($4.6 million, 10 percent), and loans to processed nuts businesses ($2.0 million, 4 percent).

Through the end of the year, Root Capital's lending volume was lower than anticipated due to a combination of factors affecting our global portfolio. Commodity prices were a principal driver: With the C-price at a ten-year low, coffee businesses across our global portfolio struggled to earn enough money to hire the labor needed to operate at maximum capacity. In addition, our East Africa portfolio contracted in 2018 for a variety of factors: We wrote off nonperforming loans, had one client use less of their line of credit than expected, and saw another client transition out of our portfolio. Civil unrest and Ebola in the Democratic Republic of Congo (DRC) created a challenging business environment for closing new loans, further contributing to a reduced portfolio in East Africa. Political turmoil in Nicaragua also impacted our global lending volume; in Q4, ongoing volatility led disbursements in the country to decrease 25 percent year-over-year.

However, the continued strong performance of several core segments of our portfolio partially offset this lending slowdown. New clients in Costa Rica and increased lending in Guatemala and Mexico offset the decline in Nicaragua. Overall, Q4 disbursements in Mexico and Central America rose by 11 percent year-over-year. We experienced particularly high demand from our coffee clients in Mexico—many of whom create higher incomes for historically disadvantaged indigenous farmers and actively work to preserve sensitive ecosystems. We share the story of one of these businesses, CESMACH, at the end of this report.

Portfolio Quality

At the end of 2018, our Portfolio-At-Risk greater than 90 days (PAR>90) was $6.0 million (12.7 percent), down from $6.6 million (13.4 percent) the previous quarter. The main drivers of this decrease in PAR>90 were repayments received from clients in PAR at the end of Q3, as well as the upgrade out of PAR of an East African coffee client. In 2018, our net provisioning expense was $4.1 million compared to $3.7 million in 2017, reflecting our continued conservative approach to portfolio risk. Over the past 12 months, we wrote off $5.6 million of past-due loans and recovered $2.2 million of previously written-off principal, resulting in a net write-off ratio of 6.1 percent.

As we continue to focus on carefully managing risk and strengthening our core lending model, we are encouraged by the continued impact of our clients and the ongoing positive results reported by our Advisory Services team.

Advisory Services

This quarter, Root Capital's Advisory Services trainers spent over 900 days with current and potential lending clients, delving into such topics as internal control systems, cash flow projections, cooperative membership equity, business intelligence, climate-smart agriculture, and succession planning. In 2018, our Advisory Services team delivered more than 3,000 days of training to 430 high-impact agricultural businesses.

In West Africa, our team designed two workshops in Q4 to meet common challenges faced by our clients, most of which work in nuts, rice, and other staple grains. In the face of new tax regulations for agribusinesses, our financial advisory trainers prepared nine company leads to navigate the changes and remain in compliance with local law. In addition, as most businesses are family-run, we trained founders on succession planning, building their capacity to ready the next generation for leadership roles.

In East Africa, we continue to work in the areas most underserved by financial institutions. We are particularly encouraged by coffee cooperative leaders in eastern DRC who remain committed to connecting producers to markets and services despite a challenging business environment. Leading up to contentious national elections in December, we organized a training focused on governance structure for nine of these cooperatives. Cooperative management teams were guided in performing a governance health check for their organizations and creating an action plan to address weaknesses, such as lack of role definition or infrequent communication with members. Amid ongoing political tension, these leaders remain committed to good governance in their businesses.

In South America, we're pleased to report that our advisory programs strengthened business' capacity to manage finance. The story of Selva Andina is a great example. We first engaged with this Peruvian coffee cooperative in 2017 through a training on succession planning, then expanded our service offering with a mobile technology training on how to digitize internal inspection data. These trainings proved to be a key differentiator for the client: Selva Andina entered the Root Capital portfolio later that year, and is currently moving forward with an application for increased financing. Based on the cooperative's strong performance, we awarded it a USAID-funded Resilience Grant to help build customized fertilization plans that will boost the yields and incomes of members.

In Mexico and Central America, we continued to grow our support of honey cooperatives with funding from the Puma Energy Foundation and the Trafigura Foundation. This quarter, we conducted enterprise-level diagnostics to help select honey businesses identify key business needs. In 2019, we will develop targeted training programs that will enable these enterprises to address deficiencies and strengthen their operations. Additionally, we held our first climate change workshop for coffee cooperatives in Guatemala, where we discussed how shifting weather patterns could affect production and suggested appropriate options for adapting to the impacts of a changing climate. This workshop will serve as a model as we continue to build our clients' resilience to climate change.

Financial Results

Root Capital is proud to report that a strong fourth quarter led to a year-end surplus of $400,000—our second successive annual surplus. Root Capital's interest and fee revenue decreased to $5.3 million in 2018—compared to $7.5 million in 2017—due to the portfolio contraction discussed above. However, robust fundraising more than offset this decline.

Root Capital's portfolio was supported by $11.1 million in unrestricted net assets, $62.9 million in investor notes, and $7.4 million in subordinated debt, resulting in a debt-to-equity ratio of 3.4x. Net provisioning expenses rose slightly from $3.7 million in 2017 to $4.2 million in 2018, largely as a function of additional provisioning on certain legacy loans to sectors outside of our current core lending strategy. Notably, provisioning on loans to the coffee sector constituted only 10 percent of our gross provisioning expense, despite representing the majority of our portfolio balance. Operating expenses rose to $14.9 million—which is $1.7 million more than operating expenses incurred in 2017—as a result of increased donor-funded activities.

In 2018, Root Capital's philanthropic supporters unequivocally demonstrated their commitment to our mission. Root Capital experienced strong fundraising performance with contribution revenue rising nearly 40 percent year-over-year to $15 million. We're also pleased to report a total of $20.5 million in grant-funded net assets at year end, including $4.6 million in temporarily restricted grants and $15.3 million of conditional grants that will be added to our net asset balance in future periods.

The fourth quarter of 2018 brought several major fundraising successes. First, during our end-of-year campaign, we had our most successful individual fundraising day to date, raising $30,000 from 128 individual donors on Giving Tuesday. In addition, we expanded our long-term partnership with the IKEA Foundation, announcing a €4.8 million effort to supply capital and advisory services to 220 businesses in East Africa. Over the next three years, this project will increase incomes for 260,000 farmers and build their resilience to climate change. Lastly, Root Capital launched a concerted effort to bolster net assets through unrestricted fundraising, which will allow us to maintain a healthy level of funding reserves and reach clients with higher demands for capital.

Capital Partners

Throughout 2018, we continued to support the financing needs of certain businesses through off-balance sheet activities that allow us to serve larger clients, limit our concentration risk from any single borrower, and harness additional pools of impact-focused capital. These activities include participation sales, whereby lenders purchase portions of loans in our portfolio, and syndicated lending, in which exposure is shared pro-rata among one or more partners. In the fourth quarter of 2018, the average balances in our Capital Partners' activities totaled $5.0 million.

Conclusion

By offering a targeted combination of high-impact loans and specialized training, Root Capital strengthens agricultural businesses that transform rural communities. As we enter our 20th year, we look forward to further collaboration with our donors, investors, and partners. Together, we can build prosperity for farming families around the world.

Fourth Quarter Dashboard

Metric	Result	Full Year Target (unless otherwise noted)	Results as % of Target
Social and Environmental Metrics			
Number of Producers Reached	631K	595K	106%
Purchases from Producers	$706M	$754M	94%
Total Sales for the Businesses	$864M	$979M	88%
Sustainable Hectares under Management	529K	415K	127%
Lending Program			
Loan Disbursements	$97.0M	$131.0M	74%
Average Outstanding Portfolio Balance [1]	$47.2M	$67.3M	70%
Average Outstanding Balance per Active Loan [1]	$357K	$391K	91%
Number of Businesses Reached [2]	202	225	90%
Portfolio-at-Risk Over 90 Days [1,3]	12.7%	< 7.0%	
Net Write-off Ratio (Trailing 12 Months)	6.1%	< 6.0%	
Advisory Services			
Number of Businesses Served	430	301	143%
Days of Training Delivered	3050	1965	155%
Operating Results			
Total Operating Expense	$14.9M	$15.0M	99%
Debt-to-Equity Ratio [3]	3.4	< 5.0	
Capital Utilization [3]	64%	87%	74%
Capital Partners			
Average Outstanding Balance [1]	$6.2M	$18.8M	33%
Number of Businesses Reached [2]	21	n/a	

[1] *Result and target are for the current quarter only.*
[2] *"Businesses Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period. See Terms and Acronyms below.*
[3] *Figures represent performance on last day of quarter.*

Terms and Acronyms

Businesses Reached: We report "clients reached" to capture the number of businesses reached by our capital. Clients reached are those that had an outstanding loan balance at any point in the quarter, including clients that did not receive a disbursement in the quarter. This is a cumulative metric; clients are added to the annual total in the quarter in which they are first reached.

Capital Utilization: Capital utilization measures the proportion of available capital that is deployed in our lending portfolio at a point in time, calculated as: (gross loans outstanding) / (notes payable + unrestricted net assets).

Debt-to-Equity: Notes payable and other debt, divided by lending net assets. Our calculation treats long-term subordinated debt as equity, reflecting its equity-like characteristics.

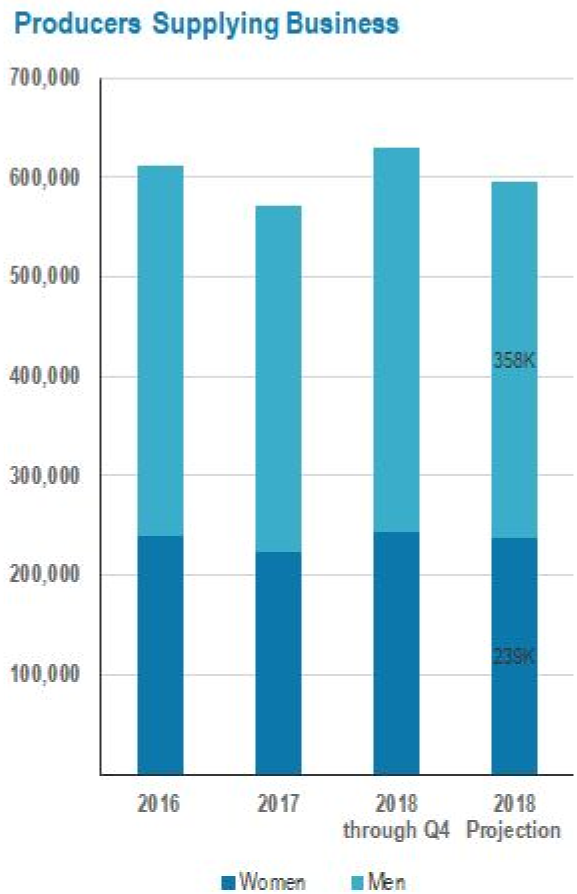
Gender-Inclusive Clients: A gender-inclusive business either has a supplier and non-managerial employee base comprised of at least 30 percent women, or is woman-led with at least 20 percent participation by women producers and/or employees.

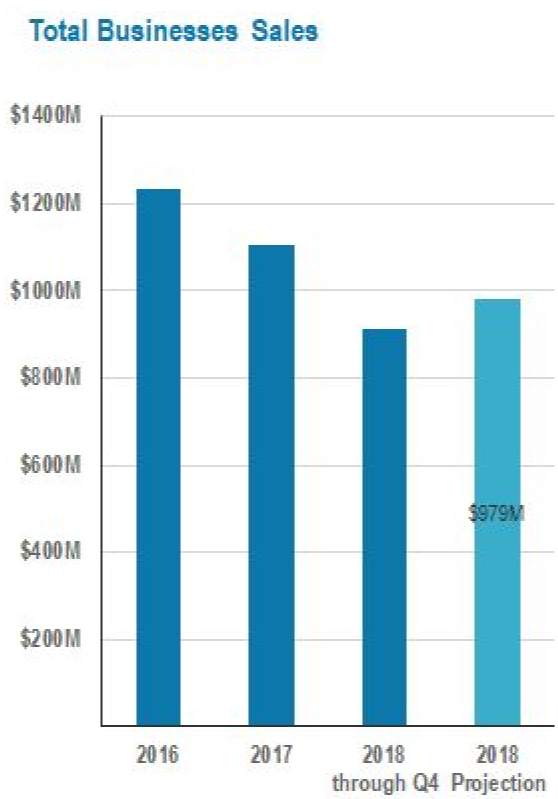
Net Write-off Ratio: A trailing 12-month figure representing the previous 12 months' write-offs, net of recovered funds, as a percentage of the average outstanding balance during the same period.

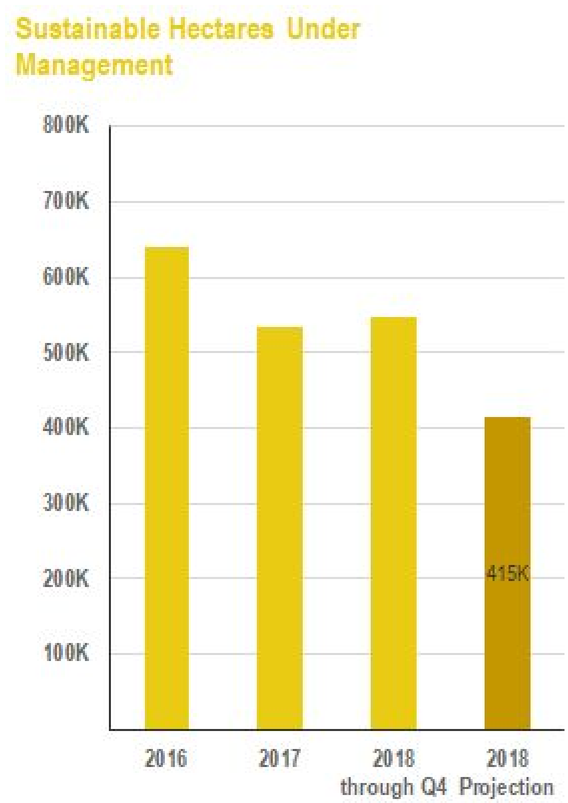
Region Acronyms: MAC (Mesoamerica & Caribbean), SAM (South America), EAF (East Africa), WAF (West Africa), ASI (Southeast Asia — currently Indonesia).

PORTFOLIO PERFORMANCE

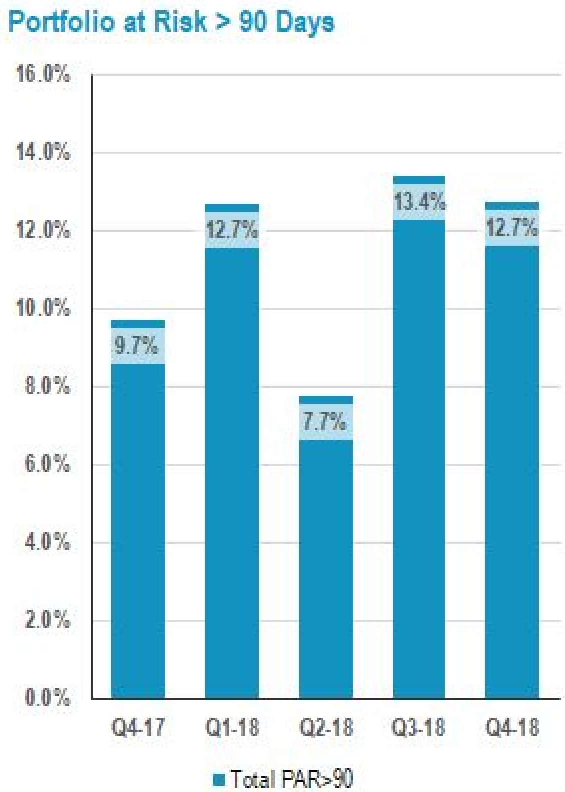
Social and Environmental Metrics

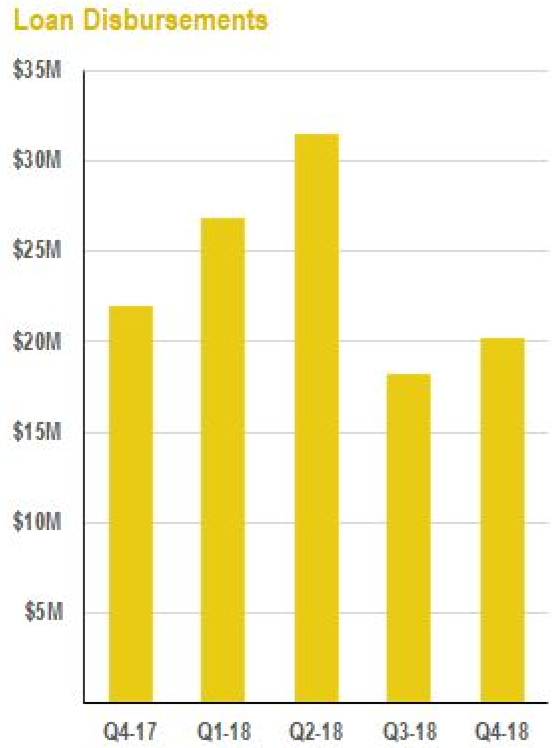


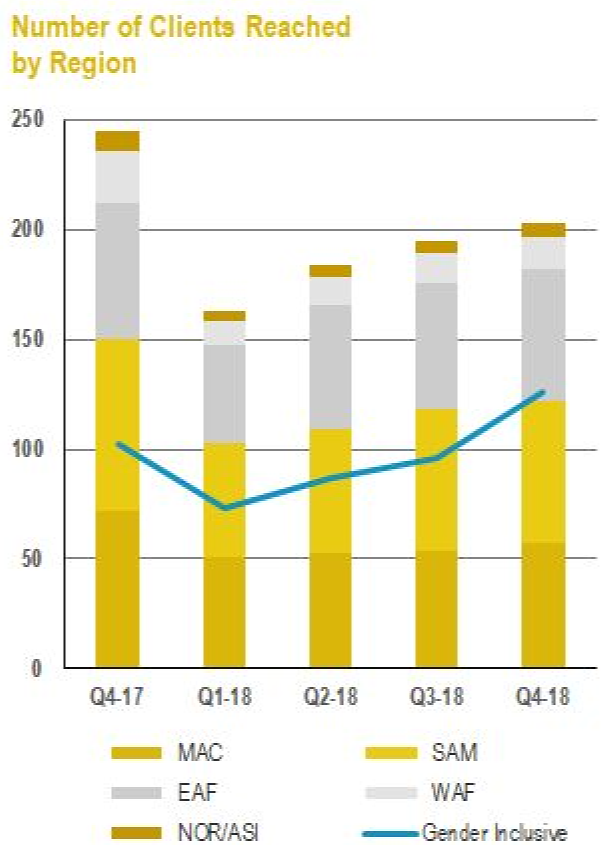




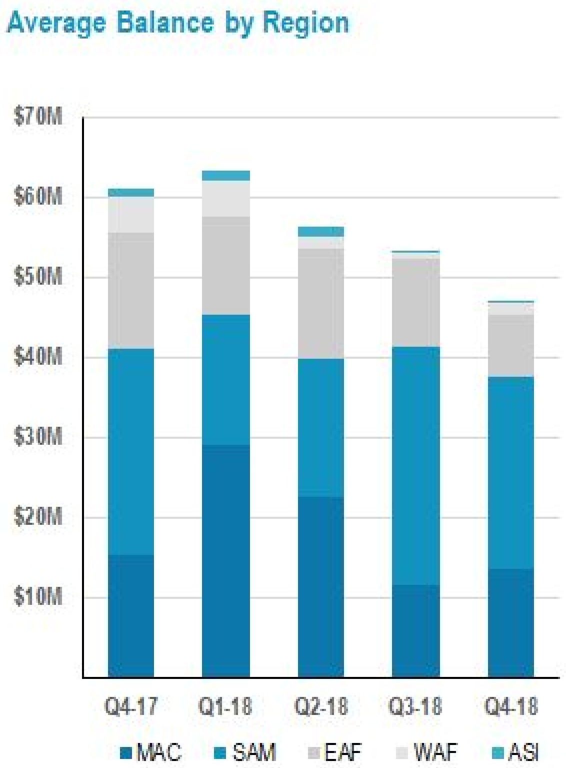
Lending Performance

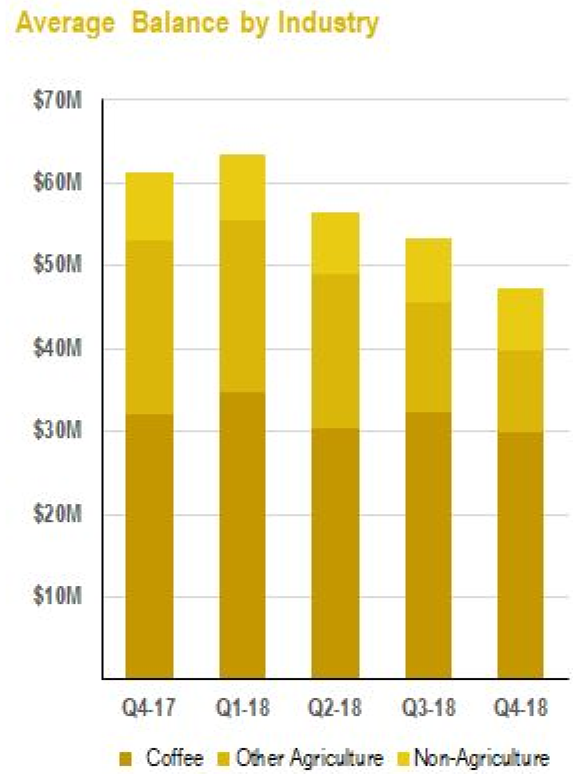




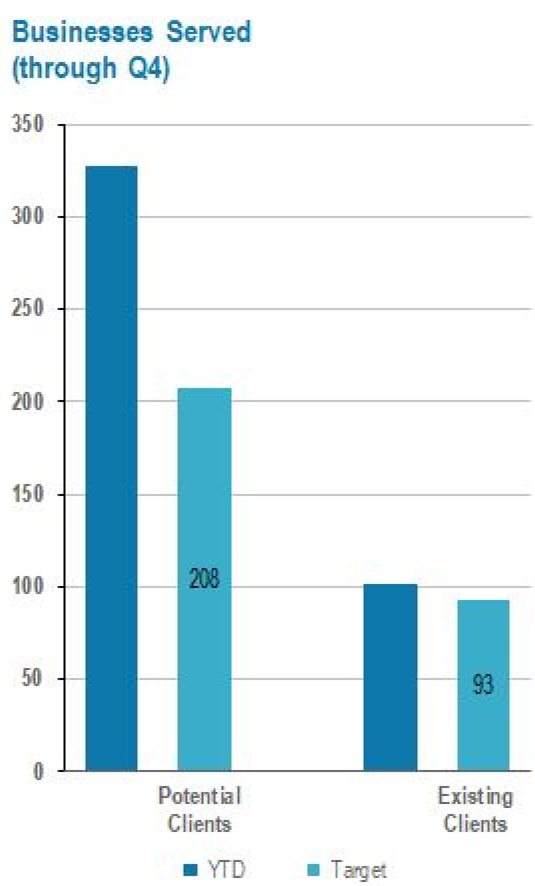


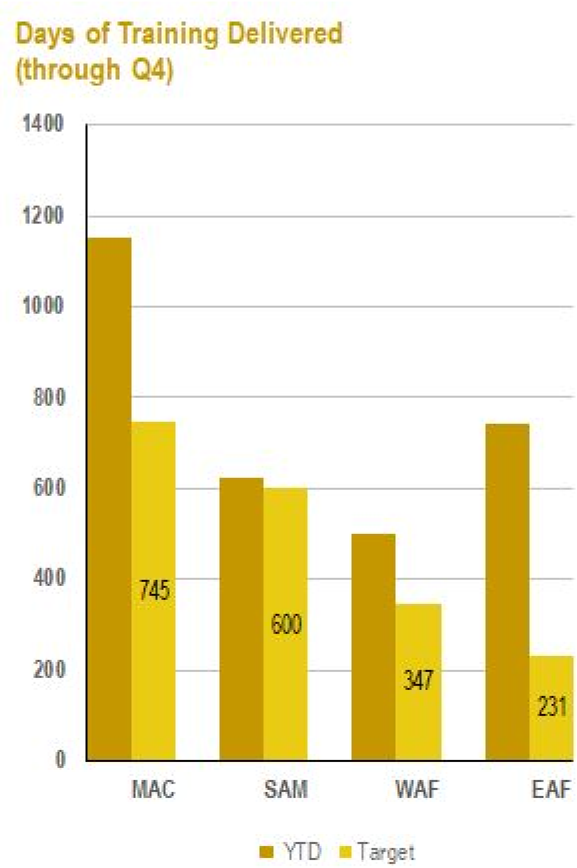
* As of December 31, 2017, we segregated and removed a segment "other collateralized assets" from the PAR greater than 90 days and total portfolio balances and restated results for previous quarters. At quarter end, we held $5.6 million in other collateralized assets.





Advisory Services





Balance Sheet

As of December 31, 2018

Balance Sheet Highlights			
Millions of USD	2018	2017	Yr/Yr Growth
Cash and Short-Term Investments	39.8	36.9	8%
Total Loans Receivable	47.1	60.7	-22%
Allowance for Credit Losses	(7.9)	(7.2)	10%
Loans Receivable (net)	39.2	53.5	-27%
Other Collateralized Assets (net) (1)	2.7	2.6	5%
Other Assets	9.4	12.3	-24%
Total Assets	**91.1**	**105.3**	**-13%**
Senior Debt	62.9	73.2	-14%
Subordinated Debt	7.4	9.2	-19%
Other Liabilities	5.1	6.6	-23%
Total Liabilities	**75.4**	**89.0**	**-15%**
Lending Net Assets	11.1	10.7	4%
T/R Net Assets (Purpose & Time)	4.6	5.6	-18%
Total Net Assets	15.7	16.3	**-4%**
Total Liabilities & Net Assets	**91.1**	**105.3**	**-13%**

(1) Includes Other Collateralized Assets ($5M in Q4 2018 and $4.7M in Q4 2017), net of allowance for losses ($2.3M in Q4 2018 and $2.1M in Q4 2017)
(2)Grant Net Assets include $4.6M of Temporarily Restricted Net Assets, held on the balance sheet, as well as $15.3M of conditional grants, held off of our balance sheet, and $0.6M of subordinated debt pledged to convert to net assets through 2020.. As grant conditions are met in future periods, we will add the off-balance sheet conditional grants to Temporarily Restricted Net Assets (Purpose & Time) and the other liabilities will be transferred to donor-restricted net assets for lending.
(3) Debt to equity includes long-term subordinated debt as equity, reflecting its equity-like characteristics.

Statement of Activities

As of December 31, 2018

Millions of USD	2018	2017	Yr/Yr Growth
Interest & Fee Revenue	**5.3**	**7.5**	**-29%**
Net Interest Expense	(1.5)	(1.9)	-18%
Net Interest & Fee Revenue	**3.8**	**5.7**	**-33%**
Net Provisioning Expense	(4.2)	(3.7)	14%
Net Lending Revenue	**(0.4)**	**2.0**	**-122%**
LAFCo & Agency Services Fees	0.4	0.5	-27%
Net Operating Revenue	**(0.1)**	**2.5**	**-102%**
Operating Expenses	(14.9)	(13.2)	13%
Operating Deficit	**(15.0)**	**(10.8)**	**39%**
Contributions for Operations	15.0	10.3	46%
Fee for Service Revenue	0.4	0.5	-30%
Net Surplus	**0.4**	**0.1**	**690%**

Disclosure

The financial data is deemed accurate, but is not audited. Annual audited financial statements will be provided to the Board of Directors, donors and investors. In the event of material differences, a reconciliation will also be provided. Additionally, past performance is not indicative, nor a guaranty, of future results, and no assurances can be given that the Notes will be repaid.

For additional information, please go to www.rootcapital.org or email info@rootcapital.org.

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CESMACH member Elin Vasquez Salas with Root Capital VP of Advisory Services Alexandra Tuinstra

Client Profile

CESMACH

Location: Chiapas, Mexico

Growing up, Elin Vazquez Salas had few opportunities. But thanks to support from Root Capital client CESMACH, he now earns a decent income growing organic coffee while helping to preserve one of the last remaining cloud forests in Mesoamerica. When an outbreak of coffee leaf rust destroyed 80 percent of his crops in 2015, he stumbled but did not fall; with CESMACH's help, he was able to replace the bulk of his dead coffee plants with new, disease-resistant trees. Asked why he works so hard on his remote farm, Elin lights up with pride; with the money he earns, he explains, he can pay for his daughter's university tuition.

Elin's story is typical of the impact that CESMACH brings to its 625 members. Since the cooperative was established in 1994, it has delivered higher incomes, job opportunities, and market access to farming families across Chiapas—many of them indigenous. Located just outside of the Triunfo Verde cloud forest, the cooperative trains its farmers to steward one of the world's most vulnerable ecosystems. And when crop disease swept through the region several years ago, CESMACH helped farmers like Elin recover.

CESMACH has been one of Root Capital's most steadfast clients since 2005. That year, we provided a loan of $190,000, which they repaid in full. Since then, Root Capital has loaned the business more than $8.5 million in financing and trained its staff to manage increasing amounts of working capital. With Root Capital's support, the cooperative has built a sterling reputation as one of southern Mexico's most reliable coffee-producing businesses—and unlocked opportunity for hundreds of farmers like Elin.