Performance Report
Q3 2017

root capital

OVERVIEW

Through the third quarter of 2017, Root Capital reached 248 businesses, strengthening their ability to transform their communities. These businesses reached 570,000 producers (221,000 of whom are women), connecting them to global markets and raising incomes for their families. In countries like Peru, where many struggling farmers cultivate crops for the drug trade as a means for survival, higher incomes from crops like coffee offer an alternative. Businesses like Pangoa, a coffee cooperative that we feature at the end of this report, continue to be engines of positive impact despite significant pressure on them and the families they serve. They are among the businesses we reached year to date, which collectively purchased $942 million from producers and are on track to top $1.1 billion in revenue this year.

Results to date are also evidence of the work we did early in the year to hone our lending strategy. For example, we have sought to scale our lending to coffee businesses to maximize impact—both by going deeper with existing clients and by adding clients in newer geographies. As a result, we have disbursed 38 percent more ($21.5 million) year over year to coffee groups, including reaching 20 new clients in that industry. This growth is particularly encouraging given the significant hardship coffee businesses have faced throughout Latin America in recent years due to challenging market conditions and coffee leaf rust. In Peru for example, where certain parts of the country were devastated by coffee leaf rust, we supported nine coffee clients, who each needed more than $500K in additional credit this year compared to last.

Portfolio Performance and Impact

Through Q3 2017, Root Capital disbursed $97.8 million to agricultural businesses in Latin America, Africa and Indonesia—an increase of nine percent ($8.5 million) over the same time period last year. This increase was largely the result of a combination of our strategic plan to focus on the growth of coffee as the core of our portfolio and a strong coffee harvest in South America. Our disbursements to coffee cooperatives in South America grew by 50% from $17.2 million in 2016 through Q3 to $25.9 million at the end of Q3 this year.

Root Capital's average outstanding portfolio balance for the quarter was $74.4 million, which is down 12 percent from $84.2 million for the third quarter last year. This is due in large part to year-to-date write offs and an increase in off-balance sheet lending. Coffee remains slightly more than half of our average portfolio balance at $37.8 million (51 percent). Outside of coffee, we supported businesses in a range of other agricultural industries, including cocoa, cashews and macadamia nuts, each of which makes up 6-7 percent of the portfolio balance.

Portfolio Quality

At the end of Q3 2017, 15.1 percent ($10.9 million) of Root Capital's lending was classified as Portfolio-at-Risk (PAR) greater than 90 days, up from 11.9 percent ($9.1 million) last quarter. Of the $1.8 million increase in PAR greater than 90 days, one loan of $1.1 million to a Ugandan cocoa business was the primary contributor. Challenges abound in the cocoa market and prices have declined significantly since the end of last year. The PAR greater than 90 days percentage was further elevated due to a five percent decline in period-end portfolio balance from last quarter.

During Q3, we wrote off $348,000 in loans and recovered $342,000. Year-to-date write offs total $6.5 million (to 28 clients) and recoveries total $1.8 million. The resulting net write-off ratio, a 12-month trailing figure, increased slightly to 7.2% from 6.7% last quarter. Given the elevated level of at-risk loans in the portfolio that we have experienced since 2015 and have been working to address, these write-off and net write-off ratios are within our expectations for the year.

Advisory Services

In Q3, Root Capital delivered more than 400 days of training focused on financial management, agronomy, processing and information management. Year to date we have worked with 288 enterprises, delivering more than 1,000 days of training.

During the quarter, we increased the level of advisory services in several countries that are key to our lending strategy. For example, we launched advisory services in Colombia thanks to funding from Keurig Green Mountain and USAID. Our advisors began laying the groundwork for the delivery of future financial management and information management training, completing business diagnostics that will inform customized, multi-year training workplans for up to nine businesses in the country.

In 2016, we launched the pilot for our Gender Equity Grants program, whereby we invited businesses to apply for grants of up to $20,000 to fund projects that advance women's participation, skills and leadership. Over the course of 2017, we completed the program pilot, in which we worked with three businesses in Kenya, supporting solutions such as a daycare facility, a storage facility for sorghum, and a savings program. The Village Nut Company, a macadamia nut processor that is women-led and sources from 9,000 producer members, 60% of whom are women, was one of the three grant recipients. The Village Nut Company used their grant to build a daycare facility on the premises of their processing plant to guarantee that the majority-female staff is able to work while their young children are well cared for. This project was featured in a global study conducted by the International Finance Corporation on the case for employer-sponsored childcare. You can find that study here and also read our blog post on the project here.

Financial Results

Financial results through the end of Q3 mark the progress we have made toward stabilization after a challenging 2016. Even with a smaller balance sheet compared to this time last year, our total interest and fee revenue through the third quarter was consistent with last year's earnings, at $5.9 million. Net provisioning—our largest and most variable expense—was $3.3 million at the end of the quarter which is in line with expectations and 33 percent lower than at this time last year.

At quarter end, our $72.3 million lending portfolio was supported by $8.9 million in net assets for lending and $9.5 million in long-term subordinated debt. Through the end of Q3, we posted a net operating deficit of $1.2 million, compared to $4.5 million at this time last year, which is in line with our year-to-date expectations given the seasonality of our fundraising. We expect to see a stronger fourth quarter for contributions (indeed, as of this writing, we are seeing excellent year-end momentum).

Conclusion

While we assess our most recent performance, we also want to recognize the impact our investments have over the long term. Nearly five years have passed since we launched the Coffee Farmer Resilience Initiative, to provide long-term renovation loans and a suite of supporting services in response to the 2012 outbreak of coffee leaf rust in Latin America. Now, farmers are beginning to see the results of their renovated coffee farms and our in-house agronomic experts have seen the new, thriving coffee plants firsthand.

Recognizing both the opportunity to make agriculture work as a sustainable livelihood for coffee producers and the ongoing need for support to strengthen the global coffee supply chain, we are excited to announce our partnership with both Keurig Green Mountain and USAID to further improve the resilience and competitiveness of more than 100 coffee enterprises. This $4 million project will generate impact for more than 90,000 smallholder farmers and their families in Uganda, Rwanda, Colombia, Peru, Honduras and Indonesia over the next three years.

As we head into the final stretch of the year, we are grateful to all our partners for helping us strengthen our operations and increase our impact this year. In that spirit of gratefulness and generosity, in the coming weeks, we'll be inviting you along with all our partners to double down on your impact by joining our year-end fundraising campaign. We thank you for considering making a gift now or before year end, and for the many ways in which you support our work and the vital agricultural businesses we serve.

Third Quarter Dashboard

Metric	Result	Full Year Target (unless otherwise noted)	Results as % of Target
Social and Environmental Metrics			
Number of Producers Reached	684K	774K	88%
Producers supplying business	568K	634K	90%
Producers buying inputs	116K	140K	83%
Purchases from Producers	$889M	$1.1B	84%
Total Revenue of businesses	$1.1B	$1.3B	86%
Sustainable Hectares under Management	545K	673K	81%
Lending Program			
Loan Disbursements	$97.8M	$124.6M	79%
Average Outstanding Portfolio Balance [1]	$74.4M	$87.5M	85%
Average Outstanding Balance per Active Loan	$352K	$359K	
Number of Clients Reached [2]	248	318	78%
Additional Capital Mobilized [3]	$6.5M	$6.3M	102%
Portfolio-at-Risk Over 90 Days *	15.1%	< 7.0%	
Net Write-off Ratio *	7.2%	< 6.0%	
Advisory Services			
Number of Businesses Served	288	271	106%
Days of Training Delivered	1016	1506	67%
Operating Results			
Total Operating Expense	$9.7M	$13.5M	71%
Debt to Equity Ratio*	4.0	< 5.0	
Capital Utilization *	79%	87%	91%

[1] *Average Outstanding Balance figures are for the current quarter only.*
[2] *"Clients Reached" includes the total number of clients with an outstanding balance at any point in the quarter. See Terms and Acronyms below.*
[3] *"Additional Capital Mobilized" is the combined average balance for loan participations and syndicated loans. See Terms and Acronyms below.*
** Figures represent performance on last day of quarter.*

Capital Partners

We continue to expand our ability to meet the needs of agricultural businesses through partnerships with other impact investors and service providers. Currently we manage two main activities: participation sales, in which lenders support our capacity to serve our clients by purchasing portions of the largest loans in our portfolio, and management of the Lending for African Farmers Company (LAFCo), an African-domiciled investment company that targets small- and medium-sized enterprises that contribute to food security and better nutrition across the continent.

At the end of Q3, with the support of three participation partners, the average outstanding balance to participations was $4.3 million, with disbursements to 18 businesses. In addition, at the end of Q3, the average outstanding balance in LAFCo was $3.8 million, with disbursements to 10 businesses that source from 144,960 producers (63,450 of whom are women).

The table below represents the financial, social and environmental results for LAFCo. As Root Capital and LAFCo are co-lenders to many of the same companies, these results should not be interpreted as fully additional to the Root Capital portfolio metrics.

LAFCo Dashboard	Result
Social and Environmental Metrics	
Number of Producers Reached	145K
Producers supplying business	144K
Producers buying inputs	1K
Purchases from Producers	$79M
Total Revenue of businesses	$113M
Sustainable Hectares under Management	100K
Lending Program	
Loan Disbursements	$3.9M
Average Outstanding Balance [1]	$3.8M
Number of Clients Reached [2]	10

[1] *Average Outstanding Balance figures are for the current quarter only.*
[2] *"Clients Reached" includes the total number of clients with an outstanding balance at any point in the quarter.*

Terms and Acronyms

Additional Capital Mobilized: Loans facilitated by Root Capital beyond those made on our own balance sheet (e.g., capital placed via syndicated lending with other impact investors or via loan referrals).

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).

Clients Reached: We report "clients reached" to capture the number of businesses reached by our capital. Clients reached are those that had an outstanding 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.

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.

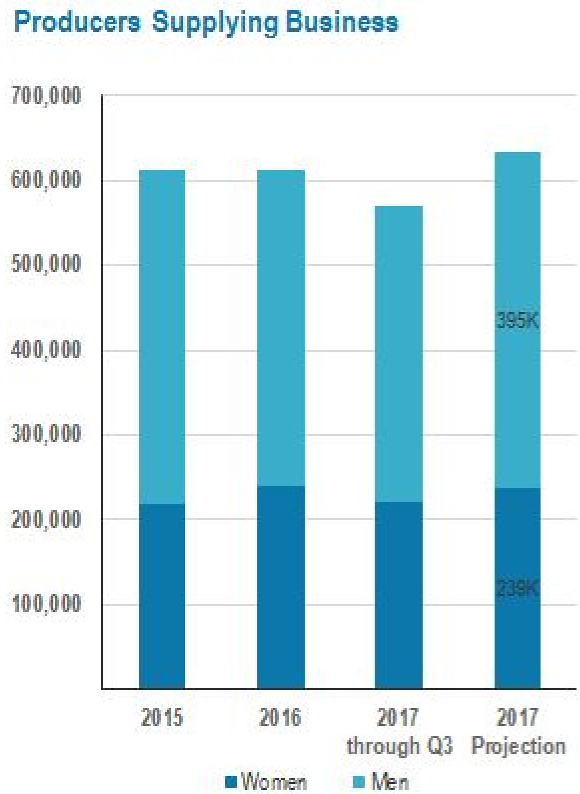
Gender-Inclusive Clients: A gender-inclusive business either has a supplier and nonmanagerial employee base composed of 30 percent women or more, or is woman-led with 20 percent or greater participation by women producers and/or employees.

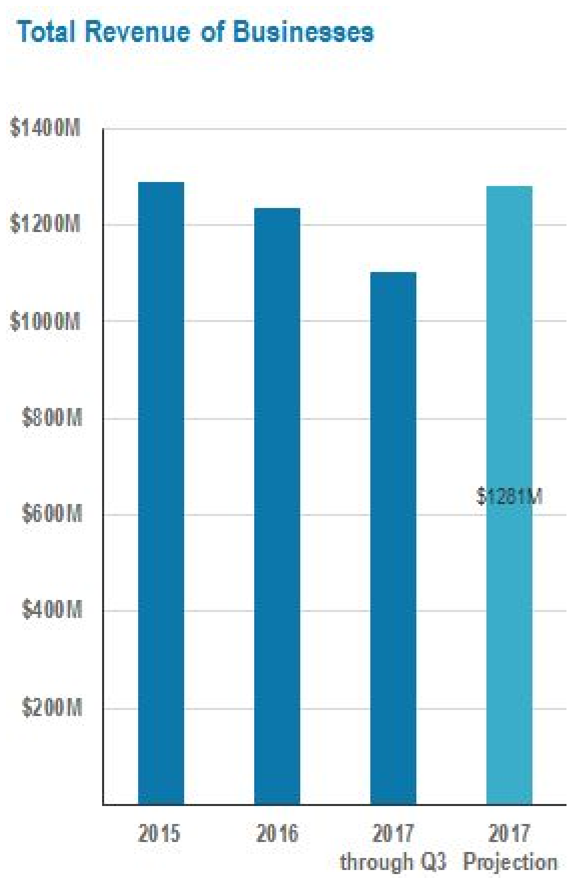
Net Write-off Ratio: A trailing 12-month figure representing the previous 12 months' write offs, net of recovered funds, as a percentage of the average outstanding balance during the same period.

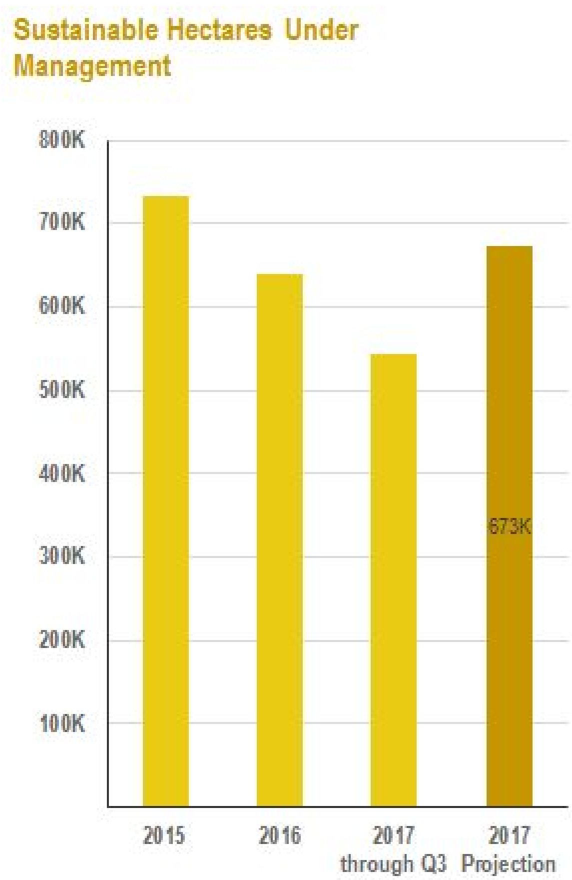
Region Acronyms: MAC (Mesoamerica & Caribbean), SAM (South America), EAF (East Africa), WAF (West Africa), ASI (Asia — currently Indonesia).

PORTFOLIO PERFORMANCE

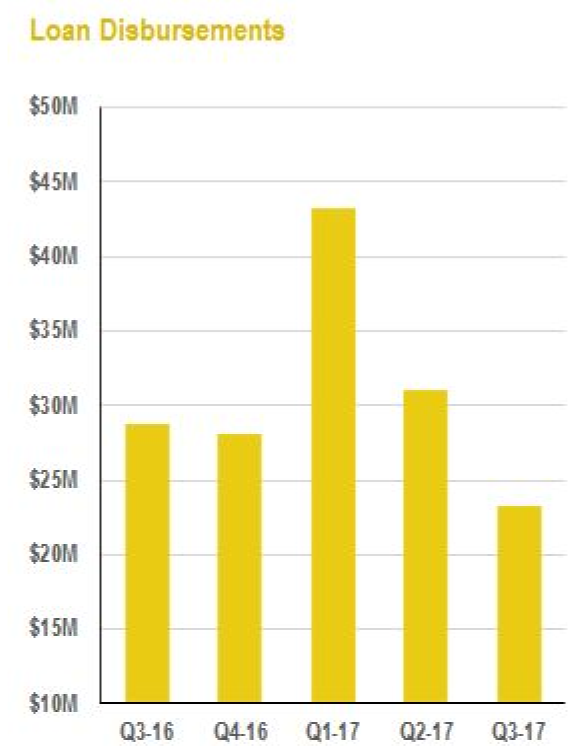
Social and Environmental Metrics

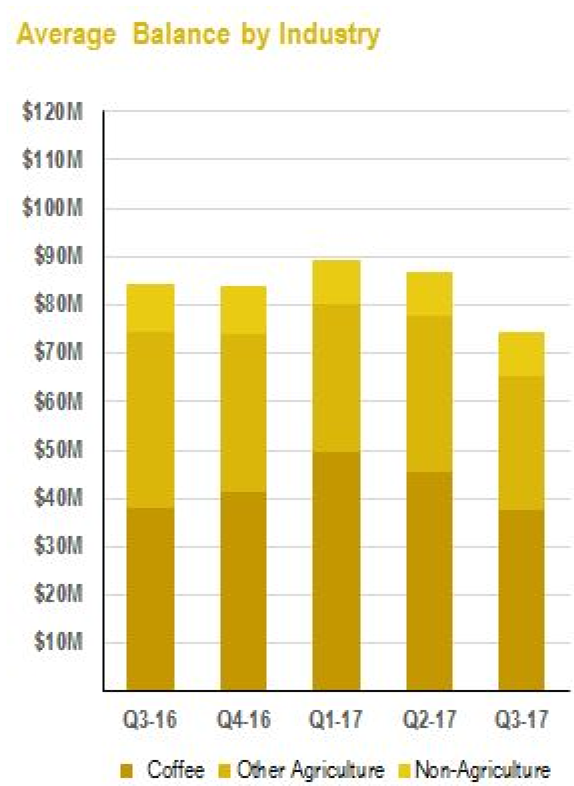


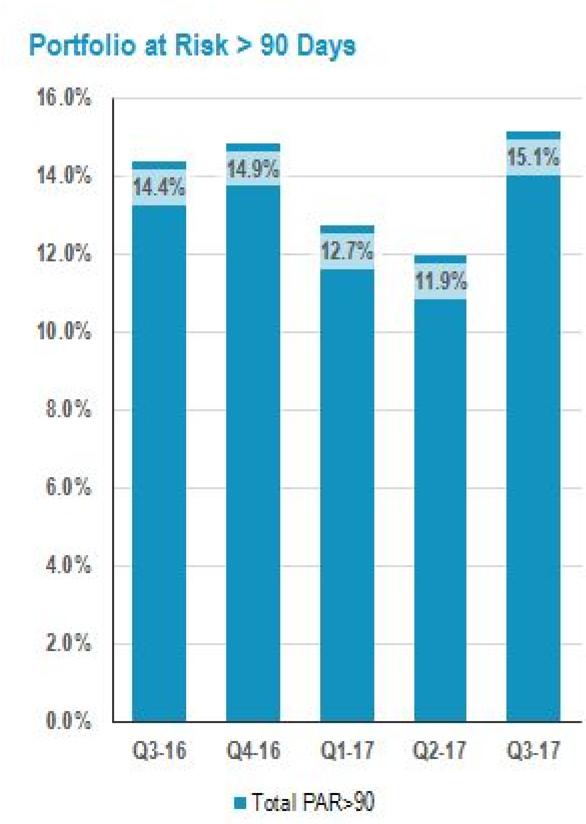


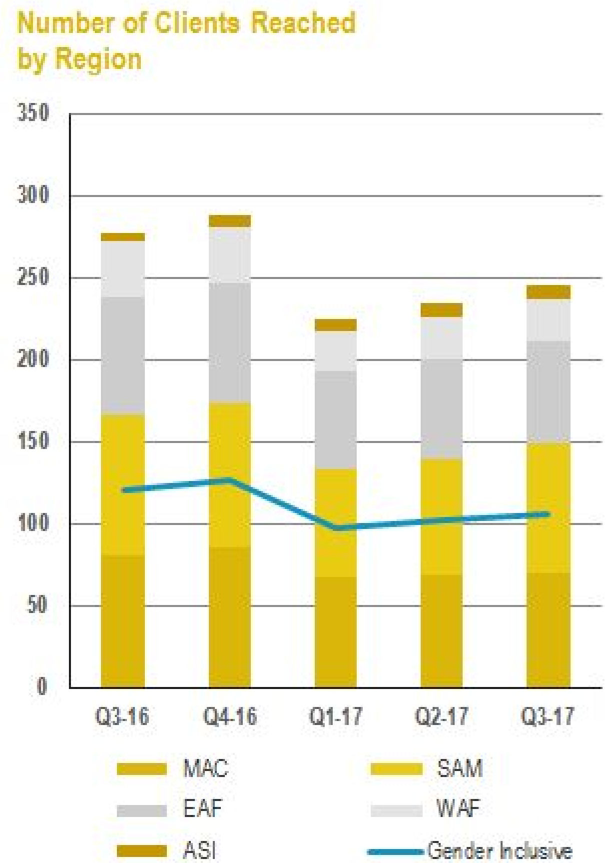


Lending Performance

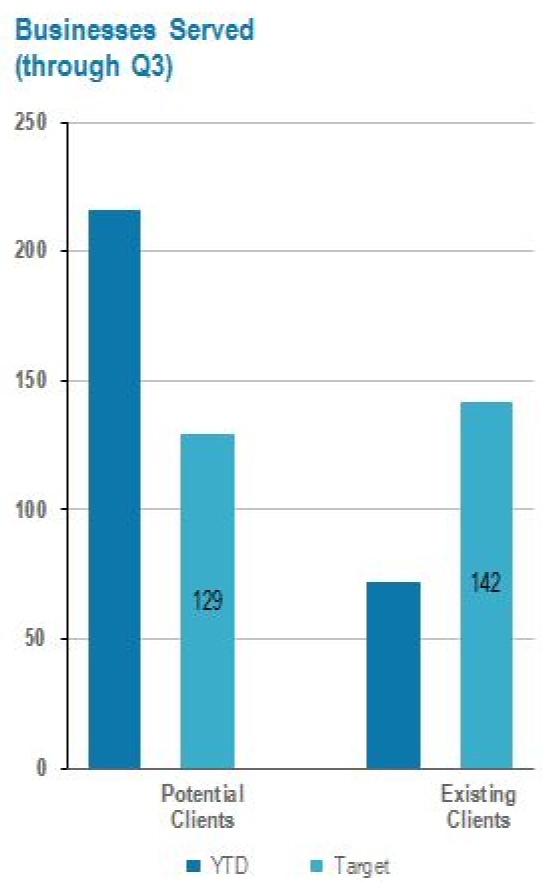


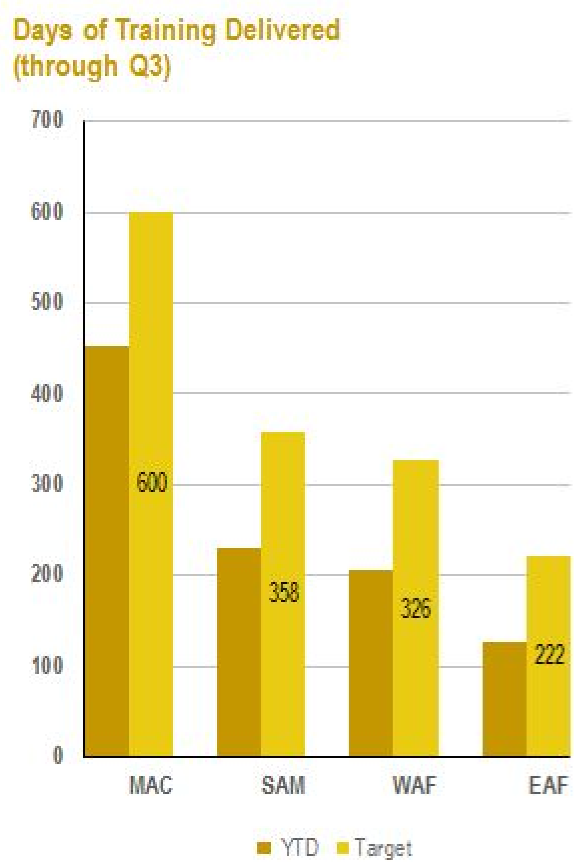






Advisory Services





Balance Sheet

Balance Sheet Highlights			
Millions of USD	Q3 2017	Q3 2016	Yr/Yr Growth
Cash and Short-Term Investments	28.3	32.1	-12%
Total Loans Receivable	72.3	84.2	-14%
Allowance for Credit Losses	(9.3)	(7.7)	22%
Loans Receivable (net)	62.9	76.5	-18%
Other Assets	13.8	9.1	52%
Total Assets	**105.0**	**117.6**	**-11%**
Senior Debt	72.9	84.8	-14%
Subordinated Debt	9.5	6.2	53%
Other Liabilities	9.6	5.5	74%
Total Liabilities	**92.0**	**96.6**	**-5%**
Lending Net Assets	8.9	16.9	-47%
T/R Net Assets (Purpose & Time)	4.1	4.2	-1%
Total Net Assets	13.0	21.1	**-38%**
Total Liabilities & Net Assets	**105.0**	**117.6**	**-11%**

Key Financial Metrics			
	Q3 2017	Q3 2016	Yr/Yr Growth
Grant Net Assets*	16.3	12.1	35%
Debt-to-Equity Ratio**	4.0	3.7	0.3 pts

Grant Net Assets include Temporarily Restricted Net Assets, held on the balance sheet, as well as $12.2M of conditional grants, held off of our balance sheet in accordance with US GAAP. As grant conditions are met in future periods, we will add the off-balance sheet Contingent Net Assets to the Temporarily Restricted Net Asset (Purpose & Time) balance.

***** Debt-to-equity treats long-term subordinated debt as equity, reflecting its equity-like characteristics.***

Statement of Activities

Year-to-date

Millions of USD	Q3 2017	Q3 2016	Yr/Yr Growth
Loan Interest and Fees	5.9	6.5	-9%
Foreign Exchange Gain (Loss)	(0.0)	(0.5)	-100%
Interest & Fee Revenue	**5.9**	**6.0**	**-1%**
Net Provisioning Expense	(3.3)	(4.9)	-33%
LAFCo & Agency Services Fees	0.4	0.6	-23%
Net Earned Revenue	**3.1**	**1.7**	**83%**
Net Interest Expense	(1.4)	(1.7)	-18%
Net Earned & Financial Revenue	**1.7**	**(0.0)**	**< -100%**
Contributions and Grants	6.7	6.6	2%
Operating Revenue	**8.4**	**6.6**	**28%**
Operating Expenses	(9.7)	(11.1)	-13%
Net Deficit	**(1.2)**	**(4.5)**	**-72%**

Disclosure
Interim 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.

Client Profile

PANGOA

Location: Peru

Throughout the 1980s, a conflict between the Peruvian government and a militant group the Shining Path ripped through the rural region of Junín. In the wake of this conflict, agriculture nearly disappeared from the region. Thousands of farmers who had fled their homes in search of safety slowly began to return. But without the business infrastructure they needed to get their crops to a larger market, many turned to the only crop that could make them enough money to survive: coca.

Most coca farmers only participate in the drug trade because they don't have another option. But by supporting nearly 700 coffee, cocoa, and honey producers with higher incomes, access to training, and targeted projects that boost productivity, the Pangoa cooperative offers farmers an alternative. Says cooperative manager Esperanza Dionisio Castillo (pictured above), “Growing coffee and getting a better income helps prevent us from getting involved with illicit crops.”

Under Esperanza’s leadership, the cooperative educates its producers on best practices of organic farming. These farmers recognize the value of organic certification; producer Antenor Chimanca Mahuanca says, “The cooperative has taught us how to prune, how to prevent disease and how to fertilize...we use our compost for fertilizer. We’ve learned how working with the organic program protects the environment.”

Since 2006, Root Capital has supported Pangoa with over $7 million in financing, ensuring that they have the capital needed to pay farmers on time and invest in equipment to grow their business. Our advisory team has also worked extensively with Pangoa’s staff, making sure that they continue to hone their skills in finance, accounting and agricultural extension. In addition, we’ve organized workshops where Pangoa’s leaders shared their successes, challenges and innovations with representatives from other farmer associations—ensuring that the impact they create ripples outward.