

Performance Report

Q1 2017



OVERVIEW

The 2012/2013 coffee leaf rust outbreak dealt a crippling blow to many agricultural businesses and smallholder farmers throughout Latin America. From Peru to Guatemala, businesses have faced significant hardship ever since, dealing with the economic fallout of the outbreak while still managing within a volatile market. In the midst of this crisis, many of our client businesses found ways to invest in the future. We are excited to feature one of those resilient businesses, a coffee cooperative in Honduras called CAPUCAS, in our new client profile section on page 10 of this report.

In Q1 2017, Root Capital proudly served CAPUCAS and 225 other agricultural businesses with capital that helped to grow incomes and create opportunities for a total of more than 646,000 smallholder producers worldwide. After ending the same period last year with a near \$1.7 million deficit, we are pleased to report that in Q1 2017 we brought expenses back in line with revenue.

Please note that we have included in this report a new section on our “Capital Partners” strategy, which refers to our efforts to increase the overall amount of capital in the sector through on- and off-balance-sheet partnerships.

In addition to continuing to control costs and apply lessons from our [Risk Appetite Project](#), Q1 2017 also saw the culmination of a three-month pro-bono engagement with the global management consulting firm Bain & Company. The partnership was part of the firm’s recently announced commitment to provide \$1 billion in pro bono consulting services to social impact organizations over the next ten years. Through the engagement, Root Capital worked with Bain consultants to refine our high-level strategy for sustainably generating impact for smallholder farmers given the constraints and challenges of the market.

While not a radical departure from the strategy Root Capital has pursued to date, we worked with Bain to hone the approach by which we work across a spectrum of early- to late-stage businesses. The key pillars of this refined approach include:

- Scaling our coffee lending to maximize impact both in places where we have an established footprint and also in newer geographies like Indonesia, Colombia and the Democratic Republic of Congo;
- Deepening our work in select industries where our regional teams see the greatest opportunity for impact, replicability and scale; and
- Continuing to innovate to serve earlier stage businesses so we can build the pipeline of agricultural businesses that are engines of impact in their communities.

We look forward to discussing the outcomes and insights emerging from this strategy work in greater detail during our next quarterly performance webinar on June 12.

Portfolio Performance and Impact

The 226 agricultural businesses we reached through our lending program in Q1 2017 directly connected nearly 530,000 smallholder farmers to local, regional and global

markets. An additional 116,000 producers were indirectly served by these businesses through post-harvest services and the purchase of seeds and other inputs. These businesses are on track to generate \$1.07 billion in revenue this year, approximately 85 percent of which will be paid directly to producers.

At \$89.5 million, Root Capital's average outstanding balance was just a bit lower than the same time last year. We are paying close attention to several notable trends, including a [cripplingly low cocoa price](#) affecting our clients in both Latin America and West Africa. In Indonesia, our smallest region, though we fell short of our target number of loans closed for the quarter, we are anxious to expand our footprint in the country. As such, Indonesia is a fundraising priority for 2017.

After several challenging years, we were especially heartened to see a strong Q1 Central America coffee harvest. While clients are concerned about the changes in growing cycles (the harvest peaked well into the first quarter versus the historic pattern of November/December) the results were strong. At \$44.7 million, our Q1 average outstanding balance in Central America exceeded targets by 14 percent and was the second largest Central American coffee harvest in Root Capital's history.

Q1 lending to coffee clients in Honduras was particularly strong, as an uptick in production volume subsequently led to a [40 percent year-over-year increase](#) in exports. While the Honduran government has invested heavily in the country's coffee industry over the last several years, Root Capital has also worked extensively within the sector, helping 33 Honduran coffee businesses make short- and long-term investments in their coffee supply through our Coffee Farmer Resilience Initiative. We share the story of one of those clients, CAPUCAS, on page 10 of this report.

Portfolio Quality

Root Capital ended Q1 with a Portfolio-at-Risk (PAR) greater than 90 days of \$11.9 million, equal to 12.7 percent of Root Capital's lending portfolio. This is a decrease in both absolute and percentage terms from the end of 2016. Loans to seven clients totaling \$628,000 were downgraded into PAR over 90 days in Q1, driven primarily by the downgrade of \$290,000 to a processed foods company in Ivory Coast and \$182,000 to a timber business in Peru. In Q1, recoveries, including for guaranteed loans, totaled \$114,000, while write-offs totaled \$655,000. The 12-month net write-off ratio was 4.1 percent.

Advisory Services

In the first quarter, Root Capital's Advisory team provided 174 days worth of training to 84 businesses across Latin America and Africa. Advisors covered topics ranging from financial analysis to business planning and building value chain transparency using mobile systems.

Training volume in Q1 2017 was lower compared to the same period last year due in large part to the Q4 2016 culmination of the Coffee Farmer Resilience Initiative, a training-intensive three-year initiative to support coffee clients affected by the coffee leaf rust outbreak. During Q1, Root Capital launched several new grants that will enable Root Capital to continue providing critical advisory services to coffee cooperatives that we reached through the Coffee Farmer Resilience Initiative.

Root Capital's Advisory team spent much of Q1 conducting research and development (R&D) for new services that will be launching over the course of 2017: leadership development and mobile advisory services in West Africa in partnership with The MasterCard Foundation; a coffee cooperative member equity model in Peru and; new client diagnostic capabilities for coffee clients in Latin America in close partnership with Equal Exchange.

Financial Results

Root Capital posted a \$117,000 deficit at the end of Q1 2017. Root Capital's balance sheet decreased 19 percent year over year, as we tightened our risk appetite and pursued off-balance-sheet lending. While our net provisioning expense for the quarter was 14 percent higher than expected due to downgraded loans to two large clients, we do not believe this is indicative of a material change to full-year expectations. At quarter end, our \$89.5 million lending portfolio was supported by \$10.5 million in net assets for lending and \$9.5 in long-term subordinated debt.

Conclusion

Marcos Morales, a coffee farmer associated with CAPUCAS, recently told us, "If [coffee leaf rust] hadn't come, people wouldn't have changed how they produce coffee. But the disease forced [us] to adapt." Indeed, Marcos and the other members of CAPUCAS are stronger today because of the cooperative's adaptability and investment in its own resilience. It is a resonant lesson.

We remain cautious after an encouraging start to the year, and move forward with our own deep commitment to continuous improvement and adaptability. Root Capital is a stronger, more resilient organization with every quarter and we are grateful to our supporters whose steadfast partnership allows us to confront the myriad challenges inherent in smallholder agriculture. Thank you — it is a privilege to be on this journey together.

First Quarter Dashboard

Metric	Result	Full Year Target (unless otherwise noted)	Results as % of Target
Social and Environmental Metrics			
Number of Producers Reached	646K	774K	83%
<i>Producers supplying business</i>	530K	634K	84%
<i>Producers buying inputs</i>	116K	140K	83%
Purchases from Producers	\$890M	\$1.1B	84%
Total Revenue of businesses	\$1.1B	\$1.3B	84%
Sustainable Hectares under Management	523K	673K	78%
Lending Program			
Loan Disbursements	\$43.3M	\$124.6M	35%
Average Outstanding Portfolio Balance ¹	\$89.5M	\$81.1M	110%
Average Outstanding Balance per Active Loan	\$371K		
Number of Clients Reached ²	226	318	71%
Additional Capital Mobilized ³	\$7.3M	\$7.0M	105%
Portfolio-at-Risk Over 90 Days *	12.7%	< 7.0%	
Net Write-off Ratio *	4.1%	< 6.0%	
Advisory Services			
Number of Businesses Served	84	271	31%
Days of Training Delivered	174	1506	12%
Operating Results			
Total Operating Expense	\$3.3M	\$13.5M	25%
Debt to Equity Ratio*	4.09	< 5.00	
Capital Utilization *	92%	87%	106%

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

In 2016, Root Capital articulated a new element of our growth strategy, which we call capital partners. The goal of this effort is to increase the overall flow of capital to agricultural businesses, while also sharing the risk — and the learning — with partner organizations. Root Capital is working with an array of partners to help clients receive the financing and advisory services they need to professionalize, grow and thrive. These partners include impact investors who purchase loans off of Root Capital's balance sheet (thus allowing us to serve more clients), the investment company LAFCo which Root Capital manages and large NGOs looking to expand access-to-finance opportunities for the agricultural businesses they work with.

Performance and Impact

Root Capital recently partnered with US-based Heifer International to establish new lines of credit with two small coffee cooperatives in Chiapas, Mexico. Long-time program partners of Heifer, these cooperatives are now able to grow and professionalize their businesses while

paying farmers fair wages in a timely manner. Heifer International and Root Capital share in the operating costs and risks of servicing these early stage enterprises.

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	113K
<i>Producers supplying business</i>	113K
<i>Producers buying inputs</i>	-
Purchases from Producers	\$57M
Total Revenue of businesses	\$81M
Sustainable Hectares under Management	109K
Lending Program	
Loan Disbursements	\$24M
Average Outstanding Balance ¹	\$4.0M
Number of Clients Reached ²	7

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 only).

PORTFOLIO PERFORMANCE

Social and Environmental Metrics

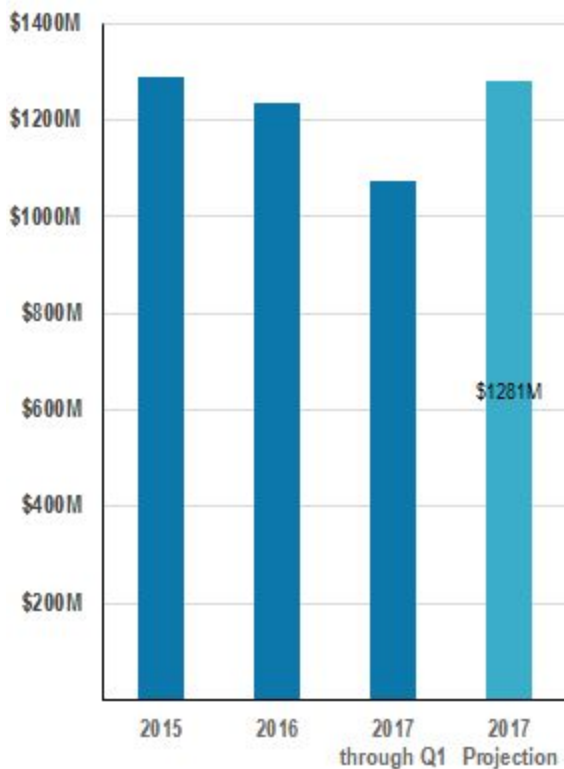
Producers Supplying Business



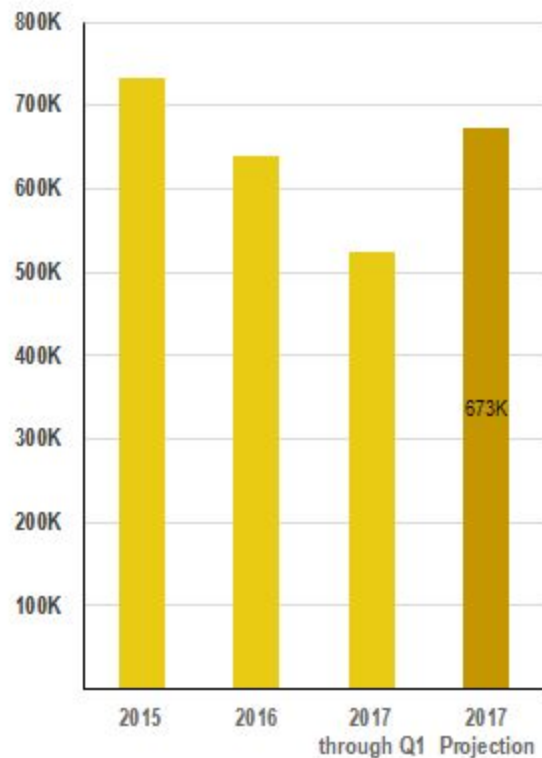
Purchases from Producers



Total Revenue of Businesses

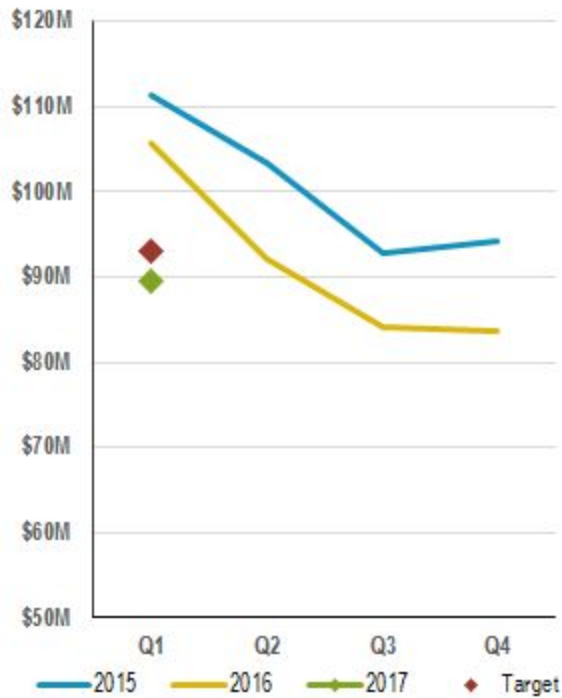


Sustainable Hectares Under Management

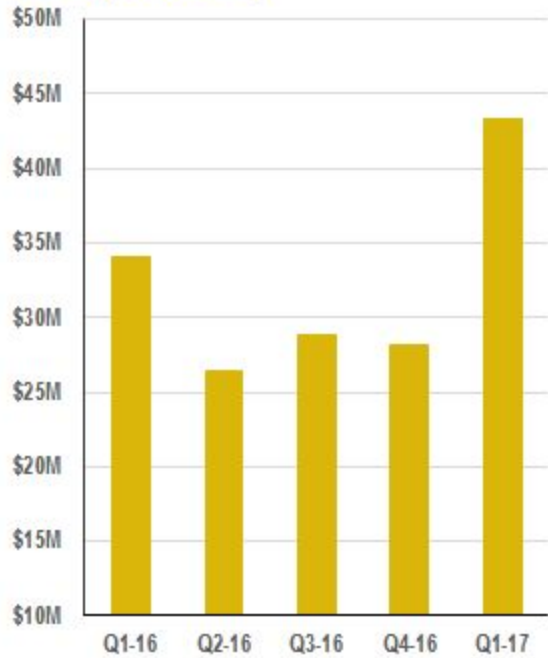


Lending Performance

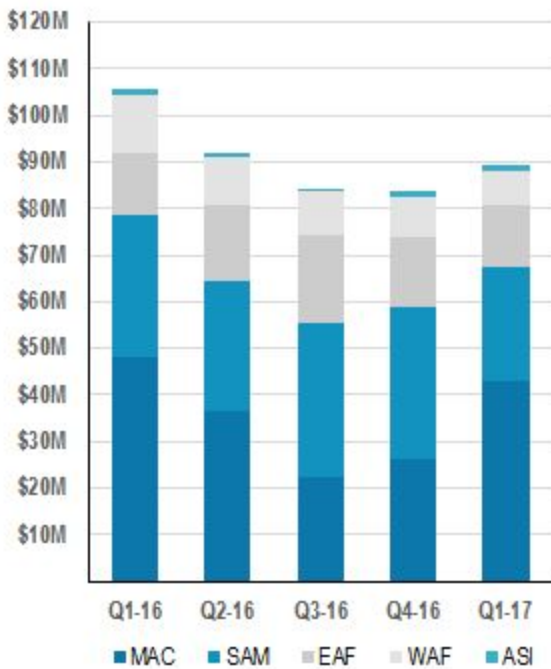
Average Balance by Year



Loan Disbursements (Trailing 5 Quarters)



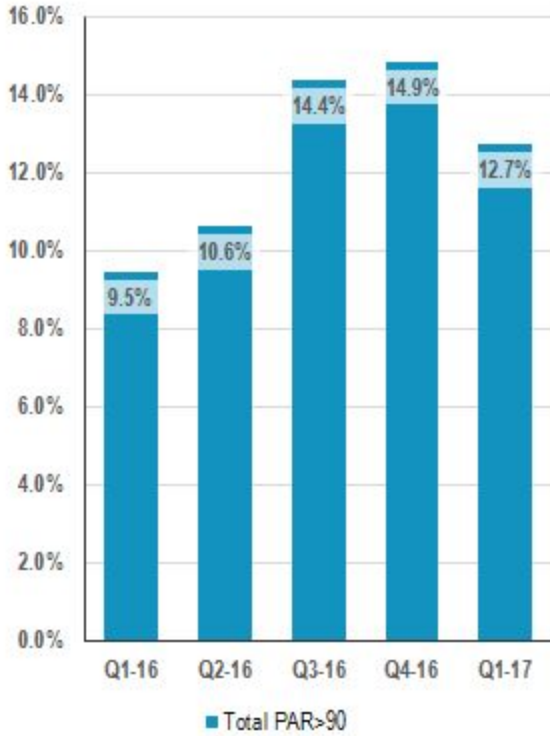
Average Balance by Region (Trailing 5 Quarters)



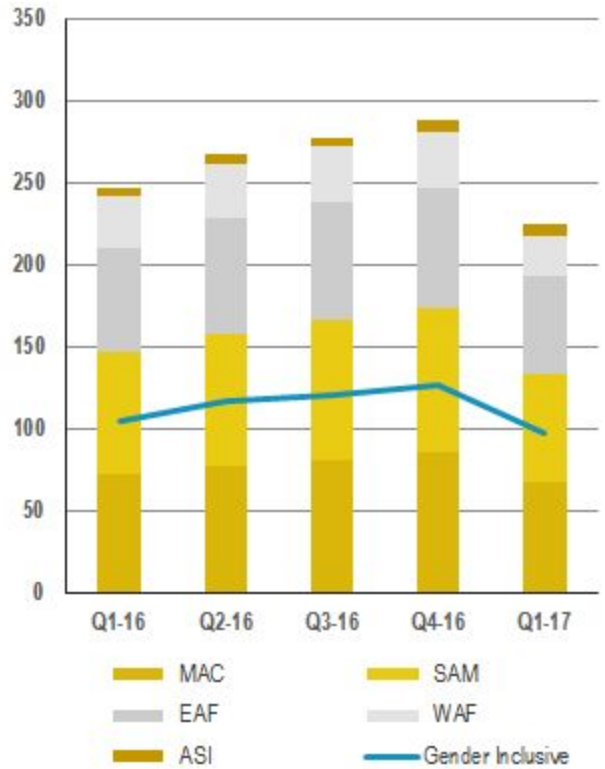
Average Balance by Industry (Trailing 5 Quarters)



Portfolio at Risk > 90 Days

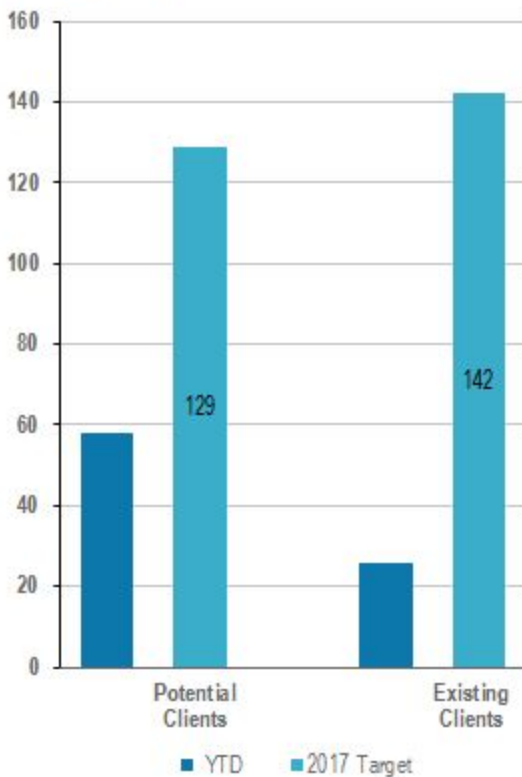


Number of Clients Reached by Region

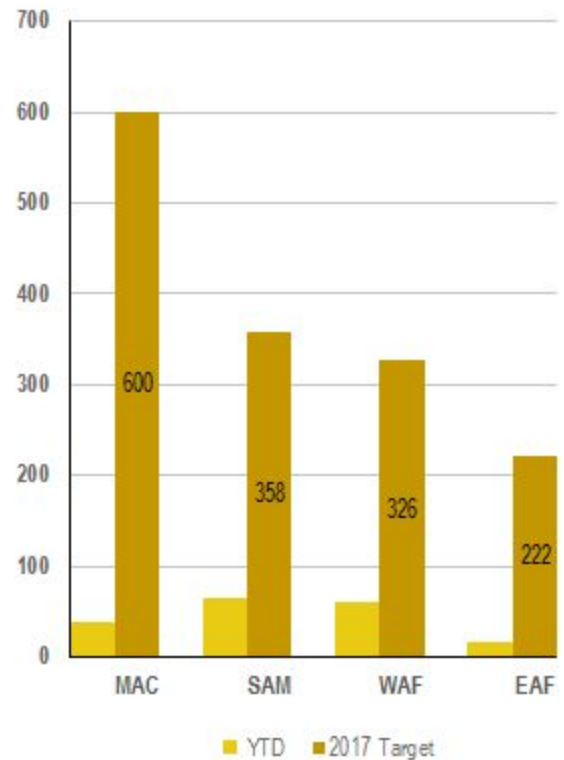


Advisory Services

Businesses Served (through Q1)



Days of Training Delivered (through Q1)



Balance Sheet

Balance Sheet Highlights			
Millions of USD	Q1 2016	Q1 2017	Yr/Yr Growth
Cash and Short-Term Investments	27.8	18.0	-35%
Total Loans Receivable	106.5	93.3	-12%
Less: Allowance for Credit Losses	(6.7)	(11.3)	69%
Loans Receivable (net)	99.8	81.9	-18%
Other Assets	9.3	10.6	14%
Total Assets	136.9	110.5	-19%
Senior Debt	102.4	81.8	-20%
Subordinated Debt	6.7	9.5	42%
Other Liabilities	4.3	5.3	24%
Total Liabilities	113.4	96.6	-15%
Unrestricted Net Assets	19.7	10.5	-46%
Temporarily Restricted Net Assets	3.8	3.4	-11%
Total Net Assets	23.5	13.9	-41%
Total Liabilities & Net Assets	136.9	110.5	-19%
Key Financial Metrics			
	Q1 2016	Q1 2017	Yr/Yr Growth
Grant Net Assets* (\$000)	7.9	13.3	68%
Debt-to-Equity Ratio**	3.9	4.1	0.2 pts

* Grant Net Assets include Temporarily Restricted Net Assets, held on the balance sheet, as well as \$9.6M 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 T/R Net Asset balance.

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

Statement of Activities

Millions of USD	Q1 2016	Q1 2017	Yr/Yr Growth
Loan Interest and Fees	2.6	2.2	-12%
Gain / (Loss) on FX Lending	(0.2)	0.0	-121%
Interest & Fee Revenue	2.4	2.3	-4%
Net Interest Expense	(0.7)	(0.5)	-31%
Net Interest & Fee Revenue	1.7	1.8	6%
Net Provisioning Expense	(2.3)	(1.1)	-50%
Net Lending Revenue	(0.6)	0.7	-222%
LAFCo & Agency Services Fees	0.1	0.2	38%
Net Operating Revenue	(0.4)	0.8	-292%
Operating Expenses	(3.4)	(3.3)	-2%
Operating Need	(3.8)	(2.5)	-35%
Contributions for Operations	2.1	2.2	6%
Fee for Service Revenue	0.1	0.1	144%
Surplus / (Deficit)	(1.7)	(0.1)	-93%



“If we don’t have coffee... well, we just have to look for another alternative.”

Client Profile

CAPUCAS

Location: Honduras

“If we don’t have coffee... well, we just have to look for another alternative.” In just a few words, CAPUCAS agronomist Noe Portillo perfectly sums up the practical and bold leadership that’s needed in coffee today.

In recent years, the combined threat of climate change, volatile markets and crop disease has dealt the coffee sector a crippling blow. For example, the fungal disease known as *la roya* robbed the coffee-producing regions of Guatemala of *90,000 coffee sector jobs* in just six months. For many young people like Noe, who might have expected to follow in their coffee-farming parents’ footsteps, the future suddenly became unclear.

Fortunately, businesses like CAPUCAS are turning this crisis into an opportunity to invest in the future. One of the most powerful adaptations our clients have devised is income diversification — encouraging their producer-members to grow crops *besides* coffee. By expanding beyond a single industry, rural businesses help farmers protect themselves from the shocks of disease, volatile prices or climate change. Through workshops set up by Root Capital, clients like CAPUCAS who have successfully implemented income diversification programs can lead trainings for their peers to spread best practices and strategies.

By promoting farmer resilience and increasing incomes in the process, income diversification projects also demonstrate to young people that a future in agriculture is possible. Many of our clients take this a step further by offering young people opportunities to lead the way in creating that future for others.

These opportunities are already paying off. In Peru, many of our clients have told us that the sons and daughters of their members have discovered profitable ways to rent beehives to avocado and maize farmers in order to help them pollinate their crops. In Guatemala, we have seen cooperatives encourage their producer-members to start side businesses selling milk, eggs, and maxan, a native plant used to make tamale wrappers. Lastly, CAPUCAS in Honduras has implemented training programs for young people like Noe in everything from compost production to quality control.

Businesses like CAPUCAS recognize that young people want more than just a job. They want a *livelihood* — a way to ensure a sustainable future on the farm. And with the proper support, these businesses can help young people make that future a reality.

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.

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