



# Performance Report

## Q1 2015

# OVERVIEW

Throughout Q1 2015, and for the first time in Root Capital's 15-year history, our average portfolio balance surpassed \$100 million. This was driven by year-over-year growth in average balance in all regions where we operate. During this quarter alone, we reached 213 small and growing rural businesses with \$44.5 million in disbursements. Together, these businesses are building sustainable livelihoods for 455,000 smallholder farmers and their families.

## Portfolio Performance: Sustainable Trade Fund

Over the course of Q1 2015, the average portfolio balance<sup>1</sup> of the Sustainable Trade Fund (STF) was \$104 million, 33 percent above Q1 2014 and the largest average quarterly balance in Root Capital's history. Disbursements for the quarter were consistent with projections, at \$41.5 million.

Each region in Root Capital's STF portfolio achieved year-over-year growth in average portfolio outstanding. Growth in Central America was particularly strong at 38 percent given that Q1 corresponds with the peak of the region's coffee harvest. In Honduras, we have been focusing on deepening our service to existing coffee clients, and thus grew our balance by 47 percent over the prior year. In Nicaragua, the growth was driven by a high renewal rate and the acquisition of new clients.

In South America, the average portfolio balance for Q1 was \$26.2 million, ten percent above target and 19 percent over Q1 2014. The growth was largely due to an expanded presence in Colombia, as well as ongoing diversification efforts in Peru.

In Q1, our average outstanding balance in East Africa was \$15.4 million, 16 percent above target and 40 percent over Q1 2014. New client acquisition in Uganda (cocoa) and Kenya (macadamia nuts) drove this growth. In Uganda, the average Q1 portfolio balance was 57 percent above target. Disbursements in the region, \$12.5 million in Q1, were 42 percent above target.

Despite a 33 percent increase in average quarterly outstanding balance from Q1 2014, the outstanding balance in West Africa was nine percent below target for the quarter and disbursements were 61 percent below target. While we had projected significant regional growth in West Africa, we are choosing to proceed cautiously with new loan closings due to the current portfolio risk associated with cashew production and quality issues.

## Portfolio Performance: Frontier Portfolio

Root Capital pursues a dual strategy: to "scale and demonstrate" the viability of lending to rural small and growing businesses (SGBs) through the Sustainable Trade Fund, and to "push the frontier" of social impact and innovative finance through three Frontier portfolios (Food Security & Nutrition, Innovation and Haiti). At the start of Q1 2015, we improved our lending portfolio structure in two ways. First, we streamlined the structure to just two portfolios: the Sustainable Trade Fund, and the Frontier Portfolio. Second, we honed the criteria by which we allocate loans to the STF or Frontier Portfolio; these criteria are now based on the risk profile of the client, industry and transaction (including exchange rate risk), rather than just industry and value chain. We do not anticipate that these enhancements will materially alter the composition of the STF and Frontier Portfolio; we believe that the clarity around criteria will enable us to more transparently push into new, high-impact and underserved markets that may not initially be appropriate for the STF. It is important to note that once an active loan has been assigned to the STF or Frontier Portfolio, it will not be moved to a different portfolio under any circumstance.

For Q1 the average outstanding balance of the Frontier Portfolio was \$10 million, the highest balance to date. Q1 average outstanding balance was 27 percent above Q1 target and 102 percent above last year. Through Q1, we disbursed \$3 million to

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<sup>1</sup> Portfolio balance reporting metric within this report has been changed from Period End balance to Average Outstanding balance. Period End balance represents a point in time which is not truly indicative of the quarterly performance due to seasonal variations in our portfolio that may cause a dramatic rise or fall in our portfolio outstanding at the end of a quarter. Average Balance is calculated by taking the average of the daily balance outstanding during the period and therefore better represents the balance performance across the entire quarter.

clients in the Frontier Portfolio, 26 percent below target due primarily to a deliberate slowdown and risk review in West Africa and the nonrenewal of two noncurrent clients in East Africa.

One of the clients added to the Frontier Portfolio in Q1 2015 is a Kenyan enterprise called Sorghum Pioneer Agencies, which has helped to introduce sorghum, a drought resistant crop, to a semi-arid area where residents previously relied on the government to guarantee food security. The business' focus on post-harvest management has led to a decrease in losses, while farmers have also adopted the use of certified seed coupled with proper agronomic practices—leading to a doubling of yields. The income from the sorghum is allowing these farmers to improve nutrition and reduce food insecurity in their homes and also to send their children to school.

### **Portfolio Quality**

In the Sustainable Trade Fund, the total outstanding balance in Portfolio at Risk (PAR) over 90 days increased, from \$4.2 million in Q4 2014 to \$4.6 million in Q1 2015. West Africa drove this increase, primarily due to the downgrade of a \$789,000 loan to a cashew client in Burkina Faso and a \$374,000 loan to a mango client in Mali. While there was a nine percent overall increase in the outstanding balance in PAR over 90 days from Q4 2014 to Q1 2015, the percentage of PAR over 90 days remained consistent from last quarter at 4.4 percent due to the growth in portfolio balance. In Q4 2014 we reported that we were restructuring several loans in the cashew sector in West Africa. We continued to actively restructure these loans in Q1 based on cash flow and export projections.

During the quarter, we wrote off seven loans totaling \$1.2 million, down from \$2.2 million last quarter. Principally, in Costa Rica, we wrote off two loans totaling \$425,000 to one coffee client weakened by the outbreak of coffee leaf rust. In Peru, we wrote off a \$364,000 loan to a large coffee client that experienced governance issues during the period of significant coffee price volatility in 2013.

In the Frontier Portfolio, the balance in PAR over 90 days was \$817,000, or 8.6 percent, up slightly from \$755,000 in Q4 2014. This increase was driven largely by a \$364,000 loan to a sorghum client in Uganda. The client experienced delays in payment from a new buyer, and we conservatively chose to downgrade the loan while we monitor the situation. In Q1, we wrote off two loans in the Frontier Portfolio totaling \$416,000.

It is important to note that Root Capital continues to make best efforts to collect on all loans that have been written off.

### **Advisory Services**

In Q1, Root Capital provided 318 days of training to 77 current and potential lending clients in ten countries. Days of training increased 40 percent year over year, due to the rollout of an expanded service offering, including training in use of mobile technologies, engagement with local financial institutions and agronomic advisory as part of the Coffee Farmer Resilience Initiative (CFRI). In Central America alone, we provided 193 days of on-site training in Q1.

The training component of the CFRI has a strong emphasis on helping our clients develop and strengthen internal credit systems so that they can make credit available to members who are interested in renovating their coffee plots. From the launch of CFRI through the end of Q1 2015, Root Capital has approved \$7.9 million in long-term renovation loans to eight coffee clients affected by coffee leaf rust and coordinated over 100 days of agronomic training to accompany these loans.

In Q1, the Advisory program also developed and piloted a new impact evaluation framework to track improvements in financial management capacity of small and growing agricultural businesses participating in on-site training engagements. Baseline data collected during 2015 will serve as the basis for comparison for future cycles of assessment.

### **Catalyze Strategy**

Guided by our Catalyze strategy, which seeks to grow the smallholder agricultural finance industry, Root Capital participated in several external engagements. We also shared our insights and learning in several publications and articles during the quarter.

In January, Root Capital CEO Willy Foote participated in a Stanford Social Innovation Review webinar entitled "What's Your Endgame? A New Approach to Scaling." He and four other social sector leaders discussed how nonprofits can scale their impact by defining their endgame—the specific role the organization intends to play in the overall solution to a social problem—early on. Willy later reflected on this question in [Forbes](#).

In February, Willy Foote and Brian Milder, Senior Vice President of Strategy, Advisory & Innovation, participated in the Transformative Impact Lab, a collaboration between the Bridgespan Group and Harvard Business School that convened senior leadership from 20 organizations to discuss how best to achieve systems change.

Also this quarter, Root Capital enjoyed a significant amount of external attention related to the major milestone of exceeding \$100 million portfolio outstanding, including a [feature story](#) in The Economist magazine and an article by Robert Annibale, Global Director of Inclusive Finance at Citi, on the Skoll World Forum online platform.

# Q1 2015 DASHBOARD\*

Metric	Result	Target	Results as % of Target	Page
<b>Social and Environmental Metrics</b>				
<b>Number of Producers Reached</b>	473K	920K for 2015	51%	
<i>Producers supplying enterprise</i>	455K	620K for 2015	73%	6
<i>Producers buying inputs</i>	18K	300K for 2015	6%	6
Purchases from Producers	\$829M	\$1.2B for 2015	72%	6
Total Revenue of Rural SGBs	\$983M	\$1.4B for 2015	71%	7
Sustainable Hectares under Management	354K	1.1M for 2015	32%	7
<b>Lending Program</b>				
<b>Loan Disbursements</b>	\$44.5M	\$45M through Q1	99%	
<i>Sustainable Trade Fund</i>	\$41.5M	\$40M through Q1	101%	8
<i>Frontier Portfolios</i>	\$3M	\$4M through Q1	74%	13
<b>Average Outstanding Portfolio Balance</b>	\$114.3M	\$98M through Q1	116%	
<i>Sustainable Trade Fund</i>	\$104.4M	\$91M through Q1	115%	8
<i>Frontier Portfolios</i>	\$10M	\$7.8M through Q1	127%	13
<b>Number of Clients Reached</b>	213			
<i>Sustainable Trade Fund</i>	175			10
<i>Frontier Portfolios</i>	38			15
<b>Average Outstanding Balance per Active Loan</b>	\$382K			
<i>Sustainable Trade Fund</i>	\$429K			10
<i>Frontier Portfolios</i>	\$177K			15
<b>Portfolio-at-Risk Over 90 Days**</b>	4.8%			
<i>Sustainable Trade Fund</i>	4.4%			11
<i>Frontier Portfolios</i>	8.6%			16
<b>Net Write-off Ratio***</b>	3.2%	3.6% for 2015	89%	
<i>Sustainable Trade Fund</i>	2.9%	3.3% for 2015	88%	11
<i>Frontier Portfolios</i>	7.0%	7.2% for 2015	97%	16
<b>Financial Advisory Services (FAS)</b>				
Number of Groups Served by FAS	108	291 for 2015	37%	18
Days of Training Delivered	340	2,375 for 2015	14%	18
<b>Catalyze Program</b>				
Overview of Catalyze Program	See page 19 for discussion of Catalyze Program			
<b>Operating Results**</b>				
Total Operating Expense	\$3.4M	\$4.4M through 2015	77%	22
Debt to Equity	4.6	3.89 through Q1	118%	20
Capital Utilization	94%	95% through Q1	98%	20
<b>Fundraising Results</b>				
Outstanding Debt Balance	\$113M			21
Contributions Raised for 2015	\$8.7M	\$13M for 2015	67%	21

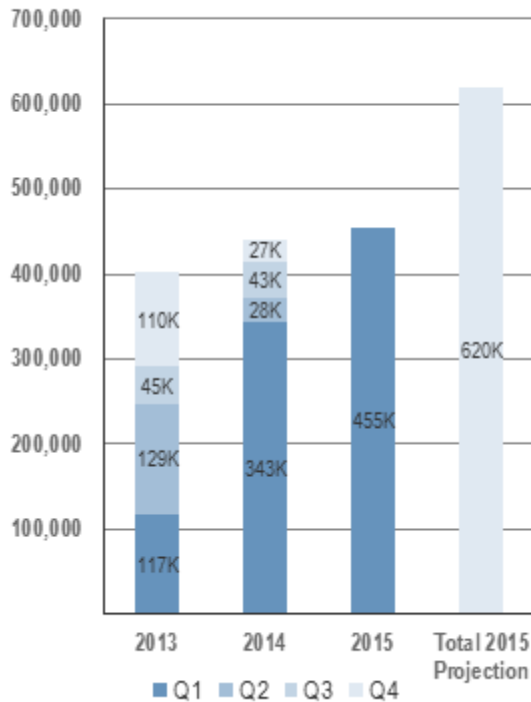
\*All figures are representative of total cross-portfolio performance unless otherwise specified

\*\*Figures represent performance at end of quarter

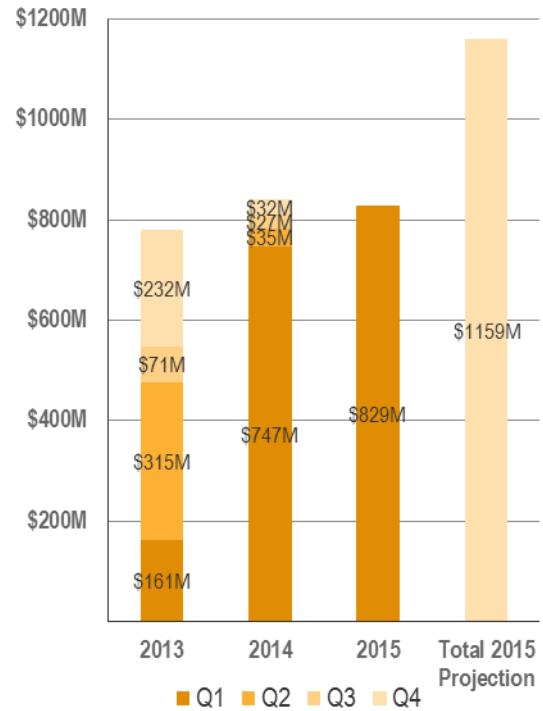
\*\*\* Prior to Q1 2015, "Net Write-Off Ratio" was reported as "Loan Loss Ratio." This is a change in nomenclature only; the ratio calculation has not changed. This calculation is a trailing 12-month figure representing the previous 12 months' write-offs, net of recovered funds, as a percentage of the average outstanding balance during the same period. We feel the change in metric nomenclature more appropriately reflects the composition of this metric.

# SOCIAL AND ENVIRONMENTAL METRICS

**Producers Supplying Enterprise (through Q1)**



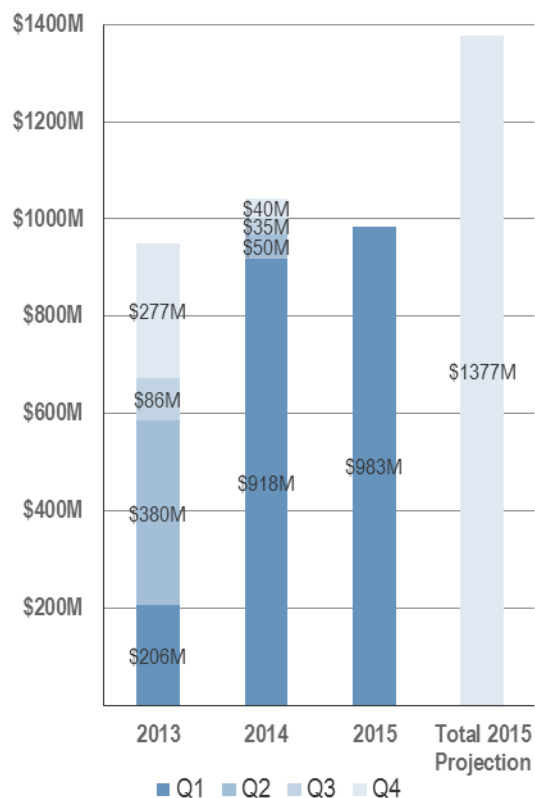
**Purchases from Producers (through Q1)**



- In Q1 2015, we reached 213 businesses, compared to 279 in all of 2014. These businesses purchased from 455K producers, a 32% increase over the 343K producers supplying to our client enterprises in the same time period last year. A few clients were outliers with over 40K producer suppliers, which led us to surpass the number of producer suppliers in all of 2014.
- Through Q1 2015, we reached an additional 18K non-supplier producers buying inputs such as drought-resistant seed inputs or post-harvest handling services from the enterprise. These numbers are not included in the chart above, which only represents producers selling to the enterprise.
- Of all the producers supplying to the enterprises Root Capital financed in Q1 2015, 159K, or 35%, were women.

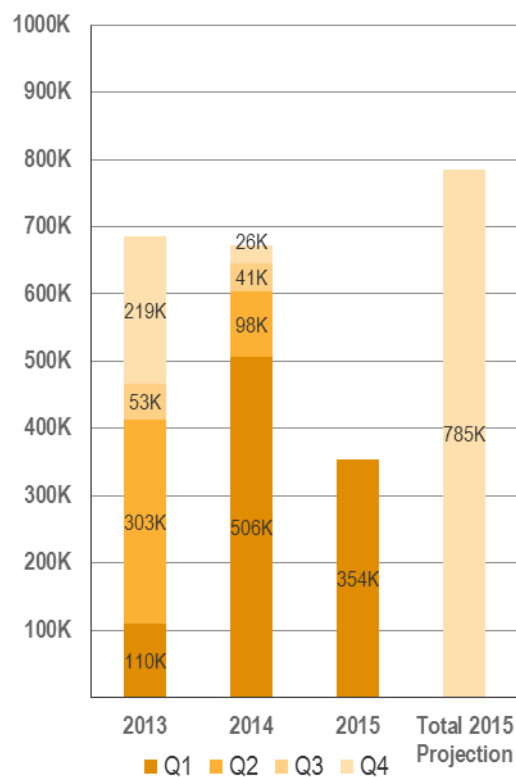
- "Purchases from producers" is the total amount that our client enterprises paid to their small-scale suppliers.
- Clients reached during Q1 2015 purchased an estimated \$829M of agricultural product from their producer suppliers, which is 11% higher than in the same time period last year. Through Q1 2015, we reached 213 clients, compared to 199 clients in the same time period last year.
- The average payment per producer in Q1 2015 was \$2K.

## Total Revenue of Rural SGBs (through Q1)



→ Clients reached through Q1 2015 generated an estimated \$1B in total revenue, which was 7% higher than in the same time period last year. Although revenue for the average client was \$4.6M, this figure was upwardly distorted by approximately 10% of larger-scale businesses (who nevertheless source from smallholder farmers) with revenues over \$10M; the median revenue per enterprise was \$1.3M.

## Sustainable Hectares Under Management (through Q1)



→ In Q1 2015, client enterprises represented an estimated 354K hectares of sustainably managed agroforestry and agricultural lands, with an average of 1.3 hectares per producer and a median of 2 hectares per producer.

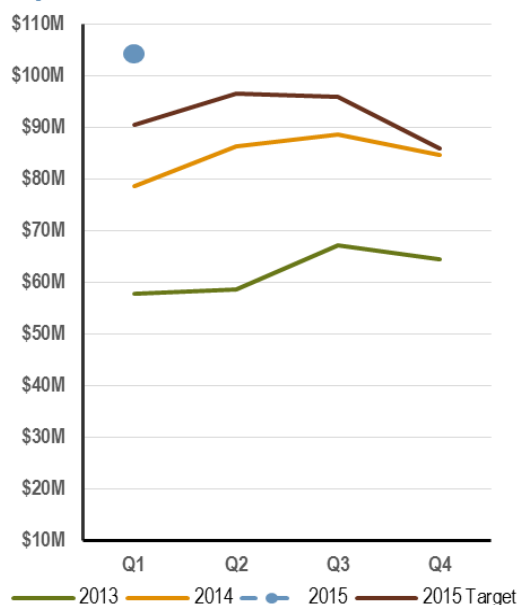
### Note:

In Q1 2015, we surpassed the 2014 total for number of producers supplying to the enterprise because we reached two disproportionately large clients who we consider outliers, having never before reached businesses of that size. The client in Central America reported \$300M in revenue and 35K producers; the client in East Africa reported \$6M in revenue and 85K producers. In last year's QPR, we did not include their social metrics against the annual projections because they diverged too significantly from historical averages. However, we decided to factor their social metrics into the calculation of the 2015 projections because, after financing them in 2014, we had more visibility into the likelihood of these clients remaining in our portfolio.

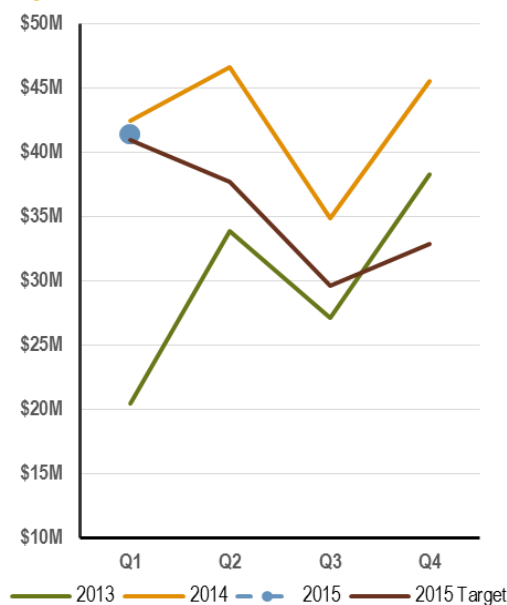
# SUSTAINABLE TRADE FUND

## Portfolio Performance

Average Balance by Year



Loan Disbursements by Year



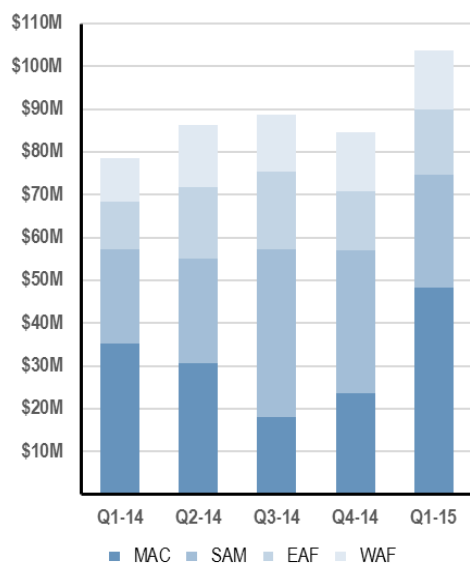
- Globally, the Sustainable Trade Fund had an average outstanding balance<sup>2</sup> of \$104M during Q1 2015 as we surpassed \$100M in outstanding portfolio for the first time in our history. This represents a balance 15% above target and growth of 33% from Q1 2014.
- Our portfolio in Central America coffee was the biggest driver of this above-target performance (37% above target); however, every region Root Capital serves grew year over year.
- Our newest region, Indonesia, had an average balance of \$579K during Q1 2015. This is significantly below target as growth has been slower than initially projected but still represents strong progress in only the second quarter of lending.

- Globally, Root Capital disbursed \$41.5M in Q1 2015, 1% above target but a 2% decrease from Q1 2014.
- Central America and East Africa were both above target (15% and 42% respectively) while South America and West Africa were both below target (35% and 61% respectively). We disbursed \$1.2M in Indonesia, our most recent geographical expansion.
- Disbursements during Q1 2015 were dominated by Central America coffee clients, which constituted 48% of the global total and were 17% above target. However, disbursements in this segment were 7% less than Q1 2014 due to timing shifts in the Central American coffee harvest which overlaps Q4/Q1 (disbursements grew 36% from the 2013/2014 harvest).
- East Africa disbursements grew 52% from Q1 2014, equally in coffee and other perishable agriculture sectors including macadamia nuts and sesame. Disbursements to clients in low perishable agriculture sectors, particularly in Kenya, were significantly above target.
- West Africa disbursements decreased 53% from 2014, 61% below target due in large part to risk concerns and a deliberate slowdown in underwriting.

<sup>2</sup> Portfolio balance reporting metric within this report has been changed from Period End balance to Average Outstanding balance. Period End balance represents a point in time which is not truly indicative of the quarterly performance due to seasonal variations in our portfolio that may cause a dramatic rise or fall in our portfolio outstanding at the end of a quarter. Average Balance is calculated by taking the average of the daily balance outstanding during the period and therefore better represents the balance performance across the entire quarter.

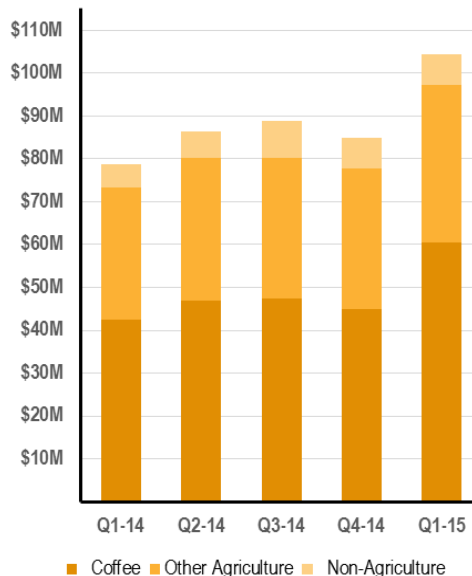


### Average Balance by Region (Trailing 5-Quarters)



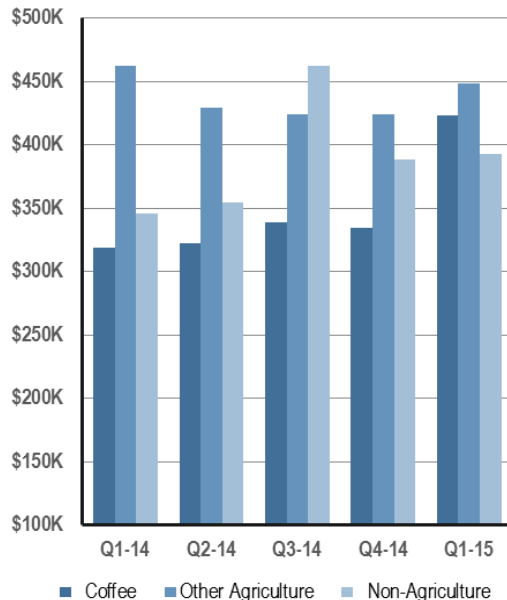
- Average balance in Central America was \$48.4M during Q1, 37% above target and 38% growth from Q1 2014. Coffee in particular was 47% above target, grew 44% from Q1 2014 and made up 84% of the total regional balance. The strongest coffee portfolios were Nicaragua and Honduras, though Mexico grew 56% from last year.
- Average balance in South America was \$26.2M during Q1, 10% above target and representing 19% growth from Q1 2014. Colombia has been an area of significant growth (26% growth from Q1 2014, exclusively in coffee) as a new Loan Officer has increased our lending there. Peru lending in the highly perishable agriculture sector has also grown, surpassing targets by nearly 100 percent.
- Average balance in East Africa was \$15.4M during Q1, 16% above target and 40% growth from Q1 2014. Uganda was the main driver at 57% above target, particularly in the other low perishable agriculture and coffee sectors. Our portfolio in the Democratic Republic of Congo has grown significantly this year to \$1.1M balance (in line with target).
- Average balance in West Africa was \$13.7M during Q1, 9% below target but representing 33% growth from Q1 2014. Balance was buoyed by a high percentage of balance outstanding which in turn has slowed new growth. Togo, Burkina Faso and Ghana all grew significantly this year, particularly in other low perishable agriculture sectors, like cashews.

### Average Balance by Industry (Trailing 5-Quarter)



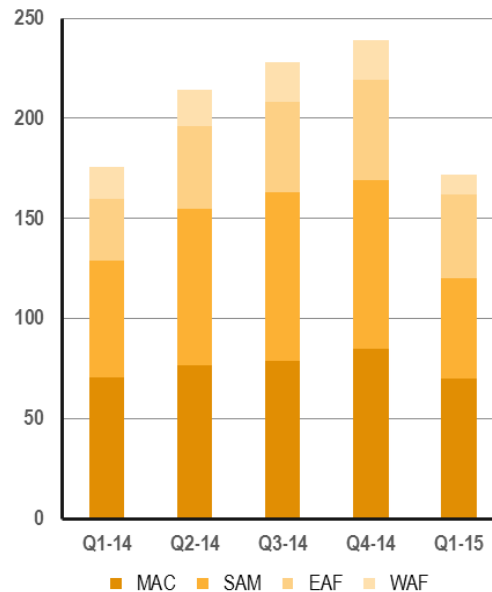
- 58% of the global portfolio was concentrated in coffee during Q1 2015 which represents the highest coffee concentration since Q3 2013. This was driven by significant loan demand during the Central American coffee harvest, particularly from our largest clients.
- The other low perishable and high perishable agriculture sectors were both above target (14% and 40% respectively) and grew year over year (28% and 196% respectively) but were far outpaced by the strong growth in the much larger coffee portfolio (24% above target, 43% year-over-year growth).

### Average Outstanding Balance per Active Loan



- Global average balance per active loan to coffee clients was \$423K during Q1, 11% above target and the highest it has ever been.
- This increase in coffee was particularly driven by Central America where the average balance per active loan was \$629K (41% above target). Growth in the Central America coffee portfolio in 2014 was driven by client acquisition of new client types, especially larger, private social enterprises. All clients, but especially those client types, have increased their lending needs substantially this year as we gained a larger share of their financing. This is especially the case in Honduras where the average balance per active loan increased by 50% from Q1 2014 to \$809K.
- All other regions were slightly below target which offset the surge in loan balances from Central America coffee.

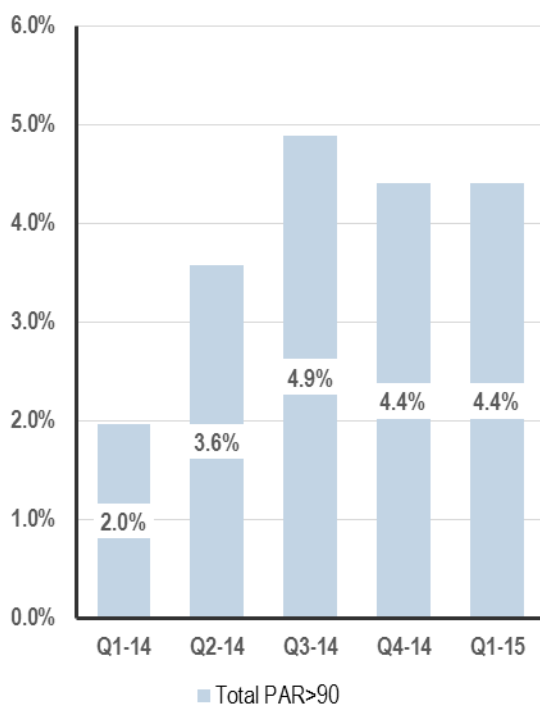
### Number of Clients Reached by Region



- Globally, the Sustainable Trade Fund reached 175 clients during Q1, 10% below target and down 1% from Q1 2014.
- Central America was under target by 9% as demand for bigger loans from a few clients drove our balance per client higher without reaching more clients. However, the Nicaragua coffee segment was the largest segment above target (80% above target, 47% growth from Q1 2014).
- In South America, Peru was the cause for below-target performance as it shrunk 21% from Q1 2014. This is due to non-renewal of some at-risk clients and the slowdown of growth in coffee in favor of industry diversification. Colombia was an area of significant growth with our new Loan Officer there growing the number of clients reached by 20% year-over-year.
- East Africa was the only region to reach more clients than projected at 12% above target and 40% growth from Q1 2014. Growth was across all countries and sectors but the main drivers were Ugandan cocoa, Kenyan low perishable agriculture, and Rwandan coffee.
- Our portfolio in West Africa was 56% below target across all countries and sectors. This was driven by risk concerns that are creating delays in client closing while we prioritize loan restructuring.

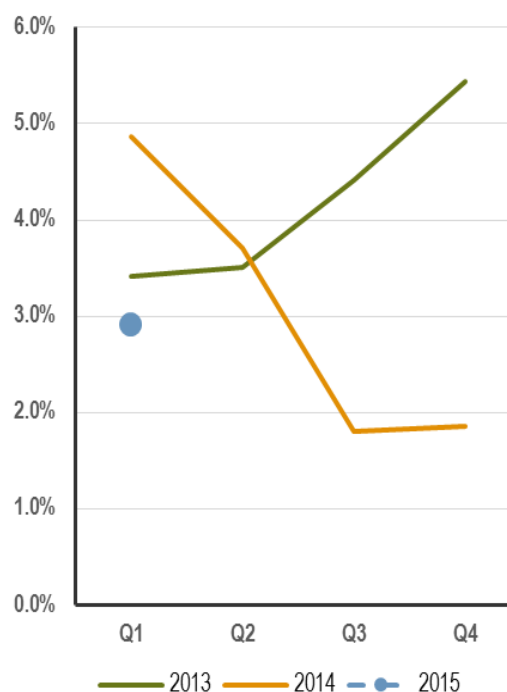
## Portfolio Quality

### Portfolio at Risk > 90 Days



- The Portfolio at Risk (PAR) over 90 days was 4.4% at the end of Q1 2015. The total outstanding balance in PAR over 90 days increased from \$4.2M at the end of Q4 2014 to \$4.6M at the end of Q1 2015.
- PAR over 90 days in West Africa increased from 3.8% (\$513K) in Q4 2014 to 15.9% (\$1.7M) in Q1 2015. The primary reasons for this increase were the downgrades of a \$789K cashew loan in Burkina Faso and a \$374K mango loan in Mali.
- PAR over 90 days in South America was 4.5% (\$1.1M), down slightly from 4.9% (\$1.4M) in Q4 2014. The main reason for this decrease was the write-off of two \$441K coffee loans in Peru during Q1.
- Due to the write-off of four coffee loans in Mexico and Costa Rica (totaling \$586K) during Q1 2015, the outstanding balance in PAR over 90 days in Central America was \$5K at quarter-end.
- The outstanding balance of the East African portfolio in PAR over 90 days (\$1.7M) was consistent from Q4 2014 to Q1 2015.

### Net Writeoff Ratio (Trailing 12-Month Average)



- The net writeoff rate in the STF increased from 1.8% in Q4 2014 to 2.9% at Q1 2015. Seven loans, totaling \$1.2M, were written off during the quarter.
- In East Africa, the net write-off rate was 9.5% at the end of Q1. One Rwandan coffee loan of \$198K was written off in Q1. The ratio in East Africa remains high due to the write-off of two Tanzanian coffee loans of \$1.7M during Q4 2014.
- The net write-off rate in Central America was 2.6%, up from 0.3% in Q4 2014. As mentioned previously, four coffee loans of \$586K in Mexico and Costa Rica were written off during Q1.
- The net write-off rate in South America was 0.9%. Two coffee loans in Peru (\$441K) were written off during Q1.
- The net write-off rate in West Africa was 0.5% at the end of Q1. No loans in West Africa were written off during the first quarter of 2015.
- During Q1, \$24K was recovered from loans that had been written off in previous quarters.

## Sustainable Trade Fund Financial Results & Analysis

Statement of Activities All numbers in thousands	Sustainable Trade Fund				
	YTD Results	YTD Target	Variance (%)	2014 YTD Results	Yr/Yr Growth
Loan Interest and Fees	2,807	2,591	8%	2,267	24%
Gain (loss) on FX Lending	(102)	0		22	-570%
<b>Interest &amp; Fee Revenue</b>	<b>2,705</b>	<b>2,591</b>	<b>4%</b>	<b>2,289</b>	<b>18%</b>
<b>Portfolio Yield</b>	<b>10.4%</b>	<b>11.4%</b>		<b>11.5%</b>	
Net Interest Expense	637	481	32%	342	86%
Net Funding Expense Ratio	2.4%	2.1%		1.7%	
<b>Net Interest &amp; Fee Revenue</b>	<b>2,068</b>	<b>2,110</b>	<b>-2%</b>	<b>1,947</b>	<b>6%</b>
<b>Net Earned Revenue Ratio</b>	<b>7.9%</b>	<b>9.3%</b>		<b>9.8%</b>	
Provisioning Expense	1,471	457	222%	597	147%
Provisioning Expense Ratio	5.6%	2.0%		3.0%	
<b>Net Revenue after Provisioning</b>	<b>597</b>	<b>1,654</b>	<b>-64%</b>	<b>1,350</b>	<b>-56%</b>
<b>Net Revenue Ratio after Provisioning</b>	<b>2.3%</b>	<b>7.3%</b>		<b>6.8%</b>	
Operating Expense	1,141	1,374	-17%	1,342	-15%
Operating Expense Ratio	4.4%	6.1%		6.8%	
<b>Surplus / (Deficit)</b>	<b>(544)</b>	<b>280</b>	<b>-294%</b>	<b>8</b>	<b>-6755%</b>
<b>Operational Self Sufficiency (OSS)</b>	<b>83%</b>			<b>100%</b>	

### EARNED REVENUE

The STF average portfolio balance of \$104M for the first quarter of 2015 was 32% higher than the same period in 2014, and 15% above target due to strong performance noted in the Global Lending Performance section above. However, interest and fee revenue was only 4% ahead of target due to a Portfolio Yield of 10.7%, with this 70 basis points negative variance largely explained by the \$102K in losses due to Euro lending activity. During Q1 the Euro depreciated 11% against the dollar, resulting in \$1.7M in principal and interest losses on Euro-denominated loans, with \$1.6M of those losses offset by hedging activities.

### PROVISIONING EXPENSE

During the first quarters of 2015 we incurred a total of \$1.5M in provisioning expense in the STF, for a Provisioning Expense Ratio of 5.8%. This expense is \$1M more than the \$0.5M projected for Q1, and represents 44% of the \$3.3M in provisioning expense forecast for the full year, driven by the downgrade of seven clients in South America, and of one cashew loan and one mango loan in West Africa.

### INTEREST EXPENSE & INTEREST EARNED ON CASH AND INVESTMENTS

Net interest expense was \$156K (32%) higher than the projected year-to-date expense, due both to the increase in average debt balance, which was 14% higher than projected, and the higher cost associated with the short-term debt and lines of credit used to meet unexpectedly high lending demand.

### LENDING PROGRAM OPERATING EXPENSE

During Q1, STF operating expenses were \$231K (17%) below budget, driven by savings in both lending and support departments.

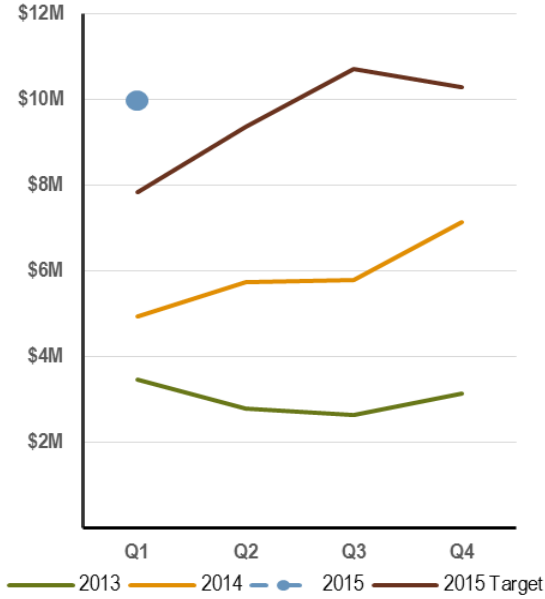
### OPERATIONAL SELF-SUFFICIENCY

Higher revenue and operating expense savings weren't enough to offset higher provisioning and interest expenses, leading to OSS of 83% for Q1, compared to a full-year target of 88%.

# FRONTIER PORTFOLIO

## Portfolio Performance

Average Balance by Year



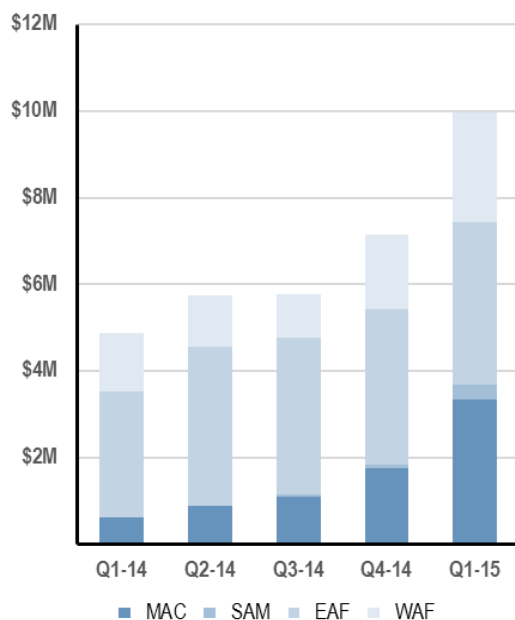
- Globally, Root Capital had an average outstanding balance of \$10M, which represents the highest balance ever reached in this portfolio.
- The Q1 2015 balance was 27% above target and represented growth of 100% from Q1 2014.
- East Africa and West Africa have typically led the growth within Frontier and were above target for this quarter; however, Central America has recently experienced significant growth, while South America has just started to grow its activity.

Loan Disbursements by Year



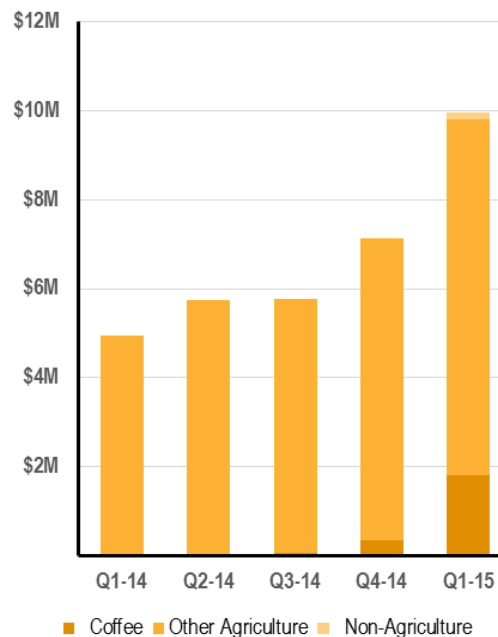
- Globally, Root Capital disbursed \$3M during Q1, 26% below target and a 13% decrease from Q1 2014.
- In South America we disbursed \$419K during Q1 2015, exclusively in Peru. This represents disbursements almost two times the target and strong initial growth during the first year of Frontier Portfolio activity.
- In Central America we disbursed \$1.1M during Q1 2015, 18% above target. Disbursements in Mexico, Honduras and Guatemala coffee were all above target. This growth is mainly driven by the recent portfolio redefinition which has allowed us to serve smaller export clients more easily in the Frontier Portfolio.
- In East Africa we disbursed \$909K during Q1, 46% below target and a 64% decrease from Q1 2014. Rwanda coffee and Kenya other low perishable agriculture sectors were the biggest contributors.
- In West Africa we disbursed \$568K during Q1, 51% below target but a 170% increase from Q1 2014. Ghana was the largest contributor (and the only country above target) and has consistently been one of the strongest markets for Frontier growth for Root Capital.

### Average Balance by Region (Trailing 5-Quarters)



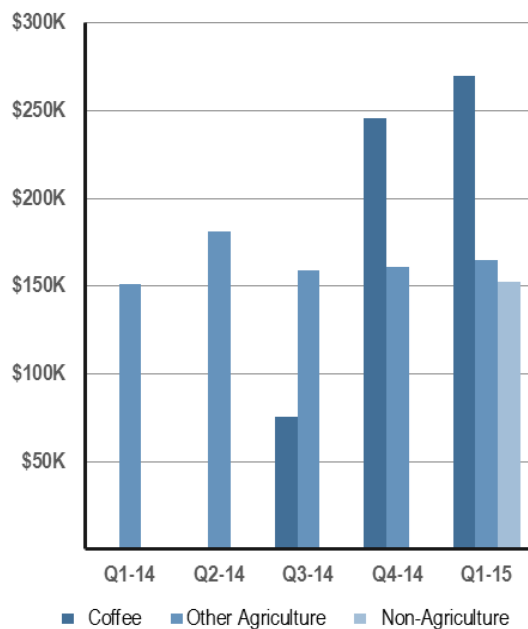
- Central America had an average balance of \$3.3M in Q1, 45% above target and considerably above the Q1 2014 balance of only \$600K. The Guatemalan coffee segment was the most significant driver of performance above target. Nicaragua and Mexico in the other low perishable agriculture sector have also grown and make up 38% of the region together.
- South America has experienced its first significant quarter of Frontier activity with a balance of \$332K. The portfolio redefinition has allowed Loan Officers to pursue smaller clients in the region, particularly in Peru, that are export-oriented but too small to qualify for the STF.
- East Africa is the most developed region for Frontier lending with a balance of \$3.8M (47% above target and 29% year over year growth). Balances for all active country and industry segments were above target, though Uganda was particularly strong in other low perishable agriculture (115% above target).
- West Africa had a balance of \$2.5M during Q1, 12% above target and 90% greater than Q1 2014. Eighty-two percent of the balance is within Ghana's other low perishable agriculture segment which is 56% above target and has grown 85% year over year.

### Average Balance by Industry (Trailing 5-Quarter)



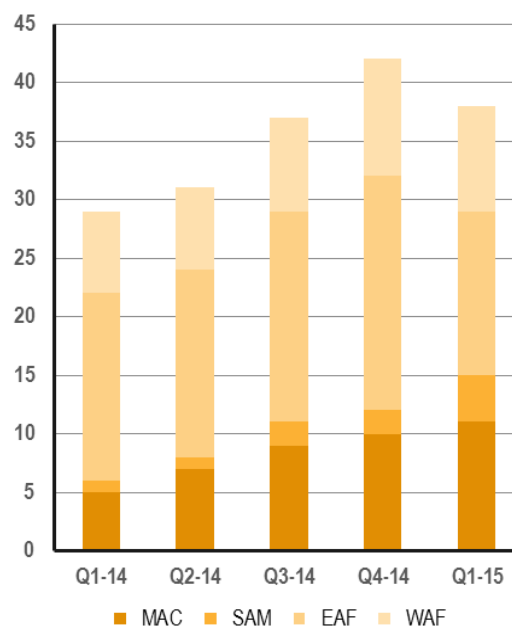
- Globally, 75% of our lending is in Other Agriculture, which includes staple crops such as maize (\$1.4M), sorghum (\$1.3M) and soy (\$1.3M).
- Coffee has recently become a more integral part of our Frontier portfolio (\$1.8M balance), almost exclusively in Central America, due to the portfolio redefinition that requires local currency loans to be allocated to the Frontier Portfolio.
- Our Frontier Portfolio in East Africa is heavily weighted toward staple crops, particularly maize and sorghum.
- All of our lending in soy is concentrated in West Africa, as is the rest of our sorghum lending.
- South America consists of a few smaller industries including one of our few non-agriculture industries (timber) and other low perishable industries such as nuts and canned/bottled fruits and vegetables.

### Average Outstanding Balance per Active Loan



- Globally, the average balance per active loan was \$177K, 25% above target and 17% higher than Q1 2014.
- We closed our first Frontier Portfolio coffee loan in Q3 2014. In Q1 2015, due to the portfolio redefinition, we saw a significant increase to nearly eight coffee loans in the portfolio. Some of these early-stage clients are larger than we expect this segment to generally serve, driving the average balance per active loan to \$270K, over twice the target.
- The other low perishable agriculture segment has remained in a steady-state around \$150-180K for over a year.
- Q1 2015 was our first introduction to lending in the non-agriculture sector, which has begun around the same average balance per active loan level as the other low perishable agriculture sector.

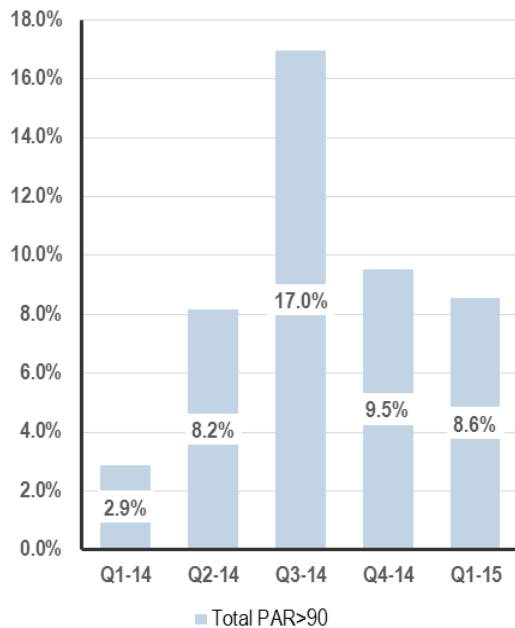
### Number of Clients Reached by Region



- Globally, the Frontier Portfolio has already reached nearly as many clients in Q1 2015 (38) as in all of 2014 (42).
- Thirty-eight clients reached is slightly below target but still a 23% increase from Q1 2014.
- Growth was above target in Central America, South America and East Africa (24%, 5% and 5% above, respectively) which together more than made up for the shortfall in West Africa (35% below target).

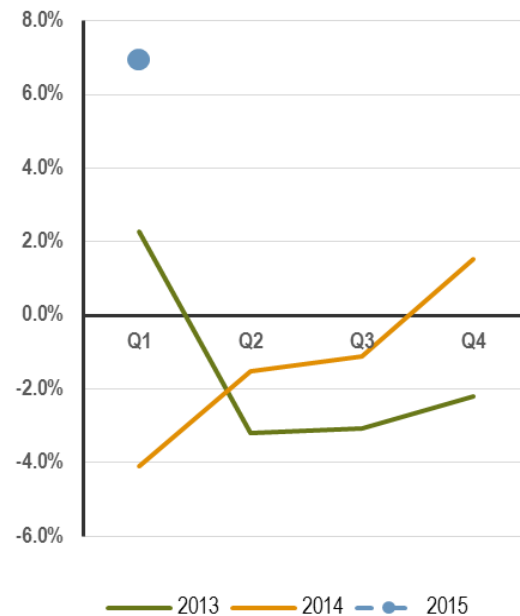
## Portfolio Quality

### Portfolio at Risk > 90 Days



- The Portfolio at Risk (PAR) over 90 days was 8.6% (\$817K) at the end of Q1 2015. The total outstanding balance in PAR over 90 days increased slightly from \$755K in Q4 2014.
- The composition of loans in PAR over 90 days changed over the course of the quarter. A \$324K sorghum loan in Uganda and a \$193K seed loan in Tanzania were downgraded during Q1, while a \$364K chia seed loan in Nicaragua and a \$52K rice loan in Ghana were written off over the course of the quarter.

### Net Writeoff Ratio (Trailing 12-Month Average)



- The net writeoff rate in the Frontier Portfolio was 6.9% at the end of Q1, up from 1.5% at the end of Q4 2014. Two loans, totaling \$416K, were written off during the quarter.
- During Q1, \$21K was recovered from loans that had been written off in previous quarters.



## Frontier Portfolio Financial Results & Analysis

Statement of Activities All numbers in thousands	Frontier Portfolio				
	YTD Results	YTD Target <sup>1</sup>	Variance (%)	2014 YTD	Yr/Yr Growth
Loan Interest and Fees	424			221	92%
Gain (loss) on FX Lending	(544)			(179)	204%
Currency Reserve Revenue	169			0	
Interest & Fee Revenue	(120)	176	-168%	42	-388%
Portfolio Yield	-4.8%	9.0%		1.7%	
Net Interest Expense	11	6	96%	10	16%
Net Funding Expense Ratio	0.4%	0.3%		0.4%	
Net Interest & Fee Revenue	(131)	171	-177%	32	-509%
Net Earned Revenue Ratio	-5.2%	8.7%		1.3%	
Provisioning Expense	354	116	206%	21	>1000%
Provisioning Expense Ratio	14.2%	5.9%		0.8%	
Net Revenue after Provisioning	(485)	55	-984%	12	-4318%
Net Revenue Ratio after Provisioning	-19.5%	2.8%		0.5%	
Operating Expense	414	478	-13%	391	6%
Operating Expense Ratio	16.6%	24.4%		15.7%	
Surplus / (Deficit)	(899)	(423)	113%	(379)	137%

### EARNED REVENUE

In Q1 the average portfolio balance in the Frontier Portfolio was \$9.6M, 83% higher than the same period in 2014, and 23% above target. Foreign Exchange (FX) losses of \$544K were higher than interest and fees, causing a net loss in interest and fee revenue. The majority of this loss was on unhedged loans in Ghana, Kenya, Tanzania and Uganda. In 2014, with grant funding from the Swedish International Development Cooperation Agency (SIDA) leveraged by loan capital from New Island Capital, we launched a foreign currency reserve (FX Reserve) with an initial value of \$0.81M as another foreign currency risk mitigation strategy. In Q1, \$169K was released from the FX Reserve to offset FX losses.

### PROVISIONING EXPENSE

The Frontier Portfolio incurred a total of \$354K in provisioning expense for a Provisioning Expense Ratio of 18.1%. The expense is \$238K more than the \$116K projected for Q1, and represents 50% of the \$714K in provisioning expense forecast for the full year. The downgrade of five loans, three in East Africa, one in West Africa and one in Central America, led to this provisioning expense.

### INTEREST EXPENSE & INTEREST EARNED ON CASH AND INVESTMENTS

Net interest expense was \$11K, compared to a target of \$6K. Interest expense in the Frontier Portfolio is not material compared to other expenses, since the Frontier Portfolio is financed through a combination of grant-funded net assets and low-cost debt.

### LENDING PROGRAM OPERATING EXPENSE

Operating expenses were \$63K (14%) below budget, driven by savings in both lending and support departments.

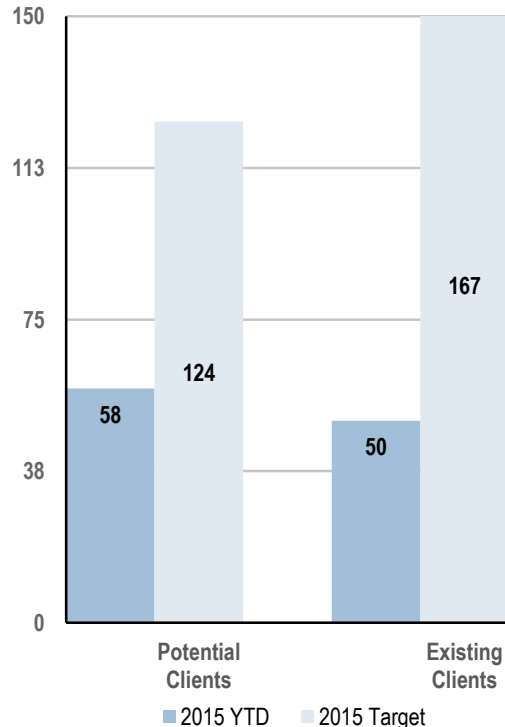
### FRONTIER PORTFOLIO OPERATING DEFICIT

Operating expense savings were not enough to offset higher FX loss and provisioning expense, leading to a deficit of \$379K above target.

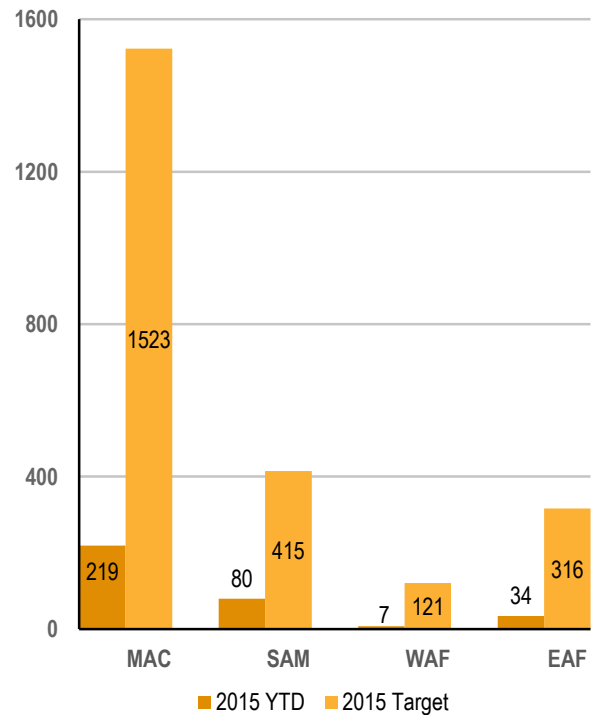
<sup>1</sup>Targets for sub-accounts of interest and fee revenue do not correspond with accounting and are omitted; refer to the total interest & fee revenue for comparison.

# ADVISORY SERVICES

Groups Served by Advisory Services (through Q1)



Days of Training Delivered by Advisory Services (through Q1)



- During the first quarter, Root Capital's Advisory team trained 77 small and growing businesses (SGBs) in 10 countries, representing a third of our full-year target. Consistent with prior-year, approximately 60% of SGBs trained during Q1 were prospective Root Capital borrowers.
- The Advisory program developed, and is now piloting, a new impact evaluation framework to track improvements in financial management capacity of agricultural SGBs that participate in an on-site training engagement. Baseline data collected during 2015 will serve as the basis for comparison for future cycles of assessment.

- Our financial consultants carried out 318 days of training in Q1. This represents 40% growth year-over-year due to the rollout of an expanded service offering, including training in the use of mobile technologies, engagement with local financial institutions and continued growth of our agronomic advisory work as part of the Coffee Farmer Resilience Initiative (CFRI).
- Despite the appearance of a slow start in West Africa, our newest Advisory region, we project a near doubling of total activity year-over-year as the local team scales up Advisory support for continued industry diversification in Root Capital's loan portfolio.

# CATALYZE PROGRAM PERFORMANCE

In Q2, we continued to make contributions to the development of the smallholder agricultural finance sector by engaging with peers and practitioners across several regions and platforms.

## FIELD BUILDING & THOUGHT LEADERSHIP

- Founder and CEO Willy Foote, and Senior Vice President of Strategy, Knowledge & Innovation Brian Milder participated in the Transformative Impact Lab, a collaboration between the Bridgespan Group and Harvard Business School that convened CEOs and senior leadership from leading non-profits to discuss how best to achieve systems change.
- Willy Foote participated in a Stanford Social Innovation Review webinar entitled "What's Your Endgame? A New Approach to Scaling."
- Impact Officer Asya Troychansky presented at the United Nations International Women's Day Forum in New York City on a panel on gender lens investing.
- Senior Vice President of Communications & Marketing Liam Brody was a featured speaker at the Clinton Global Initiative Winter Meeting. He presented alongside senior executives of Nestle, CIGAR, One Acre Fund and Sodexo during a session on connecting smallholder farmers to global markets.
- Cecilia Yañez, Senior Investment Analyst at ACCDER, spoke about Root Capital's Women in Agriculture Initiative at the National Meeting of Women Cocoa Producers, organized by the Peruvian Association of Cocoa Producers (APPCACAO).
- Investor Relations Officer Vincent Lagace co-led an event titled "Inclusive Value Chains in the Coffee Sector: Workshop on Linkages and Learning" in San Cristobal, organized by Ashoka Centroamérica y México, ANDE and Root Capital. The workshop united 35 representatives from producer organizations, NGOs and coffee buyers.
- Ben Schmerler, Director of Investor Relations, presented at the Global Partnerships Week of the United States Department of State on "Challenges and Opportunities in Shared Value Partnerships."
- Senior Vice President of Investor Relations and Operations Catherine Gill, Brian Milder and Ben Schmerler presented on "Coffee Farmer Resilience Initiative: Implementation and Learning" at the USAID Bureau of Food Security.
- In collaboration with the Peruvian Coffee Chamber, the Root Capital Advisory team convened financiers, technical assistance providers, buyers and certifiers for a workshop on the technical dimensions of coffee renovation and climate change.
- Brian Milder participated in a panel on "Exploring How to Finance Sustainability at the Field Level" at the NYU Stern-Citi Conference in Leadership & Ethics at New York University.
- Director of Business and Product Development Elicia Carmichael participated on the panel "Closing the Gap: Diverse Approaches to Women's Inclusion" at the Latin American Impact Investing Forum in Mérida, Mexico.
- Ben Schmerler delivered a workshop at the Clinton Global Initiative headquarters in New York on "New Approaches to Deploying Philanthropic Capital for Good."
- Director of Strategy and Impact Mike McCreless led a breakout session on Client-Centric Impact Evaluation, and Asya Troychansky co-led a session on Producer Organization Strengthening at the Performance Measurement 3.0 Workshop of the Sustainable Food Lab in McLean, VA.
- Senior Director of Governance and Compliance Lubna Elia spoke on a webinar panel on "Good Governance for Social Enterprises" organized by Morgan Lewis, in conjunction with the International Transactions Clinic of the University of Michigan Law School and the Impact Investing Legal Working Group.
- Senior Manager of Institutional Relations Debra Shapira spoke on a panel titled "Promoting Transparency through Collection and Publication of Impact Metrics" at the Confluence Philanthropy Annual Practitioners Meeting in California.

# FINANCIAL RESULTS

## Balance Sheet Highlights

Balance Sheet Highlights All numbers in thousands	3/31/2015 Actual	3/31/2015 Target	Variance (%)	3/31/2014 Results	Yr/Yr Growth
Cash and Short-Term Investments	24,400	23,069	6%	21,913	11%
Total Loans Receivable	112,815	102,109	10%	87,282	29%
Less: Allowance for Credit Losses	(4,785)	(2,726)	75%	(2,176)	120%
Loans Receivable (net)	108,030	99,382	9%	84,935	27%
Grants Receivable	8,736	10,676	-18%	11,362	-23%
Other Assets	6,882	4,085	68%	3,557	93%
<b>Total Assets</b>	<b>148,048</b>	<b>137,212</b>	<b>8%</b>	<b>121,768</b>	<b>22%</b>
Total Debt	112,161	97,481	15%	82,588	36%
Other Liabilities	4,851	4,007	21%	2,530	92%
<b>Total Liabilities</b>	<b>117,011</b>	<b>101,489</b>	<b>15%</b>	<b>85,118</b>	<b>37%</b>
Lending Net Assets & Op Reserve	24,372	25,048	-3%	25,971	(0)
T/R Net Assets (Purpose & Time)	6,665	10,676	-38%	10,679	(0)
<b>Total Net Assets</b>	<b>31,037</b>	<b>35,724</b>	<b>-13%</b>	<b>36,650</b>	<b>-15%</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>148,048</b>	<b>137,212</b>	<b>8%</b>	<b>121,768</b>	<b>22%</b>

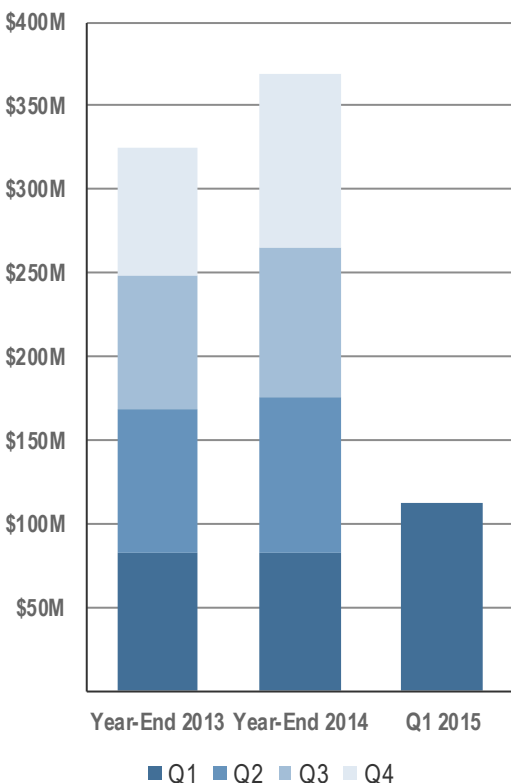
Key Financial Ratios	3/31/2015 Actual	3/31/2015 Target	Variance (%)	3/31/2014 Results	Yr/Yr Growth
Debt-to-Equity Ratio	4.60	3.89	18%	3.18	45%
Capital Utilization	94%	95%	-1%	92%	2%

Root Capital's balance sheet has grown 22% in the past four quarters and we ended Q1 with total assets of \$148M and balances for both loan portfolio and total debt above \$110M.

- By improving cash flow management processes and refining the debt product offering, we have managed higher capital utilization over the past year. We ended Q1 2014 with a capital utilization rate of 94%, signifying efficient use of investor and net asset dollars.
- Over the past twelve months, our portfolio balance and outstanding debt have grown by 10% and 15%, respectively. This has led our debt-to-equity ratio to increase from 3.18 at the end of Q1 2014, to 4.60 at the end of Q1 2015. With certain investor covenants stipulating a debt-to-equity ratio cap a 5:1, we are actively exploring options that will allow Root Capital to continue to grow our loan portfolio while maintaining sufficient capital adequacy.
- At the end of Q1, the balance of net assets temporarily restricted by purpose or time was at \$6.7M, compared to \$10.7M at the end of Q1 2014. These net assets represent grant funding available for release in future periods as the restrictions placed on the use of these funds are met.

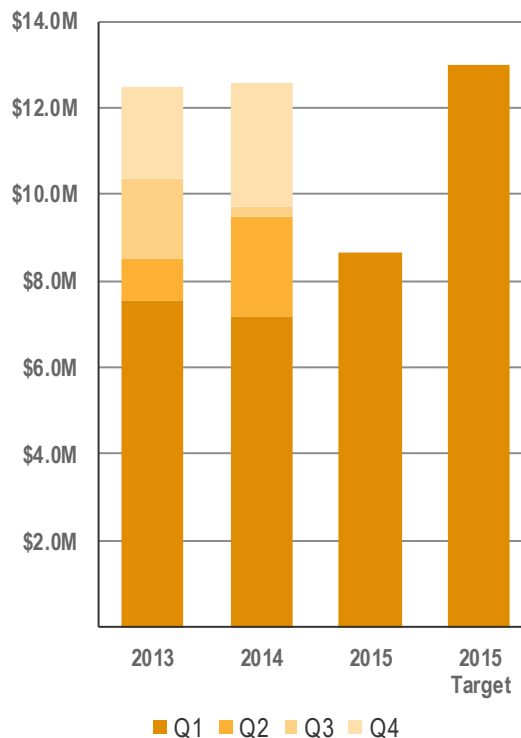
## Debt & Contribution Fundraising

### Outstanding Debt Balance



- We ended the quarter with just over \$113M in total debt under management.
- During the first quarter, we raised over \$7.6M in new debt from investors. At the end of 2014 and through Q1, we worked with investors to increase our total debt balance to meet the higher lending need during the Central American harvest.
- Root Capital manages to approximately 90% capital utilization to manage liquidity and volatility in our lending portfolios. In Q1, we achieved a 94% capital utilization rate.

### Total Contributions Raised for Each Year



- By the end of the first quarter, \$8.7M in contributions had been raised toward our total 2015 fundraising target of \$13M, which includes operating need and balance sheet funding.
- As part of this, we raised \$3.3M in contributions against our Q1 operating need of \$3.2M.
- To date, we have raised \$4M for Root Capital's operations in 2016.
- The total value of new gifts and grants closed in Q1, for use in current or future periods, was \$1.9M.

## Statement of Activities

All numbers in thousands	Statement of Activities				
	YTD Results	YTD Target <sup>1</sup>	Variance (%)	2014 YTD	Yr/Yr Growth
Loan Interest and Fees	3,231			2,488	30%
Gain (loss) on FX Lending	(646)			(158)	310%
Interest & Fee Revenue	2,585	2,768	-7%	2,330	11%
Net Interest Expense	648	471	38%	351	84%
Net Interest & Fee Revenue	1,937	2,297	-16%	1,979	-2%
Provisioning Expense	1,825	572	219%	617	196%
Net Revenue after Provisioning	112	1,724	-94%	1,361	-92%
Operating Expenses	3,362	4,388	-23%	3,471	-3%
Contributions for Operations	3,317	3,850	-14%	5,187	-36%
Operating Surplus / (Deficit)	66	1,186	-94%	3,078	-98%

### EARNED REVENUE

- Loan interest & fees of \$3.2M were 14% higher than projected, in line with a 12% positive variance in the average balance across the loan portfolio.
- Losses on FX Lending of \$646K were almost twice as high as anticipated. Approximately 90% of the loss was on unhedged loans in the Frontier Portfolio.

### NET INTEREST EXPENSE

- Net Interest expense was 38% above target on an average notes payable balance and portfolio balance which were both 16% above target. Average cost of debt was higher than forecast due to higher coupon short-term notes used to meet portfolio demand.

### PROVISIONING EXPENSE

- During Q1, we incurred a total of \$1.8M in provisioning expense, compared to a Q1 target of \$0.6M and a full-year target of \$4.0M.
- The STF accounted for \$1.47M of this total provisioning expense, with key drivers including the downgrade of seven clients in South America and the downgrade of two loans in West Africa: one cashew loan and one mango loan.
- The remaining \$0.35M in provisioning expense was incurred in the Frontier Portfolio, which was \$238K more than the \$116K projected for Q1, and represents 50% of the \$714K in Frontier Portfolio provisioning expense forecast for the full year.

### OPERATING EXPENSES

- In Q1, total operating expenses were \$3.4M, \$1.0M (24%) less than the budgeted target of \$4.4M. Half of these savings were due to a timing shift of a Resilience Fund contractor payment from Q1 to Q2. Travel and personnel costs were also below budget, in part due to strengthening of the US dollar.

### CONTRIBUTION REVENUE

- Contribution revenue was \$3.3M during Q1 against an operating need of \$3.2M, generating an operating surplus of \$0.1M year-to-date.

<sup>1</sup>Targets for sub-accounts of interest and fee revenue do not correspond with accounting and are omitted; refer to the total interest & fee revenue for comparison.

## Operating Results

Program	First Quarter 2015 Operating Expenses			Q1 2014 Operating Expense	
	2015 Actual	2015 Target	Variance (%)	2014 Actuals	Yr/Yr Growth
<i>All numbers in thousands, YTD</i>					
Finance Opex (Sustainable Trade Fund)	1,141	1,374	-16.9%	1,342	-15.0%
Finance Opex (Frontier Portfolios)	414	478	-13.3%	391	5.9%
Advise Opex	1,036	1,773	-41.6%	967	7.1%
Catalyze Opex	788	764	3.2%	771	2.2%
<b>Total Opex</b>	<b>3,380</b>	<b>4,388</b>	<b>-23.0%</b>	<b>3,471</b>	<b>-2.6%</b>

- During Q1, total operating expenses were \$3.4M, which is a year-over-year decrease of \$91K (5%) from Q1 2014, despite an increase in program activity (see Finance, Catalyze and Advise details above). Total spending in Q1 was \$1.0M (23%) less than then the budgeted amount of \$4.4M. Half of these savings were due to a timing shift of a Resilience Fund contractor payment from Q1 to Q2 (see Advise section below). The other significant factors driving the lower-than-budgeted Q1 spending were:
  - Personnel spending was \$2.7M, which was \$222K (9%) lower than budget, primarily due to delayed hires and unplanned departures.
  - Travel, meetings and conferences spending was \$203K, which was \$176K (46%) below budget.
- Combined Finance Program operating expenses decreased by approximately 10% from Q1 2013, partially due to a decrease in non-field-based staff. Despite lower-than-budgeted expenses, the Finance program was able to reach record balance outstanding during Q1 and achieve an operating expense ratio of 4.4% for the STF and 16.6% for the Frontier Portfolio, which are significant decreases from the operating expense ratios of 6.8% and 31.6% for the STF and Frontier Portfolio in Q1 2014, respectively. This is strong signal of the benefits of efficiency improvement initiatives that have been enacted over the past several years, including an organization-wide LEAN initiative.
- Total operating expenses for Advise in Q1 2015 grew 7% over Q1 2014, which indicates a continually slowing growth rate for the program, especially compared to 2010-2014, during which time the program grew operating expenses by a 41% compounded annual growth rate. The Q1 2015 Advise expenditures were 42% less than budget, principally due to a shift in timing for the payment of a Resilience Fund contractor from Q1 to Q2. This contractor expense is one of the key parts of providing agronomic support to coffee farmers through the Coffee Farmer Resilience Initiative (CFRI).
- Total operating expenses for Catalyze during Q1 2015 grew by \$17K (2%) from Q1 2014. This nominal increase reflects the stabilization in growth of the Catalyze program as the program team structure has remained consistent over the past year.

**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](http://www.rootcapital.org) or email [info@rootcapital.org](mailto:info@rootcapital.org).

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