Performance Report
Q2 2017

Producer-member, C.A.C. Pangoa, Peru

root capital

OVERVIEW

Root Capital showed strong financial and impact performance through the first half of 2017. So far, we have reached 237 businesses that in turn generated $1.1 billion in revenue and purchased crops from 572,000 farmers and their families — over 227,000 of whom are women. In addition, we saw good growth in our lending portfolio, resulting in $74.4 million in loan disbursements year to date, a 23 percent increase compared to this time last year.

Of particular note is the solid performance of our coffee clients in Latin America that are experiencing strong harvests after several years of challenging market conditions. When the businesses we support are able to grow, they create a ripple effect of positive social and environmental impact in their communities. Businesses like Expocosurca — a coffee exporter that guarantees higher prices for thousands of farmers throughout southwestern Colombia — are fighting the twin pressures of climate change and youth migration by making agriculture a viable livelihood for the next generation of farmers in their communities. We are excited to share more about Expocosurca at the end of this report.

Portfolio Performance and Impact

In Q2 2017, we disbursed $31.1 million to agricultural businesses in Latin America, Africa and Indonesia —- an increase of 17.5 percent year over year. The growth in disbursements was largely the result of an increase in disbursements to coffee businesses in South America, specifically in Peru and Colombia. Overall there was a 52 percent increase in disbursements to coffee clients year over year, from $16.1 million to $24.4 million. In addition, there was a large amount of growth in our lending activity relative to last year to businesses processing macadamia nuts in East Africa.

While there was a growth in disbursements, the average outstanding portfolio balance during the quarter declined year over year by 5.6 percent to $86.9 million. The slight decline in balance was the result of the ongoing work both to calibrate our risk appetite and to pursue off-balance-sheet lending. Over the quarter, we continued to implement enhanced underwriting and risk management tools and processes that allow us to lend wisely without losing focus on where we can have the greatest impact. In addition, we expanded partnerships that enable us to mobilize off-balance-sheet capital to meet the growing needs of our clients. As an example, this past quarter we launched a partnership with ABN AMRO, a Dutch bank with a commitment to sustainable and impact-focused banking. Through the partnership, ABN AMRO will support and increase our capacity to provide loans to our largest coffee and cocoa clients globally.

On the downside, market challenges remained constant in the cocoa sector. During the quarter, the cocoa price reached a five-year low, falling as much as 25 percent since January's year-to-date high due to excess supply from Côte d'Ivoire and Ghana and unrealized demand from Asian markets. As a result, year-over-year disbursements and exposure to cocoa businesses significantly decreased in the portfolio. In addition, we continue to closely follow coffee prices that have declined as much as 30 percent from their peak in November 2016, which is primarily due to a strong supply from Brazil and Colombia contributing to a net surplus in the 2016-17 season.

Portfolio Quality

At the end of Q2 2017, our Portfolio-at-Risk (PAR) greater than 90 days was 11.9 percent of the portfolio ($9.1 million) a decline from the previous quarter in which PAR greater than 90 days was 12.7 percent of the portfolio ($11.9 million).

During the quarter, we wrote off $5.5 million of loans, with the largest losses from three clients: a coffee client in Nicaragua, a cashew processor in Benin and a sesame client in Mexico. In Q2, we recovered a total of $1.4 million from written-off loans, resulting in a 12-month net write-off ratio of 6.7 percent. Given the elevated level of at-risk loans in the portfolio that we have reported over the past year, this level of write-offs is in line with expectations for the year.

Advisory Services

In the second quarter, Root Capital delivered 375 days of training to 179 businesses across Latin America and Africa. Advisors covered topics including financial management, commercialization, leadership, gender inclusion and agronomic and information management. Specifically in Mexico and Central America, we continued to expand our support of coffee businesses. For example, we worked with coffee buyers De La Gente and Equal Exchange to improve the performance of businesses in their supply chain.

Also during the quarter, we launched our first mobile advisory services pilot in West Africa. In Côte d'Ivoire, we began working with two cocoa cooperatives to digitize and enhance their capacity to analyze the farmer-level data they collect annually, supporting the business' compliance with certification requirements as well as improving their planning and decision making. Similarly, in Ghana we are working with a sorghum business to enroll farmers with text-based weather alerts from Ignitia Tropical Weather Forecasting, which will provide critical support to farmers by identifying the best time for fertilizer applications.

We secured additional funding this quarter from long-time partner Keurig Green Mountain that will enable us to provide a range of advisory services to enhance the competitiveness of coffee businesses and farmers in the context of climate change. The partnership will support businesses in Colombia, Honduras and Peru and will enable us to launch our advisory activities for the first time in Indonesia.

Financial Results

Overall, Root Capital ended the first half of the year with strong financial performance in line with our annual plan. At the end of Q2 2017, Root Capital posted a small year-to-date deficit of $346,808, which is a significant improvement over the $3.1 million deficit at this point last year, putting us solidly on track towards our goal of breaking even in 2017.

We ended the quarter with a net provisioning expense of $2.6 million, reflecting a positive change of 28 percent from this time last year, well within our projected range. At quarter end, our $76.3 million lending portfolio was supported by $10.3 million in unrestricted net assets and $9.5 million in long-term subordinated debt. Our contribution revenue through the end of Q2 was $5.0 million, an increase of 15 percent year over year.

Conclusion

As we aim to raise farmer incomes and strengthen rural communities by supporting pivotal agricultural businesses with the capital and training they need to succeed, we are energized by the knowledge that we do not do this work alone. We work alongside several other agricultural lenders in the Council on Smallholder Agricultural Finance (CSAF), which recently released its third annual State of the Sector report. The report, which draws upon data from the portfolios of all 11 CSAF members and affiliates, shows remarkable industry growth over the past few years. Lenders nearly doubled annual combined disbursements from $360 million to 556 businesses in 2013 to $682 million to 765 businesses in 2016.

Notwithstanding the impressive levels of growth in lending overall among CSAF members, the report highlights a number of challenges we collectively face. While aggregate lending has significantly increased since CSAF was formed five years ago, the report shows a considerable slowdown in growth over the past two years coupled with several lenders reporting a material volume of nonperforming loans. These loans have elevated provisioning costs and have led to tighter credit standards. Commodity price volatility as well as crop failure due to weather and crop diseases were cited as significant factors affecting the ability of borrowers to repay loans.

We are proud of the collective impact that CSAF creates and appreciate the different roles in the market that each of its members can play. Root Capital continues to go where others don't in order to place capital and provide support where it's needed most: the hardest-to-serve businesses in isolated areas, at the end of the dirt road. As an example of this role, Root Capital is currently the largest lender among our CSAF peers to coffee businesses in the Democratic Republic of Congo (DRC), a country that endured a 20-year civil war that cost millions of lives and destroyed the country's coffee-producing regions. Since 2013, we have disbursed $13.5 million to seven coffee businesses, impacting the lives of over 23,000 smallholder coffee farmers. You can read more about Congolese businesses we support in our recent blog post.

With the first half of the year behind us, we are focused on the work that lies ahead. We are motivated daily by the opportunity to serve our clients and feel privileged to work with a powerful network of supporters to help grow prosperity, one business at a time.

Second Quarter Dashboard

Metric	Result	Full Year Target (unless otherwise noted)	Results as % of Target
Social and Environmental Metrics			
Number of Producers Reached	688K	774K	89%
Producers supplying business	572K	634K	90%
Producers buying inputs	116K	140K	83%
Purchases from Producers	$907M	$1.1B	86%
Total Revenue of businesses	$1.1B	$1.3B	86%
Sustainable Hectares under Management	546K	673K	81%
Lending Program			
Loan Disbursements	$74.4M	$124.6M	60%
Average Outstanding Portfolio Balance [1]	$86.9M	$94.4M	92%
Average Outstanding Balance per Active Loan	$361K	$404K	
Number of Clients Reached [2]	237	318	75%
Additional Capital Mobilized [3]	$6.1M	$5.3M	115%
Portfolio-at-Risk Over 90 Days *	11.9%	< 7.0%	
Net Write-off Ratio *	6.7%	< 6.0%	
Advisory Services			
Number of Businesses Served	228	271	84%
Days of Training Delivered	549	1506	36%
Operating Results			
Total Operating Expense	$6.5M	$13.5M	48%
Debt to Equity Ratio*	4.14	< 5.00	
Capital Utilization *	75%	87%	86%

[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

Performance and Impact

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

At the end of Q2, participations partners were lending $5.1 million alongside us. In addition, as manager of LAFCo, Root Capital has supported the growth of the investment company's portfolio, reaching $4.9 million in average outstanding balance to eight businesses at the end of Q2 (a 23 percent increase over last quarter).

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 additive to the Root Capital portfolio metrics.

LAFCo Dashboard	Result
Social and Environmental Metrics	
Number of Producers Reached	114K
Producers supplying business	113K
Producers buying inputs	1K
Purchases from Producers	$58M
Total Revenue of businesses	$81M
Sustainable Hectares under Management	109K
Lending Program	
Loan Disbursements	$3.3M
Average Outstanding Balance [1]	$4.9M
Number of Clients Reached [2]	8

[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.

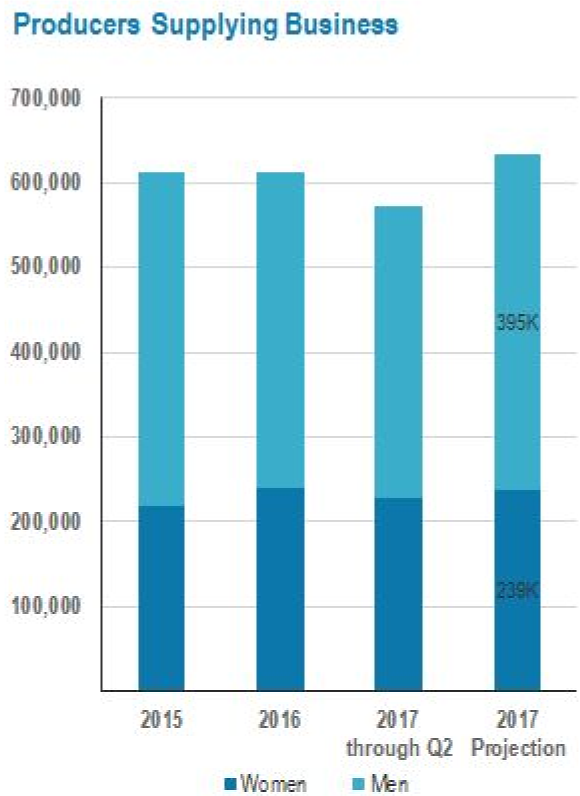
Gender-Inclusive Clients: A gender-inclusive business either has a supplier and nonmanagerial employee base composed of 30 percent women or more, or is woman-led with 20 percent or greater participation by women producers and/or employees.

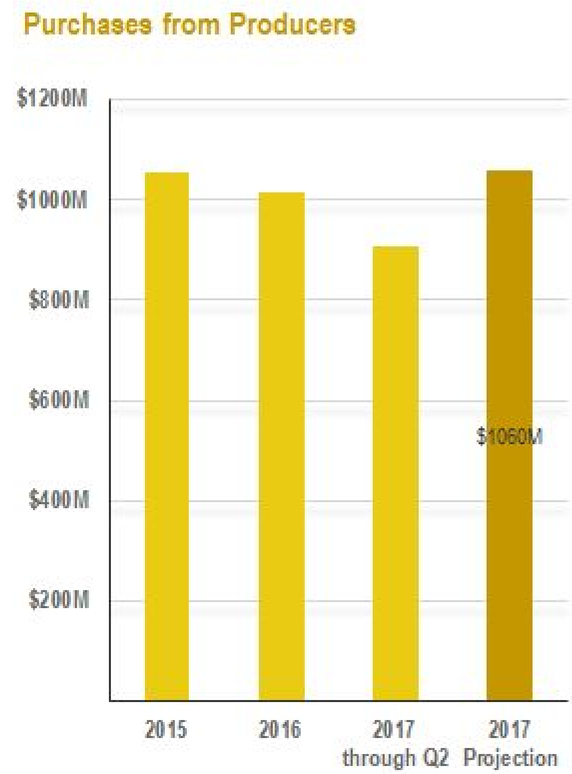
Net Write-off Ratio: A trailing 12-month figure representing the previous 12 months' write offs, net of recovered funds, as a percentage of the average outstanding balance during the same period.

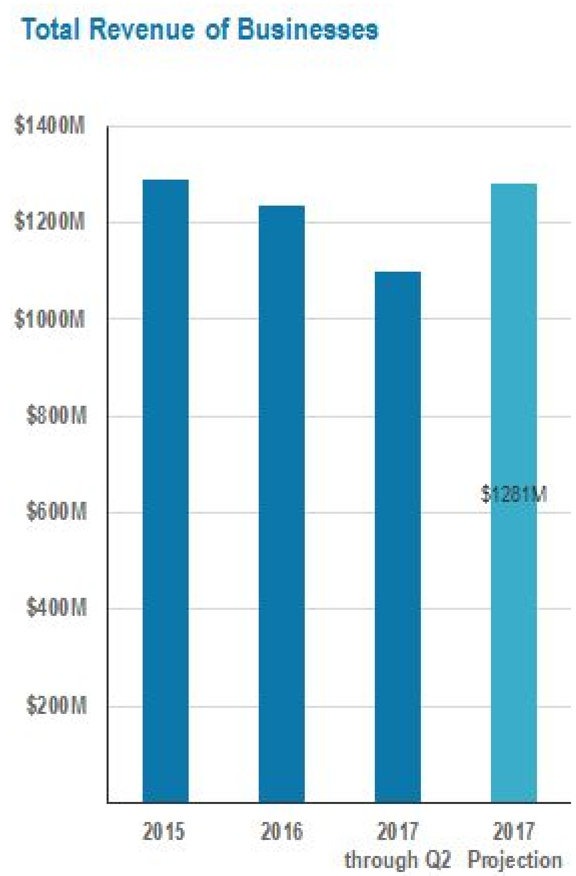
Region Acronyms: MAC (Meso America & Caribbean), SAM (South America), EAF (East Africa), WAF (West Africa), ASI (Asia — currently Indonesia only).

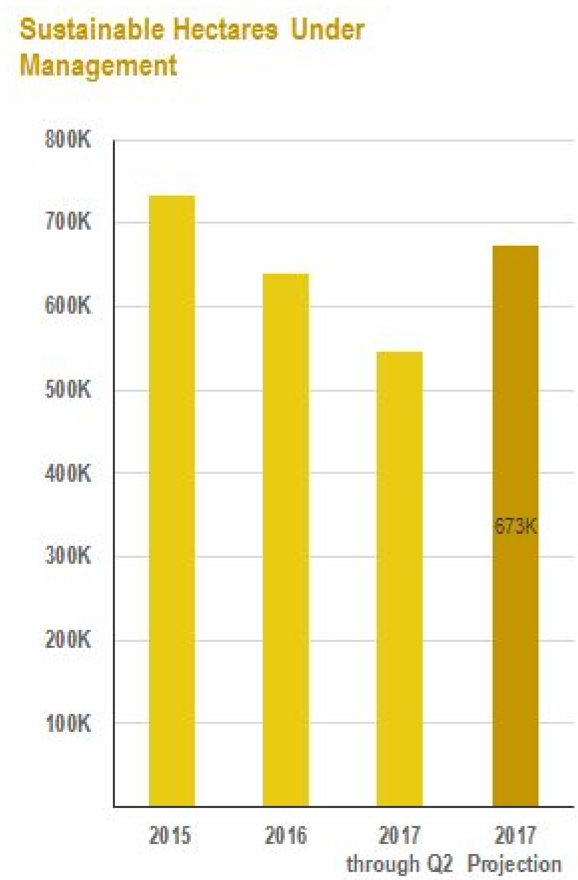
PORTFOLIO PERFORMANCE

Social and Environmental Metrics

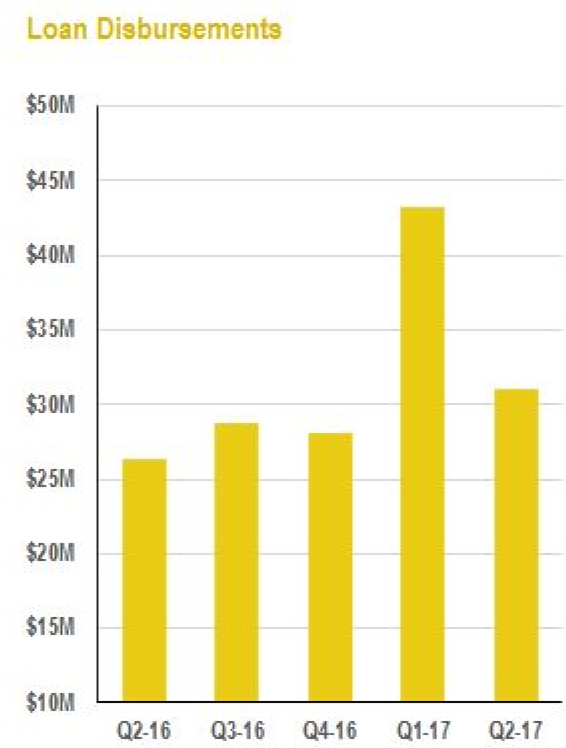


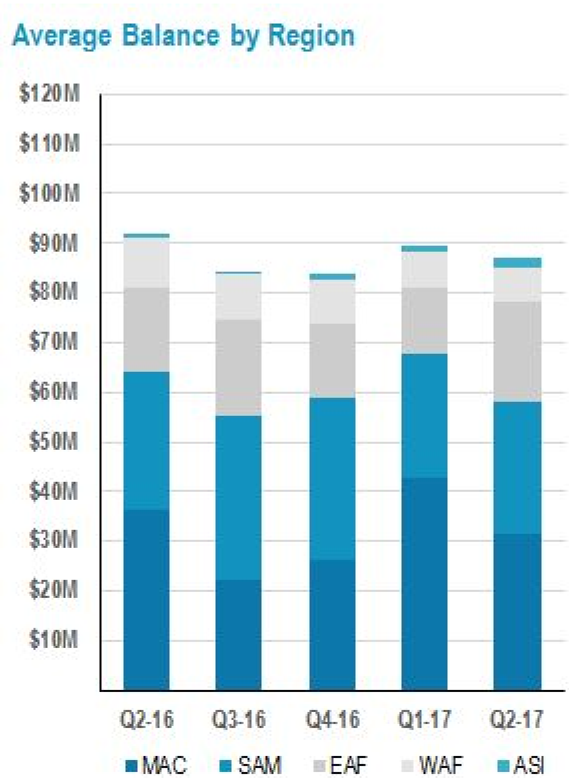


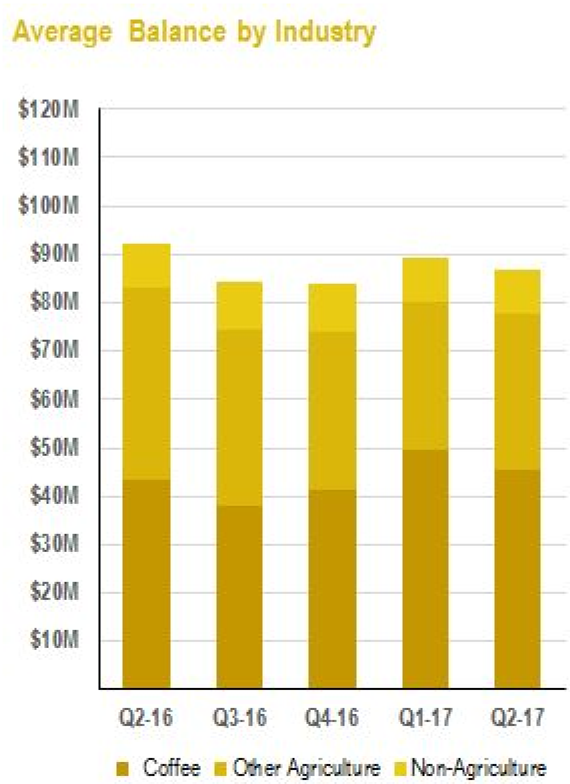


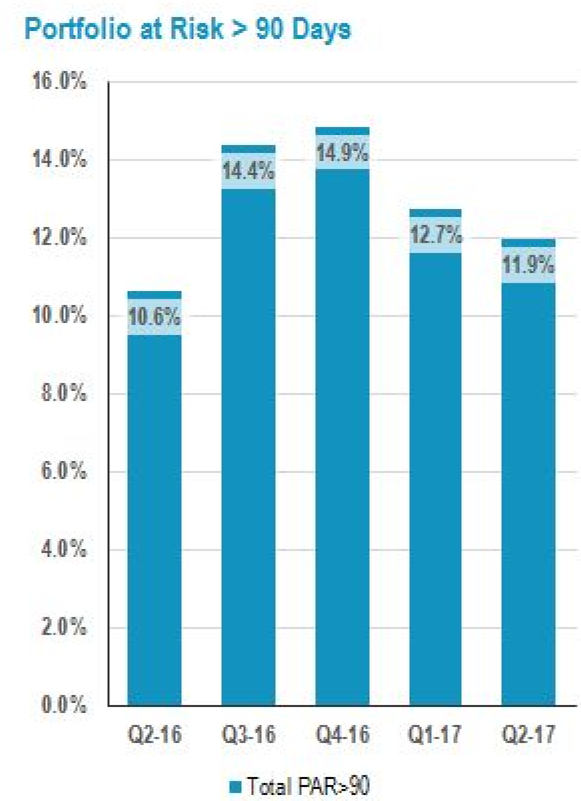


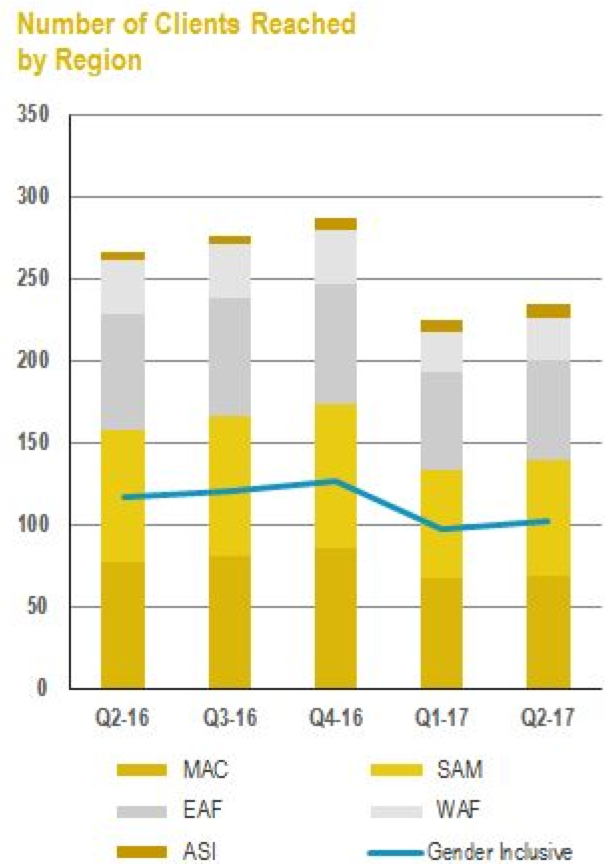
Lending Performance



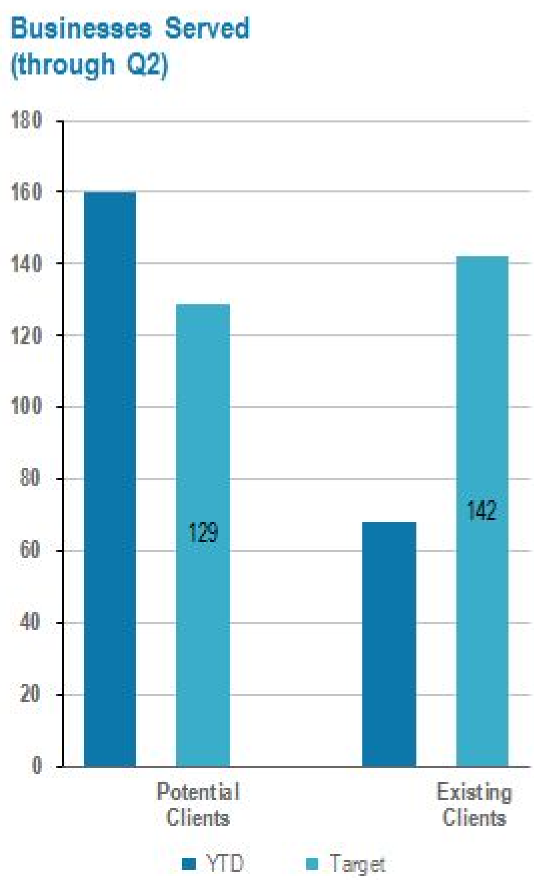


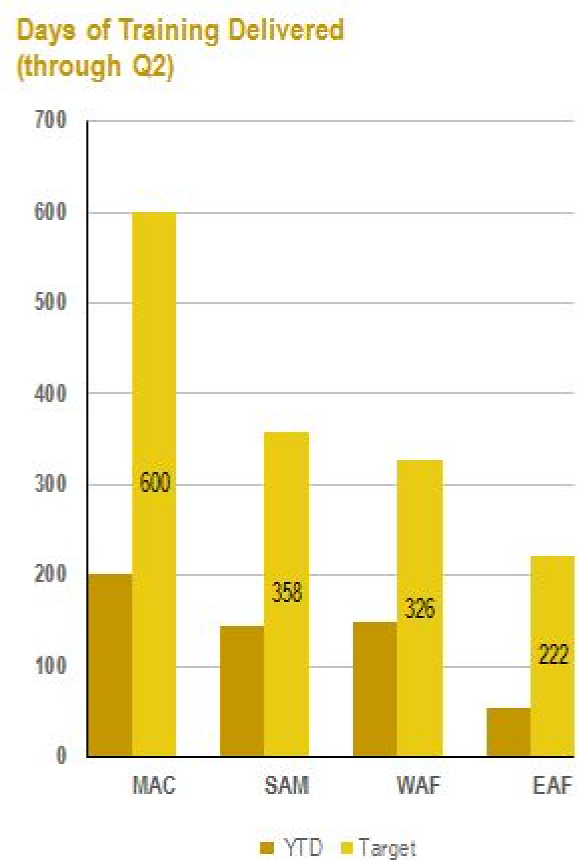






Advisory Services





Balance Sheet

Balance Sheet Highlights			
Millions of USD	Q2 2016	Q2 2017	Yr/Yr Growth
Cash and Short-Term Investments	33.5	30.8	-8%
Total Loans Receivable	83.1	76.3	-8%
Less: Allowance for Credit Losses	(6.2)	(8.7)	40%
Loans Receivable (net)	76.9	67.6	-12%
Other Assets	11.2	16.1	44%
Total Assets	**121.6**	**114.5**	**-6%**
Senior Debt	85.8	82.0	-4%
Subordinated Debt	6.2	9.5	53%
Other Liabilities	6.1	8.9	47%
Total Liabilities	**98.0**	**100.4**	**2%**
Lending Net Assets & Op Reserve	18.2	10.3	-43%
T/R Net Assets (Purpose & Time)	5.4	3.7	-31%
Total Net Assets	23.6	14.0	**-40%**
Total Liabilities & Net Assets	**121.6**	**114.5**	**-6%**

Key Financial Metrics			
	Q2 2016	Q2 2017	Yr/Yr Growth
Grant Net Assets* ($000)	13.6	14.4	6%
Debt-to-Equity Ratio**	3.5	4.1	0.62 pts

Grant Net Assets include Temporarily Restricted Net Assets, held on the balance sheet, as well as $10.7M 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 YTD

Millions of USD	Q2 2016	Q2 2017	Yr/Yr Growth
Loan Interest and Fees	4.7	4.2	-10%
Gain / (Loss) on FX Lending	(0.3)	0.0	-106%
Interest & Fee Revenue	**4.4**	**4.2**	**-3%**
Net Interest Expense	(1.2)	(1.0)	-20%
Net Interest & Fee Revenue	**3.2**	**3.3**	**3%**
Net Provisioning Expense	(3.7)	(2.6)	-28%
Net Lending Revenue	**(0.5)**	**0.6**	**-227%**
LAFCo & Agency Services Fees	0.2	0.3	55%
Net Operating Revenue	**(0.3)**	**1.0**	**-446%**
Operating Expenses	(7.3)	(6.5)	-11%
Operating Need	**(7.6)**	**(5.6)**	**-27%**
Contributions for Operations	4.3	4.9	14%
Fee for Service Revenue	0.2	0.3	63%
Surplus / (Deficit)	**(3.1)**	**(0.3)**	**-89%**

Client Profile

EXPOCOSURCA | Colombia

For over 50 years, the Colombian people suffered through the world's longest-standing civil war — a war that created the second-largest number of internally displaced people in history, killed over 170,000 civilians, and fueled one of the world's largest drug trafficking operations. With the historic peace deal signed by government and rebel leaders last year, it is the world's hope that the war has ended.

But a stroke of a pen will not make half a century of conflict disappear. While government and guerilla leaders were laying the groundwork for the peace deal, the production of coca — the plant used to produce cocaine — rose 50% over the course of 2016. In response, the government and former rebel groups are trying to to end this practice by paying farmers to grow other crops and by destroying fields of the farmers that refuse to switch over.

This new policy will certainly curb coca production. But what about the farmers who must choose between two unpalatable options: growing lucrative but illegal coca, or switching to a new crop that might earn them far less? To us, the solution lies in businesses like Root Capital client Expocosurca.

Located in the rugged jungle of southwestern Colombia, Expocosurca is the exporting arm for several associations of coffee and cocoa producers throughout the region. Even though the business is in the heart of coca country, these producers have steered clear of the illegal drug. By working with these associations to collect coffee and cocoa from thousands of producers and exporting it internationally at scale, Expocosurca can fetch farmers better prices for their crops than they could ever get on their own.

In addition, the business has partnered with its member associations to make agriculture work better for farmers — especially the next generation. As a changing climate and the threat of crop diseases make coffee harder to grow, more and more young people feel pressured to leave the land their parents fought to protect. In response, Expocosurca is helping its member cooperatives invest in organic farming techniques that preserve soil quality, farm renovations that prevent the spread of crop disease, and education programs that give young farmers the skills they need to adapt to a changing agricultural landscape. And as it continues to fetch higher-than-market prices on the global market, it can guarantee the farmers of the future that their jobs will continue to pay them well for years to come.

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.