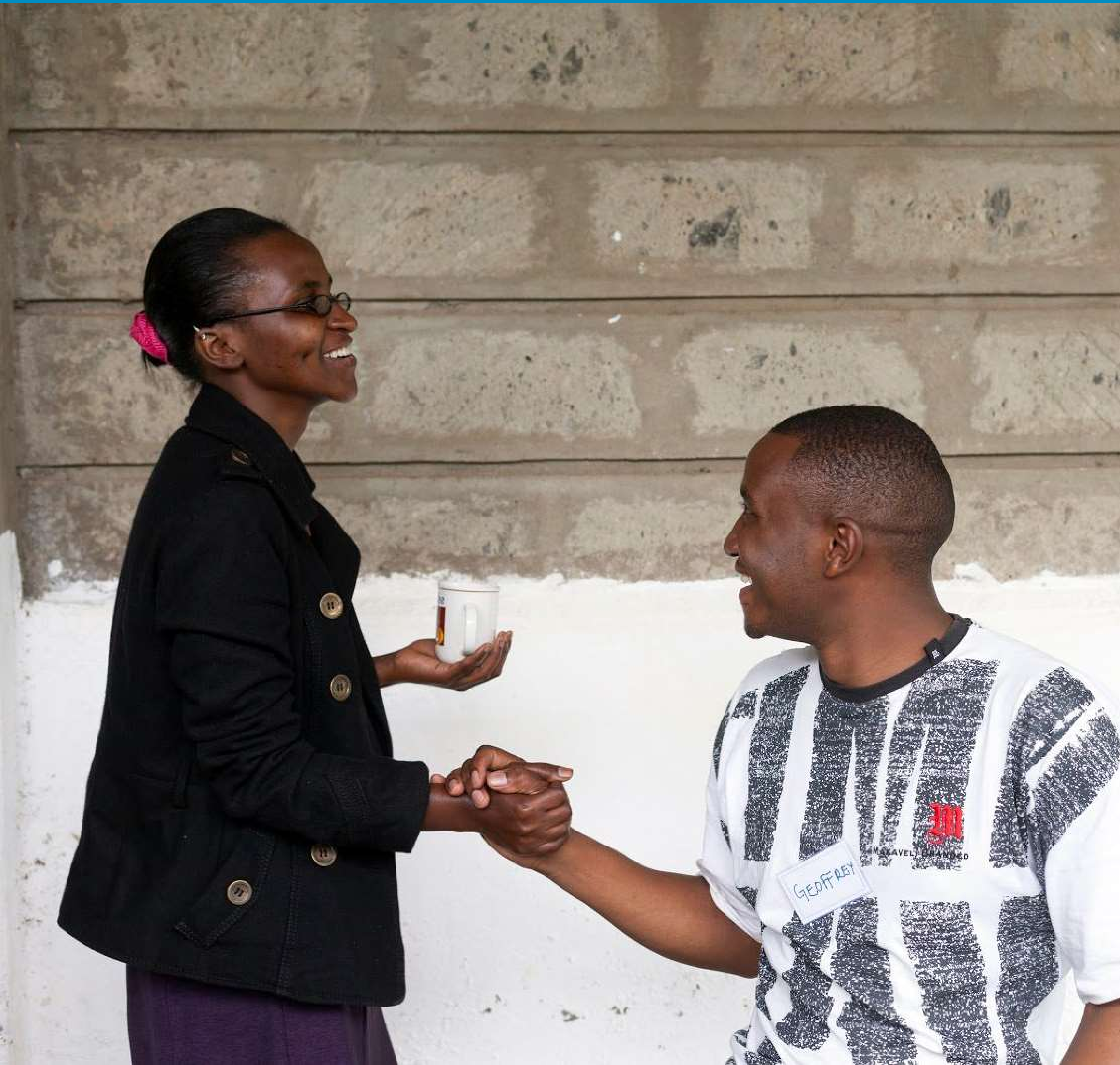
Performance Report
Q3 2018



Two managers from the Village Nut Company, a macadamia nut processor in Kenya, during a Root Capital financial management training.

root capital

OVERVIEW

Through Q3 of 2018, Root Capital reached 207 businesses that connected over 627,000 smallholder farmers—including 242,000 women—to markets and services. These businesses in turn generated over $886 million in revenue, over 80 percent of which was paid directly to producers. Also this quarter, Root Capital delivered over 660 days of training to businesses, including both current and potential borrowers. Since the beginning of the year, Root Capital has provided nearly 2,000 days total of financial, agronomic and mobile technology training to 348 high-impact businesses around the world.

In addition, Root Capital is excited to welcome two new members to the senior leadership team. Amy Mullen joined on October 1 as Chief Development Officer, bringing nearly 20 years of fundraising experience to the Root Capital team. For the last decade, Amy worked at Oxfam America, leading a team responsible for fundraising for both long-term development programs and humanitarian response. Steve Nocka joins as Chief Lending Officer later this month, bringing over 25 years of banking experience to the Root Capital team. Steve spent the majority of his career at Bank of America, where he most recently managed a global credit and portfolio program that focused on trade and supply chain finance. We look forward to benefiting from Amy and Steve's leadership and expertise as we continue to manage risk, strengthen our core lending program and build out an already robust fundraising program.

With climate change, regional insecurity, and record-low coffee prices affecting many of our clients, our work remains challenging. However, enterprises like Sagana Nut, a macadamia nut processor in Kenya, demonstrate that rural businesses continue to overcome obstacles to inspire transformative impact in their communities. At the end of this report, we share the story of how this business is raising incomes for thousands of people while working to create opportunities for women in agriculture.

Portfolio Performance and Impact

Through Q3 2018, our average outstanding portfolio balance was $57.6 million, a 28 percent decline over this time last year ($80.1 million). Year-to-date loan disbursements were $76.8 million, a 22 percent decline over this time last year ($97.8 million). Seventy-one percent of loans in the portfolio were additional, meaning that Root Capital filled credit needs unmet by commercial lenders.

Loans to coffee businesses continue to comprise just over half of our portfolio, forming 56 percent of our year-to-date average portfolio balance at $32.4 million. This was followed by loans to cocoa businesses and processed nuts businesses at 8 percent each ($4.6 million and $4.4 million, respectively).

Through Q3, Root Capital lending volume was lower than anticipated due to a combination of factors that affected our global portfolio. As previously reported, the main driver of this decrease in lending volume was a contraction of lending in Central America that continued from the first and second quarters of the year. Additionally, increased risk levels among clients in East Africa encouraged us to decrease our lending activity in the region.

However, the continued strong performance of several core segments of our portfolio partially offset this contraction. While a late rainfall in Peru delayed the coffee harvest during what is typically our peak lending season in South America, year-end outstanding balance in South America is projected to remain consistent with our year-end results from 2017. In addition, we disbursed a total of $8 million through Q3 2018 to macadamia nut businesses in Kenya—a 44 percent increase over disbursements to macadamia clients through this time last year. We are particularly excited about our work with these macadamia enterprises, as nearly all of them are gender-inclusive. At the end of this report, we share the story of how one of these enterprises is boosting incomes for thousands of female farmers, creating opportunities for women to grow their financial independence.

Portfolio Quality

At the end of the third quarter, our Portfolio-At-Risk greater than 90 days (PAR>90) was $6.5 million (13.4 percent) up from $4.4 million (7.7 percent) the previous quarter. The main reason for the increase in PAR>90 was due to a $2.2 million loan to a cocoa business in Ecuador, which was downgraded this quarter due to ongoing repayment issues. In Q3, our net provisioning expense was $2.6M compared to $3.3M for the prior year, reflecting our more conservative approach to portfolio risk. Over the past 12 months, we wrote off $4.5 million of past-due loans, of which $27,000 was in Q3. Over the same period, we recovered $2.1M of previously written-off principal, resulting in a net write off ratio of 4.1%.

As we continue to take a conservative approach to managing risk and focus on strengthening our core business of lending to coffee, cocoa and tree nut clients, we are encouraged by the continued impact of our lending clients in these industries and the ongoing positive results reported by our advisory team.

Advisory Services

In Q3, Root Capital's trainers delivered over 660 days of support to both current and potential lending clients. Year to date, Root Capital has delivered a total of 1,958 days of financial, agronomic and mobile technology training to 348 high-impact businesses around the world.

This quarter, Root Capital's advisory team made several exciting advancements. During a period of high demand for training in Mexico and Central America, we relied increasingly on a new delivery model: remote advisory services. Training delivered via Skype, Hangouts and

WhatsApp has allowed our team to better meet our clients' needs by responding more quickly to urgent client questions without the constraints of long distances and travel times.

In South America, Root Capital and Intelligentsia Coffee co-hosted the first-ever Extraordinary Coffee Workshop (ECWx) in a producer country. This conference brought together 40 coffee business leaders and farmers for a four-day workshop in Colombia aiming to teach growers how to boost coffee quality and market competitiveness. The event paired Intelligentsia's focus on coffee quality as a source of competitive advantage for smallholders with Root Capital's focus on building the financial management skills of smallholder enterprises to succeed in the competitive specialty marketplace. Root Capital is excited to work with Intelligentsia to plan the next ECWx event in 2019, and to expand the learning gained from this collaboration to other parts of the coffee-growing world.

In East Africa, Root Capital partnered with Open Capital Advisors (OCA)/Arcadia to link some of Kenya's highest-performing university graduates with our client businesses for three- to six-month placements. During the quarter, Root Capital staff and trainers conducted diagnostics with 12 businesses, five of which were selected to receive OCA/Arcadia analysts. Over the coming months, these analysts will help these businesses build systems and processes that can then be maintained by permanent staff, such as creating cash flow projections, improving information systems and developing management dashboards for decision making. The program aims to engage recent graduates' interest in agriculture, help businesses develop sustainable systems and, where possible, accelerate businesses into Root Capital's lending portfolio.

Financial Results

After two successive quarters of slight surpluses, Root Capital's year-to-date deficit narrowed to $1 million—$200,000 less than the $1.2 million deficit generated through the third quarter last year. Interest and fee revenue decreased by $1.4 million year over year to $4.5 million as a result of the decline in portfolio size noted above. At the same time, operating expenses rose to $10.9 million, $1.2 million higher than operating expenses incurred through Q3 of last year. However, these results were offset by a smaller year-to-date provisioning expense, shrinking from $3.3 million through Q3 2017 to $2.6 million through Q3 2018, and strong fundraising performance. Contribution revenue grew to $8.6 million compared to the $6.3 million through Q3 last year—a 38 percent gain year over year.

At quarter end, Root Capital's $54.6 million lending portfolio was supported by $9.7 million in net assets for lending and $8.5 million in long-term subordinated debt, resulting in a debt-to-equity ratio of 3.5x. In addition, we had a strong level of grant commitments, with a total of $18.3 million in grant-funded net assets. This includes $6.3 million in temporarily restricted grants, a 53% increase over this time last year, and $12 million of conditional grants that will be added to our net asset balance in future periods as we meet specified conditions and milestones.

Capital Partners

Throughout 2018, we continue to meet the needs of certain businesses—particularly those with the largest credit needs—through off-balance sheet activities. These include: participation sales, whereby lenders purchase portions of loans in our portfolio; syndicated lending, in which exposure is shared pro-rata among one or more partners; and Lending for African Farming Company (LAFCo), an African-domiciled investment company that targets small- and medium-sized enterprises that contribute to food security across the continent. During the third quarter, the average balances in our Capital Partners' activities totaled $6.6 million: $4.9 million in participations and syndications and $1.7 million in LAFCo.

Conclusion

With a combination of high-impact loans and targeted training, Root Capital remains committed to transforming rural communities by investing in vital agricultural businesses. We thank all of our donors, investors and partners for your continued support as we work together to build prosperity in farming communities around the world.

Third Quarter Dashboard

Metric	Result	Full Year Target (unless otherwise noted)	Results as % of Target
Social and Environmental Metrics			
Number of Producers Reached	627K	595K	105%
Purchases from Producers	$718M	$754M	95%
Total Sales of Businesses	$886M	$979M	90%
Sustainable Hectares under Management	536K	415K	129%
Lending Program			
Loan Disbursements	$76.8M	$131.0M	59%
Average Outstanding Portfolio Balance [1]	$53.3M	$67.3M	79%
Average Outstanding Balance per Active Loan [1]	$374K	$391K	96%
Number of Businesses Reached [2]	207	225	92%
Portfolio-at-Risk Over 90 Days [1,3]	13.4%	<7.0%	
Net Write-off Ratio (Trailing 12 Months)	4.1%	<6.0%	
Advisory Services			
Number of Businesses Served	348	301	116%
Days of Training Delivered	1958	1965	100%
Operating Results			
Total Operating Expense	$10.9M	$15.0M	73%
Debt to Equity Ratio [3]	3.6	<5.0	
Capital Utilization [3]	67%	87%	77%
Capital Partners			
Average Outstanding Balance [1]	$6.6M	$18.8M	35%
Number of Businesses Reached [2]	21	n/a	

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

Terms and Acronyms

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

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

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

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

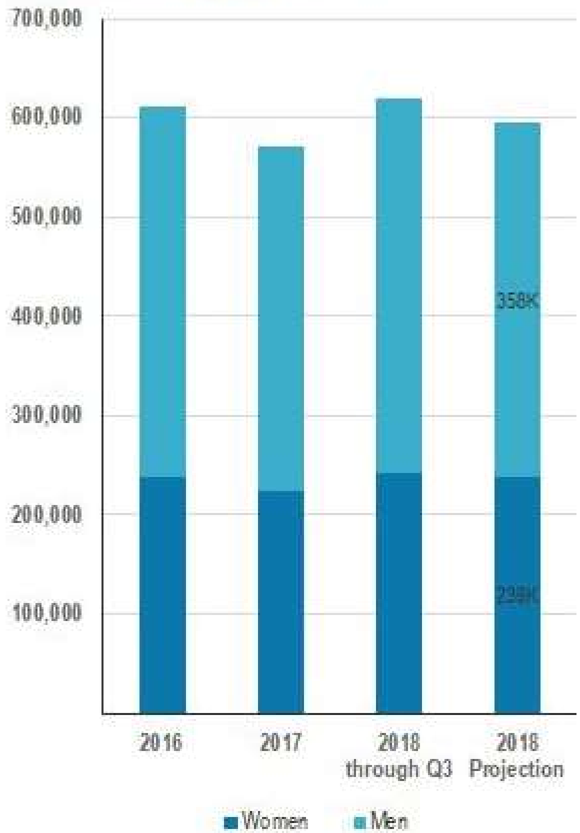
Net Write-off Ratio: A trailing 12-month figure representing the previous 12 months' write-offs, net of recovered funds, as a percentage of the average outstanding balance during the same period.

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

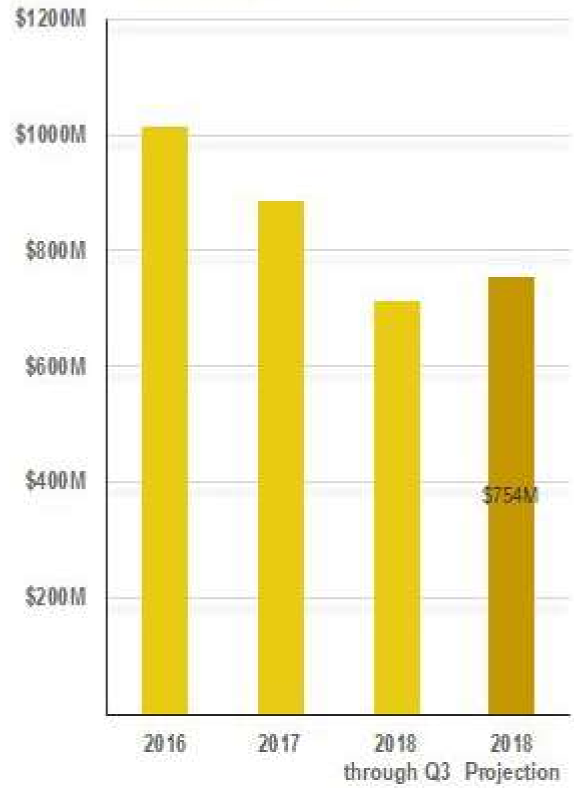
PORTFOLIO PERFORMANCE

Social and Environmental Metrics

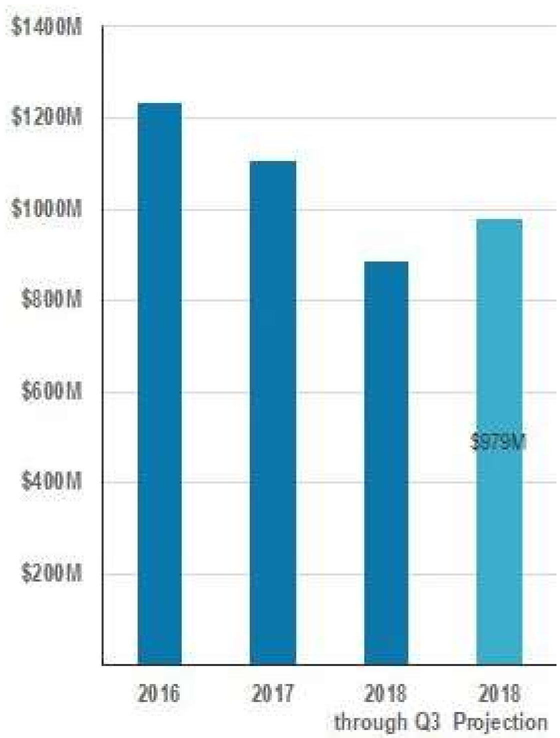
Producers Supplying Business



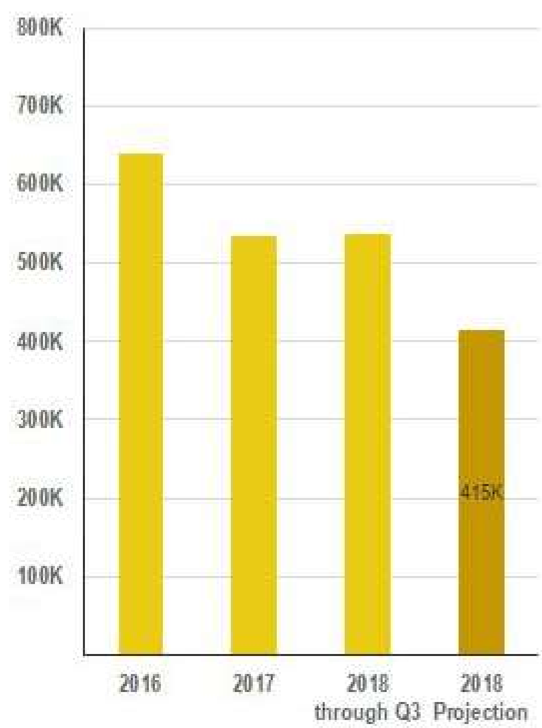
Purchases from Producers



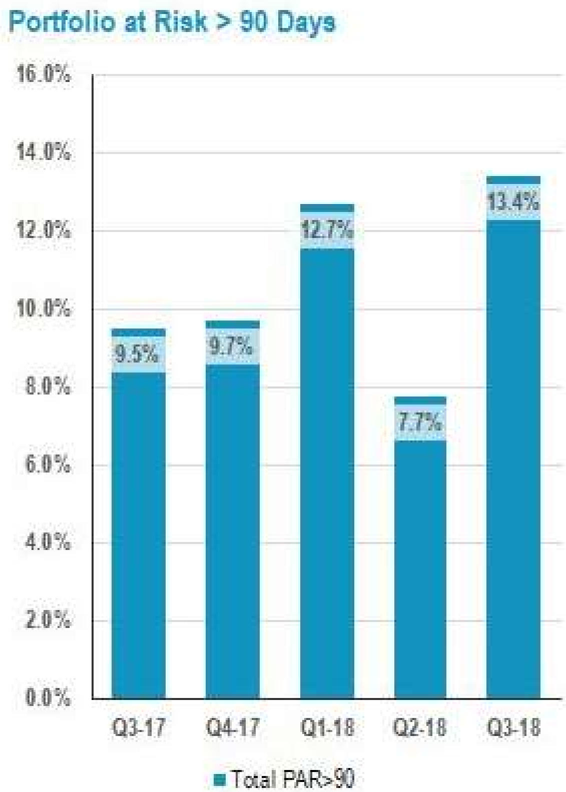
Total Businesses Sales

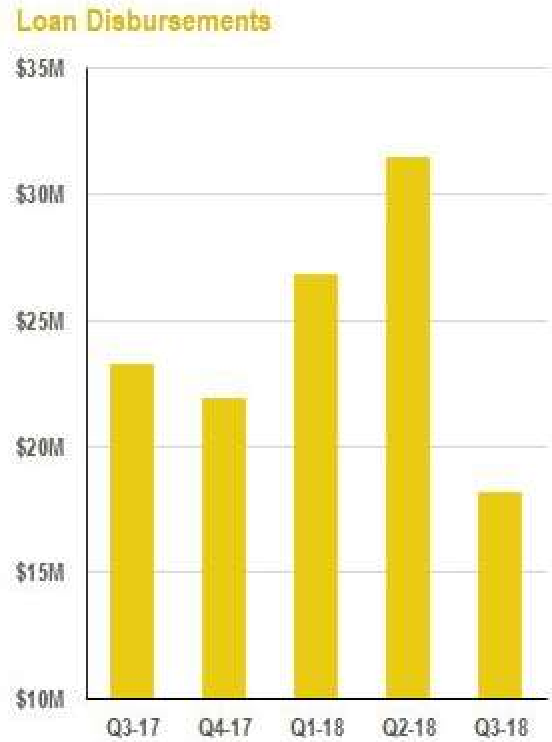


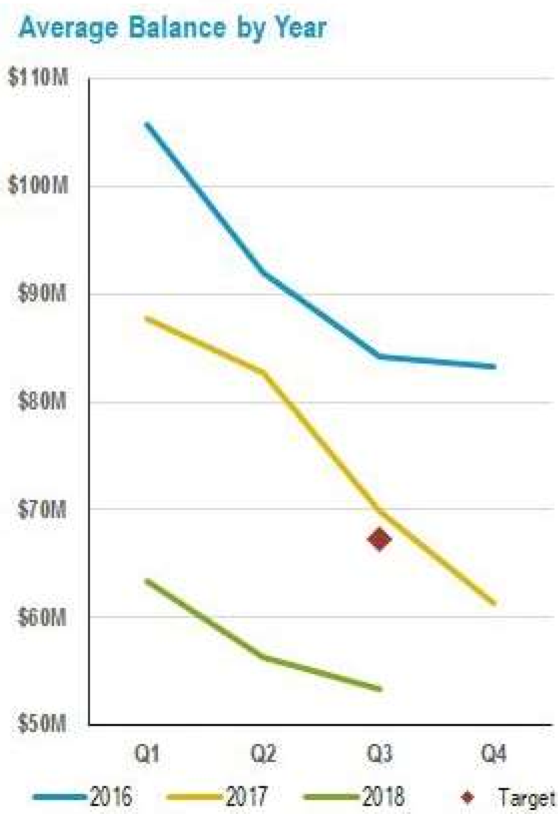
Sustainable Hectares Under Management



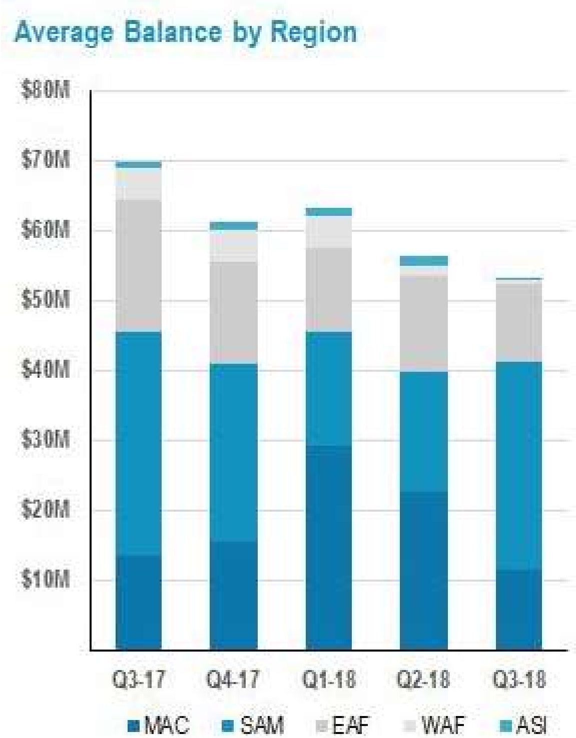
Lending Performance

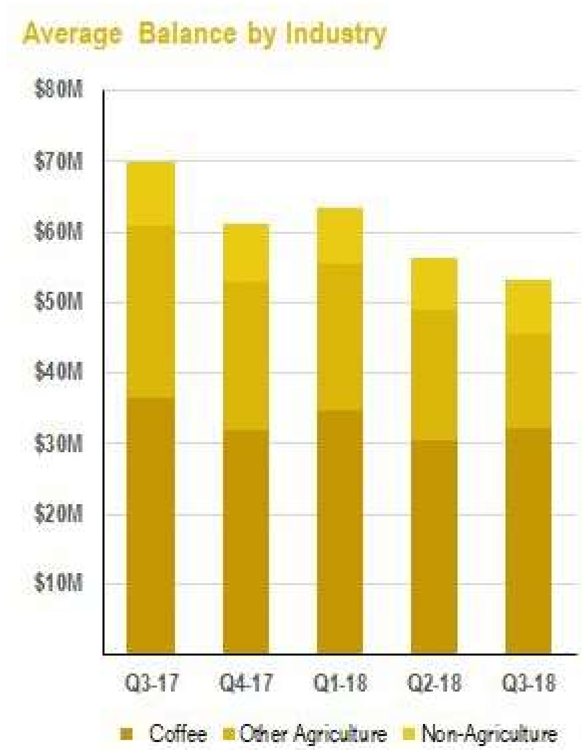




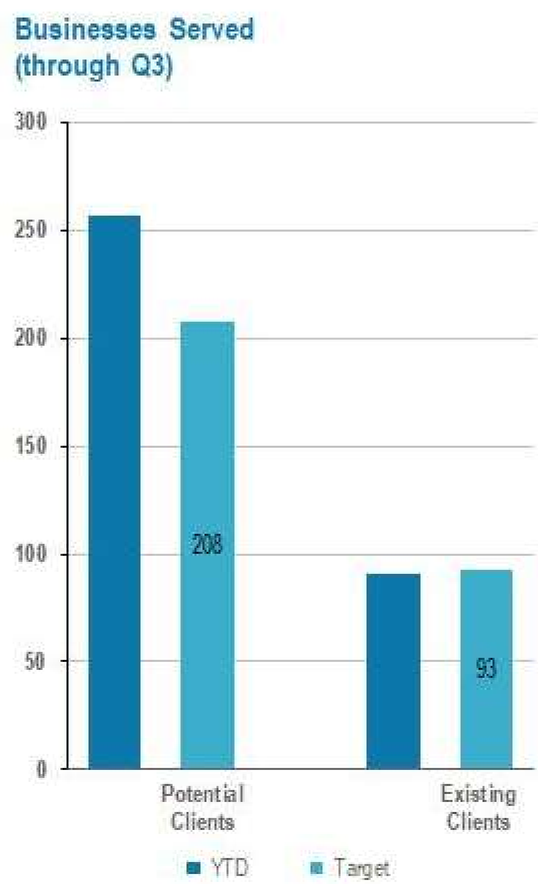


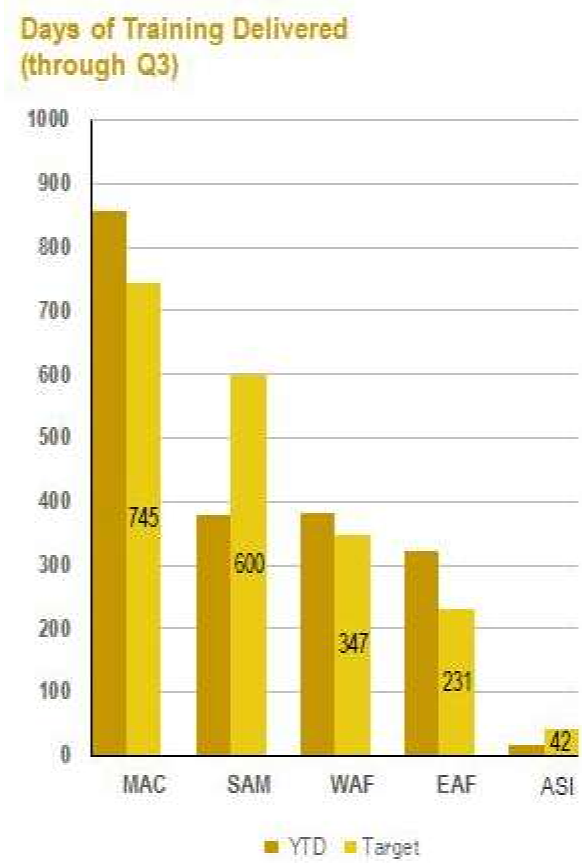
* As of December 31, 2017, we segregated and removed a segment "other collateralized assets" from the PAR greater than 90 days and total portfolio balances and restated results for previous quarters. At quarter end, we held $5.6 million in other collateralized assets.





Advisory Services





Balance Sheet

As of September 30, 2018

Millions of USD	Q3 2018	Q3 2017	Yr/Yr Growth
Cash and Short-Term Investments	34.4	28.3	22%
Total Loans Receivable	49.0	67.8	-28%
Allowance for Credit Losses	(6.6)	(8.2)	-20%
Loans Receivable (net)	42.4	59.5	-29%
Other Collateralized Assets (net) (1)	2.9	3.4	-14%
Other Assets	15.2	14.5	5%
Total Assets	**94.8**	**105.6**	**-10%**
Senior Debt	63.2	72.9	-13%
Subordinated Debt	8.5	9.5	-11%
Other Liabilities	7.2	9.6	-25%
Total Liabilities	**78.8**	**92.0**	**-14%**
Lending Net Assets	9.7	9.5	2%
T/R Net Assets (Purpose & Time)	6.3	4.1	53%
Total Net Assets	16.0	13.6	**17%**
Total Liabilities & Net Assets	**94.8**	**105.6**	**-10%**

Key Financial Metrics			
	Q3 2018	Q3 2017	Yr/Yr Growth
Grant Net Assets (2)	18.3	16.3	12%
Debt-to-Equity Ratio (3)	3.5	3.8	-0.4 pts

(1) Includes gross balance of Other Collateralized Assets ($5.6M in Q3 2018 and $4.5M in Q3 2017), net of allowance for losses ($2.7M in Q3 2018 and $1.1M in Q3 2017)
(2)Grant Net Assets include $6.3M of Temporarily Restricted Net Assets, held on the balance sheet, as well as $9.7M of conditional grants, held off of our balance sheet, $1.7M of subordinated debt pledged to convert to net assets through 2020, and $0.6M of receipts for grants included in other liabilities. As grant conditions are met in future periods, we will add the off-balance sheet conditional grants to Temporarily Restricted Net Assets (Purpose & Time) and the other liabilities will be transferred to donor-restricted net assets for lending.
(3) Debt to equity includes long-term subordinated debt as equity, reflecting its equity-like characteristics.

Statement of Activities

As of September 30, 2018

Millions of USD	Q3 2018	Q3 2017	Yr/Yr Growth
Interest & Fee Revenue	**4.5**	**5.9**	**-24%**
Net Interest Expense	(1.2)	(1.4)	-13%
Net Interest & Fee Revenue	**3.3**	**4.5**	**-27%**
Net Provisioning Expense	(2.6)	(3.3)	-19%
Net Lending Revenue	**0.7**	**1.2**	**-48%**
LAFCo & Agency Services Fees	0.3	0.4	-36%
Net Operating Revenue	**0.9**	**1.7**	**-45%**
Operating Expenses	(10.9)	(9.7)	13%
Operating Surplus / (Deficit)	**(9.9)**	**(8.0)**	**25%**
Contributions for Operations	8.6	6.3	38%
Fee for Service Revenue	0.3	0.4	-32%
Net Surplus / (Deficit)	**(1.0)**	**(1.2)**	**-20%**

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.

Filomena Njeri, Quality Control Supervisor, Sagana Nuts

Client Profile

SAGANA NUTS, LTD.

Location: Sagana, Kenya

For decades, farmers have cultivated macadamia on the slopes of Mount Kenya. Since 2014, Sagana Nuts has been making sure that those farmers can succeed—especially women.

Around the world, macadamia nuts regularly command high prices. However, that premium often fails to reach producers. In this part of Kenya, the fourth-largest producer of macadamia nuts in the world, most farmers earn less than $2.50 per day.

However, for the 5,500 farmers that supply to Sagana Nuts, things are different. The business works with three other macadamia enterprises to export their products internationally, giving producers market access they could never secure on their own. They also offer farmers small loans that they can use to buy seeds, fertilizer and other farming inputs, as well as training that helps them boost their productivity. Since Sagana was founded in 2014, Root Capital has offered them dozens of days of capacity-building support and a total of $5 million in working capital that they use to pay farmers fairly and on time. This partnership is paying off for farmers: wages are 10% higher for those who supply to Sagana Nuts versus those who do not.

In 2016, Root Capital further supported Sagana with a $20,000 Gender Equity Grant that aimed to boost women's inclusion among employees and farmer-suppliers. The business leveraged its grant to form a Savings and Credit Cooperative Organization (SACCO)—an organization of employees who pool savings into a fund from which they can withdraw small loans. Women who participated in the SACCO reported that they felt more confident in their ability to manage their finances, invested more in their children's education, and experienced a greater degree of financial independence. Sagana employee Filomena Njeri sums up the "ripple effect" of the SACCO: "I can now help my mom pay school fees for my younger siblings…. Before, I was just 'there.' Now, I'm a contributing member in my household."