Performance Report
Q1 2021

Noelia Sagastume, a farmer-member of Honduras' Montaña Verde coffee cooperative. Last quarter, we profiled the co-op's response to November's hurricanes and we're glad to share that they're now wrapping up a successful harvest season.

root capital

Overview

This quarter marked one year since the COVID-19 pandemic disrupted lives around the world. In spite of previously unimaginable challenges, we've helped agricultural businesses build more resilient rural communities throughout this crisis. With the support of our community of investors and donors, we've maintained strong results in our portfolio and continue to drive deep impact when rural communities need us most.

COVID-19 Response

This year, as the rollout of COVID-19 vaccines began, we saw troubling inequity. For many of the rural communities in countries where we work, vaccine access—and a return to normal—may still be years away. Root Capital knows that our clients' business continuity is critical to the survival of their communities, and we've continued to provide training and financing to help them weather the pandemic's health and economic impacts. In addition, we continued to provide COVID-19 relief grants, deploying $170,000 during Q1.

You can learn more about how our COVID-19 response has evolved—along with other information about the impact we had last year—in our soon-to-be-released Annual Report.

Impact

During the first quarter of 2021, Root Capital provided financing to 136 businesses reaching 486,000 smallholder farmers. Of these businesses, 49% were gender-inclusive and actively created opportunities for women farmers, employees, and leaders. So far this year, our client agricultural businesses have paid nearly $750M directly to farmers—84% of their total revenues. In Q1 2021, Root Capital equipped leaders and employees at 208 businesses with the tools they need to improve financial management, provide agronomic support to farmers, and adapt to the dual challenges of COVID-19 and climate change.

In keeping with our commitment to meet the financing needs of small and growing agricultural businesses, we're happy to report that 85% of our active loans this quarter filled credit needs unmet by commercial lenders, up from 79% in Q1 2020.

Portfolio Performance

In Q1 2021, our average outstanding portfolio balance was $47.8M, a 6% decline from our average balance in Q1 of last year. We have continued to clear nonperforming loans from our portfolio, which drove the year-over-year balance decline. Excluding legacy, nonperforming loans, our portfolio grew 3% compared to Q1 2020. To maintain portfolio health, we continue to strategically focus on the industries of coffee, cocoa, and tree nuts. This quarter, these sectors made up 93% of our portfolio balance, up from 84% in Q1 2020. Loans to coffee businesses continue to represent the majority of our portfolio balance at 83%.

The most striking results came from our clients in Mexico and Central America as they navigated their annual peak coffee harvest. Between Q4 2020 and Q1 2021, disbursements in Honduras, Guatemala, and Nicaragua grew $2.9M compared to the same period the previous year (a greater than 10% growth rate). This was particularly exciting news for clients recovering from two hurricanes that slammed their communities in November of last year. What's more, since COVID-19 hit after the 2019/20 harvest had concluded, this also marked the first harvest under pandemic restrictions for many in the region.

Our activity in East Africa was similarly strong this quarter as the coffee, macadamia, and vanilla harvests are fully underway across the six countries where we operate. In Q1 2021, we disbursed over $6.7M—primarily in Kenya and Uganda—an 8% increase compared to Q1 2020. We also originated almost $10M in loans during the quarter, a 17% year-over-year increase. This growth was bolstered by closings with clients in the Democratic Republic of the Congo, Kenya, and Rwanda—read more about one of those clients, Kopakaki, at the end of this report.

In South America, we've started 2021 with strong lending activity in preparation for the upcoming coffee harvest. Our team is closing renewals in Peru, where a plurality of our global clients are located. In Colombia, we disbursed over $2.3M this quarter to coffee clients—nearly three times as much as was disbursed in Q1 2020.

While new loan demand was slow this quarter, we're optimistic about future lending relationships. Through our lead cultivation planning initiative, we're building our pipeline for new clients while streamlining our onboarding process. We're in the final stages of onboarding several new clients and are excited to continue growing our reach and impact in the next quarter.

Portfolio Quality

Our portfolio quality is the strongest it has been since 2014. At the end of this quarter our Portfolio-at-Risk greater than 90 days continued to decrease from last quarter, down to $1.4M (2.7% of the loan portfolio outstanding) compared to $1.5M in Q4 of 2020 (3.5%). Over the past twelve months, we wrote off $9.5M of past due legacy loans and recovered $0.7M on nonperforming loans, resulting in a trailing 12-month net write-off ratio of 19%. These write-offs were for legacy loans from the Mexican fisheries sector and other legacy loans originated up to nine years prior.

Advisory Services

Our team continued to provide remote training and workshops to build the capacity of leaders and employees at agricultural businesses. In areas where local public health officials allow—and where poor internet connectivity makes remote training difficult—our advisors have resumed in-person training following social distancing best practices.

In keeping with our strategic priorities, we continued to expand our agronomic and climate resilience advisory services. This included helping seven clients in Peru finalize adaptation plans based on a recent climate vulnerability workshop. We're also growing our Talent Partnership program, which connects promising young professionals with businesses, allowing them to use their expertise to deepen each businesses' impact. We have 43 interns in placements across Africa and are expanding beyond the continent for the first time with five new placements planned for women in Peru, Colombia, and Indonesia at the start of Q2.

Financial Results

At the end of the first quarter, Root Capital's $53.4M outstanding lending portfolio was supported by $16M in unrestricted net assets and $5.1M in subordinated debt, resulting in a debt-to-equity ratio of 3.2x. In addition, we hold $16M in grant-funded net assets to support our future programmatic activity. Our grant-funded net assets consist of $13.5M of net assets with restrictions and $2.5M of conditional grants that will be added to our net asset balance in future periods as we meet specified conditions and milestones.

Root Capital remains well situated to meet the needs of our clients even as the ongoing crisis highlights the risks associated with lending to small, high-impact businesses. At the end of Q1, Root Capital posted a $0.5M surplus, driven by a reduction in net provisioning expense. During Q1, our provisioning expense was positively impacted by $0.5M of recoveries coupled with a reduction in provisioning expense as several clients repaid past-due loans previously provisioned for at a higher rate.

Our lending portfolio generated revenue of $1.4M—this is comparable to our Q1 2020 revenues, when our portfolio size was similar. Root Capital's grant and contribution revenue was $2M this quarter, compared to $2.3M in Q1 2020. Pandemic restrictions forced us to pause some planned programmatic activities, resulting in lower restricted grant revenue offset by lower operating expenses.

Conclusion

The effects of COVID-19 continue to be felt by both the markets and our clients in rural communities. We start 2021 in a strong financial position, ready to help agricultural businesses continue to withstand this pandemic, recover from its impacts, and reimagine a more sustainable, inclusive future.

2021 Dashboard

Impact Results	
258	Total Businesses Reached
	Advisory Program
208	Businesses Served by Advisory
797	Days of Training Delivered
33%	Percent Woman Participants
47%	Percent Participants Under the Age of 35
	Lending Program
136	Businesses Reached by Lending [1]
49%	Percent Gender-Inclusive Businesses
486K	Producers Reached
38%	Percent Woman Farmers
14K	Employees Reached
52%	Percent Woman Employees
$746M	Purchases from Farmers
$888M	Total Sales for the Businesses
460K	Sustainable Hectares under Management
$31.3M	Loan Disbursements
$15.1M	Disbursements to Gender-Inclusive Businesses [2]
$18.1M	Disbursements to Climate Action Leaders [2]

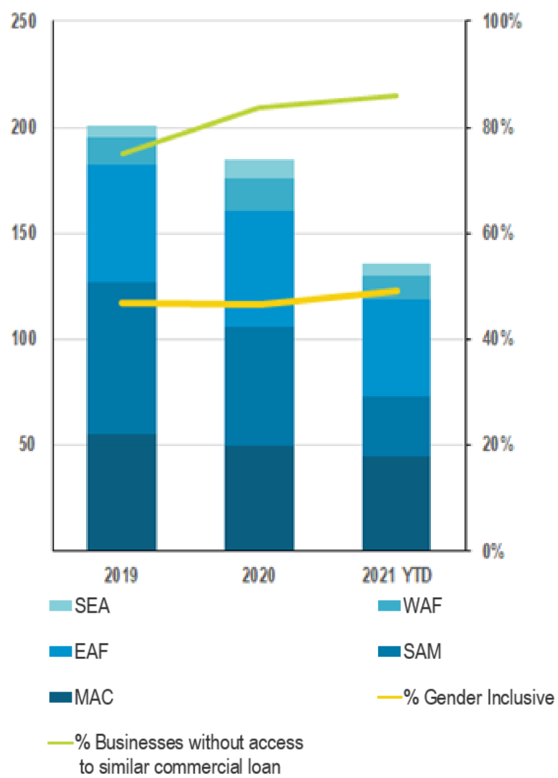
[1] *"Businesses Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period.*
[2] *A number of our client businesses are both Gender Inclusive and Climate Action Leaders.*

See Terms and Acronyms on page 11 for definitions.

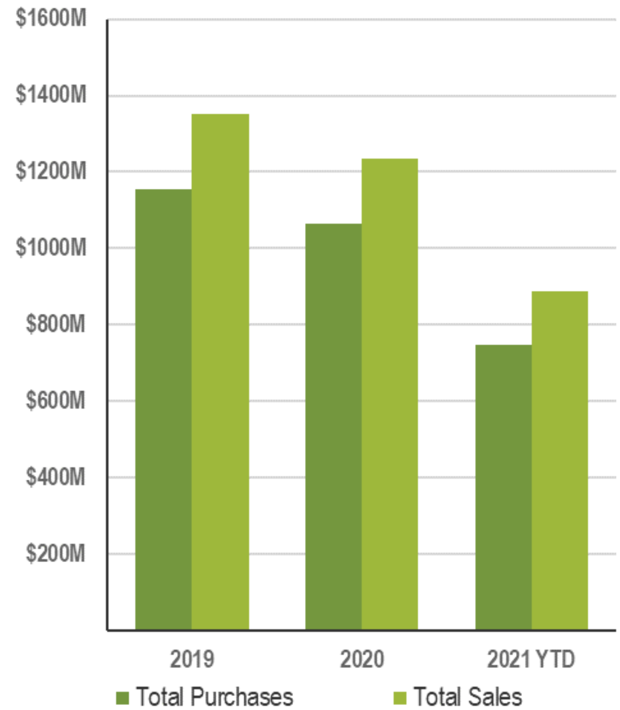
Results

Lending & Advisory Impact

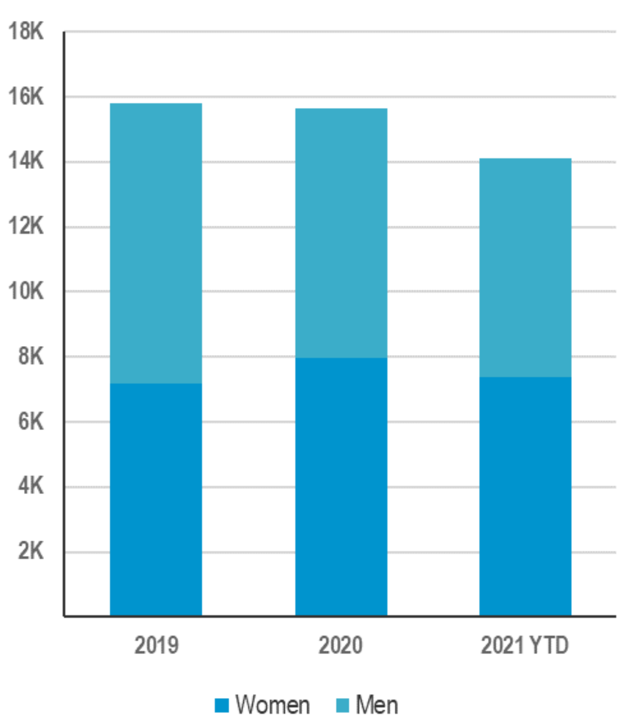
Businesses Reached (Lending Program)



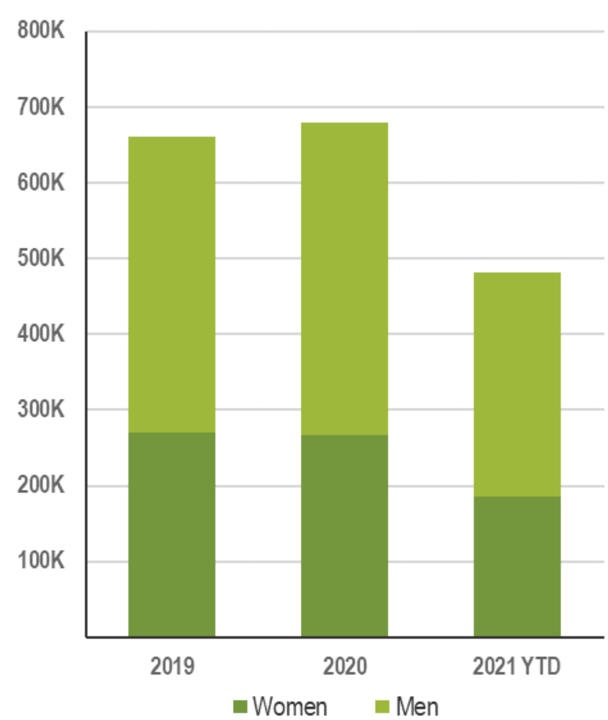
Purchases from Farmers and Client Businesses' Sales

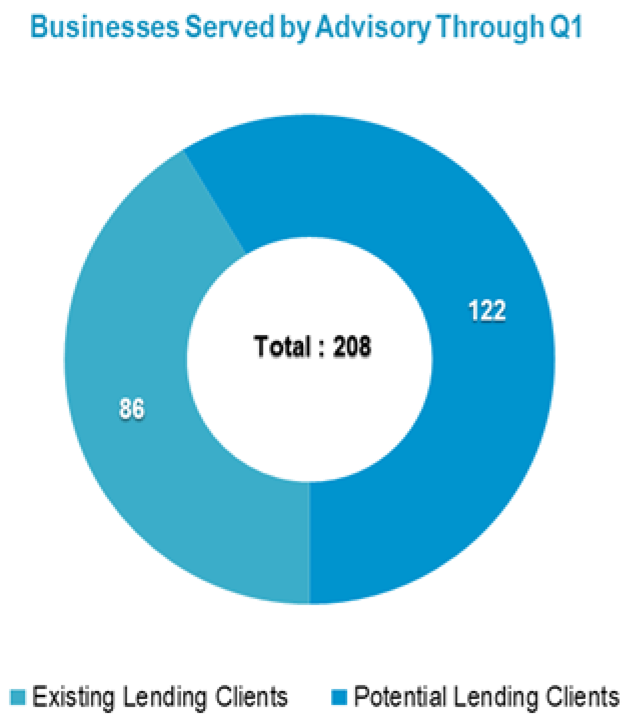


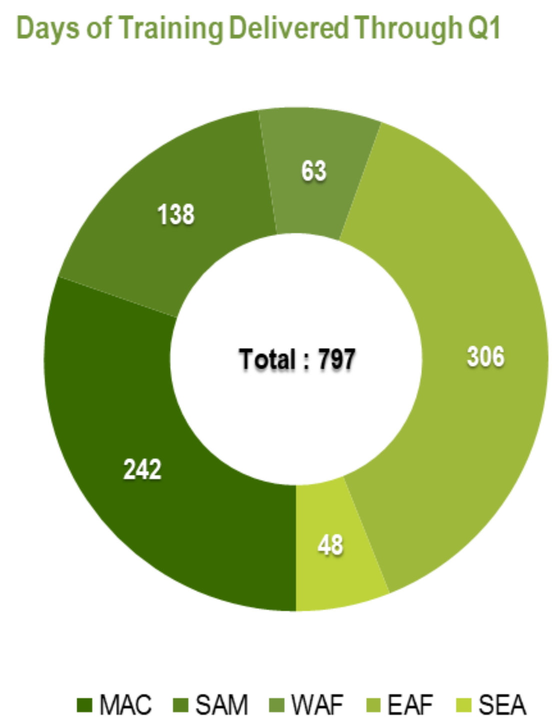
Employees Reached

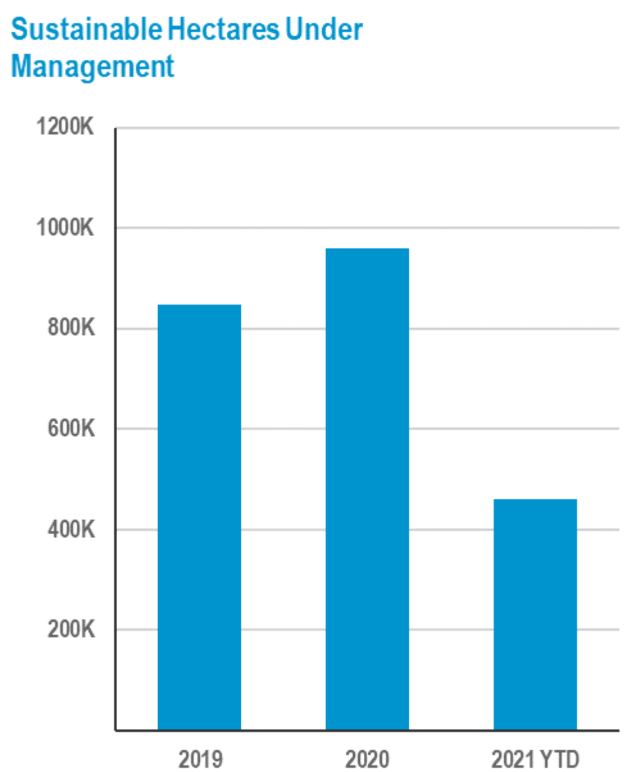


Farmers Supplying Businesses

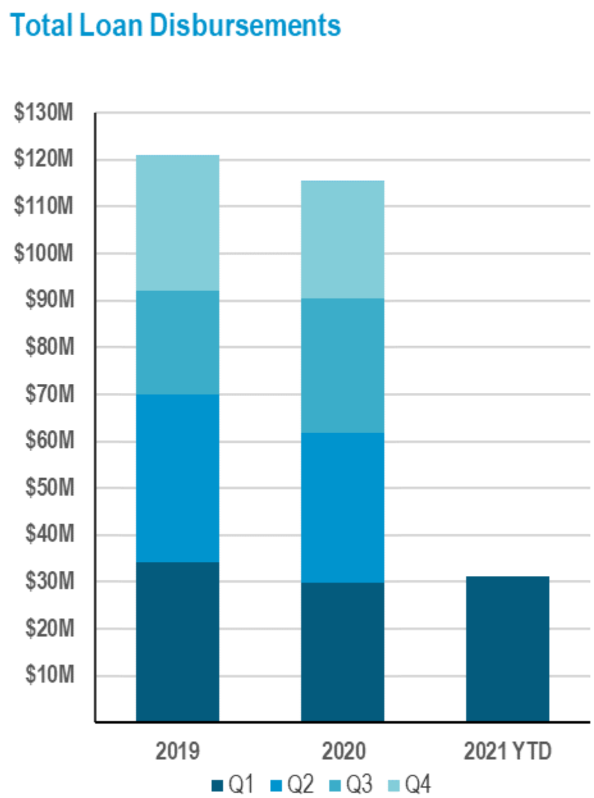


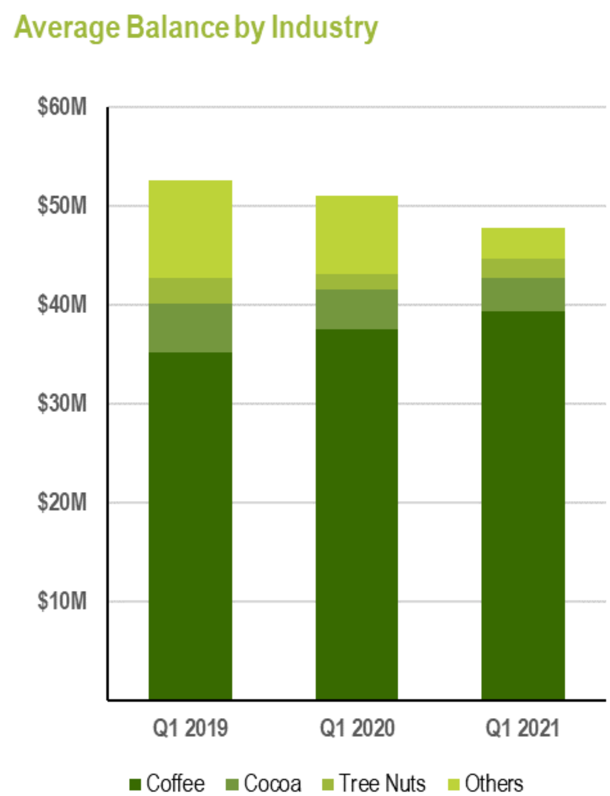

Businesses Served by Advisory Through Q1
Total : 208
122
86
Existing Lending Clients
Potential Lending Clients

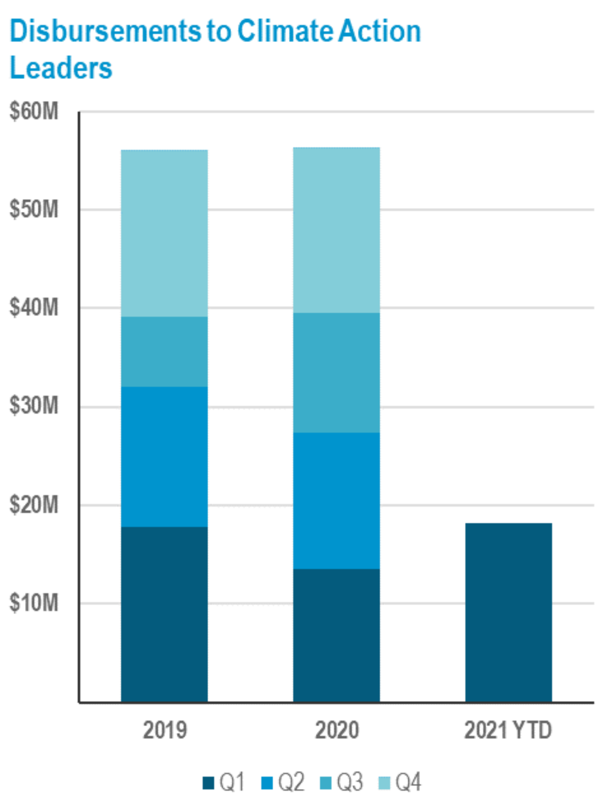

Days of Training Delivered Through Q1
Total : 797
63
138
306
242
48
MAC
SAM
WAF
EAF
SEA

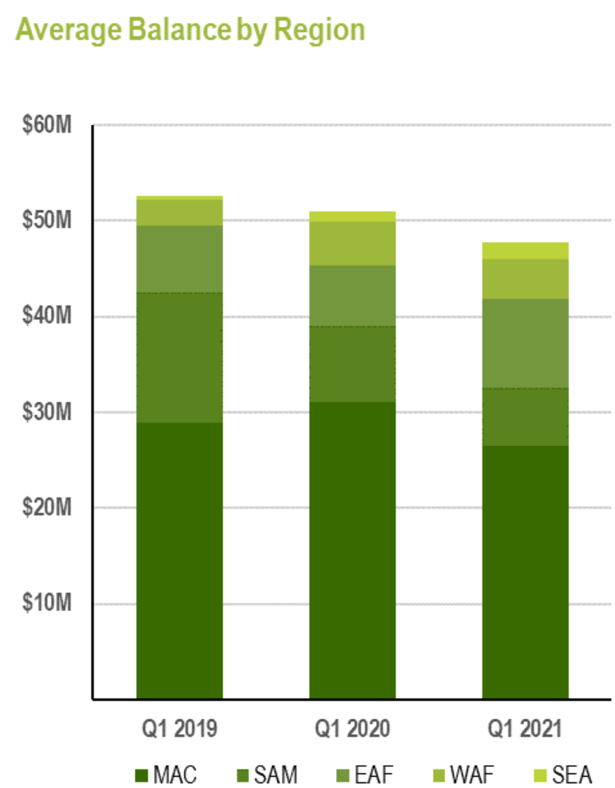

Sustainable Hectares Under Management
1200K
1000K
800K
600K
400K
200K
2019
2020
2021 YTD

Portfolio Performance

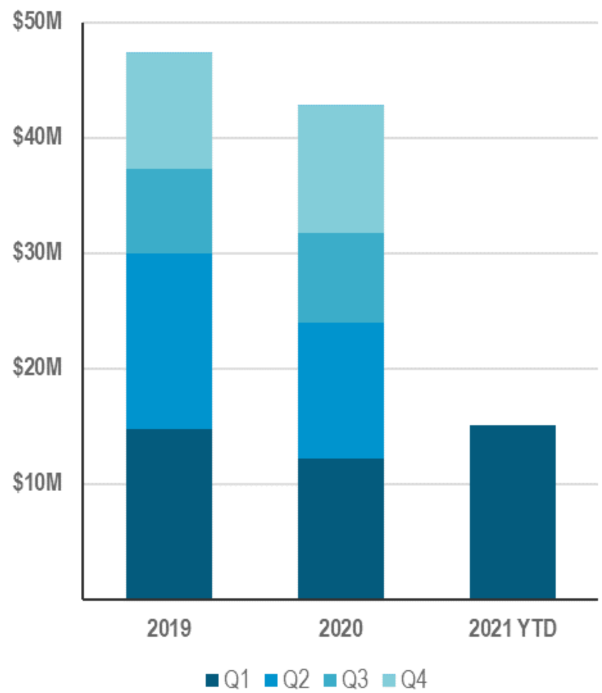




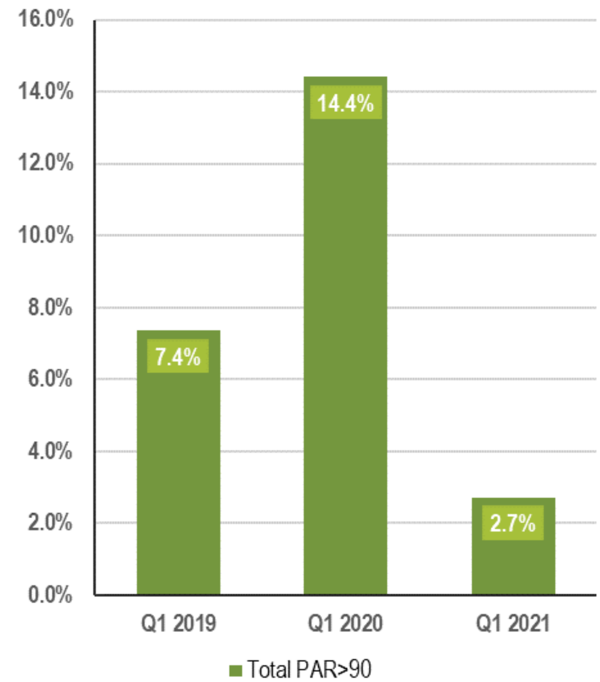




Disbursements to Gender-Inclusive Businesses



Portfolio at Risk > 90 Days



Balance Sheet & Statement of Activities

Balance Sheet		As of March 31st
Millions of USD	Q1 2021	Q1 2020
Cash and Short-Term Investments	21.2	29.8
Loans Receivable	53.5	59.3
Allowance for Credit Losses	(3.3)	(11.5)
Loans Receivable, Net of Allowance	50.2	47.8
Other Assets	15.6	20.7
Total Assets	**87.0**	**98.3**
Senior Debt	45.9	52.9
Subordinated Debt	5.1	9.6
Other Liabilities	6.5	7.4
Total Liabilities	**57.5**	**69.9**
Unrestricted Net Assets	16.0	13.2
Net Assets with Restrictions	13.5	15.2
Total Net Assets	**29.5**	**28.4**
Total Liabilities & Net Assets	**87.0**	**98.3**
Debt-to-Equity Ratio	3.2x	4.7x
Grant Net Assets*	16.0	15.6

** Our grant net assets include off-balance-sheet conditional grants*
Reclassifications may have been made in the prior year to conform with the current year's presentation.

Statement of Activities

Millions of USD	Year-to-date as of March 31st 2021	2020
Revenue		
Grant Revenue	1.6	1.8
Contribution Revenue	0.3	0.5
Lending Revenue	1.4	1.4
Total Revenue	**3.4**	**3.7**
Expenses		
Operating Expenses	3.6	3.7
Provisioning Expense	(1.0)	1.0
Interest Expense	0.3	0.4
Total Expenses	**2.9**	**5.1**
Surplus	**0.5**	**(1.4)**

Disclosure

The financial data is deemed accurate, but is not audited. Annual audited financial statements can be found on Root Capital's website. Additionally, past performance is not indicative 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.

Terms and Acronyms

Businesses Reached: We report “clients reached” to capture the number of businesses financed using our capital. Clients reached are those that had an outstanding loan balance at any point in the reporting period. This is a cumulative metric; clients are added to the annual total in the quarter in which they are first reached.

Climate Action Leader: An active lending client making substantial contributions to climate change mitigation and/or adaptation by: reducing atmospheric greenhouse gas concentrations through natural climate solutions like reforestation, and/or reducing climate risk and building adaptive capacity within their communities.

Contribution Revenue: Revenue earned during the period without donor restrictions, generally received from individuals or foundations.

Debt-to-Equity: The ratio of senior and subordinated debt to unrestricted net assets.

Gender-Inclusive Business: Women make up more than 30% of enterprise farmer suppliers and employees OR the enterprise is women-led and women make up more than 20% of enterprise farmers suppliers and employees.

Grant Revenue: Revenue earned during the period generally from foundations or governments under multi-year agreements.

Interest Expense: Interest expense incurred on debt.

Interest Income: Interest revenue generated on cash and investments.

Lending Revenue: Revenue generated from our lending activities, comprising fees and interest earned on our lending portfolio.

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.

Provisioning Expense: Allowance for loan loss expense on our lending portfolio, net of recovered funds.

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

Staff members handle coffee cherries at a cooperative-owned processing station.

Client Profile

Kopakaki-Dutegure

Location: Karongi, Rwanda

Coffee from Rwanda fetches a high price on the international market. In the Karongi District of Rwanda, 1,300 farmers rely on the Kopakaki Coffee Cooperative to bring their Fairtrade coffee to roasters abroad. But those farmers are increasingly at risk. Climate change threatens to depress farmers' yields, meaning less coffee to sell and lower income. Since 2017, Root Capital has provided Kopakaki with a cumulative $1.75M in financing to help them grow their reach and strengthen their business. Now we're doubling down our support through advisory services in digital business intelligence and climate resilience.

This quarter, our advisory team worked to digitize the coffee purchasing process at Kopakaki. In addition to saving the cooperative time, the system will eventually help the agronomic team track the gap between the potential productivity of each farmer's land and their actual production. With this information, the cooperative's agronomic team can design targeted interventions to help farmers maximize production even as challenges mount.

In the meantime, those agronomists are building farmers' resilience in the face of climate threats by training them on climate-smart agricultural practices in advance of the upcoming harvest. Over the next five years, Kopakaki plans to help all of their farmers adopt organic practices—boosting livelihoods and protecting the vulnerable ecosystem where they live.