

## Impact Investment Evaluator – KL Felicitas Foundation

Impact First Investment

Financial First Investment

Program Related Investment

Sustainability Investment

Mission Related Investment

Social Component Investment

<b>Investment Name:</b> Root Capital	<b>Investment Amount:</b> \$100,000, 3-year Senior Note at 3% paid annually
<b>Investment Date:</b> April 30, 2009	
<b>Asset Class:</b> Notes/Other debt obligations	<b>Region of Impact:</b> Latin America, Africa

**Investment Due Diligence by:** Raúl Pomares **Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Impact Due Diligence by:** Charly and Lisa Kleissner **Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Summary Description of Investment:** Root Capital is a nonprofit social investment fund that works to reduce poverty and sustain the environment in rural areas of Latin America and Africa by providing capital, market connections, and financial training to grassroots businesses that build sustainable livelihoods and transform rural communities. This investment is a Senior Note invested in Root Capital is a part of a \$40 million debt growth capital campaign, combined with \$15 million of philanthropic equity. Proceeds from this will be used to significantly expand Root Capital's loans and training services to rural enterprises.

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### Supporting Documents:

- Root Capital Private Offering Memorandum, 2009
- Root Capital Note Agreement, April 2009
- Root Capital and Rockefeller Foundation Press Release, Nov 2008
- Written correspondence from Fall 2008

**Impact Due Diligence Update:** August 10, 2010

**Financial Due Diligence Update:** Date of original investment



KL Felicitas Foundation

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\* Questions are scored by -1, 0 and +1, estimating a degree of alignment with the Foundation's programs, mission, intended impact and investment strategy. -1 is a low alignment score; +1 is a high alignment score

<b>Program/Mission/Sustainability Due Diligence (Foundation Directors and Philanthropic Advisors)</b>		
<b>Alignment with the Foundation</b>		<b>Score*</b>
<p><b>1a.</b> How does this investment align with the impact objectives of the Foundation?</p> <p><b>b.</b> In what area(s) does the Foundation believe this investment will contribute the greatest degree of impact?</p>	<p><b>a.</b> Root Capital's explicit focus on small and growing businesses in rural communities aligns very closely with the Foundation's Programs to empower rural communities.</p> <p><b>b.</b> <input checked="" type="checkbox"/> Program Impact <input type="checkbox"/> Mission Impact <input type="checkbox"/> Sustainability Impact Notes: Impact will accrue primarily to small business owners and the rural communities in which they operate through economic empowerment and employment creation.</p>	+1
<p><b>2a.</b> Are there any elements of this investment that are contrary to any value(s) of the Foundation?</p> <p><b>b.</b> If so, how is this being addressed?</p>	<p><b>a.</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p><b>b.</b></p>	+1
<p><b>IRS Compliance:</b> If this is a Program Related Investment, answer questions (3a-c) and question (4) below. If not, proceed to question 5.</p> <p style="text-align: center;">This <input checked="" type="checkbox"/> IS <input type="checkbox"/> IS NOT a Program Related Investment.</p>		<b>Score</b>
<p><b>3.</b> Is this investment compliant with the definition of PRI in the Tax Reform Act of 1969 section 4944?</p> <p><b>a.</b> Is its primary purpose to advance the Foundation's charitable objectives?</p> <p><b>b.</b> Is a significant purpose of the investment to generate financial return (either income production or property appreciation)?</p> <p><b>c.</b> Will funds be used either directly or indirectly to lobby or for political purposes?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>a.</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No In its Private Offering Memorandum, Root Capital explains that rural businesses are often considered too risky, too small and too remote to secure financing from conventional banks. The KL Felicitas Foundation's mission is to invest in rural communities and help build sustainable economic development in these areas.</p> <p><b>b.</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Root Capital mentions in its POM that the provision of low-cost debt financing enables the organization to achieve its forecasted financial breakeven by 2013. Without affordable financing below the organization's average cost of capital, Root Capital would not be able to reach its desired scale.</p> <p><b>c.</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	+1
<p><b>4.</b> What conditions exist that suggests this PRI is a more effective or appropriate vehicle for achieving the Foundation's programmatic objectives versus a grant?</p>	<p>While Root Capital is raising both debt and philanthropic capital, grant support will be used to subsidize the organization's operations. Debt support will be used specifically for the organization's lending activities, which are forecast to break even in 2013. Root Capital calls these debt investments "catalytic" as they will help the organization reach threshold scale and attract mainstream capital over time.</p>	+1
<b>Relationship &amp; Reputation</b>		<b>Score</b>
<p><b>5a.</b> How well does the Foundation know the investment and/or strategy?</p> <p><b>b.</b> What is the nature and duration of this</p>	<p><b>a.</b> Foundation principals have met with Willy Foote, CEO of Root Capital.</p> <p><b>b.</b> Foundation principals have been acquainted with the leadership of</p>	+1

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<p>relationship?</p> <p>c. Have members of the foundation made site visit(s)?</p>	<p>Root Capital and various members of the organization over the course of the last two years.</p> <p>c. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Notes:</p>	
<p>6a. Have other Foundations recognized this as an impact investment?</p> <p>b. Do other respected partners of the foundation have a relationship with or experience with this investment?</p>	<p>a. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Notes:</p> <p>b. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Notes: Rockefeller Foundation and Skoll Foundation have both made significant PRIs to Root Capital since 2008.</p>	+1
<p>7a. How integral to the success of the investment is: <input checked="" type="checkbox"/> Program Impact <input type="checkbox"/> Mission Impact <input type="checkbox"/> Sustainability</p> <p>b. What is the form and level of personal commitment by the investment principals and/or founders to the impact described above?</p> <p>c. How much personal financial capital have the investment principals and/or founders committed to the investment?</p>	<p>a. Root Capital's main objective is to build sustainable livelihoods in poor and environmentally vulnerable places. As a lending organization, its success depends on the success and repayment from its borrowers.</p> <p>b. Willy Foote, CEO of Root Capital, originally founded the company in 1999 and is widely recognized as a leader in providing small business services and rural empowerment in the developing world.</p> <p>c. Unknown.</p>	+1
<b>Impact Monitoring &amp; Reporting</b>		<b>Score</b>
<p>8a. What approach will be used to evaluate the impact of the investment? Are there specific metrics for reporting?</p> <p>b. What is the proposed nature and scale of the impact, e.g. in 1 year, 3 years, long-term?</p>	<p>a. Social and environmental criteria are fully integrated into Root Capital's loan review process. Key performance indicators for the company include number of borrower enterprises; number of rural producers benefited; number of businesses trained and total acreage under sustainable production.</p> <p>b. The social and environmental impacts of Root Capital's loan services begin to accrue immediately as loans and services are disbursed. In as little as 3 years, key performance indicators begin to operate at scale and will continue to grow. Root Capital projects reaching 73% financial self-sustainability by the end of 2010 through its lending program. By the end of 2010, Root Capital will have reached over 250,000 rural producers, and have over 390,000 hectares under sustainable management. Notes: Specific milestones/metrics, with timeframe, where possible</p>	+1
<p>9. Will the Investment Manager provide impact-related reporting?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Notes: Relevant IRIS indicators for Root Capital include number of rural producers affected by programming, and the total number of hectares under sustainable management.</p>	
<p>10. Does the investment scale, accelerate, support or re-enforce other Impact Investments in the investment or grant portfolios?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Notes: KL Felicitas Foundation's investment portfolio contains a number of holdings that support SMEs and environmental stewardship in developing nations. Other similar investments include Pico Bonito and E+CO.</p>	+1

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<b>Investment Due Diligence (Investment Advisor)</b>			
<b>Investment Structure &amp; Portfolio Implications</b>		<b>Score</b>	
<b>11.</b> Investment due diligence process	<input checked="" type="checkbox"/> Impact First due diligence process <input type="checkbox"/> Financial First due diligence process <input type="checkbox"/> Other (describe any exceptions or modifications to the due diligence process).	0	
<b>12a.</b> What is the structure of the investment under consideration? <b>b.</b> Is the investment structure ideally suited to achieve both the appropriate risk adjusted rate of return while promoting the foundation's impact objectives?	<b>a.</b> 3% senior notes, unsubordinated  <b>b.</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Notes:	0	
<b>13.</b> Asset class	<input type="checkbox"/> Cash and Equivalents <input type="checkbox"/> Hedge Funds <input type="checkbox"/> Fixed Income <input type="checkbox"/> Venture Capital <input checked="" type="checkbox"/> Notes/Other debt obligations <input type="checkbox"/> Real Estate <input type="checkbox"/> Public Equity <input type="checkbox"/> Real Assets <input type="checkbox"/> Private Equity Sub-Asset Category: Loans	0	
<b>14a.</b> Will members of the Foundation play an active role in the investment? <b>b.</b> If so, will questions of self-dealing arise?	<b>a.</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  <b>b.</b>	+1	
<b>Investment Monitoring &amp; Reporting</b>		<b>Score</b>	
<b>15a.</b> What is the financial benchmark that will be used to evaluate this investment? <b>b.</b> Over what period(s) of time will we measure the investment performance?	<b>15a.</b> <input type="checkbox"/> Market indices Specify: <input checked="" type="checkbox"/> Absolute Return Specify: CPI <input type="checkbox"/> Peer Group Comparison Specify: Notes: CPI	<b>15b.</b> <input type="checkbox"/> < 1 year <input checked="" type="checkbox"/> 3-5 years <input type="checkbox"/> 5-10 years <input type="checkbox"/> 10-20 years <input type="checkbox"/> > 20 years  Notes:	0
<b>Additional Comments or Observations</b>			