2017 Annual Report
Building a better tomorrow, together.
Dear friends and supporters,

Over the last year, we celebrated many exciting milestones on the path to accelerate our work to end the global water crisis. This progress was made possible thanks to your generous contributions to our efforts, and your trust in our ability to innovate and deliver. With the successful disbursement of WaterCredit Investment Fund 1 (WCIF1) and the launch of WaterCredit Investment Fund 3 (WCIF3) - a new $50M Fund that will impact the lives of 4.6 million people in Asia - we have continued to push forward, test boundaries, and accelerate the pace of our impact.

In the fall of 2016, WCIF1 successfully disbursed seven loans to top-tier microfinance institutions (MFIs) in India. To date, WCIF1 has reached over 222,000 people with access to safe water and/or sanitation, and the MFIs have paid all interest payments in full and on time. WCIF1 investors received the first round of distribution payments in November 2017.

The success of WCIF1, a $12 billion market demand for more affordable financing from families living in poverty to meet their water and sanitation needs, and the tremendous potential social impact investing presents in scaling impact inspired Water.org to launch WaterEquity. This is a first-of-its-kind social impact investment fund manager that attracts and deploys large-scale social investment capital to high-growth and purpose-driven enterprises serving the water and sanitation needs of those living at the base of the economic pyramid (BOP).

Over the past year, WaterEquity has grown from an initial group of four staff within Water.org, to a full team of 15 professionals with a range of expertise in critical areas including: social impact investment, water and sanitation, microfinance, and fund marketing and management.

In addition to strengthening the breadth and depth of WaterEquity’s human resource capital, we have strengthened the power of our brand. The launch of WaterEquity’s website, along with participation in key conferences, media interviews, and events, including the Forbes Philanthropy Summit and World Economic Forum, position WaterEquity on the global stage as an agent of smart, accelerated impact and systems change.

Bringing this vision to life would not have been possible without you. Thank you for your tremendous support in launching WaterEquity and for believing in our vision. Together we are building a new market, connecting social impact investors to a robust portfolio of MFIs and enterprises with demonstrated success in reaching families at the BOP with sustainable solutions. We have a unique opportunity to level the playing field for those living in poverty, and help unlock the level of capital that is needed to match the scale of this crisis, and end it in our lifetime. We are enthusiastic about the possibilities ahead of us and thrilled to partner with you to impact the lives of hundreds of millions of people in need.

Sincerely,
Gary, Tom, Alix, and John

Gary White
CEO & Board Chairman

Tom Light
Managing Director

Alix Lebec
Executive VP of Business Development & Investor Relations

John Moyer
Director of Portfolio Development
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WATEREQUITY INVESTMENT FUNDS
From August through November of 2016, WaterEquity disbursed funds to seven high-performing WaterCredit partners in India. These highly-rated MFIs are already putting this capital to use, disbursing thousands of loans.

India is the first location where we launched WaterCredit, social impact investment funds, and broader stakeholder engagement. This effort in India exemplifies the work we hope to accomplish in other markets and how the various solutions offered by Water.org and WaterEquity can work together to effectively tackle the global water crisis.

In its first-year post-disbursement, WCIF1 has already empowered more than 46,000 families at the BOP in India with vital access to safe water and/or sanitation. These families represent 222,291 individuals who now have the chance at a brighter future. WCIF1 is demonstrating exceptional social impact. 99% of borrowers reached by WCIF1 are women and 60% earn less than $2 per day. Through the third quarter of 2017, $9.6 million of the $10.4 million invested by WCIF1 in MFIs has been on-lent to families living in poverty. This Fund is on track to reach one million people over its seven-year term.

WCIF1 has served as a great learning experience. This was particularly true of the capital deployment phase. While demand from Water.org’s existing MFI partners for more affordable debt financing for WaterCredit lending remains high, the Indian regulatory environment proved complex. Thanks to Water.org’s local leadership in India and a full team effort, we succeeded in deploying WCIF1’s capital within our anticipated yearly time frame. WaterEquity has applied these lessons to the ongoing oversight and management of WCIF1, and the development and operation of WCIF3.

**KEY LEARNINGS INCLUDE:**

- Continue to build & strengthen local investment staff in areas where investments take place. This provides greater capacity to foster investment relationships with critical stakeholders.
- Offer capital calls for WCIF3 and future funds.
- Maintain flexibility when possible to best adapt to local conditions and evolving regulatory landscape.
- Build a highly efficient and dedicated social impact investing team. This led to the launch of WaterEquity.
Definitions of poverty vary MFI to MFI according to internally assigned definitions. The majority of MFIs use the threshold of $2/day as their poverty definition. All definitions used by the WCIF investment portfolio are generally acceptable according to CGAP and MIX Market.

Number of people reached is based on number of loans disbursed times average household size of 4.8 according to most recently available census data from 2011.
LIVES CHANGED

The following profiles were collected by a WCIF1 investee called BWDA between April and June 2017. BWDA received a three-year investment from WCIF1 of 62 million INR ($944,000) in November 2016 to provide WaterCredit loans to families living in poverty. 99% of these WaterCredit clients are women.

AMUDHA - A SAFER FUTURE

Amudha and her family live in a village in southern India. For years, they practiced open defecation in fields near their home. One day while out in the field, Amudha's 18-year-old son was bitten by a venomous snake. He was immediately rushed to a local doctor, and then to a larger hospital when the locally available treatment options were ineffective. The medical costs for his care were close to $800. He stayed in the hospital for a week and then had a slow recovery at home. As a result of this terrible event, Amudha and her family decided to take out a $390 loan to construct a toilet at their home. Amudha's son is now in college and interested in drawing and painting. Amudha is grateful that access to affordable financing was available to her family for their sanitation needs, so that they could pay for the construction of a safer and more hygienic toilet in their home. This enabled Amudha and her family to have the chance at a more dignified future for their family.

CHANDRA - A BRIDE’S WISH

Growing up, Chandra was fortunate to have access to a toilet at her home. When she married, she was disappointed to find out that her husband’s family did not have similar facilities. While her husband understood her reluctance to practice open defecation, he didn’t believe that it would be possible for them to construct a toilet at their home given their limited financial means. Chandra was thrilled when she found out that BWDA was offering a loan product for toilet construction that they could afford on their limited budget with the additional subsidy provided by Swachh Baharat (Clean India). In addition to providing Chandra with an increased sense of dignity, the toilet was also a tremendous help to her father-in-law, who was having difficulty making it to the fields as he aged. Now, Chandra has become a change agent for her community. She brings other women from the village to her home to see how a high-quality toilet can be constructed at home, even for families with limited means.
WATERCREDIT INVESTMENT FUND 3

Launched in April 2017, WaterCredit Investment Fund 3 (WCIF3) will provide affordable debt capital to enterprises, including MFIs, that expand access to safe water and sanitation for people in India, Indonesia, Cambodia, and the Philippines. This $50 million Fund is projected to reach 4.6 million people at the BOP with safe water and/or sanitation over a seven-year period. Investors will earn a targeted pre-tax financial return of 3.5% with both first-loss principal and returns guaranteed up to $5 million. We are excited to share that through November 2017, we have commitments for $30.5 million toward our $50 million target and $4 million raised for our $5 million philanthropic guarantee.

The Fund’s investment strategy is designed to mitigate risk and maximize impact by spreading assets over multiple geographies, business models, and market segments. And while the lion’s share of investments will go to MFIs, this Fund will also invest in key local water and sanitation businesses, including: water purification and sales kiosks, small water utilities, and sanitation facility construction companies. WaterEquity will report on key financial and social performance metrics associated with its investments to investors and philanthropic supporters of the guarantee on a quarterly basis.

WCIF3 represents an important next step in scaling Water.org’s proven WaterCredit solution, and accelerating progress and impact at the BOP at an unprecedented level. A tremendous gap exists between the estimated costs of achieving universal water and sanitation access and the current financial resources directed toward provision of these services. Charity alone will not meet this need. It would cost $200 billion a year to solve the water crisis over five years. Currently, the international aid and philanthropic community spends $8 billion a year. Closing this financial gap is critical to solving this crisis in our lifetime. Moreover, there are at least 565 million people at the BOP who, with access to affordable financing such as small loans, could solve their water and sanitation crisis. That represents a $12 billion market demand at the BOP. WaterEquity is striving to meet this demand.
WCIF3 has already attracted significant capital to this crisis and brought new players to the table with significant investments. With approved commitments from investors like Bank of America and the Overseas Private Investment Corporation (OPIC), this Fund is sending a strong signal to the social impact investing community about the value and potential of investments in water and sanitation targeting the BOP. These commitments demonstrate that social impact investing holds the potential to unlock the levels of capital, leadership, and collaboration needed to match the scale of the global water crisis and ensure we are the generation that will solve this in our lifetime. WCIF3 is a critical bridge to achieving this vision and ensuring we can reach more geographies and fully leverage the potential of Water.org’s work now and in the years to come.

PROSPECTIVE INVESTEES PROFILE

Banka BioLoo Pvt Ltd. is an Indian social enterprise that produces and markets bio-digester enabled sanitation and human waste management products such as bio-toilets and bio-tanks.

WCIF3 is considering an investment in Banka BioLoo due to the strong market potential for bio-toilets in India. It is led by a strong, entrepreneurial management team with a focus on creating impact around water and sanitation needs in an environmentally sustainable way. It has diversified revenue sources from multiple product lines. In addition it owns patented bio-digester technology.

WaterEquity is considering a debt investment to provide support for capital expenditures and/or working capital. We estimate that debt capital could support the sale of approximately 20,000 bio-toilets and 3,500 bio-tanks over five years.
WATEREQUITY
OPERATING
OVERVIEW
As a social impact investment manager, WaterEquity creates the opportunity for accredited investors to put their capital to work to achieve extensive social impact, alongside sustainable financial returns.

WATEREQUITY OVERVIEW

WaterEquity is a U.S.-based non-profit corporation headquartered in Kansas City, Missouri. Investments are made through separate limited liability company partnerships (LLCs). WaterEquity is the sole member of the fund management company (WaterCredit, LLC or “ManageCo”), and the fund management company is the managing member of the investment fund LLCs (WaterCredit Investment Fund 1, LLC; WaterCredit Investment Fund 3, LLC). The below represents the legal structure of the entities regarding WCIF3.

**Legal Structure**

- **WaterEquity, Inc.** (a non-profit corporation)
  - Sole Member
  - WaterCredit, LLC (ManageCo)
    - Managing Member (Class III)
      - Board of Managers
      - Stakeholder Advisory Committee
      - Investment Decisions & Fund Management
      - Compliance Reporting

- **Accredited Investors**
- **Debt Facility**
  - $27M in loan facilities
- **WaterEquity, Inc.** (a non-profit corporation)
  - $5M First Loss Guarantee

**WaterCredit Investment Fund 3, LLC** (Delaware, U.S.)

- Microfinance Institutions and Water & Sanitation Enterprises in India, Indonesia, Cambodia, & the Philippines
OPERATIONAL STRUCTURE

Investment fund management requires multiple activities and skillsets. After reviewing the structure of similar organizations such as Acumen, Root Capital, Calvert Foundation, and Kiva, as well as private sector investment firms, WaterEquity has developed a functional structure tailored to its specific needs and financial plan. The below graphic represents our current operational structure.

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<th>Name</th>
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<tr>
<td>CEO &amp; Chairman</td>
<td>Gary White</td>
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<td>Managing Director</td>
<td>Tom Light</td>
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<td>Jessica Bernard</td>
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<td>Director of Regulatory Compliance</td>
<td>Catherine Colyer (KC)</td>
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<td>Nidhi Husain</td>
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<td>Southeast Asia</td>
<td>Ashish Shukla</td>
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<td>Sr. Financial Analyst</td>
<td>Geoff Wise</td>
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<td>Controller</td>
<td>Jeff Borchardt</td>
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<tr>
<td>Staff Accountant</td>
<td>Paul Cohoon</td>
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SPIN-OFF UPDATE

The full legal and staff spin-off of WaterEquity was finalized as of November 1, 2017. It was a multi-stage process involving a tremendous team effort across both Water.org and WaterEquity, and led by our new Managing Director - Tom Light. Key spin-off milestones included:

- developing a brand identity and launching a website;
- applying for and receiving tax-exempt status from the IRS;
- identifying and moving into new office space;
- deploying a new accounting system and transferring all accounting books;
- evaluating technology needs and systems overlap and vetting solutions from a practical and legal standpoint; and
- identifying and deploying a new set of benefit plans.

As a part of the spin-off process, the WaterEquity Board authorized and accepted the transfer of Water.org’s ownership interest in WaterCredit, LLC (ManageCo) to WaterEquity, Inc.
Thank you for bringing us one step closer to the day when everyone in the world has access to safe water and experiences the dignity of a toilet.

www.waterequity.org