

2020



WATEREQUITY

Annual Report

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Letter from Leadership

Our mission is to build a global capital market that accelerates universal access to water and sanitation. Given the events that unfolded in 2020, it might have been a “lost year” for WaterEquity, with progress stymied by the pandemic and its knock-on effects on commerce and mobility. As it turned out, we were able to maintain and indeed increase our momentum. Three forces came together to allow this: the support of those we serve, the characteristics of the assets we invest in, and the nimbleness and creativity of our own team.

WaterEquity serves two constituencies: low-income communities who need access to water and sanitation, and investors who want to deliver impact and earn returns. As COVID-19 spread in early 2020, both constituencies realized that water access is a crucial front-line defense against the virus. When 40 percent of the world population cannot wash their hands with soap and water in their own homes, and 66 percent of healthcare facilities in low-income countries don't have soap or running water either, admonitions to “Wash your hands to prevent the spread of COVID” don't carry much weight. As our founders Gary White and Matt Damon told CNN's Van Jones in May during their Time 100 Talk, when it comes to protecting against the virus, “Water is the first level. Water is PPE.”¹ This realization lent new urgency to our work in the eyes of our investors and partners.

The second force at play was (and is) the resilience of the microfinance asset class. Those familiar with the sector will know that it performed relatively well through the global financial crisis of 2008–2009, earning positive returns when other asset classes fell sharply.² The same resilience is on display once again as countries and economies grapple with the pandemic. As of December 2020, 99.1 percent of the loans in our portfolio were current. Economically, this reflects the fact that those we serve— 71 percent of whom earn below a living income—live and work in local economies that are relatively insulated from the global macroeconomy most at risk from systemic crisis. While we anticipate that the quality of some investments may deteriorate as additional waves of COVID-19 occur, especially in India, there is every indication that WaterEquity's portfolio will once again prove to be a diversifying safe harbor.

The third force that allowed us to sustain momentum is the flexibility and creativity of our team. Working remotely comes naturally to us—it's how we have always done business. The team is distributed across many locations and geographies, so that whether raising or deploying capital, we are close to those we serve. Long before “Zoom” became a verb, we were coordinating and managing our work by video conference across many time zones. The inability to travel was a challenge, but one that the team rose to.

In the fourth quarter of 2020, Fund II passed the milestone of 1 million people reached with water or sanitation. The cumulative total for all our funds is approaching 2 million people reached, and we have done this while delivering attractive risk-adjusted returns to our investors. We are both proud of what we have accomplished, and immensely grateful for the support of our investors, borrowers, and the communities we serve.

Sincerely,



A handwritten signature in black ink that reads "Gary White".

Gary White
CEO and Co-founder



A handwritten signature in black ink that reads "Paul O'Connell".

Paul O'Connell, Ph.D.
President

Investing in Water and Sanitation. Unleashing Systems Change.

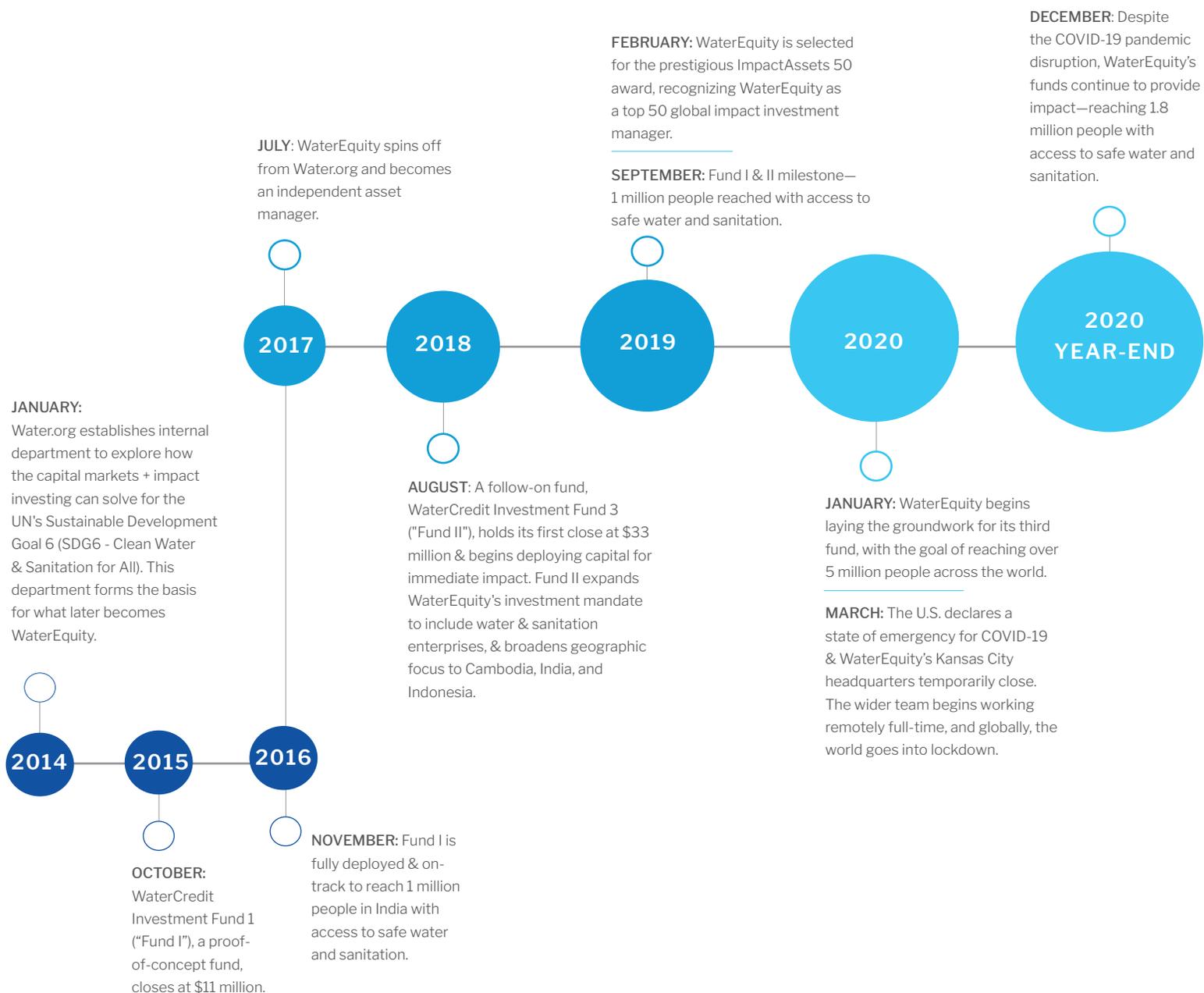
Thanks to our community of investors, WaterEquity's funds are scaling access to safe water and sanitation for millions of low-income people across the globe. With strong financial and social performance, these funds are improving public health, enhancing gender equality, protecting the environment, and ensuring vulnerable communities around the world are more resilient to the impacts of climate change.



WaterEquity's Journey

WaterEquity is an asset manager with an exclusive focus on ending one of the most urgent issues of our time – the global water and sanitation crisis.

We invest in financial institutions and enterprises delivering access to safe water and sanitation to low-income consumers, while offering an attractive risk-return profile to investors. Founded by award-winning entrepreneur Gary White and Matt Damon of Water.org and led by Paul O'Connell, the success of WaterEquity is built on decades of experience investing in water and sanitation in emerging markets, delivering proven social and financial returns.



Theory of Change

DEFINING THE CRISIS | Access to safe water and sanitation is recognized by the United Nations as a basic human right³, and is central to achieving better outcomes for public health, gender equality, income equality, education, the environment, and climate resilience.



785 million people globally lack access to safe water, that's 1 in 10 people.⁴ Often, they pay up to 15x more to purchase water from vendors than if they were connected to a utility.⁵



2 billion people lack access to safely managed sanitation, that's 1 in 4 people. Of these, 673 million still defecate in the open, for example in street gutters, behind bushes, or into open bodies of water.⁴



1.6 million preventable, water and sanitation-related deaths occur each year, including 300K children under the age of five.⁶



\$24 billion of economic opportunity is lost each year due to time spent gathering water.⁷

Lack of affordable financing is the key barrier preventing individuals from securing safe water or sanitation, and the infrastructure necessary to deliver it. Economists estimate there is a \$1 trillion market opportunity for providing water and sanitation services to all people worldwide by 2030.

MICROFINANCE Among low-income consumers, at least 600 million people could access water and sanitation products and services if affordable microloans were made available—equating to an \$18 billion market demand over the next ten years. Many financial institutions are unable to source consistent, dedicated capital to expand access to water and sanitation financing. As a result, only a small percentage of the demand is being met, leaving hundreds of millions of potential clients without access to affordable financing for their water and sanitation needs. WaterEquity addresses this unmet demand by tapping into global capital markets, paying a return to attract investment, and deploying this capital to expand access to affordable water and sanitation microloans.

INFRASTRUCTURE Historically, water supply and sanitation infrastructure has been underfunded. According to the World Bank, annual investments in water and sanitation infrastructure must triple to fully achieve SDG6.⁷ Furthermore, climate change will exacerbate the water crisis, particularly for the poor, as increased storms, floods, and droughts damage infrastructure and increase water stress. If we are to “build back better” as a society, increased levels of funding in water and sanitation infrastructure will be necessary, especially in underserved areas. WaterEquity funds invest in infrastructure, including piped water networks and fecal sludge treatment plants, which expand access to water and sanitation services and also enhance climate resilience for vulnerable populations.

WATER AND SANITATION ARE KEY TO ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS.

WaterEquity's core impact contributes to Sustainable Development Goal (SDG) 6, as well as several other SDGs. Well documented evidence demonstrates that individuals with improved access to water and sanitation—particularly women and children—experience a wide range of proven, long-term benefits, including better health, economic security, gender equality, and resilience to climate change.



Investment Strategy: Enabling Growth

WaterEquity's overall investment strategy is built upon the following fundamentals:



Measuring & Managing Impact

WaterEquity follows industry best practices for measuring impact, including IRIS+, the Impact Management Project, Impact Frontiers, and the IFC Operating Principles for Impact Management.

WaterEquity's funds integrate impact measurement into every stage of the investment cycle, beginning with the initial design of the investment strategy. From fund construction to Investment Committee approval, the impact of every investment is evaluated across multiple dimensions to confirm alignment with impact objectives. Every borrower loan agreement includes specific impact targets to ensure that the capital is used to expand access to safe water and sanitation, and each borrower reports to WaterEquity on progress against impact targets on a quarterly basis.

In addition, WaterEquity periodically collects end-client data from feedback surveys to verify borrowers' self-reported data, and gain additional insight into the household level experience. Upon exit from every investment, WaterEquity conducts a review of the social impact and captures lessons to continuously improve its approach and maximize social impact.

By the Numbers: Scaling Impact





CUMULATIVE PEOPLE REACHED WITH ACCESS TO SAFE WATER & SANITATION



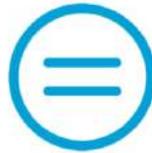
WATEREQUITY KEY DATAPOINTS



CAPITAL DEPLOYED

\$73M

in dedicated water and sanitation funding deployed to fund borrowers since 2016.



GENDER EQUALITY

94%

of the people supported by our investments are women.



ECONOMIC EMPOWERMENT

71%

of water and sanitation microloan clients earn below a living income.



INVESTMENTS

30

cumulative debt investments made across three countries; India, Indonesia, & Cambodia.



FUND MANAGEMENT EXCELLENCE

0.06%

average annual write-off over 30 investments since 2016.



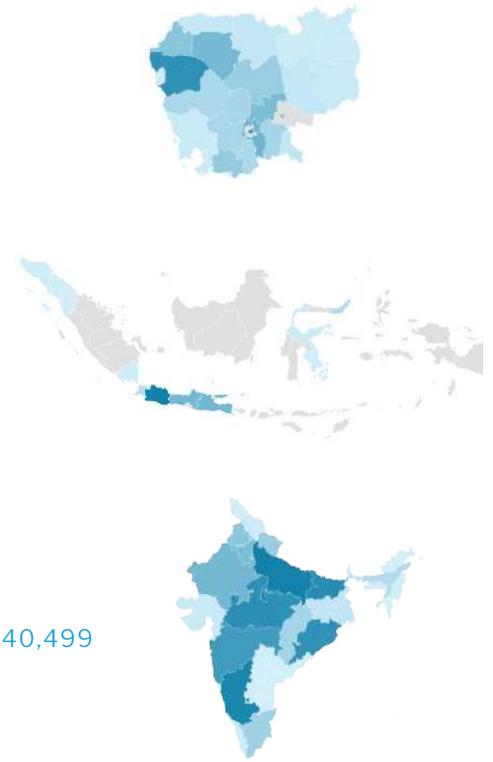
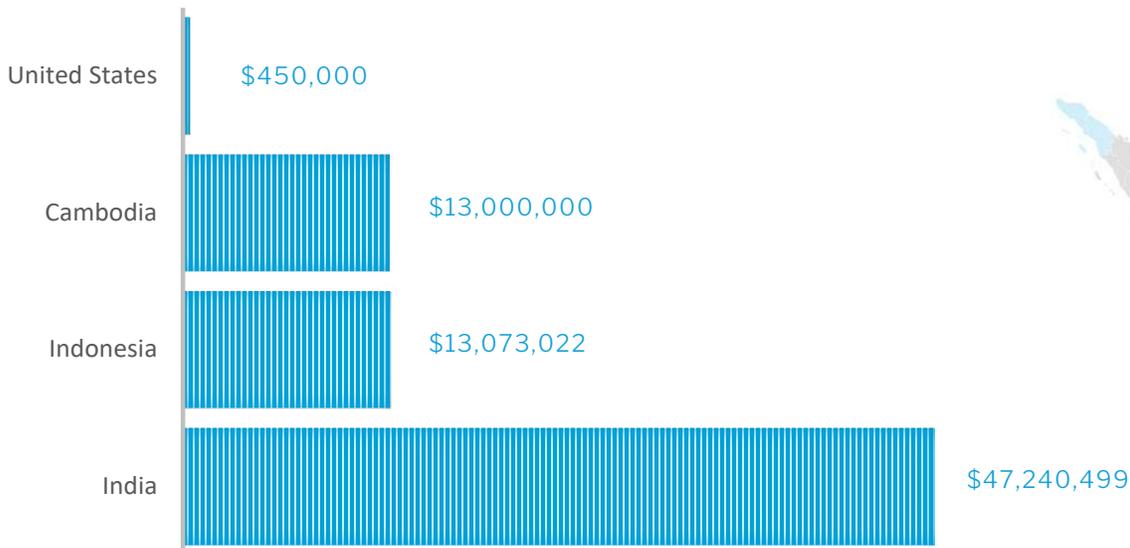
SDGS IMPACTED

6

SDG targets impacted; the multi-fold impact of access to safe water and sanitation links these goals.



WATER & SANITATION INVESTMENTS BY COUNTRY



Since 2016, WaterEquity’s funds have made 30 debt investments across a portfolio of high-performing financial institutions and enterprises in India, Indonesia, Cambodia, and the United States—empowering millions of people with access to safe water and sanitation. As we continue to scale, WaterEquity’s investments will span globally across Africa, East Asia and the Pacific, Latin America and the Caribbean, and South Asia.

Water & Sanitation Microloans

A representation of how impact is achieved



A WaterEquity fund lends to a financial institution for the exclusive purpose of scaling water and sanitation microlending to low-income consumers.



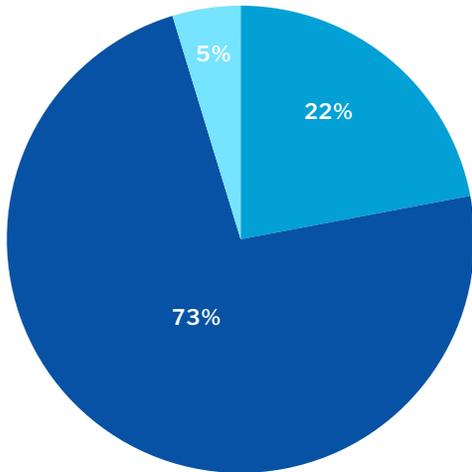
Financial institution provides water or sanitation microloans to end-clients like Nandini.



Nandini uses microloan to construct a bathroom with a toilet and septic tank, and pays back microloan in monthly or weekly installments.



WATER & SANITATION MICROLOAN USAGE



■ Sanitation ■ Water ■ Multi-purpose

Across all WaterEquity funds, approximately 73% of end-clients took out a sanitation microloan. The remaining microloans were used to improve access to safe water (22%) or for both a water and sanitation microloan (5%).

FINANCIAL INCLUSION

370K+

microloans to low-income consumers in emerging markets cumulatively across all WaterEquity funds.



ACCESS TO AN IN-HOME TOILET*

3% → 100%

Access to an in-home toilet increased amongst households that took out a sanitation microloan. Before taking out a microloan, households relied on open defecation (66%), neighbors' facilities (22%), or bucket latrines (9%).

AVERAGE MICROLOAN SIZE

\$253

average microloan size across all WaterEquity funds.



ACCESS TO A PIPED WATER CONNECTION*

13% → 93%

Access to a piped water connection increased amongst households that took out a water microloan, with the majority (58%) having previously relied on public taps or open water sources. The remaining microloans were used for water tanks, water filters, and water connection renovations.

99% Repayment Rate

Who are microloan end-clients & how do they successfully repay water & sanitation microloans?

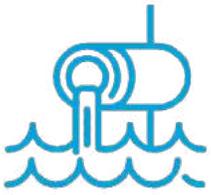
Typical end-client: The microfinance clients of WaterEquity's financial institution borrowers are typically low-income, but not the destitute, absolute poor. They may have multiple sources of income but do not have access to the traditional banking system and lack significant collateral. However, they do require credit and can certainly repay properly structured loans.

Affordable payments: Low-income consumers have the means to make affordable weekly or monthly payments rather than incur an upfront, lump sum expense.

Decreased expenses: The benefits provided by access to safe water or sanitation often result in reduced expenditures, including medical expenses due to improved health outcomes.

Increased income: Access to safe water or sanitation leads to tremendous time gains, particularly for women, who can use the additional time for income-generating activities.

Community accountability: Joint Liability Groups—clients that cross-collateralize one another—are a core reason for the success of microloan repayments.



WATER & SANITATION INFRASTRUCTURE IMPACT

WaterEquity's recent investments in water and sanitation infrastructure have already impacted **96,170 people with access to safe water and sanitation products and services**. Investments focus on areas such as the design, construction, and management of water supply projects in rural areas, in addition to technological advancements in toilets and waste treatment.

OF INFRASTRUCTURE
PROJECTS COMPLETED

4

VOLUME OF
WATER DELIVERED

864K m³

OF INFRASTRUCTURE
PROJECTS UNDERWAY

16

VOLUME OF
WASTE TREATED

600KL



COVID-19: Resilience in Unprecedented Times

WaterEquity's borrowers faced challenging operating conditions in 2020, with varying stages of lockdowns that restricted their ability to deliver affordable water and sanitation financing and services. WaterEquity worked closely with fund borrowers to accommodate requests for relaxation of loan covenants and allow time for business recovery. Borrowers began to recover in the second half of the year, and their ability to deliver water and sanitation impact followed suit.

The timing of full recovery to pre-pandemic levels remains uncertain as the pandemic continues into 2021, but the long-term trend remains one of increased investment in SDG6—particularly as COVID-19 underscores the importance of access to safe water and sanitation. The performance of WaterEquity's investment portfolio during 2020 demonstrates the strength of our investment thesis and approach. Looking forward, WaterEquity will continue to work closely with existing borrowers to navigate the pandemic, while also investing in additional candidates to further expand impact on SDG6 and build a capital market for water and sanitation.

Portraits of Impact



BORROWER PROFILE

Annapurna Finance Pvt. Ltd

A Financial Institution headquartered in Odisha, India, with 870 branches in 19 states.

MISSION | Annapurna provides microloans focused on improving the health of households identified as living below the poverty line.

\$6.5M

WaterEquity funds have provided \$6.5 million in debt investments to Annapurna.

ACHIEVEMENTS | In 2013, Annapurna established microloan products for water and sanitation. Between 2016 and 2020—with two debt investments from WaterEquity funds—Annapurna disbursed nearly \$15 million in water and sanitation microloans. As a candidate for increased investment, Annapurna is poised to expand its water and sanitation microloan disbursement to nearly \$30 million while reaching more than 500,000 people with access to safe water and sanitation over the next three years.

MICROLOAN CLIENT PROFILE



Kuni Swain lives in Balipatna, Odisha, where open defecation is common. After learning this practice could be the cause of her children's many infections, Kuni applied for a microloan from Annapurna to construct a toilet in her home.

Since constructing an in-home toilet, Kuni and her family have experienced a multitude of benefits, including a significant reduction in sanitation-related illness, such as diarrhea. This decrease in disease has lowered her family's medical expenses by 50 percent.

In addition, Kuni earned back 12 hours per month by no longer traveling and searching for a safe place to defecate. With this dramatic increase in saved time, Kuni, who runs a microenterprise, is able to keep her shop open longer and increase her business revenue by 10 to 15 percent every month. By ensuring women like Kuni have the critical financial support to secure household access to safe water or sanitation, WaterEquity's funds are ensuring healthier, brighter futures for generations ahead.



BORROWER PROFILE

Banka BioLoo

A Water & Sanitation Enterprise headquartered in Hyderabad, Telangana, India.

MISSION | Banka BioLoo is a market leader in water, sanitation, and hygiene (WaSH) technology and infrastructure. It is an on-field, research-driven company engaged in developing a diverse array of products and services for human waste treatment and management, with a vision to solve the most pressing problems of poor sanitation.

ACHIEVEMENTS | In India, an estimated 60 percent of families in cities and large towns are not connected to the sewer network.⁸ Their waste is typically captured in septic tanks and pits, but there is a lack of fecal sludge treatment facilities to treat the waste when the tanks are emptied. As a result, the majority is dumped untreated into streams and other bodies of water. Banka BioLoo, in partnership with state governments and with financing from WaterEquity, is constructing and operating fecal sludge treatment plants that serve small cities where there is currently no existing sewerage coverage, providing safe treatment of human waste for the first time in these communities. With a Geotube-based treatment process, Banka BioLoo provides low-carbon waste treatment that results in resource recovery—reusing treated water for agriculture, and treated waste as biosolids or soil conditioner. Looking ahead to 2021, Banka BioLoo will begin operations on two additional plants, which are together expected to reach an additional 122,000 people with safely managed sanitation for the first time.

WaterEquity's Global Team

CO-FOUNDERS



Gary White
Co-founder, Board
Chairman, & CEO



Matt Damon
Co-founder



Paul O'Connell, Ph.D.
President



John Moyer
Chief Investment
Officer



Catherine Colyer
Chief Compliance
Officer



Gilbert Ching
Chief Operations
Officer



Elan Emanuel
Chief Investor
Relations Officer

EXECUTIVE LEADERSHIP



Sridhar Sampath
Regional Director,
South Asia



Vanesa Sandoval
Regional Director,
Latin America



Anu Valli
Regional Director,
East Asia



Genevieve Edens
Director,
Impact & ESG



Hasan Andalib
Portfolio
Manager



Geoff Wise
Portfolio
Manager

INVESTMENT MANAGEMENT



Cheryl Wright
Director,
Compliance



Paul Cohoon
Manager,
Accounting



Shilo Artis
Manager,
Operations



Jeso O'Neill
Director,
Communications



Laney Beaman
Manager,
Investor Relations

COMPLIANCE, OPERATIONS, & INVESTOR RELATIONS

BOARD OF DIRECTORS



Amy Bell



Glenn Rockman



Jeremy Howard



Jan Creidenberg

Representative Investors

“ Access to safe water is integral to helping the global economy move forward. Our investment in WaterEquity is an example of how Bank of America is able to deploy capital to support innovative, scalable solutions that address global challenges. ”

Anne M. Finucane, Bank of America Vice Chairman



BANK OF AMERICA



U.S. International
Development
Finance Corporation



Raising Visibility

INDUSTRY COLLABORATION



Operating Principles for
Impact Management

PRESS, MEDIA, & THOUGHT LEADERSHIP

The work of WaterEquity has been featured in many top-tier media outlets as a leading voice and solution to the water and sanitation crisis. Our own insightful thought leadership aims to highlight the water and sanitation crisis and its compounding effects on gender inequality, economic insecurity, income inequality, health and epidemic preparedness, and climate change resilience.

Select Media Coverage

- Bloomberg Green: Matt Damon, Michael Bloomberg, Others on America's Pledge to Combat Climate Change
- Stanford Social Innovation Review: How Investors Can Integrate Social Impact with Financial Performance to Improve Both
- TIME100 Talks: 'Water Is PPE.' Matt Damon and Gary White Explain Why Clean Water Is Crucial to Fighting Coronavirus
- WIRED U.K.: The next hot investment is water
- The Washington Post: Preserving Our Water Systems as Climate Solutions

Thought Leadership

- Fortune Magazine: Invest in women to solve the water and sanitation crisis
- GenderSmart Investing: Women and the Water Crisis - Why Tackling Two Top Global Challenges Will Be A Force Multiplier for Change
- Milken Institute: To Solve the Water Crisis, We Must Rethink the Way We Invest
- Skoll Foundation: Urgent Need of Our Time: Mission Aligned Investments in Clean Water Combat Both COVID-19 and Climate Change
- Triple Pundit: Water and Sanitation – Building Climate Change Resilience

Bloomberg

WIRED

yahoo!
finance

TIME

The Washington Post



Looking to the future...

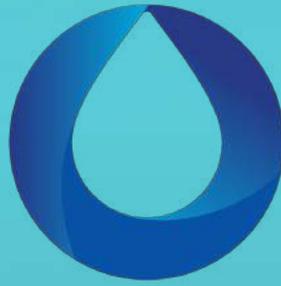
We are building a bridge between investors and the investible market of water and sanitation. We have made good progress, but we recognize there are many more spans to build if we are to achieve SDG6, access to safe water and sanitation for all, by 2030.

On the capital supply side, institutional investors such as pension funds and endowments have the horizon and the appetite to make investments at the scale that is needed to achieve SDG6. However, there is a dearth of securities that allow them to make these investments. The same is true for other investor groups, such as retail investors and those served by financial advisers. For example, there are no publicly traded securities available today that allow retail investors to dedicate their capital towards SDG6. We intend to play a leading role in specifying and designing the securities that are needed to channel capital from these groups.

When it comes to capital allocation, we recognize that financing the “last mile” of water and sanitation access, with household-level domestic water and sanitation solutions, will only take us so far. To achieve SDG6, there is a need for sustained investment at scale in potable and wastewater infrastructure. Here too, working with our sister organization Water.org, we intend to be at the forefront of designing and orienting securities that can direct capital to this unmet infrastructure need.

In everything we do, we recognize that we are part of an interconnected global community, a community that has recently awoken to and begun to reckon with the scourges of racism and racial injustice. It is incumbent on us to participate in, and contribute to, this reckoning, both by looking inward at our own organization, and outward to the asset management industry at large. In mid-2020 we formed a dedicated team to do just this. This is not just an ad hoc initiative; rather, we recognize that the values of tolerance, inclusion, and equal justice must imbue our work if we are to succeed.





WATEREQUITY

Enabling Growth. Earning Returns.

Email us at Info@WaterEquity.org

Visit WaterEquity.org to learn more.

117 W. 20th Street, Suite 204, Kansas City, MO 64108



CITATIONS

1. Carlisle, M. (2020, May 21). Time 100 Talk: Matt Damon and Gary White Explain Why Clean Water Is Crucial To Fighting Coronavirus. Time Magazine.
 2. See, for example, the SMX-MIV Debt Index. See also CGAP and Symbiotics (2016) "Microfinance Funds: 10 Years of Research and Practice"
 3. Resolution A/RES/64/292. United Nations General Assembly (2010, July).
 4. World Health Organization (WHO) and the United Nations International Children's Fund (UNICEF) Joint Monitoring Program (2019). Progress on household drinking water, sanitation, and hygiene: 2000–2017. Special focus on inequalities. Calculations using 2021 world population.
 5. World Bank (2017). Easing the Transition to Commercial Finance for Sustainable Water and Sanitation.
 6. Prüss-Ustün, Annette, et al. (2019). Burden of disease from inadequate water, sanitation, and hygiene for selected adverse health outcomes: An updated analysis with a focus on low- and middle-income countries. International Journal of Hygiene and Environmental Health, 222(5), 765–777.
 7. Hutton, G.; Varughese, M. (2016). "The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene." World Bank, Washington, DC.
 8. NITI Aayog (2021). Fecal Sludge and Septage Management in Urban Areas: Service and Business Models.
- *Results were collected by WaterEquity from a sample of the portfolio.
- IRIS+ Metrics Cited:**
 IRIS, 2021. Number of Loans Disbursed (PI8381). v5.2.
 IRIS, 2021. Client Individuals: Female (PI8330). v5.2.
 IRIS, 2021. Client Individuals: Low Income (PI7098). v5.2.
 IRIS, 2021. Average Loan Size Disbursed (PI5160). v5.2.
 IRIS, 2021. WASH Facilities Type (PD3668). v5.2.
 IRIS, 2021. Wastewater Treated (OI9412). v5.2.
 IRIS, 2021. Water Provided for Sale: Total (PI9468). v5.2.