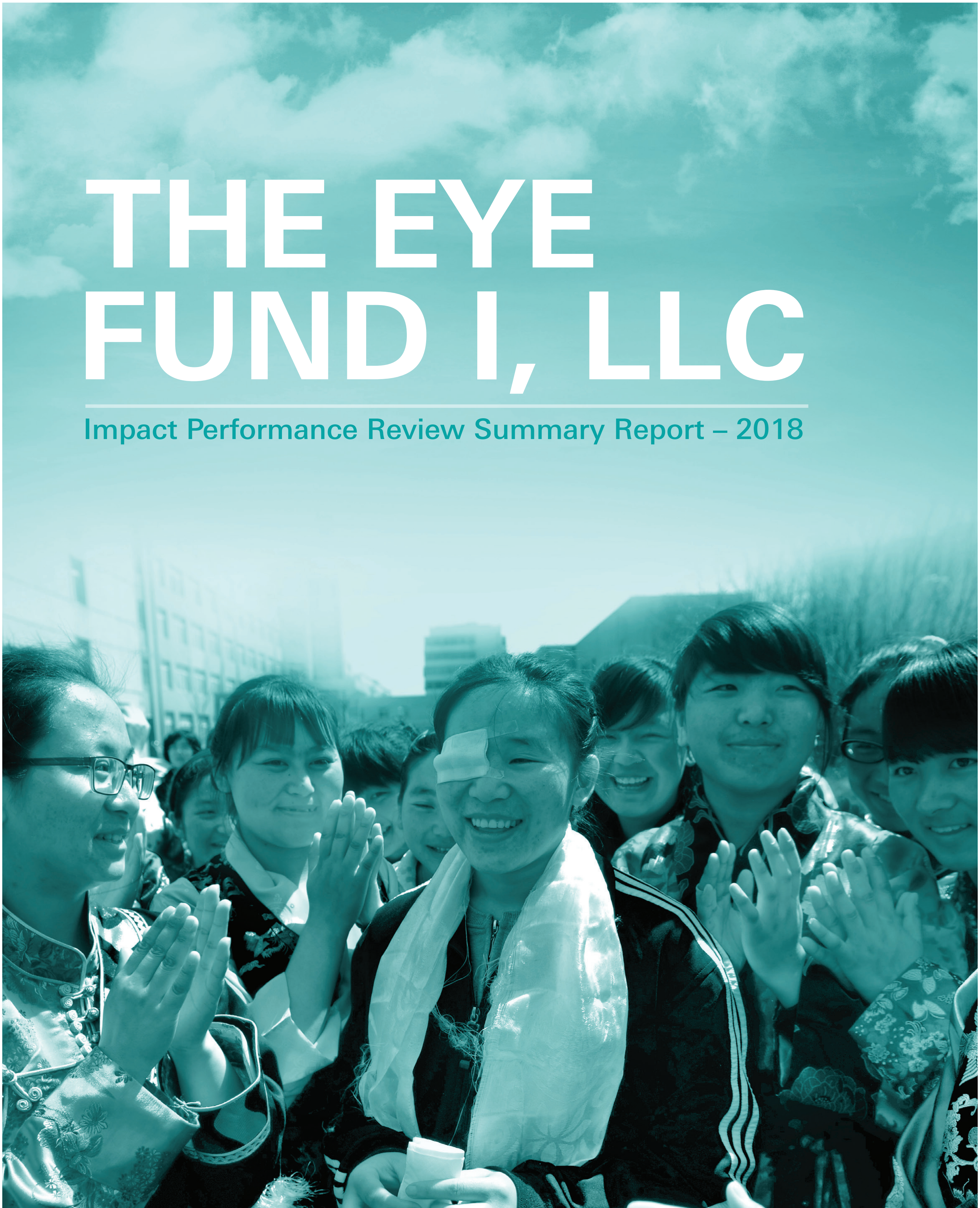
THE EYE FUND I, LLC

Impact Performance Review Summary Report – 2018



A report by : TIDELINE

About Tideline

Tideline is a consulting firm that provides tailored advice to clients developing impact investment strategies, products, and solutions. Tideline's mission is to help clients excel in realizing financial and societal value. The firm's clients include financial services firms, large institutional foundations, family offices, private equity firms, community development finance institutions, and NGOs. The team for this report included Jane Bieneman (lead author), Tristan Hackett (lead author), Christina Leijonhufvud and Ben Thornley.

The Report

The Fund engaged Tideline to provide an independent assessment of the Eye Fund I's impact performance to be reported to the Fund's investors as well as to be shared publicly as a contribution to building the field of impact investing. With the goal of comprehensively assessing the Fund's impact performance, Tideline gathered the perspectives of a variety of stakeholders and analyzed qualitative as well as quantitative Fund data. Research included a review of internal Fund documents, industry reports and public information, and in-person due diligence meetings were held with the U.S.-based asset manager of the Fund.

This summary version of a long-form report that was prepared for the Fund's investors is being published to share key learnings from the Fund's impact performance with the market, including those continuing to pioneer new models and grow the field of impact investing.

Acknowledgements

Tideline is grateful to the Fund's manager, investors, advisors, and borrowers for generously sharing their ideas, experiences and expertise related to the Fund.

Overview

The Eye Fund I, LLC (the “Eye Fund I” or the “Fund”) is a pioneering impact investment fund established by a highly committed, multi-stakeholder group led by a U.S.-based asset manager, and including Ashoka, The International Agency for the Prevention of Blindness, and a group of eight mission-aligned investors. One of the earliest modern-day impact investment vehicles outside of the microfinance sector, the $14.5 million seven-year Fund was launched in 2010 to reduce blindness by expanding treatment capacity of sustainable eye hospitals that serve the poor and to initiate transformation in the financing of the eye care industry by catalyzing large new sources of cost efficient capital for the sector.

Fully exited in March 2017, the Fund’s accomplishments include increasing the capacity of three affordable eye care organizations (“AECOs”) in developing markets to provide cataract surgeries and eye care procedures, treating 3.3 million beneficiaries over the seven year term of the loans, In addition, the Fund demonstrated the opportunity for impact investing outside the microfinance sector and for using blended finance structures[1] to catalytic effect. Furthermore, it established the creditworthiness of strong nonprofits even in extraordinarily challenging operating environments.

The achievements above, as well as the Fund’s overall demonstration of the importance of innovation and “pushing the envelope” to develop new ways to finance social enterprises, make it a valuable precedent in the field of impact investing. To date, the Fund has helped pave the way for initiatives including Alina Vision, a holding company recently launched by former members of the Fund’s team in partnership with a large foundation, that intends to create greenfield AECOs; as well as other impact investing vehicles in sectors ranging from global health to affordable housing.

[1] As defined by the OECD (www.oecd.org), blended finance is the strategic use of public or private funds to mobilize additional capital flows to emerging and frontier markets. Source: www.oecd.org.

KEY LESSONS LEARNED

The experiences of the Fund provide valuable insights for the field of impact investing, including

A CLEAR AND COMPELLING RATIONALE AND INVESTMENT THESIS IS KEY.

The fundamental purpose of the Fund to scale AECOs and their ability to improve sight and prevent blindness was a bedrock point, established at the onset of the Fund's formation, that stakeholders could coalesce around throughout the lengthy and challenging process.

BLENDED CAPITAL STRUCTURES ARE A VITAL TOOL FOR CATALYZING INVESTMENT.

An early blended capital vehicle, the Fund demonstrated the effectiveness of these structures, including how junior tranches of capital can de-risk and help attract more risk averse capital from private sources

ALTHOUGH EQUITY OFTEN IS MOST NEEDED BY AECOS, LONG-TERM DEBT CAN BE BENEFICIAL.

While equity or equity-like capital would have been optimal for the borrowers, the Fund was able to provide long-term debt that aligned with the AECOs' desired use of investing in infrastructure. In addition, the borrowers' ability to meet their interest and principal obligations, even under challenging macroeconomic conditions, helped demonstrate that AECOs can be reliable borrowers and use long-term debt to further their mission.

WHILE AN INVESTMENT VEHICLE'S UNCERTAINTY AND RISK CAN BE REDUCED WITH A PRESET PORTFOLIO, IT IS CHALLENGING TO EXECUTE AND LIMITS THE OPPORTUNITY SET.

The founder's approach to precisely match the sources and uses of capital mitigated the risk that the Fund could not be successfully deployed. However, trade-offs include the added complexity of lining up all funders and borrowers as of a single closing and a smaller pool of potential borrowers (and hence fund size) due to the Fund's inability to invest after the closing date.

IN EMERGING SECTORS, SIGNIFICANT INVOLVEMENT AND CAPACITY-BUILDING BY SPECIALIZED ASSET MANAGERS MAY BE REQUIRED.

Reflecting the early stage of borrowers, significant assistance around, in particular, financial management and reporting capabilities was needed both before and after the Fund's investment.

Compelling Market Opportunity

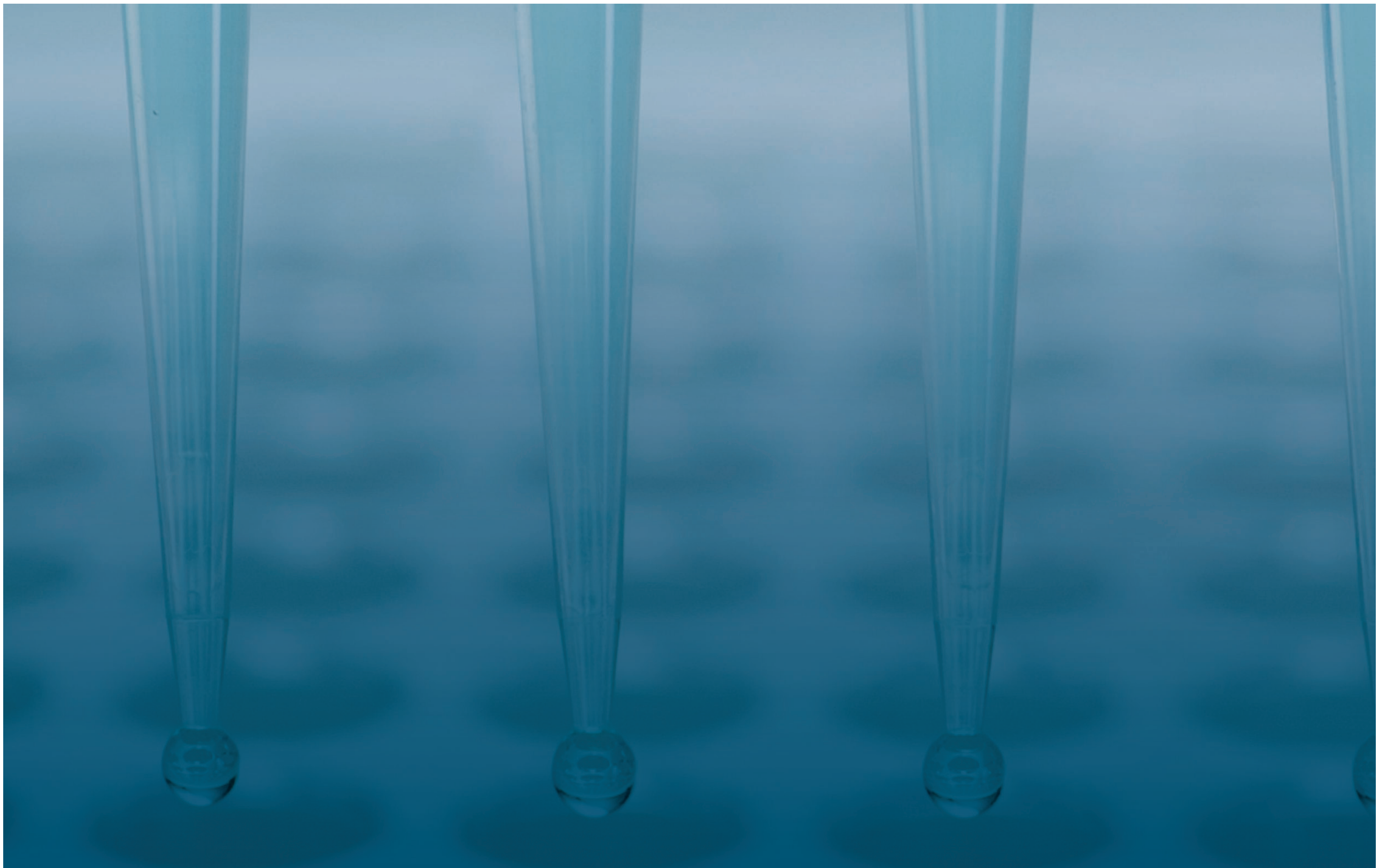
Adequate provision of eye care remains a significant unmet need in the developing world. Recent research estimates that 253 million people worldwide are visually impaired, including 36 million who are blind.[2] At the same time, an estimated 80% of blindness is either curable or preventable. For example, in the developing world, 58% of all cases are caused by cataracts and 36% by refractive errors,[3] two easily treatable ailments with cost-effective interventions.

In 1980s, a new model of affordable eye care organizations (AECOs) emerged to address this market need. These innovative eye hospitals developed tiered pricing models, whereby revenue from higher income patients subsidizes services for lower income patients.[4] This "cross-subsidization" approach allows the world's poorest patients to receive critically needed eye care. Despite the potential for enormous social impact through this approach, we believe that avoidable blindness persists at a large scale, because AECOs are constrained in their growth by limited funding sources. The Fund was designed to deliver long-term, appropriately priced capital to scale proven eye hospitals that serve the poor in developing markets, and thereby pave the way for development of other sustainable investment sources.

Innovative Structure

In order to meet the different risk and return profiles of investors, the Fund's blended finance structure[5] was comprised of four tranches of capital, with the junior tranches offering significant credit protection to senior investors. In addition, due to the uncertainty of demand for the Fund's capital, the Fund was structured to exactly match supply and uses of capital; thus, instead of closing with a blind pool of capital to be invested over a commitment period, the Fund was disbursed into a preset portfolio concurrently with its closing. A $1.5 million technical assistance facility was established alongside the Fund to support the borrowers.

[2] The Lancet, "Magnitude, temporal trends, and projections of the global prevalence of blindness and distance and near vision impairment: a systematic review and meta-analysis," Multiple authors on behalf of the Vision Loss Expert Group. September 2017.
[3] The Power of Impact Investment to Improve Vision, The Fred Hollows Foundation, 2015.
[4] Driving Down the Cost of High-quality Care: Lessons from the Aravind Eye Care System, Health International, 2011.
[5] As defined by the OECD (www.oecd.org), blended finance is the strategic use of public or private funds to mobilize additional capital flows to emerging and frontier markets. Source: www.oecd.org.



Committed Investors

The Fund's investors included philanthropic actors, development finance institutions and private sector funders. Seventy percent of capital came from two development agencies (the Overseas Private Investment Corporation and Agence Francaise de Developpement), with three foundations (Bernard Newcomb Foundation, COFRA Foundation and Deutsche Bank Americas Foundation), two high net worth individuals (Stiftung Fons Margarita and Janet McKinley) and one corporate investor (Storebrand) making up the balance. Overall, investors were motivated to participate in the Fund by the opportunity to demonstrate the viability of impact investing broadly, catalyze other investors into the Fund, and support the Fund's clear objective to reduce blindness by expanding treatment capacity of sustainable eye hospitals.[6] These motivations, the track record and expertise of the founding partners, the credit protection offered to senior investors, and support from well-known investors enabled this first time fund in an unfamiliar sector to successfully close after a lengthy formation period.

[6] Based on interviews and/or surveys completed by a total of five investors in the Fund.

The Borrowers

The Fund targeted AECOs that had sustainable operations and offered affordable pricing, innovative products, efficiency, and high quality service. From an initial pool of approximately 12 candidates, the Fund invested in three—Shenyang He Eye Hospital of China, the Eye Foundation of Nigeria, and Fundación Visión of Paraguay. Candidates were eliminated for reasons including being too small to borrow from the Fund and regulations in certain countries prohibiting the Fund from investing. In addition, certain prospective borrowers declined to participate due to unfamiliarity with, or reservations about, the proposed capital. Furthermore, reflecting the sector's early stage, all of the Fund's prospective borrowers required significant support from the founding team to prepare them for the Fund's capital, particularly around accounting standards and reporting requirements.

While the final Fund was less diversified than originally envisioned, the three borrowers all had a proven ability to provide affordable, high quality eye care services to the poor and, as further demonstrated during the term of the Fund's loans, the financial capacity and wherewithal to take on long-term debt[7]. Capital was primarily invested in infrastructure, including new hospitals, facilities and specialized equipment.

[7] While equity capital would have been optimal for the borrowers in terms of duration and flexibility, the Fund was able to provide long-term debt that aligned with the desired use of investing in infrastructure and was the most practical instrument for the borrowers as nonprofits.

Borrower Case Study: Shenyang He Eye Hospital

Founded in

1995

as the first nonprofit non-governmental eye hospital in China, Shenyang He Eye Hospital's (the "Hospital's") mission is to provide comprehensive and high quality eye care services for all at an affordable price.

The Hospital used the Fund's

$7 million

loan and technical assistance to support expansion initiatives and strengthen its adoption of the cross-subsidization model.

36,842

Cataract Surgeries & revenues to

$23 million

With the Fund acting, in the words of founder Dr. He Wei, "as a strategic partner," the Hospital grew cataract surgeries to 36,842 and revenues to US $23 million in 2016, 11% and 13% CAGRs, respectively, over the Fund's seven year investment period. In addition, 34% of total surgeries during this period were provided at or below cost to low income people.

Hospital has prevented

1000's

of people from going blind

Supported by the Fund, the Hospital has prevented thousands of people from going blind and has enabled low-income people in Northeast China, where the Hospital operates, access to previously unavailable eye care services.

Beneficiary Story

— While the largest group of low-income beneficiaries targeted to receive AECOs' low and no cost services are aging patients, AECOs also create the organizational capacity to treat younger patients such as Ms. Zhuoma.

— Zhouma, a 22-year-old from Tibet, knew her eyes were different because of strabismus, or crossed eyes, and would lower her head to avoid looking at people directly. In 2011, Zhouma entered on a scholarship to Shenyang Early Childhood Education College, where one of her teachers noticed her eye problem and referred her to the Shenyang He Eye Hospital. Recognizing her financial situation, the He Eye Hospital provided Zhouma surgery at no cost.

— In 2013, Zhouma underwent a successful procedure. She is now on her way to becoming a great teacher with a shining smile to brighten every day.

Ms. Zhouma is pictured on the front cover of this report.

The Fund helped increase the capacity of three affordable eye care organizations in developing markets to provide cataract surgeries and eye care procedures, improving vision and restoring sight for 3.3 million beneficiaries over the term of the loans. In addition, the Fund demonstrated the opportunity for impact investing outside the microfinance sector, the use of blended finance structures to catalytic effect, and the creditworthiness of AECOs.

Looking Ahead

The Eye Fund I experience continues to offer important guidance to those looking to pioneer new models and grow the field of impact investing, including that, while innovation is hard, it is critical to strengthening the range, scale and capacity of social enterprises that can tap expanded sources of sustainable investment capital. The ongoing commitment by established managers in the impact sector to creating new products that align capital with social enterprises is vital for building the sector and scaling sustainable solutions.

Table 1. Fund Snapshot

Summary

Launch Date	January 2010
Asset Type	Debt
Strategy	Invest in strong, mission-oriented eye care organizations to reduce blindness, grow the capacity of sustainable eye hospitals and initiate transformation in the financing of the eye care industry
Size	$14.5 million
Investors	Development finance institutions (two), Foundations (three), Corporates (one), and high net worth individuals ("HNWI")(two)
Geographic Focus	Emerging markets (49% China, 49% Nigeria, 2% Paraguay)
Sector	Global health, eye care
Financial Performance	— All obligations paid in full — Successfully exited in March 2017
Social Performance[8]	— 280,306 total cataract surgeries or a 9% CAGR — 3.0 million total outpatient procedures or a 11% CAGR

Structure

DFIs, Corporate and HNWI

Senior notes **$2.4 mm**

Subordinated loans **$10.2 mm**

Foundations and HNWI

Subordinated notes **$0.05 mm**

Equity **$1.5 mm**

Eye Fund I, LLC

Eye Care Organizations

Technical Assistance Facility **$1.5 mm**

Foundation partners

IAPB

Advisor

ASHOKA

Advisor

[8] Reflect 2010 to 2016 results.

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