15 August 2017

Dear Bill / Dear Maya / Dear Sterling

We are very happy to share with you that our clients are committing $7.1m to the TPG Rise Fund through the Wire Rise Fund Feeder CV. Even though this is a relatively small amount within the total size of the fund, we nevertheless feel it is a significant step, and as such we want to accompany this investment with a 'cover letter' to share with you our thoughts on the Rise Fund.

Wire Group prides itself on being an engaged and pro-active impact investing specialist with a strong intention to leverage the capital of our clients for creating a better world for future generations. We do this as part of a vision to create a more inclusive economy in which multiple values (financial, social, ecological, spiritual) achieve equal prominence. We have always, and will continue to challenge the status quo, seek out front-runners like yourselves, and encourage them to stay front-runners. We therefore see it as our role to provide you with some food for thought in a way that perhaps some of your other LPs may not.

In this regard, we are mindful of what Jed Emerson recently wrote on the mainstreaming of impact investing, which he broadly sees as a positive development:

"In some ways, the bad news is we will continue to see a mainstreaming of impact investing. The more it becomes normal, there is greater risk we have of it *not* being transformative. And the greater risk we have of it being one more accommodation to business as usual, instead of challenging how we think about and execute investing practice."[1]

In this cover letter we would like to do two things:

1. Outline the strong points of the Rise Fund that persuaded us to support it
2. Make some suggestions for raising the bar even further, during the current Rise Fund or in future Rise Funds

1. Strong points of the Rise Fund

Getting behind Rise Fund was not a step we took lightly. On balance, however, we felt that the movement from traditional capital to impact capital that Rise Fund represents should get our support. It was not, however, just this movement that swayed us. TPG, Elevar and Bridgestone have clearly put a lot of time and effort into thinking about the elements that would have to go into a high-quality impact fund if it were to be designed from scratch. We feel that you have come up with a design that will help set the standard for doing impact investing at scale:

- Building on the social return on investment (SROI) tradition to create the MoI methodology represents an important step towards a blended value economy in which social and ecological value are made explicit alongside financial value
- Using a sector-based approach to develop evidence-based theories of change (even if you don't call them that explicitly) to guide investments towards areas of high-impact should become the gold standard in impact investing
- Creating the Rise Fund within the core platform of TPG Growth ensures that on the financial side investments are subjected to the same rigour as your 'traditional'

[1] Swell interview with Jed Emerson on 21 June 2017; link

investments. Although other investment funds may not be able to copy this approach, the message is clear that positive impact and financial returns can go hand in hand.
- Using the SDGs explicitly to set priority outcomes ensures that you align the fund's outcomes with the shared efforts of people and organisations around the world

2. Raising the bar further

As we have gone through our due diligence, we have come across several points where we feel that, while on paper the design looks very strong, there is a risk that the achieved impact may fall short of its potential. We also see potential to make several improvements. We distinguish two categories: concerns during the current Rise Fund and suggestions for improvements for future Rise Funds.

Current Rise Fund

- **Ensure pipeline integrity:** on paper, the combination of the sector leads and the thematic approaches is a very powerful tool for identifying high-impact opportunities. In practice, we wonder if Rise Fund will have the discipline and patience to stick by those thematic approaches, or whether a substantial share of investments will be sourced more opportunistically. Also, as part of your reporting, we hope that you give full transparency around your decision process on allocations: why have you decided to allocate or not allocate investments to Rise Fund vs TPG Growth. This would be useful both internally to TPG but also externally to LPs to feed the discussion on 'what constitutes an impact investment'.
- **Spread the gospel:** in line with the previous comment, we wonder to what extent there is a shared understanding of what is meant by 'impact' among the Investment Leads and Geography Heads. In our conversations with various team members we noticed that some who come from within the TPG Growth organisation struggled to provide examples of tangible impact that could be had through current or pipeline Rise Fund investments. The thematic approaches and priority outcomes should certainly help, but some effort may be required for the broader team to 'get impact' at a deeper level
- **Don't hide behind MoI:** while we commend the MoI approach and see it as an important step, it is not a silver bullet. It provides an *ex ante* calculation of the impact that can be achieved through a given investment. However, achieving and scaling impact really depends on several factors, with the human factor being the critical one. We have spoken to Maya about inserting specific language into investment documentation / covenants about achieving impact targets, which we welcome. However, as both Maya and we acknowledge, you don't want to be forcing a CEO / entrepreneur and her/his team to work on impact. It should be part of their DNA, and figuring out whether it is or not is very difficult (because it is a subjective judgement call) and requires a lot of experience in the impact field. While Maya will play an important role here, we would welcome your thoughts about how to 'institutionalise' across the Rise Fund a check on the integrity / ethics / moral compass of the management teams of your potential investees.
- **Wow your LPs (and the world) with your reporting:** we would like to urge you to invest significant time and effort into reporting in order to maintain your front-runner position and inspire others to follow you. Two things in particular we would like to see. One is extensive reporting on the impact achieved by investee companies, both quantitatively (ongoing monitoring of MoI) and qualitatively ('human interest' insights

into the difference that portfolio companies are making on the ground'). The other is *full* transparency on fund costs.

Raising the bar in future Rise Funds

- **Tie your carried interest to impact returns:** As you further develop the MoI methodology, which is both analytical and rigorous, a significant opportunity arises to base carried interest not only on financial returns but also on social/ecological returns. We know of a growing number of funds who connect (part of) their carried interest to impact metrics, and it would seem to us that you are in a unique position to do this. We understand that in the current setup, with Rise Fund and TPG Growth sharing resources, the uniform carried interest approach across funds is an important factor in ensuring commitment of investment professionals to spending time on both funds without prejudice. We also feel confident that you can find a mechanism that retains this commitment, while making a bold move. It would also seem that talented investment professionals may have an intrinsic motivation to dedicating their time to Rise Fund: Sterling shared with us that TPG had a 100% recruitment rate recently, mainly due to it having the Rise Fund.
- **Be a gamechanger on costs:** we feel that as the initiator of a 'gamechanger' impact fund at scale from within the traditional financial sector, you should think about ways in which you could also provide a 'gamechanger' on costs, which have for many years been a concern to LPs in the broader financial sector. We feel a different approach would both be in keeping with managing an impact fund, while at the same time provide you with a first-mover competitive advantage. There are three areas where we see room for improvement. Firstly, in line with ILPA Best Practices guidelines we would like to see full transparency on fund costs, e.g. by sharing during due diligence a detailed fund budget, so that LPs understand clearly how the costs are allocated. Secondly, we would like to see you reduce costs in absolute terms by seeking cost efficiencies. Thirdly, we would like you to explore different approaches to management fees, such as a 'budget-neutral' approach instead of the traditional 'percentage of commitments' approach. For the sake of clarity: we understand fully well that investing for impact is more costly than simply investing for financial returns because you have to make additional efforts (thematic approach development, sector leads, MoI calculation, impact measurement and monitoring, etc). As long as you are explicit about these costs, this should in our view be acceptable to LPs who are serious about achieving positive impact.
- **Maximise impact through blended returns:** we realise this one is a bit of a moonshot, but as you further develop the MoI approach, you can start to experiment with blended returns. While we commend the fact that you do not compromise on financial rigour in the Rise Fund, and your investment thesis is that co-linearity of financial and impact returns ensures that both will grow in tandem, we think it would in future be interesting to go beyond this investment thesis. At the investee level, you may find opportunities to increase the MoI while reducing (or growing less strongly) the financial returns. If you can rigorously and convincingly calculate the social and ecological returns, there may be investors who are willing to take a lower financial returns. Or there may be governments or NGOs that want to subsidise these non-financial returns because they realise it is the most capital efficient way to realise the outcomes they want to achieve. This opens the door to having a layered LP structure with each of the three categories of LPs having having its own financial vs non-financial return preferences.

We hope that you receive this letter in the spirit in which it is intended, i.e. in the spirit of opening a constructive discussion and providing you with LP-generated input.

We look forward to hearing from you.

Warm regards

Wire Group as Manager of the Wire Rise Fund Feeder CV,
and **on behalf of all Wire Rise Fund Feeder CV Limited Partners**